



Part 3

Report of the Auditor-General 2010

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

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



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30 June 2014

The Honourable Theodore Zurenuoc, 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.

The Part III 2010 Report covered the financial year ending 31 December 2010. 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, and Hospital Boards.

Yours sincerely,

PHILIP NAUGA
Auditor-General

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FOREWORD

My Report to the National Parliament for 2010 is being presented in four parts as follows:

- Part I of my Report deals with the Public Accounts of Papua New Guinea.
- Part II of the Report deals with the National Government Departments.
- Part III (this Part) of my 2010 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* (*Organic Law*). 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 summarised 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.

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 the requirements of the *Organic Law*.

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 to entity management for their comments.

This (Part III) Report provides a 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 summarised 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.

Making this Report Publicly Available

This Report will be placed on the AGO website (www.ago.gov.pg) once it has been tabled in the Parliament.

1. ROLE OF THE AUDITOR-GENERAL AND AUDIT MANDATE

1.1 Role of the Auditor-General

Section 214 of the *Constitution of the Independent State of Papua New Guinea* 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* 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 (New Guinea Islands), Mount Hagen (Highlands), Lae (Momase) and Goroka. The decision to operate only these regional offices was due to budgetary limitations confronted by the Papua New Guinea Auditor-General's Office (AGO). 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* provides the Auditor-General any executive or directive powers over the organisation 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

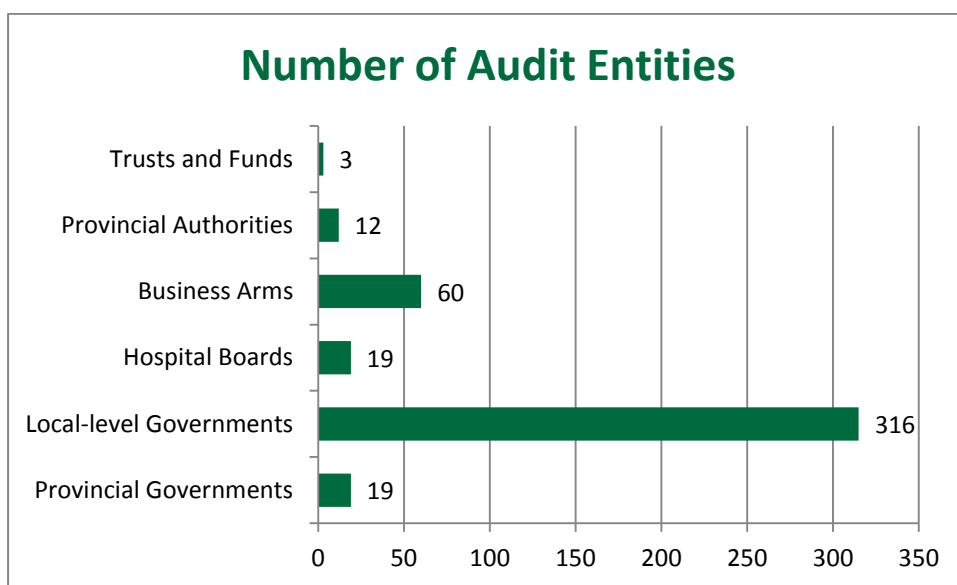
Section 7 of the *Audit Act* provides for the Auditor-General to report to the Parliament on the results of audits undertaken. More specifically:

- 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(PFMA)*; and

- Such other matters arising out of the financial statements, to which the report relates, as the Auditor-General considers should be reported.

To meet these requirements I perform 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 Financial Instructions. Regularity audits are performed with the main objective of ascertaining that expenditure had been applied for the purposes for which they had been authorised and, secondly, that the expenditure conforms to the 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 **429** audits of different entities as shown in the graph below:



It should be noted that Parliament approved the creation of two more Provincial Governments, Hela and Jiwaka, in 2009 to be established in 2012. These entities will be audited in the 2012/13 audit cycle or as soon as financial statements are provided to the AGO.

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;
- Administrative difficulties where the Provincial Treasurer does not report to Provincial Administrator but the Secretary for Finance;
- Delays in responding to issues raised in Management Letters;
- Absence of proper and adequate accounting records and supporting documentation on fixed assets and investments in the Business Arms of Provincial Governments; and
- Significant ongoing resource constraints of my Office; especially in regard to the conduct of the audits of Provincial Governments and their entities.

My Office continued to be adversely affected by the difficulties noted above. Nonetheless, my Office endeavors to improve on past performance, catch up on the backlog of audits and strives 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 systemic weaknesses which would result in losses or errors, frauds and/or mismanagement of public funds.

The examination on a sample basis included review of corporate governance, the work of 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 cannot be relied upon to disclose all such matters. However, all audits were planned and executed so that I can have a reasonable expectation of detecting material misstatements resulting from irregularities, including fraud.

Compliance with relevant legislation is of paramount importance in safeguarding the State's assets. My audits included reviews and tests to ascertain whether key provisions of the *PFMA* and various Financial 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* 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 *PFMA* 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* 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 315 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 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 2010 of approximately K1,193.2 million. This represented 12.37% of the total State's budgeted expenditure for 2010 and was approximately 16% of the total recurrent and 6% of the total development funds. 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 *PFMA* 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* 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 Financial Instruction 02/2004: Financial Statement Format, Trading and Non-Trading Public Bodies. These Instructions issued under Section 117 of the *PFMA* had been signed and approved by the then Secretary for Finance.

2.5 Business Arms and Subsidiary Corporations

The *Audit Act* extends the functions of the Auditor-General to include the audit of business arms and subsidiary corporations of Provincial Governments. These reporting entities report under Financial Instruction 2/2004: Financial Statement Format for Trading Public Bodies. The *PFMA* Section 62(2) requires trading public bodies in regards to their accounts and records to observe and comply with the accounting principles generally accepted and applied in commercial practice. This includes the adoption of an accrual based accounting and applying the International Accounting Standards.

As detailed under paragraph 4.5, 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.

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. The majority of these authorities are required to report under the cash basis of accounting and 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 organised in a similar manner as the audit of business arms. The management of these funds has 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* 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.

Due to the delays in the provision of financial information to enable the conduct of the audits, I previously applied the provisions of the *Audit Act* that allow me to dispense the audits. It was my opinion that the performance of those audits would not identify any new information that would benefit the Parliament, the Provincial and Local-level Government or the wider public. 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.

I previously wrote 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.

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 in 2010 amounted to K35.12 million to Rural LLG’s does not exceed 2.94% of the appropriation funding for Provincial Governments;
- Expenditure mainly relates to payment of salaries; and
- Lack of resources to undertake these audits.

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. The overall purpose of internal control is to help an entity achieve its mission and accomplish certain goals and objectives. An effective internal control system helps an entity to: promote orderly, economical, efficient and effective operations; safeguard resources against loss due to waste, abuse, mismanagement, errors and fraud; promote adherence to statutes, regulations, policies and procedures; and develop and maintain reliable financial and management data, and accurately report that data in a timely manner.

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 organisational and functional levels.

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

This interim phase of my audit program was designed to assess the reliance that can be placed on control structures to produce complete, accurate and valid information for financial reporting purposes by the Provincial and Local-level Governments 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 cannot 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 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 Financial Instructions issued under Section 117 of the *PFMA* and the *Organic Law*.

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

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 a number 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 - these same issues have been identified and reported upon in earlier audits by the AGO. In general, the results of the testing of controls in 2010 at different entities indicated that, overall, there continue to be significant weaknesses in the control environment and no improvements have been identified. Control activities, such as delegations, authorisations, reconciliations, acquittals and record-keeping 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 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

Good corporate governance is important as it supports effective decision making based on a well-balanced framework of accountability. Effective governance includes clear communications, understanding of roles and responsibilities across the organisation, and robust performance, financial, risk and management systems. Good governance in organisations enhances public trust when based on openness, clarity and honest accountability.

During the 2010 interim audits the AGO assessed whether audit entities' control environments comprise 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 management and decision-making, including mitigation of risks and effective financial management.

The results of the audits identified:

- Lack of Corporate Plans and Operational Plans. This was particularly evident in the audit of the Hospital Boards. This could lead to inability to set targets and performance indicators to monitor achievements and to take corrective action. It could also lead to inefficient and ineffective service delivery in that stakeholders and communities needs are not met;
- The requirement for a minimum of four meetings of a Provincial Assembly during the year was not met. In addition, minutes were either not taken or on occasions not certified by the Chairman. These instances increase the risk that important decisions made may be nullified and may not hold legal basis in the event if challenged in Court; and
- Audit Committees were not established in all Provincial Governments. Audit Committees have an important role to play in reviewing and advising on important components of corporate governance.

A lack of effective corporate governance practices expose entities to a range of risks including impaired decision-making; a lack of accountability processes; inefficient and/or ineffective use of key

resources; a lack of direction and strategy; ineffective financial management; and poor monitoring and reporting processes.

3.4.2 Internal Audit

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

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

In that respect, it was disappointing to find that the majority of Provincial Government's Internal Audit units still did not have an Audit Charter and Audit Plan to set out the mandate and scope of audit coverage. Further, in the majority of cases the Provincial Government did not provide sufficient funds or resources for internal audit to carry out its duties during the year.

3.4.3 Appropriation and Budget Management

Appropriations represent the primary source of revenue for most Provincial and Local-level Governments and Hospital Boards. One of the key audit tests performed by the AGO 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 entities relating to the management of appropriations were generally inadequate. Continuing weaknesses noted related to:

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

The above mentioned practices continue to expose entities to the risk that the unspent funds may be utilised on expenditure not provided for in the *Appropriation Act*. In addition, money could be spent in excess of the appropriation limit, which will result in breaches of the *Appropriation Act*, the *PFMA* and the *Constitution*.

3.4.4 Revenue and Receivables

In addition to the appropriation revenue, the Provincial Governments collect internal revenue from other sources, i.e. motor vehicle registration and renewal, issue of driver's licenses and renewal, liquor licensing, etc. Hospitals primarily collect revenue through patient 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 Governments have continued to record significant shortfall in revenues in respect of the majority of internal revenue sources. This indicates the inability of the Provincial Governments to carry out sound and prudent revenue forecasting. It further indicates the lack of co-ordination and co-operation being exercised by the Revenue Units and other line economic divisions of the Provincial Governments to effectively plan

and direct their efforts to ensure that all internal revenues estimated for the year are collected and accounted for.

In a similar manner, General Hospitals collect income from patient fees and gifts and donations. Over the last four years Hospital Management has not ensured that revenues were collected promptly and that the rates of fees, charges, and imposts were reviewed annually. In addition, there was a lack of compliance to procedures pertaining to compiling collector statements, thereby undermining the integrity and completeness 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; and
- There was no Register of Debtors maintained.

Ineffective procedures and controls over managing revenue and receivables expose entities to the risk of fraud and misappropriation along with under collection of revenues and the incorrect reporting of financial information.

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

Other significant issues were:

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

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

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 and Local-level Governments and Public Hospitals represent one of the single largest items of expenditure in their accounts. This represents a significant area of risk and management should ensure that these costs are carefully controlled and monitored and that those responsible for payroll functions have the necessary skills and knowledge to effectively execute their functions.

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

As in previous years, 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 insufficient supporting documentation attached. Instances were also noted of leave tickets being refunded through a travel agent after withholding commission plus processing fee.

Given the significance of expenditure on salaries and wages, it is critical to implement effective controls over the human resource function, especially payroll processing. Absence of such controls expose audit entities to: a significant risk of fraud and misappropriation; incorrect payroll calculations, disbursements and reporting; incorrect maintenance of personnel records; and ineffective segregation of duties.

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.

The weaknesses identified during previous audits relating to timely completion of bank reconciliations, including the clearance of reconciling items, continue to exist. In almost all audits of Provincial Governments the bank reconciliations were either not done or were not done in a timely manner. Cash management comprises of a series of activities aimed at efficiently handling the inflow and outflow of cash. The weaknesses identified by the AGO impact upon the ability of the entities to effectively manage such activities, including their ability to verify that cash balances match the financial records, and have confidence that fraud or theft of cash has not occurred.

3.4.8 Assets Management

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

The maintenance of a reliable Assets Register that includes adequate information about assets acquired and disposed of, depreciation and asset reconciliations with periodical stock-takes is a prerequisite to effective asset management. Regular reconciliations of the Assets 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 there has been no change from prior audits - Assets Registers were either non-existent or they were not maintained properly. This exposes the entities to the risk that assets may not be utilised effectively, may not be protected from physical deterioration or maintained properly. Further, periodic stock-takes were not being conducted to determine the accuracy of assets on hand. This increases the risk of loss, theft or fraud.

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 *PFMA* requires maintenance of adequate records, that collection of receipts and payments from trust accounts is in accordance with the Trust Instruments and for submission of periodic reports to the 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 most did not submit periodic reports to the Department of Finance. Consequently 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. The lack of effective trust account management controls can contribute to the Provincial Government not being able to meet trust obligations, preventing spending outside the requirements of the trust or being able to adequately account for all trust receipt and payments.

3.5 Conclusion

Strong public financial management systems are essential to the functioning of government and for effective and sustainable economic management and public service delivery. The need for such systems extends to all entities within the public sector, particularly those tasked with direct responsibility for service delivery. Entities are generally more effective and accountable when they are underpinned by good financial management systems and processes.

Properly functioning internal controls are a core element of an effective financial management system and are fundamental for entities to meet their respective strategic, operational and financial responsibilities. Internal control is the integration of the strategies, activities, plans, policies, and efforts of the employees of an entity working together to provide reasonable assurance that the entity will achieve its mission. It is essentially a coordinated system of checks and balances. More simply, internal control is what an entity does to see that the things they want to happen will happen, and the things they don't want to happen will not happen. Internal controls provide important benefits to entities by improving the quality of accounting and financial information, and they reduce the possibility of mismanagement, error and fraud.

The results of AGO testing of controls in 2010 revealed that most entities continue to have very weak systems of internal control and the AGO has detected little change from previous audit results. Overall the results of our 2010 financial statement audits indicate entities need to greatly improve their financial management systems and processes, including implementation of effective systems of internal control, in order to demonstrate appropriate levels of transparency, accountability and fiscal responsibility. Such key improvements will help encourage growth and reduce poverty through more effective and timely service delivery. Regrettably most Provincial Governments, Urban Local-level Governments and Hospitals fail to live up to these responsibilities.

The level, significance and systemic nature of the issues identified during the AGO's audits cover every aspect of financial management and internal control, and are strongly indicative that material errors are likely to have been processed and misappropriation and fraud could have occurred. The AGO has little confidence that the financial information reported by entities is either accurate or reliable, or that entities have discharged their financial management responsibilities effectively or efficiently.

It is disappointing to report that there has been no change to the situation reported in previous years. All Provincial Governments, Urban Local-level Governments and most Hospitals have been issued with Disclaimer Audit Opinions. Further, every Provincial Government failed to provide representation

that their financial accounts and records had been kept in accordance with acceptable financial management and accounting policies and procedures.

The opinion is a certification by the Auditor-General that accompanies entities' financial statements. They represent the auditor's opinion on whether or not the financial statement and records present an accurate and reliable picture of entities' financial position. The Disclaimer Audit Opinion means that the auditor is unable to obtain sufficient appropriate audit evidence (that is, there is a lack of reliable books and records) on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive. It is the worse type of Audit Opinion that can be issued.

The sheer number of Disclaimer Audit Opinions signifies that most entities have a long way to go in terms of effectively managing their internal control and financial management issues. With a lot of Government interventions, including significant levels of training and the establishment of Audit Committees and Internal Audit functions, audit issues reported over successive years should have been captured and appropriate remedial actions taken to have them addressed. In this connection, this Office urges the Provincial Governments, Urban Local-level Governments and Hospitals to strictly follow our recommendations and implement them with some urgency. Audit Committees, where they exist and are appropriately resourced and are operating effectively, should take a lead role and be tasked with monitoring implementation of audit issues and recommendations reported by the AGO.

The lack of reliable and timely financial information from entities significantly impacts upon revenue and expenditure data for budget planning and management, monitoring and reporting, and expenditure control. The results contribute to poorly controlled government resources and misallocation of resources that ultimately undermine the effectiveness and efficiency of service delivery. The lack of information has hindered transparency and the enforcement of accountability in government.

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 Financial 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 finalisation 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% 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 Opinion is provided when the financial statements, in all material respects, give a true and fair view of the matters required by the *PFMA* and Financial Instructions issued under this Act.

Qualified Audit Opinions 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 Disclaimer Opinions. 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 six years, I have concluded and reported that I was 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 *PFMA*, I concluded that material errors, uncertainties and lack of adequate records resulted in the overall financial position and results of operations that were not reliable. As a result, I continue to report that I was unable to form an opinion.

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

Other factors contributing to this unsatisfactory situation include:

- Lack of experience and competency of Provincial Treasury and accounting personnel in the provinces;
- Considerable abuse and diversion of government moneys that has not been appropriately investigated 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 actions;
- Lack of coordination and communication, for example Provincial/District Treasurers 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 being diverted from spending on Provincial/Local-level community needs to spending on the needs on the Provincial/District Treasury.

During the 2010 audit cycle, my Office finalized and issued 16 audit reports to the Provincial Governments shown in Table 1 and 11 to Urban Local-level Governments shown in Table 3 below.

Table 1 - Status of 2010 Audit Opinions – Provincial Governments

No	Provincial Government	Issued	In progress	Audit yet to commence	Financial Statements not submitted
1	Central	1	-	-	-
2	Fly River	-	1	-	-
3	Gulf	-	-	-	1
4	Milne Bay	1	-	-	-
5	Oro	1	-	-	-
6	East Sepik	1	-	-	-
7	Sandaun	1	-	-	-
8	Madang	1	-	-	-
9	Morobe	1	-	-	-
10	Enga	1	-	-	-
11	Eastern Highlands	1	-	-	-
12	Southern Highlands	1	-	-	-
13	Western Highlands	-	-	-	1
14	Simbu	1	-	-	-
15	Bougainville	1	-	-	-
16	West New Britain	1	-	-	-
17	East New Britain	1	-	-	-
18	Manus	1	-	-	-

No	Provincial Government	Issued	In progress	Audit yet to commence	Financial Statements not submitted
19	New Ireland	1	-	-	-
	TOTAL	16	1	-	2

Section 113 subsection 4(c) of the *Organic Law* extends the functions of the Auditor-General to inspect and audit the affairs and accounts of the Local-level Governments. There are currently 316 Local-level Governments around the country as shown in Table 2. Of these, there are 289 Rural Local-level Governments and 27 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* 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 11 audit reports regarding Urban LLGs. Unless sufficient levels of resources are made available to my Office, these audits may continue to be deferred and delayed well into the future.

Table 2- Number of Local-level Governments

No	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	18	19
8	East Sepik	1	25	26
9	Sandaun	1	16	17
10	Western Highlands	1	15	16
11	Southern Highlands	3	29	32
12	Eastern Highlands	2	22	24
13	Simbu	2	18	20
14	Enga	1	14	15
15	New Ireland	1	8	9
16	West New Britain	1	10	11
17	East New Britain	2	17	19
18	Manus	1	11	12
19	Bougainville	1	-	1
	TOTAL	27	289	316

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 Urban Local-level Governments results from the materiality of the transactions of these entities. They are also located in the main headquarters of the Provinces which facilitates easier access. During the 2010 audit cycle, I have issued 11 audit reports. The status of the audits are summarised in Table 3 below:

Table 3- Status of 2010 Audit Opinions – Local-level Governments

No	Urban Local-level Government	Issued	In progress	Audit yet to commence	Financial Statements not submitted
1	Kerema	-	-		1
2	Daru	-	1	-	-
3	Balimo	-	-	1	-
4	Kiunga	-	-	-	1
5	Popondetta	1	-	-	-
6	Alotau	1	-	-	-
7	Lae	-	1	-	-
8	Finschhafen	-	-	1	-
9	Bulolo	-	-	1	-
10	Madang	1	-	-	-
11	Wewak	-	1	-	-
12	Vanimo	1	-	-	-
13	Rabaul	1	-	-	-
14	Kokopo	1	-	-	-
15	Kimbe	1	-	-	-
16	Kavieng	1	-	-	-
17	Lorengau	1	-	-	-
18	Buka	1	-	-	-
19	Mount Hagen	-	1	-	-
20	Goroka	-	1	-	-
21	Kainantu	-	-	1	-
22	Mendi	-	-	-	1
23	Ialibu	-	-	1	-
24	Tari	-	-	1	-
25	Wabag	-	1	-	-
26	Kundiawa	1	-	-	-
27	Kerowagi	-	-	1	-
	TOTAL	11	6	7	3

For some Urban Local-level Governments the audits of financial statements were conducted for two to three years because of the backlog of audit arrears. The results of 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 Governments 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, registers and procedures that also relate to the financial statements through Appendices 1 to 6.

4.2.1 Statement “A” - Government’s Account Balances

This is a Statement of cash position for the Provincial or Local-level Government at year-end which should be supported by bank reconciliation. Statement “A” is intended to show the Public Account comprising the Revenue Fund and the Trust Fund as represented by the year-end cashbook balances and other cash resources available to the 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 the Provincial Treasury Operating Account to the Provincial Government Operating Account and these were treated as expenditure as at 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 the previous year; and
- There were also adjustments made to opening or closing balances without any supporting documents provided.

Under these circumstances, again I was unable to express an opinion on the accuracy of 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 for a commercial private sector organisation. 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 revenues. Another frequent error (reported in prior audits) was an omission of revenue and expenditure related to Staffing Grant and Teacher Salaries and Allowances. This occurred as a result of these salaries and allowances being controlled and processed by the Department of Finance. Nevertheless, revenue and expenses arising from Staffing Grant and Teacher Salaries and Allowances should have been disclosed in the Provincial Governments’ financial statements.

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 revenue actually received and expenditure actually paid. The most common error that frequently resulted in material overstatement was the inclusion of the National Government Entities’ 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 *PFMA* were likely to have occurred due to payments made from the trust accounts or revenue collected not being in accordance with the respective 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 my auditors. Consequently, yet again I could not ensure the accuracy or completeness 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) continues to be a widespread problem. According to previous year’s financial statements or other relevant information

obtained during the audit, the majority of Provincial Governments held investments in the form of shareholdings and/or made capital contributions in a number of companies. The non-disclosure of the Provincial Governments' investments in this Statement, as well as the income derived from such investments, was misleading to stakeholders and users of the statements. 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.

These issues continue to be particularly concerning 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 Governments invest. The Provincial Governments should ensure that the viability and the financial and statutory requirements relating to establishment of companies are properly reviewed and analysed prior to investing large sums of public monies in such companies.

In addition, some of these companies are being audited through private arrangements and not by my Office. In my reports, I have advised the Provincial Government to liaise with the AGO 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. To date, no Provincial Government has contacted my Office to discuss this issue.

4.2.7 Statement "G"- Statement of Lending

This is a schedule of all funds lent by the Government, including on-lent loans funds. In absence of proper records or registers maintained by the Provincial Governments in relation to these matters, I was once more 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 organisations outstanding at the end of the financial year are not brought into account; however, they are required to be recorded in this Statement.

In the absence of proper records or registers maintained by the Provincial Governments in relation to these matters, yet again 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, as in previous years 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, charges and fines. In the majority of audits there were significant and unexplained discrepancies between the total of this Statement and 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 disclosed in the financial statements.

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 were not adjusted in the cashbook and posted to the respective expenditure ledgers, were not shown in this Statement.

4.2.12 Appendix 1

Appendix 1 reports outstanding commitments as at year-end. As reported previously, Provincial and Local-level Government's generally failed to report on 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 was no proper debtors' ledger or other records such as invoices or debit notes maintained to provide details of debtors at the year-end. In cases where the Government reported outstanding debtors, this balance included outstanding debtors from previous years which indicate 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, again I was unable to verify the accuracy of this Appendix.

4.2.15 Appendix 4

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

4.2.16 Appendix 5

Losses and deficiencies of public monies and property are required to be reported to the Financial Inspection Branch of the Department of Treasury and are listed in this Appendix. No Government reported and losses or deficiencies. In absence of a Losses and Deficiencies Register and related records, I once more was unable to verify the accuracy of this Appendix.

4.2.17 Appendix 6

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

4.2.18 Other Issues**Submission of Financial Statements**

It is mandatory for all Provincial Governments and Local-level Governments to prepare timely 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 following 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. For 2010 financial statements, only 18 Provincial Governments have provided the financial statements for audit.

Presentation of Financial Statements

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 a number of Provincial Governments did not contain the Provincial Administrator's Statement for the year-ended and consequently were not presented in the format required by the Financial 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 a number of 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 recognising these fiscal responsibilities, Sections 102 and 103 of the *Organic Law* require Provincial and Local-level Governments (P&LLG) to keep their accounting records proper and have sound internal control systems. The P&LLG are required to manage their financial affairs in accordance with provisions of the *PFMA*.

The Department responsible for financial management (i.e. the Department of Finance) has been tasked to establish, develop and commission 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 organisation established under Section 112 of the *Organic Law* 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 AGO has the responsibility to examine the financial statements and the accounts and records of the P&LLGs. 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 P&LLG’s financial statements. The situation has not improved in 2010.

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

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

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

I have previously reported that the Department of Finance and the Department of Treasury have to act immediately and commence proper monitoring and support of their Offices so that P&LLG finances and records are properly maintained. There is little evidence to suggest this has occurred.

4.4 Financial Statements of Hospital Boards

During the last audit cycle I have issued 11 audit reports to Hospital Boards. Table 4 below details the status of the audit reports.

Table 4 – Status of 2010 Audit Opinions - Hospital Boards

No	Hospital Boards	Issued	In progress	Audit yet to commence	Financial Statements not submitted *
1	Lae	-	-	-	1
2	Madang	-	-	-	1
3	Wewak	-	-	-	1
4	Vanimo	1	-	-	-
5	Alotau	1	-	-	-
6	Kerema	-	-	-	1
7	Daru	-	1	-	-
8	Port Moresby	1	-	-	-
9	Popondetta	1	-	-	-
10	Kimbe	1	-	-	-
11	Nonga Base	1	-	-	-
12	Kavieng	1	-	-	-
13	Lorengau	-	-	-	1
14	Buka	1	-	-	-
15	Kundiawa	1	-	-	-
16	Mount Hagen	1	-	-	-
17	Goroka	-	1	-	-
18	Mendi	1	-	-	-
19	Wabag	-	1	-	-
	TOTAL	11	3	-	5

*For some Hospital Boards, although financial statements were not submitted for audit, my Office undertook controls testing during 2010. 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 a number of 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. The hospital management is significantly improving each year because of implementation of audit recommendations.

Majority of the audit reports I have issued in this audit cycle contained Disclaimer Audit Opinions. 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 *PFMA* requires a public body (Hospital) to submit and the Auditor-General to finalise the audit of prior year financial statements by 30 June each year. The same Act states that where a public body does not meet this deadline, the Minister may withhold half of the grants appropriated to that body for the following fiscal year. Although the Public Hospitals continuously fail to meet the requirement for timely reporting, the sanctions of this Section of the Act have never been imposed.

Hospitals are required to prepare their financial statements in accordance with the *Financial 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 Assets Registers were not maintained to record the details of the assets. Consequently, I was not able to verify the completeness, existence, accuracy and valuation of the fixed assets at year-end;

- Opening balances of cash at bank could not be confirmed as correct as these balances did not agree to the corresponding closing balances from the previous year;
- No Advances Registers were maintained. Travel advances and subsistence were frequently not acquitted. Therefore, this constituted a limitation of scope as I could not ascertain the value of the advances and also whether advances were actually utilised for the intended purposes;
- In several cases, there was no appointment of financial delegates to approve expenditure;
- In several Hospitals the Board members were not duly appointed and sworn in, in accordance with Section 6 of the *Public Hospital Act 1994*;
- Payment of gratuities being made in the absence of employment contracts; and
- Overtime payments to employees being processed without approval from the Chief Executive Officer or appropriate authorities.

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 June 2014, there were approximately 60 known entities as provided in Table 5 below. However, as reported in my previous Reports and in 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. This was primarily due to the lack of adequate information forthcoming from the Provincial Governments or their failure to maintain proper investment records and registers. My Office was still unable to determine whether they were still in operation, defunct, or liquidated.

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 requests for the provision of financial reports and records.

Table 5 - Provincial Governments' Business Arms and Subsidiary Corporations

No	Province	Entity	Remarks
1	ABG	North Solomon Marine Corporation	Deregistered on 12/09/96.
2	ABG	North Solomon Plantation Development Corporation	Deregistered on 10/10/96.
3	ABG	South Bougainville Engineering Ltd	1997-2004 F/S received. Balance audit fees awaited.
4	Central	Central Provincial Development Corporation – formerly Central Province Investment Ltd	No F/S since 1991.
5	Central	Central Province Investments Ltd	No F/S since 2005. Deregistered on 30/05/08.
6	Central	Koiari Holdings Ltd	No F/S since 1995.
7	East Sepik	East Sepik Development Corporation	1993-2001 F/S received. Audit fees awaited.
8	Eastern Highlands	Akogere Estates Ltd	2009 signed F/S. M/L response and balance audit fees awaited.
9	Eastern Highlands	Al's Auto Repair Ltd	2009 signed F/S. ML response and balance audit fees awaited.
10	Eastern Highlands	Nokondi Group of Companies	2009 signed F/S. M/L response and balance audit fees awaited.
11	Eastern Highlands	Nokondi Investments Ltd	2009 signed F/S. M/L response and balance audit fees awaited.
12	East New Britain	Barakopo Plantation Development Corporation/Barakopo Ltd	1995-1998 audited by private auditors. 1999-2003 F/S received and audit fees awaited.
13	East New Britain	East New Britain Development Corporation and Subsidiaries	Audited by private auditors to 2010.

No	Province	Entity	Remarks
14	East New Britain	Islands Development Bureau Inc.	1995-1998 audited by private auditors. 1999-2001 F/S received and audit fees awaited.
15	East New Britain	Pomio Development Corporation	1995-1997 F/S received. Audit fees awaited.
16	East New Britain	South Coast Shipping Ltd	1993-2000 M/L responses, signed F/S and audit fees awaited.
17	Enga	Enga Children's Fund	Audited by me up to 2010. Report issued.
18	Enga	Enga Engineering Ltd (Conakry Pty Ltd)	No F/S since 1995. Deregistered on 02/06/2002.
19	Fly River	Fly River Doctor Services Ltd	No F/S since 1996.
20	Fly River	Wyben Hotel Ltd	1995-2006 audited by authorised auditor.
21	Gulf	Gulf Papua Fisheries Ltd – Subsidiary of GITF	1997-2000 F/S received. Audit fees awaited.
22	Gulf	Southern Star Ltd – Subsidiary of GITF	1997-2000 F/S received. Audit fees awaited.
23	Madang	Madang Development Corporation	1995/1998 M/L responses, signed F/S awaited.
24	Madang	Madang Slipway Ltd – Formerly Binnen Marine Services Ltd	1995/1996 M/L responses, signed F/S awaited.
25	Manus	Kei Beseu Kampani Ltd	2000-2006 audited by private auditors.
26	Manus	Lorengau Hotel Ltd	Audited by private auditors to 2010.
27	Manus	Manus Fishing Corporation	No F/S since 2004.
28	Manus	Manus Marine Resources Ltd	No F/S since 1995. Deregistered on 03/06/02.
29	Milne Bay	Milne Bay Properties Ltd	Audited by private auditors to 2010.
30	Morobe	Kumgie Holdings Ltd	1999-2006 F/S received.
31	Morobe	Morobe Development Corporation Ltd	1999 F/S received.
32	Morobe	Morobe Development Engineering Services Ltd	1999 F/s received.
33	Morobe	Morobe Farms (Wawin) Ltd	1999 F/S received.
34	Morobe	Morobe Food Corporation Ltd	No F/S since 1999. Deregistered on 03/06/02.
35	Morobe	Morobe Food Processing Ltd	No F/S since 1999. Deregistered on 03/06/02.
36	Morobe	Morobe Printing Ltd	No F/S since inception.
37	Morobe	Niugini Produce Marketing Ltd	1999 F/S received.
38	Morobe	Umboi Timer Investment Ltd	No F/S since 1999.
39	Morobe	Yalu Plantation Ltd	1999 F/S received.
40	Morobe	YKDC Investment Ltd	No F/S since 1999. Deregistered on 03/06/02.
41	New Ireland	Malagan Lodge Resort Ltd (NIDC)	1997-2004 F/S received. Audit fees awaited.
42	New Ireland	New Ireland Development corporation (NIDC)	1997-2004 F/S received.
43	New Ireland	New Ireland Shipping Ltd. (NIDC)	1999-2002 F/S received. Audit fees awaited. Deregistered 21/04/06.
44	New Ireland	Nimamar Investment Ltd	1999-2001 audited by private auditors. 2002 signed F/S awaited. 2003-2004 audit fees awaited.

No	Province	Entity	Remarks
45	New Ireland	Public Works New Ireland Ltd	No F/S since 2008.
46	New Ireland	Sentrol Niu Ailan Development corporation and subsidiaries	No F/S since 1999.
47	Sandaun	Sandaun Development Corporation	Deregistered on 11/03/96.
48	Simbu	Simbu Holdings	No F/S since 1995.
49	Western Highlands	Melpa Properties Ltd	1997-2001 signed F/S awaited.
50	Western Highlands	Peninsula Shipping Lines (PNG) Ltd	2007 audited by Authorised Auditor.
51	Western Highlands	Petrohaul Ltd	2007 audited by Authorised Auditor.
52	Western Highlands	Vegmark Ltd	2007 audited by Authorised Auditor.
53	Western Highlands	Wamp Nga Holdings Ltd (Group of Companies)	2007 audited by Authorised Auditor.
54	Western Highlands	Western Highlands Development Corporation	No F/S since 1995.
55	West New Britain	Cape Hollman Corporation	No F/S since 1998. Dissolved on 28/08/07.
56	West New Britain	Kimbe Enterprises Ltd	No F/S since 1998.
57	West New Britain	Kimbe Frozen Foods and Delicatessen Ltd	No F/S since 1998.
58	West New Britain	West Farm Resources Ltd	No F/S since 2002.
59	West New Britain	West New Britain Development Corporation	2002-2004 F/S received. Audit fees awaited.
60	West New Britain	WNB Building Supplies Ltd	No N/S since 1998.

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 AGO.

At the time of writing this report the status of audits relating to the Provincial Authorities is summarised as shown below in Table 6.

Table 6- Status of Audits – Provincial Authorities

No	Province	Provincial Authorities	Status
1	ABG	Bougainville Restoration and Development Authority	No F/S since 2008.
2	Central	Koiari Development Authority	No F/S since 1993.
3	Central	Koiari Rural LLG Special Purpose Authority	No F/S since 2004.
4	Central	Central Province Transport Authority	Audited by me. Responses to M/L for 2007-2009 awaited. 2010 F/S received.
5	East New Britain	Gazelle Restoration Authority	Audited by AGO up to 2011. Report issued.
6	Enga	Porgera LLG Special Purpose Authority (Porgera Development Authority)	Audited by AGO up to 2009. M/L to be issued.
7	Enga	Enga Construction Authority	No F/S since 1999.
8	Manus	Manus Shipping Authority	No F/S since 1994.
9	New Ireland	Nimamar Development Authority	1997-2004 audited by Authorised Auditor and report issued.

No	Province	Provincial Authorities	Status
10	New Ireland	Nimamar Rural LLG Special Purpose Authority	2004-2006 F/S submitted. No F/S since 2006.
11	Oro	Oro Fisheries Authority	No F/S since 1990.
12	Southern Highlands	Kutubu Development Authority	No F/S since 1996.

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 organised in a similar manner as the audits 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 Funds and Trust have not communicated to my Office to confirm the current status of these organisations.

Table 7– Outstanding Audits of Funds and Trusts

No	Province	Trusts/Funds	Status
1	Enga	Enga Mineral Revenue Stabilisation fund	No F/S since 1993.
2	Gulf	Gulf Investment Trust Fund (GITF)	No F/S since 2004.
3	Western Highlands	Western Highlands Sports Stadium Trust	No F/S since 1995.

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 the 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 lengths of time. During that time, funds invested by the Provincial or Local-level Governments are depleted either due to the inability to effectively manage the business and/or misappropriation. As an end result, there is almost no return on the Government's investments and any misappropriation is not identified or reported to the Parliament and the appropriate authorities.

4.9 Tabling of Reports

The *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 Governments to the respective Ministers. Prior to October 2007 in addition to furnishing reports, I voluntarily undertook printing and tabling of those reports in the Parliament.

5. RESULTS OF AUDITS PER PROVINCE

5.1 Bougainville Autonomous Government

Entity	Year for which Last Financial Statements Submitted	Financial Statements Audited	Audit Opinion	Other Details
Bougainville Autonomous Government	2010	2010	Disclaimer Audit Opinion issued	Significant control issued identified.
Buka Hospital Board	2010	2010	Unqualified/Except For Opinion issued	
Buka Urban Council	2010	2010		Management Letter issued. Significant control issued identified.
South Bougainville Engineering	2004			No recent financial statements submitted.
North Solomon Marine Corporation	No financial statements since 1992			
North Solomon Plantation Development Corporation	No financial statements since 1983			Entity deregistered on 10 October, 1996.
Bougainville Restoration and Development Authority				No recent financial statements submitted for audit.

5.1.1 Autonomous Bougainville Government

The Autonomous Bougainville Government (ABG) has submitted its financial statements for the year-ended 31 December 2010. Field work associated with the audit of the financial statements and the accounts and records have been completed with the Management Letter issued. The Autonomous Government, again through the “*Zero Tolerance Task Force*”, had provided a very positive and comprehensive analysis of the issues raised in the Management Letter, with recommendations to the Provincial Public Accounts Committee (PPAC) and the Administration as a process for responding to the Management Letter issues. I have noted this as a continued positive indication of the Autonomous Government’s seriousness in addressing the weaknesses identified.

Financial Statements

The financial statements of the ABG for 2010 contained numerous errors and material misstatements. Consequently, I issued a Disclaimer Audit Opinion. The paragraphs below present the issues identified with the financial statements and the control environment.

Cash Balances

I was unable to express an opinion on the accuracy of the cash at bank and trust account balances and consequently, on the financial position of ABG as at 31 December 2010 due to the following reasons:

- The ABG Revenue Fund balance of K16,190,953 and Trust Fund balance of K1,131,868 was reported as represented by the bank balance of K17,322, 821 as at 31 December 2010. However, the closing accumulated fund balance of K27,163,985 reported in 2008 under Note3 was not included as the opening balance in 2009 under Note 3 to the Statement. The 2009 opening balance of K11,939,603 and therefore, the closing balance of K7,626,849 may be inaccurate and have material impact on the accuracy of the 2010 closing revenue fund balance of K16,190,953. Any adjustments to the opening balance, if any, was not provided for my verification;
- There were material reconciling items identified in the bank reconciliation statements of the ABG Operating Account and Grant Operating Accounts relating to receipts and expenditure that were not adjusted in the cashbooks and respective revenue and expenditure ledgers. They were also not disclosed in Statements “J” and “K” and have impacted on the bank and cashbook balances at the year-end;
- The ABG had also operated three trust accounts with bank accounts, details of which were not shown in Statement “C” and consequently not taken up in the Trust Fund Balance; and
- Transactions per the cashbook and bank statements were not reconciled on a timely basis resulting in bank statements receipts and payments of K519,259 and K3,691,829 respectively, not reconciled to the cashbook and the respective ledgers for the ABG Operating Account and ABG Grant Operating Account. These were merely shown as reconciling items in the bank reconciliation statement and as a result, an unadjusted reconciled cashbook balance of K1,834,304 and K15,488,517 respectively were shown as at 31 December 2010.

Receipts and Payments

Statement “B” showed total revenue and expenditure as K102,846,356 and K94,282,253 respectively with an operating surplus of K8,564,104 for the year-ended 31 December 2010. I was unable to confirm the accuracy of the revenue and expenditure therefore, the correctness of the operating surplus as at 31 December 2010 due to the following reasons:

- The reported actual revenue included Public Servants Staffing Grants and Teaching Services Commission Salaries and Allowances totaling K6,689,909 and K29,491,030 respectively. These were noted to represent actual expenditure and, as such, did not agree with the corresponding Warrant Authority allocations of K6,343,100 and K26,144,700 per TMS55 report by the Department of Finance. Consequently, salaries and allowances reported in the Statement were in excess of K3,693,139; and
- Further, the actual receipt of funds appropriated for the Public Servants Staffing Grant and Teaching Service Commission Salaries and Allowances were reported up in the respective revenue ledgers, resulting in the national grant total of K86,721,939 shown in this Statement not in agreement with the revenue ledger total of K50,541,000.

Investments

I have stated in my 2009 report that in 2008 investments totaling K4,000,000 were held with CDA Finance and Investment Ltd, an unlicensed and unauthorised financial institution. I stated then that there were decisions made by CDA which could have resulted in the loss of the investments.

Statement “F” to the financial statements reported a nil balance of investments while Note 8 to the financial statements stated 2009 closing balance of K2,841,492. Perusal of the revenue ledgers also revealed a total of K17,000 dividends received from Avis Rent A Car. Details of these investments were not disclosed in this Statement nor recorded in the Investment Register, if any or related share certificates held to confirm accuracy of the investment balances as at 31 December 2010.

Assets

Appendix 4 to the financial statements disclosed the balance of the fixed assets as nil as at 31 December 2010. However, examination of expenditure ledgers showed 13 motor vehicles, an outboard motor, land and other assets were purchased during the year amounted to K6,173,198. As such, this Appendix is incomplete, inaccurate and misleading.

Significant Control Weaknesses

- Several instances were sighted where people in authority or the contractors may have colluded and

conspired with the Department of National Planning so that contracts were awarded direct from the Department of National Planning without proper tendering procedures and processes thus, bypassing the powers of the Provincial Works Department and the Provincial Supply and Tenders Board;

- Contractors namely, NapatsiKinama Construction Company and NC Civil Works were simply issued the Certificate of Inexpediciencies (CoI) without a proper tender process or valid and authoritative explanations;
- As observed in my 2009 Management Letter, the ABG did not maintain any record or had filed documentation on all Capital Works and Building Contracts awarded to contractors. Consequently, I was unable to appropriately comment on the status of the capital works done to-date;
- Compliance to the contractual obligations by the contractors were seriously lacking resulting in the following anomalies:
 - Projects either left incomplete or unsatisfactorily completed although the contracts had been fully paid. For example, the Commerce Building, at a cost of K370,000 remained incomplete at the time of the audit;
 - Copies of the Project Completion Certificates issued, if any, were not sighted by the AGO. Project Managers failed to advise the relevant Supply and Tenders Board of any successful completion or lack of it as indicated by the absence of any project status reports or updates; and
 - Tender Registers, if any, with details of tenders received, dates, values tendered and projected completion dates were not available for my review.
- The ABG did maintain a Central Assets Register but was not adequately updated with details including additions, disposals, purchase dates, costs and specific classification for each asset type. Further, no stock ledger, stock control cards or records were maintained, nor were any annual stocktakes undertaken. Management has since advised that it had put together a comprehensive Action Plan to address concerns raised to date;
- Lack of monitoring and control over assets have resulted in a number of motor vehicles, either in the possession of unauthorised individuals, including former Officers of the ABG, or illegally sold off for private gains or destroyed with criminal intent. I have further observed that unauthorised occupants of ABG's official residences and other properties continued to maintain possession of the residences and properties;
- Controls over payments and acquittal of cash advances during the 2010 financial year were very poor resulting in cash and travel advances totaling K2,855,943 remained un-acquitted at year-end. Further, no Advance Register was maintained to record advances paid or acquitted, if any. I have raised issues in my previous year's reports;
- No formal Trust Instruments were in place setting out the parameters for ABG to maintain and operate the 24 Non-Bank Trust Accounts. Consequently, I was unable to vouch the validity and genuineness of receipts and payments effected through these accounts during the year;
- The ABG paid a total of K7,215,799 as grants and subsidies and financial assistances to the Local-level Governments, Educational Institutions, Public Authorities, Non Profit Organisations and individuals during the 2010 financial year. My review of controls over payments and acquittals of these financial assistances revealed a very poor level of accountability reports, lack of compliance with proper procurement procedures, and grants paid out to individuals were noted to have been paid into personal accounts;
- Instances of expenditures charged to unrelated vote items amounted to K1,376,198. I noted further that expenditures charged to item 135 were mostly expenditures which had their budget allocation under respective items such as vehicle hires, accommodation, travel allowance, airfares for duty travel, telephone and electricity bills, assets and inventory purchases, grant and subsidy payments, etc. Item 135 is only for expenditures which are not classified under any other budgeted vote items;
- Names of financial delegates were pre-typed on the FF3 and FF4 and as a result instances were noted where the signatures of financial delegates did not agree to the specimen signatures held on file;
- Instances of reimbursements of funds totaling K38,355 paid to outside parties or business houses for money borrowed on behalf of the Provincial Government and used for various reasons by ABG staff. Reimbursements to the Provincial Government staff for use of personal monies to conduct

official businesses during the year totaled K471,078. The reimbursements in most instances were not supported with valid documentations nor the prior approval obtained to use personal monies for official business; and

- Uncontrolled use of the hire vehicles resulted in the ABG having to pay in excess of K2,275,416 during the year.

5.1.2. Buka Hospital Board

Buka General Hospital submitted its financial statements for the year ended 31 December 2010. Field work associated with the audit of the accounts and records was completed and the Management Letter issued. The Hospital continued to show some improvements in its corporate governance issues, revenue collection and assets management. Management has responded positively to the audit findings and is actively working on resolving the weaknesses identified. The improvements on the control environment and the financial statements made by the Buka Hospital Management resulted in issuing an Unqualified Opinion. Issues identified and reported to the Management as well as the Minister responsible are as summarised below:

Corporate Governance

Buka General Hospital had no Board in place since 1991 to effectively run the operations of the Hospital. Management has since advised that the submissions with recommendations to the different government authorities were rejected for no apparent reasons. I was further advised that since the Bougainville Peace Agreement in 2003, which was also heralded by the constitutional amendment from the *Organic Law* to the *Organic Law on Peace Building*, the full application of the *Hospital Management Act 1994* in the Autonomous Region of Bougainville would need to be clearly delineated. As such, the Hospital Management stands to be guided on the implications of these varying constitutional requirements, and in view of local legal advices suggesting some form of “*Transitional Legislations*” to be developed in order for these Acts of Parliament to be applicable in the Autonomous Region of Bougainville.

As reported in my previous year’s report, the Hospital had no Internal Audit Unit or Audit Committee established nor any audit services provided by the National Department of Health during the year under review. I have since been advised that Management had taken steps to establish the Internal Audit Unit in the Hospital and had advertised the position so as to also assist with the establishment of the Audit Committee soon.

Significant Control Weaknesses

The General Hospital lacked controls over the use of the accounting package in use in that only the consultant knows how to use the system, had full access, and has the password to the software. This posed a risk of data manipulation. Hospital Management had since advised that arrangements have been finalised for accounts staff to be trained in this regard.

The Hospital had not exercised segregation of duties in transaction initiation, verification, certification and approval prior to the processing of cheques thus creating avenues for fraud and misappropriation of funds. Management had since advised that relevant positions have been advertised to rectify the situation.

I have not sighted evidence of instrument of appointment of Section 32 Officers, their delegated limits, specimen signatures as well as the Requisition Officers, Examiners, Certifying Officers and Receiving Officers. Management had since advised that proper instrument of appointment of Section 32 Officers will be complied with whilst other discrepancies noted have been sorted out.

The Hospital had not maintained a proper Fixed Assets Register to capture details of purchases and disposals of assets during the year or in previous years. Further, no physical stock-takes were done during the year to keep track of the assets owned and in the custody of the Hospital. Management had since acknowledged the risk implications and advised that it stands ready to implement my audit recommendations.

5.1.3 Buka Urban Council

Buka Urban Council had submitted its financial statements for the year-ended 31 December 2010 late in April 2012. The field work associated with the accounts and records was completed and the Management Letter issued. The paragraphs below give a summary of major issues identified:

Financial Statements

Financial Instruction 5/2000 issued under Section 117 of the *PFMA* states the prescribed format for the preparation and presentation of financial statements for Provincial and Local-level Governments. The prescribed format requires the presentation of Statements A-K and Appendices 1-6 for external reporting. The financial statements of Buka Urban Local-level Government (ULLG) was neither in the prescribed format nor signed by the Town Mayor or the Town Manageress as required by the said Financial Instruction issued by the Department of Finance.

Budgetary Control

The Buka ULLG had not provided a copy of the duly signed, endorsed and approved by the JDP&BPC budget appropriation or a copy forwarded to the Provincial Administrator/Governor/President of the Autonomous Government for the presentation to the Assembly for passage as an Appropriation Bill for my review. As such, the validity and appropriateness of the budget appropriation could not be relied upon as authoritative.

The Buka ULLG had budget estimates prepared showing total revenue and expenditure as K9,394,900 and K9,394,900 respectively. However actual revenue was K1,352,319 as against the actual expenditure of K1,175,763 during the year with a surplus of K176, 556. However, as noted above, the ULLG did not have an authorised Appropriation Act certified by the Minister for Finance for its receipts and expenditure for the year under review. In the absence an authoritative Appropriation Act on the budget estimates, there is a risk that monies spent on goods and services may be illegal and in breach of the *PFMA* on accountability and good governance.

The ULLG is required to have monthly and quarterly budget reviews as part of the budgetary control process. Audit was not provided with evidence to indicate that such reviews were done. Consequently, there was no proper control in spending its budget during the year under review.

Revenue

A review of the internal revenue collection procedures and processes observed by the Buka ULLG during the period under review revealed the following major discrepancies:

- Daily collections were used prior to banking. For example, 32 out of 36 collections totalling K8,416 were noted to have used at the date of the receipt prior to banking. Some of these had signed payment vouchers attached to them symbolising approved payments; and
- Audit noted instances of delays in the banking of the collections for up to two weeks.

Payment of Accounts

There were 18 payment vouchers totaling K250,772 signed by the Town Manageress as approval for payment above her delegated limit of K7,000.

An amount of K88,877 for five claims sighted lacked necessary and appropriate supporting documentation. Notes were written on pieces of papers instructing payments to be processed without formal endorsements.

Payment of K24,354 as a 30% fee to a debt collector is noted as an unwise expenditure as this service could have been performed by Buka ULLG revenue officer at minimum cost or at no cost.

AGO noted instances of cash reimbursements totaling K72,134 made to individuals for the use of the private funds purportedly on official business. Audit however, could not ascertain whether the claims were genuine or not since there were no documented evidence provided to support the claims.

Payments for staff accommodation totaling K27,415 were made direct to the staff rather than to the landlord. This is a breach of the guidelines as any such payments are to be made directly to the service

providers. In addition, Audit could not ascertain whether these payments were correctly made and the officers were supposed to be receiving housing allowances or not as no proper documents were provided to Audit for confirmation and perusal.

Salaries and Wages

A MYOB printed Staff Establishment Listing presented to Audit did not contain staff names and their pay rates. Other vital information such as fortnight tax payable, date commenced work, leave due dates, any additional allowances and annual package for the period under review were also lacking. Even though permanent staff files and records were also provided, this information was still not included.

There was no contract documents sighted for the permanent staff of the Buka ULLG. Even the Town Manageress had no signed contract of employment as the last one she signed was in 1999. Thus, in the absence of such files and records, there is very high risk of payroll fraud and officers could be over or under paid.

Audit noted that a total payment of K340,765 relating to salaries and wages were made during the year under review. These payments include both casual wages and permanent staff salaries and have been correctly taken up in the Financial Statement. Again without proper files and records these figures cannot be relied on.

Both permanent and casual employees, including the Town Manageress, were paid from the internal revenue generated. It is common and nationally accepted that permanent staff are supposed to be paid by the National Government through the Department of Personnel Management's Concept Payroll System. Although, raised in the previous Management Letters, nothing was done to date and regardless of it being raised by the Buka ULLG with the ABG no improvements had been observed. A letter to that effect has been provided by the Town Manageress.

Advance Management

The Buka ULLG had not maintained any Advances Register for the period under review. A Staff Advance Listing was kept however, with an un-acquitted amount of K26,024 for the period under review.

In spite of the absence of proper advance and acquittal records the ULLG disclosed the outstanding staff advances as Other Receivables in its' Balance Sheet.

Assets Management

The Buka ULLG did have a Fixed Assets Register however, it had not been updated with purchases of over K18,899 during the year.

Audit sighted no evidence to indicate that periodic stock-takes were conducted to physically verify and determine the existence, condition and value of fixed assets held.

Cash and Bank Reconciliation

The Buka ULLG never completed monthly bank reconciliations for the year under review. The ULLG had however maintained a twelve month reconciliation report instead for both the Operating and Asset Replacement Accounts. I have noted this manner of bank reconciliation as inappropriate and prone to the risk of outstanding cheques floating around, direct deposits not taken up in the ledgers and eventually showing unrealistic cash balances at year-end.

No other analysis and testing on the accuracy and appropriateness of the bank reconciliations could be performed due to lack of necessary documents being available, including a schedule of cancelled, dishonoured and stale cheques.

Corporate Governance

I have sighted no evidence to suggest that the Buka ULLG had a Corporate Plan in place. The Town Manageress admitted they never had been any corporate plan for the Buka ULLG but has subsequently advised their first five year Corporate Plan (2013 – 2017) has been developed.

The Buka ULLG Board met only twice during the year contrary to the average required of four meeting per annum. The meeting minutes including names of the Board Members have been provided. However, no proper appointment instruments for the Board Members existed at the time of the audit.

Consequently, I was of the view that the members were illegally attending meetings and that the payment of their stipends or sitting allowances, if any, were also illegal in nature.

5.2 Central Province

Entity	Year for which Last Financial Statements Submitted	Financial Statements Audited	Audit Opinion	Other Details
Central Provincial Government	2011	2010	Disclaimer Audit Opinion	Significant control weaknesses identified with no improvements.
Port Moresby General Hospital	2011	2010		Responses to the Management Letter awaited. Draft Opinion being finalised.
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	No		Audit of 2010 accounts and records discontinued due to non-availability of required records.
Central Province Investments Ltd				2005 – 2010 financial statements not submitted.
Koiari Development Authority				No recent financial statements
Central Province Transport Authority	2009	2009		Responses to the Management Letter for 2009 audit awaited. Interim audit of 2010 to commence shortly.
Koiari Holdings Ltd	No accounts submitted since 1995			
Koiari LLG SP Authority				2004 – 2010 financial statements awaited/audit to be determined.

5.2.1 Central Provincial Government

General

The audit of the financial statements for the Central Provincial Government for the year ended 31 December 2010 resulted in a Disclaimer Opinion. The control environment continued to be lacking adequate procedures and monitoring and could not ensure the 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. Issues surrounding the financial statements and the control environment are noted below:

Financial Statements

The financial statements of the Central Provincial Government were misleading and unreliable due to the following reasons:

- Revenue received during the year were not receipted and posted to the revenue ledgers or cashbooks and consequently not disclosed in the related financial statements;
- The accumulated overdrawn opening fund balance of K7,333,637 used in Note 3 computations contained inherited errors brought forward from previous years;
- Similarly the 2010 net surplus balance of K5,645,056 used in Note 3 computations was subject to adjustments recommended for Statements “J” and “K” respectively;
- The reported year-end overdrawn fund balance of K1,794,047 was not in agreement with Note 6 balances and year-end bank reconciliation balances; and
- The Provincial Government had operated a total of 29 Trust Accounts without bank accounts with accumulated opening and closing balances of K98,468 and K105,468 respectively were understated in Statement “C”. Additionally four of the Trust Accounts had no opening balances but were disclosed with closing balances without showing any movement of funds during the year. Most of these Trust Accounts were dormant but were not closed and removed from PGAS.

Budgetary Control

The *Central Provincial Government's 2010 Appropriation Act (No.1 of 2010)* authorising the estimates of revenue and expenditure totaling K67,943,100 for the year-ended 31st December 2010 was passed by the Central Provincial Government on the 15 December 2009. Actual revenue and expenditure per the ledgers totaling K72,149,081 and K66,504,025 respectively were unreliable due to the following matters:

- The Teaching Service Commission and Central Provincial Administration salaries totaling K40,245,445 were not added to both revenues and expenditures to have a complete view of the actual expenditure and revenue;
- The exact grant revenue received from the National Government through the Department of Finance could not be confirmed in the absence of Warrant Authorities and Cash Fund Certificates being provided; and
- No budget performance reviews, revisions and evaluations were undertaken during year under review.

Cash Book and Bank Reconciliations

The Central Provincial Government maintained and operated two Operating Bank Accounts and two separate cashbooks to conduct its financial transactions for Grant and Internal Revenues respectively. I have noted the following:

- The reconciliation statements were not properly and correctly completed to reconcile the amounts as at year-end;

- Poor accounting practices have resulted in one cashbook balance being overdrawn at year-end; and
- Errors, inconsistencies and distortions were noted pertaining to the reconciliations of the two bank accounts. Further, un-reconciled items were not identified and cleared.

Revenue Controls, Collection and Banking

A review of the revenue controls, collection and banking procedures revealed the following weaknesses:

- The Central Provincial cash office lacked segregation of duties in that the functions of revenue collection, custodian, banking and data postings were not segregated for control purposes. For example, the same cashier was involved in revenue collections, receipting, and banking as well as posting the revenue data into PGAS. Further, the cashier had unlimited excess to the cash office and the safe;
- The Internal Audit Unit of the Central Provincial Administration failed its duties by not making any attempts to do surprise cash counts during the year under review; and
- Direct bank transfers via Warrant Authorities were not identified and posted to respective revenue ledgers and the cashbook during the year under review and prior years.

Payment of Accounts

Audit review and tests on procurement procedures reveal the following matters:

- The Examiner, Certifying Officer, Provincial Treasurer and Accountant's signatures were not sighted on the Financial Delegates Instrument;
- Payment vouchers totaling K517,807 were missing from the files inspected. In the absence of supporting vouchers audit could not verify the genuineness and legality of these payments;
- Payments totaling K152,062 were not supported with written quotations as required by the procurement guidelines;
- Overtime payments totaling K10,871 were not approved either by Divisional Heads nor the Provincial Administrator;
- Leave fares totaling K59,606 paid were not adequately supported with necessary supporting documents;
- The Provincial Administrator's accommodation rentals for the year totaling K134,223 not supported with a binding tenancy agreement; and
- Payments totaling K764,002 were not certified by the duly appointed Certifying Officer.

Grants and Subsidies

Payments under grant vote totaled K1,968,190 for the year. From this total K493,290 was related to school fee assistance while the remaining balance of K1,474,900 being Local-level Government grants. Recipients of school fee assistances did not acquit or provide any accountability reports to confirm usage of funds for the intended purposes. Audit sighted no evidence to confirm that the Provincial Government had sought the acquittals nor engaged Internal Audit Unit to audit the use of such funds.

Management of Advances

An audit review of the Advances Register, expenditure ledgers and other related records revealed the following matters:

- The Central Provincial Government had maintained both manual and PGAS Advances Registers simultaneously. Audit noted that both Registers provided were incomplete, inadequate and consequently failed to capture all forms of advances taken during the year under review; and
- Cash, Travel, Air fares and Accommodation Advances taken during the year totaled K1,193,374. These were however, not adequately updated in the Advances Register. Further, Cash and Travel Advances totaling K1,148,748 per the Advance Registers remained un-acquitted at the time of the audit.

Assets Management

Audit inspection of records relating to assets revealed the following matters:

- No comprehensive Assets Register was maintained to centrally record and control all assets of the Central Provincial Government;
- Consequently three of eleven motor vehicles purchased during the year valued at K180,874 were not recorded on the Assets Register; and
- Internal Audit reports of various Districts in the Central Province showed poor management of assets. Management did not seriously implement recommendations for improvement of Asset Management highlighted in the previous audit report.

Capital Works and Maintenance

Inspection of expenditure ledgers and other underlying records revealed expenditure on capital works revealed the following issues:

- The PSTB had conducted five meetings during the year. Meeting minutes were however, not adequately maintained and meeting minutes containing important resolutions were not signed and certified by the Chairman. Consequently, the legality of any resolutions reached in these meetings and if implemented, could not be ascertained;
- Payments totalling K551,600 could not be substantiated with appropriate supporting documentation. Provincial Works Division failed to provide the supporting vouchers; and
- PSTB approvals and contract documentation were not sighted for contract work payments totaling K1,185,039. In the absence of these documents the reliability and appropriateness of the payments could not be verified.

Salaries and Wages

Audit examination of personal files, expenditure ledgers and other related records revealed the following matters:

- Payrolls for Pay #1 to 26 including other key documents were not available for my examination. Consequently, I was unable to conduct any comprehensive audit of expenditure incurred on salaries and wages during year under review; and
- There appeared to be a major payroll scam in operation during the 2010 financial year where various Human Resource personnel were performing incompatible tasks and appeared to have colluded. Copies of internal investigation reports, charges laid against key players and benefactors provided to Audit showed that hundreds of thousands of Kina were lost through the scam. Five Officers involved in the scam were subsequently terminated and investigations were still underway at the time of the audit.

Journal Entries

A review of the journal entries per the ledgers and supporting vouchers relating to journal entries revealed that all journal entries worth millions of Kina raised and posted were not signed and certified by the officer who prepared them. Similarly, the journal entries were not attested by a senior officer prior to posting. In the absence of certification I was unable to ascertain the validity and legality of the entire journal entries raised and posted. The raising and posting of journal entries without authorisation and supervision of competent authorities exposed the Central Provincial Government to a high risk of fraud.

Corporate Governance and Internal Audit

- The incumbent Cabinet Secretary operating in the then 2010 financial year was not available at the time of the audit visit to the Cabinet Secretary's Office. Audit request for Provincial Executive Council and Provincial Assembly meeting minutes were not attended to or provided. As such audit was not able to assess whether any Provincial Assembly and PEC meetings were conducted during the year under review. In the absence of any meeting minutes and other instruments audit could not verify and confirm if any major resolutions with significant financial values were passed and implemented. Similarly, any expenditure incurred in that regard could not be verified as genuine;

- Central Provincial Government did have in place a Corporate Plan for the period 2005 – 2010. Other than that, audit was not provided or sighted record of any associated or action plans, periodic management minutes, review of results, etc. to monitor the performance of each strategic plans incorporated in the Corporate Plan to achieve corporate goals. In the absence of such documentation, audit was unable to ascertain the performance and achievement of Central Provincial Government budgets and corporate goals; and
- Internal Audit Unit (IAU) of Central Provincial Administration was under staffed, underfunded, under equipped and inadequately supported with logistics to effectively conduct its responsibilities. Consequently, the Internal Audit Unit had remained virtually inactive and without any positive work output during the year.

5.2.2 Port Moresby Hospital Board

The Hospital has submitted its financial statements for the year-ended 31 December 2010. The audit opinion Report and compliance Report will be included in my 2011 to 2013 Part III Report.

5.2.3 Motu–Koita Assembly

The *Motu Koita Assembly Act 2007* provided for the 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 (MKA) had not prepared its financial statements for the years 2007 to 2010. The audit of the 2010 accounts and records could not be conducted due to non-availability of the necessary records. Consequently, I was unable to comment on the financial status and the management of the funds of MKA for the year under review.

5.3 East New Britain Province

Entity	Year for which Last Financial Statements Submitted	Financial Statements Audited	Audit Opinion	Other Details
East New Britain Provincial Government	2012	2010	Disclaimer Audit Opinion	Significant control weaknesses identified for 2010. 2011 audit completed with results being evaluated.
Nonga Base Hospital Board	2011	2010	Disclaimer Audit Opinion	Significant control weaknesses identified.
Kokopo Vunamami Urban	2011	2010	Disclaimer Audit Opinion	Significant control weaknesses identified.
Rabaul Urban	2011	2010	Disclaimer Audit Opinion	Significant control weaknesses identified.
Balanataman	2011	No		
Bitapaka	2011	No		
Central Gazelle	2011	No		
Central Inland Pomio	2011	No		
Duke of York	2011	No		
East Pomio	2011	No		
Inland Baining	2011	No		
Kombiu	2011	No		
Lassul Baining	2011	No		
Melkoi	2011	No		
Raluana	2011	No		
Livuan Reimber	2011	No		
Sinivit	2011	No		
Toma Vunadidir	2011	No		
Watom	2011	No		
West Pomio Mamusi	2011	No		
Gazelle Restoration Authority	2011	2010	May 2012 Unqualified	2010 report contained no qualification. Field audit completed for 2011 with Management Letter issued. No major issues identified.
Barakopo Plantation	2003	No		No recent financial statements
ENB Dev.Corp.				Audit of the entity and subsidiaries done by private arrangement.
Islands Dev.Bureau	2001	No		No recent financial statements.
Pomio Development	1997	No		No recent financial statements.
South Coast Shipping	2000	No		No recent financial statements

5.3.1 East New Britain Provincial Government

General

The results of the audit of East New Britain Provincial Government (ENBPG) for the year-ended 31 December 2010 was generally unsatisfactory with a Disclaimer Audit Opinion issued. It is pleasing however, that there were some improvements in the record keeping and general administration of the Provincial Government affairs. The ENBPG was also the first Provincial Government to have submitted its 2010 and 2011 accounts. I hope that this trend will continue in the years to come with further improvements in the control environment.

ENBPG has positively responded to the Management Letter queries. My report to the Minister responsible contained the following audit findings as summarised in the paragraphs below:

Financial Statements

The financial statements of ENBPG for the year-ended 31 December 2010 are misleading as a result of an error in the presentation of the value of assets. Namely, amounts in Appendix 2 in relation to the value of the fixed assets were incorrectly presented in amounts of 'thousands' instead of the original amounts.

Cash Balances

The accuracy of the cash at bank and trust account balances and consequently, the financial position of ENBPG as at 31 December 2010 could not be confirmed due to the following reasons:

- The Provincial Government cash and bank balance of K16,596,428 included an unconfirmed ledger balance of K4,442,292; and
- Material reconciling items were not adjusted in the cashbooks and revenue and expenditure ledgers, nor disclosed in the statements and this had affected the bank and cashbook balances at year-end.

Receipts and Payments

The accuracy of the reported total revenue and expenditure of K96,524,726 and K85,097,788 respectively and an operating surplus of K11,426,938 as at 31 December 2010 could not be confirmed due to the following reasons:

- The total revenue included prior years' appropriation receipts totaling K16,050,527 which were not actual receipts for the current year;
- The Public Servants and Teachers' Salaries actual receipts and expenditures of K47,727,593 and K45,762,700 respectively were not disclosed as notes to accounts. Further, the total actual salaries expenditures were in excess of the year to date target expenditure resulting in the unexplained difference of K1,964,893;
- The monthly remittance of Goods and Services Tax (GST) of K709,708 for the month of November 2010 had not been posted to the revenue ledger; and
- As stated in the previous year's audit report, the East New Britain (ENB) Provincial Administration had not finalised the contract agreement with ENB Port Services relating to the coordination of commercial activities of the AHTAM Wharf. The ENB Port Services however, was remitting fees of K30,000 per month to the Provincial Administration.

Investments

The following observations were made on the investments account of the Provincial Government:

- The accuracy, completeness, existence and ownership of the reported investments balance of K2,689,252 represented by shares held in East New Britain Development Corporation valued at K2,159,139 and K530,113 in Barakopo Plantation Development Corporation could not be confirmed in the absence of the Investment Register and other related records or the audited financial statements of the subsidiaries;

- As stated in my previous year's audit report, the Provincial Government paid K5.5 Million to a Fisheries Project Developer, New Britain Resources Development Company as initial part payment to acquire its 51% shareholding with the company. The National Fisheries Authority was to have issued 20 fishing licenses under the project agreement. The fishing licenses and share certificates however, have not been obtained due to legal proceedings by the National Fisheries Authority against the project developer, the Provincial Government and the State.

Assets

The Provincial Government had disclosed its fixed assets as K49,198,297 as at 31 December 2010. This however, could not be confirmed as correct due to the following reasons:

- An error in the presentation of the costs of fixed assets in that the fixed assets were presented in 'thousand' instead of the original amounts; and
- Purchases made during the year totaling K1,273,533 had not been recorded in the Fixed Assets Register.

Trust Accounts

- The Provincial Government had operated 11 trust accounts of which six had overdrawn closing balances totaling K1,608,888 as at 31 December 2010. The overdrawn trust account balances were ambiguously reported as 'the net result of un-appropriated expenditure charged to trust accounts dating back to previous years; and
- Further, I was not provided with evidence of Trust Instruments and other related documents to ascertain legality, validity and the appropriateness of the transactions effected through trust accounts during the year.

Payment of Accounts

The following significant control weaknesses were noted in the ENBPG records and processes:

- In five instances, the Section 32 Officers had approved expenditures totaling K162,620 well in excess of their financial limits of K10,000 to K25,000;
- In six instances, claims totaling K256,462 were paid without the appropriate supporting documents such as the suppliers invoices to confirm the accuracy and completeness of the payments made;
- A private hire car company was paid total of K73,000 as compensation for damages to the motor vehicle, a Toyota Hilux(Fifth Element – Reg. No. RAI 404) by an officer of the Provincial Administration. However, no evidence was sighted to indicate whether appropriate action had been taken against the officer concerned;
- Payments totaling K566,917 were made in relation to recreation leave fare entitlements without the appropriate supporting documents, including approved leave applications;
- Return leave fares totaling K51,348 for four teachers and their families included fares for dependent children over the age of 18 years contrary to and in breach of Section 14 of the *Public Service General Orders*;
- The Provincial Government paid a total K3,445,852 on capital works and maintenance. I have sighted no evidence to indicate whether proper tender processes including project supervision and completion requirements were adhered to; and
- Appendix 6 to the financial statements disclosed un-acquitted travel and advances dating back to 2004 as K718,522. However, there were errors and omissions made in respect of advances shown as un-acquitted in this Appendix. Consequently, I was unable to rely on the completeness and accuracy of the reported un-acquitted advances at year-end.

Acquittal of Grants and Advances

- Grants and subsidies and financial assistances to Non Profit Organisations, Public Authorities and Schools totaling K2,449,488 lacked evidence of accountability reports by the recipients nor were there records to indicate that the Provincial Government had sought these reports; and

- Travel and cash advances of K718,522 dating back to 2004 remained un-acquitted. Further, the completeness and accuracy of the amount reported could not be ascertained due to errors and omissions made in the Appendix.

Internal Audit

The Internal Audit Unit was ineffective in its function due to lack of proper and adequate resourcing and logistical support from the Provincial Government. Further, the draft Audit Charter, which sets out the Internal Audit mandate and scope of audit coverage and activities, had not been reviewed and endorsed by the Provincial Administrator.

5.3.2 Nonga Base Hospital

The field work associated with the audit of the accounts and records for the year-ended 31 December 2010 had been completed with the Management Letter issued. A Disclaimer Audit Opinion was issued subsequently. Shown below are the details of major issues highlighted in my report to the Minister responsible:

Financial Statements

- The 2010 financial statement of Nonga Base Hospital did not contain the Schedules of Capital Assets and Liabilities as required by Financial Instruction 02/2004 issued under Section 117 of the *PFMA*;
- Audit sighted material misstatements of cash balances due to errors and omissions of receipts and payments resulting in reconciling differences with the bank balances. Consequently, the accuracy of the combined excess receipt over expenditure of K2,162,553 disclosed in the financial statements could not be ascertained; and
- The Assets Register was not updated with purchases and disposals during the year. Consequently, the completeness, existence and value of all fixed assets owned and in the custody of the Hospital at year-end could not be verified.

Budgetary Controls

The Hospital's ineffective budgetary controls had resulted in excess unpaid commitments of K160,573.

Accounts and Records

- The Hospital had reported revenues received per the Operating and Hospital Fees Accounts as K5,499,851. The accuracy of actual revenues received however, could not be confirmed as correct in the absence of any proper revenue ledgers; and
- Effective segregation of duties were not practiced in the receipting, banking and recording of cash receipts, nor were any independent cash counts conducted to ensure all revenues collected were brought to account, recorded and banked intact on a daily basis.

Purchasing and Payment Process

- No Quotations Register was maintained nor were the required verbal and/or written quotations obtained from suppliers to determine the most economical prices for procurement of goods and services;
- The Hospital exercised no segregation of duties in authorisation, approval and payment procedures. Instead, the acting Chief Executive Officer, acting Director Corporate Services and the Accountant were all involved in claims examination and certification and authorisation of Requisitions for Expenditure as Section 32 Officers; and
- A consultant was engaged at a cost of K4,000 to install the MYOB Accounting Software Package for the Hospital which did not produce the intended results.

Personnel Section

The vacancies created by resignations, transfers and unfilled positions were not monitored and replenished to maintain consistency, efficiency and effective management of the Hospital's personnel requirement. Consequently, the Hospital's staff strength of 212 was well below the approved and funded positions of 300.

Advances Management

No proper and effective advance controls were in place resulting in un-acquitted advances totaling K118,828 at year-end.

Corporate Governance

The Nonga Base Hospital has had no proper and legally constituted Hospital Board in place since 2006. Consequently, major operational decisions were made by the Executive Management Committee (EMC). One such decision per meeting No. 08/2010 was made to transfer K800,000 from the Hospital Operating Account into the Hospital Fees Trust Operating Account with an intention to purchase motor vehicles and general maintenance work on staff houses. I have however, sighted no evidence to indicate that prior approval was sought from the Secretary for the Department of Health to transfer the needed funds.

The Nonga Hospital Board did not have a Corporate Plan that establishes long-term objectives, set priorities and targets and takes into account the requirements of the stakeholders and associated plans to support the Corporate Plan.

5.3.3 Kokopo/Vunamami Urban Local-level Government

The audit of Kokopo/Vunamami ULLG accounts and records for the year-ended 31 December 2010 was completed with a Disclaimer Audit Opinion issued. The major audit findings reported are as summarised in the paragraphs below:

Cash Balances

Cash and bank balance of K129,836 could not be confirmed as correct due to errors and material misstatement of the operating surplus as discussed under the paragraph on Receipts and Payments below.

Receipts and Payments

The Local-level Government's total revenue and expenditure of K2,267,418 and K2,231,209 respectively with an operating surplus of K36,209 could not be confirmed as correct due to the total revenue included 'former years unspent' receipts of K30,825, which did not represent the actual receipts during the year. No notes were made to that effect of former years appropriation. Further, material expenditure reconciling items were not adjusted in the cashbook and posted to the ledgers.

Significant Control Weaknesses

- The Kokopo/Vunamami ULLG reported initial annual budget estimates of K2,024,400 which was subsequently revised to an amount of K2,811,700. I was not provided evidence to confirm that the budgets were duly sanctioned and certified prior to implementation;
- No proper records or a Register of Outstanding Commitments and Arrears nor the actual claims with valid supporting invoices were maintained to confirm the accuracy and completeness of outstanding commitments totaling K311,300 at year-end;
- A serious lack of proper monitoring and recovery activities on travel and cash advances resulting in amounts totaling K65,796 un-acquitted as at 31 December 2010. Further, no recovery actions were taken on the outstanding salary advances;
- Proper segregation of duties in receipting, recording and banking of revenues continued to be a recurring weakness;
- A number of payments totaling K413,356 were not duly approved by the appropriate financial delegate or certified respectively;
- Payment of grants and financial assistances to Local Level Government Wards, Schools and Church groups totaling K39,090 lacked evidence of accountability reports by the recipients nor was a proper mechanism in place or guidelines to monitor and ensure that the recipients had utilised the grant funds for the intended purposes; and
- A total expenditure of K106,757 on minor maintenance works was not evidenced by a duly certified Certificates of Completion.

5.3.4 Rabaul Urban Local-level Government

The audit of Rabaul ULLG accounts and records for the year-ended 31 December 2010 was completed with a Disclaimer Audit Opinion issued. The major audit findings reported are as summarised in the paragraphs below:

Financial Statements

The financial statements of Rabaul ULLG for the year-ended 31 December 2010 are misleading as a result of an error in the presentation of the statements. Namely, amounts in page two of Appendix 2 in relation to the value of fixed assets were incorrectly presented in amounts of 'thousands' instead of the original amounts.

Cash Balances

The accuracy of the cash at bank and trust account balances and consequently, the financial position of ULLG as at 31 December 2010 could not be verified due to the following reasons:

- The cash and bank balance of K116,663 had errors and material misstatements associated with the Revenue Fund and Trust Fund account balances;
- The Revenue Fund of K161,963 could not be confirmed as correct due to errors and material misstatements of the operating deficit as discussed under the paragraph on Receipts and Payments below;
- The Trust Fund balance of K45,300 was misleading as it was identified as a balance relating to the Finance Operating account, a National Government Entity trust account; and
- No investment account balance was disclosed in the statements 'E' and 'A' contrary to the bank confirmation balance of K188,422 and a reconciled cashbook balance of K188,062.

Receipts and Payments for 2010

The Local level Government's total revenue and expenditure of K969,091 and K1,064,469 respectively with an operating deficit of K95,378 could not be confirmed as correct due to total revenue including 'former years unspent' receipts of K2,500 which did not represent the actual receipts during the year. Notes to this receipt were not stated. Further, there was material expenditure reconciling items not adjusted in the cashbook and posted to the ledgers.

Assets

The Rabaul ULLG disclosed its fixed assets as K115,304 as at 31 December 2010. This however, could not be confirmed as correct due to the following reasons:

- An error in the presentation of the costs of fixed assets in that the fixed assets were presented in 'thousands' instead of the original amounts;
- The amount disclosed was a brought forward figure and did not represent the total value of fixed assets owned and held under the custody of the ULLG at year-end; and
- Purchases made during the year totaling K1,810,752 had not been recorded in the Fixed Assets Register.

Significant Control Weaknesses

- The Rabaul ULLG's annual budget estimates of K1,265,300 had posting errors in both the original and current Appropriations resulting in an increase to K1,277,300 and K1,291,119 respectively. Further, there was evidence to suggest that the Appropriations were not duly sanctioned and certified prior to implementation;
- The ULLG reported its un-acquitted advances dating back to 2008 as K17,152. This however, could not be confirmed as correct as cash advance of K800 was materially misstated as K2,300 whilst another un-acquitted cash advance of K600 had not been recorded;
- Instances of payments totaling K104,819 were not approved by the appropriate financial delegate prior to processing payment of the claims; and

- Proper segregation of duties in receipting, recording and banking of revenues continued to be a recurring weakness.

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 cleanup 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 (now the Australian Department of Foreign Affairs and Trade).

At the time of preparing this Report the audit of the 2010 financial statements was completed and the Management Letter issued. An Unqualified Audit Opinion was issued subsequently without any major audit findings.

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 food retail, 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 and Cocoa Co-operative Limited.

Since year 2000, the management of ENBDC has engaged private auditors to audit the accounts of ENBDC and its related subsidiaries without proper authorisation by the AGO and in breach of Section 8 (5A) of the *Audit Act*. I was advised that all the audits were in arrears due to resource capacity issues in the accounting and finance areas. However, with the engagement of the appropriate expatriate personnel, management was hoping to get the problem resolved and to get the accounts and records ready for audit by first quarter, 2012.

At the time of preparing this report, management had not provided me with any recent audited financial statements and the related report of the entity for my review.

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	2010	2010	August 2013 Disclaimer	Significant control weaknesses identified.
Boram Hospital Board	None yet	2009-2010 no fin statements	Audit of fin statements dispensed	Significant control weaknesses identified.
AlbigesMamblep	2005	No		
Ambunti Rural	2007	No		
Angoram M.A.	2005	No		
BumbitaMuhiang	2005	No		
Burui Kunai	2005	No		
But/Boiken	2005	No		
Drekirkir	2007	No		
East Yangoru	2002	No		
Gawamga	2007	No		
Guawi	2005	No		
Karawari	2005	No		
Keram	2005	No		
MaprikWora	2005	No		
Mariengberg	2005	No		
North Wosera	2007	No		
Numbo	2003	No		
Sausso	2003	No		
South Wosera	2005	No		
Tunap/Hustein	2007	No		
Turubu	2005	No		
West Yangoru	2002	No		
Wewak Rural	No data	No		
Wewak Island	2005	No		
Wewak Urban	None yet	2009-2010 no fin statements	Audit of fin statements dispensed	Significant control weaknesses identified.
YamilTamaui	2005	No		
Yuat	No data			
East Sepik Development. Corporation	2001			Audits to be determined.

5.4.1 East Sepik Provincial Government

Financial Statements

Due to incomplete disclosures and information required in the financial statements and unreliable processes and absence of controls, I have issued a Disclaimer Audit Opinion on the 2010 accounts.

The Management Letter sent to the Provincial Government detailing audit issues was not responded to. The paragraphs below detail issues identified during 2010:

Trust Funds

The trust fund summary disclosed in Statement "C" included three trusts funds with separate bank accounts. No underlying records, such as bank reconciliations, cashbooks, bank statements and ledgers, were made available for me to confirm their respective balances and the total balance of K12,008,882 disclosed.

Investments

The Provincial Government reported an investment held in South Sea Tuna of K2 million as at 31 December 2007. Also, prior year financial statements disclosed investments in Westpac Bank, Highlands Gold, Avis Rent a Car, Windjamer Beach Motel, and Wewak Courts Flat through its business arm, Sepik Holding (formerly ESDECO). In the absence of an 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 2010.

Borrowings

The East Sepik Provincial Government borrowed K400,000 from Sepik Savings and Loan Society with an interest rate of 1% payable monthly in 2005. Statement "H" disclosed an opening loan balance of K228, 000 as at 1 January 2010 and a closing balance of also K228, 000 as at 31 December 2010. A Public Debt Register, including the supporting documents, was not maintained by the Provincial Government to record the details of this loan.

Assets

The Provincial Government did not update its Assets Registers although significant amounts of money totaling K2,211,312 have been spent on the purchase of assets in the current year as disclosed in Appendix 4 of the financial statements. Also, prior year assets have not been disclosed. In the absence of a complete and up-dated Assets Register and annual stock-takes, I was unable to confirm the existence and completeness of assets owned by the East Sepik Provincial Government.

Advances

I was not able to confirm the un-acquitted advances of K5,324,085 as stated in Appendix 6 of the Financial Statements due to Advances Registers and the related records not being maintained during the year and previous years.

Budgetary Controls

The Provincial Administration lacked proper management over the provincial budget. There were instances noted where the initial appropriation from some votes did not agree between the budget books and the ledgers. Quite a number of payments were made out of incorrect votes including the purchasing of high valued assets. This was also the trend in 2008 and 2009.

Revenue

Internal controls on revenue receipts and record keeping have been very poor. I noted an amount of K7 544 receipted that has not been recorded in the revenue ledger. There were instances of under banking's totaling K40,472 that resulted in the receipts that were recorded in the Provincial Government books, not having gone through the bank.

Significant under-collections in the internal revenue were noted including some revenue votes 100% nil collections. These were due to unrealistic revenue estimates, ineffective enforcement and lack of proper accountability of revenue collections.

Cash Book and Bank Reconciliations

There was a limitation in the scope of the audit to ascertain correct cash balances from the underlying records such as cashbooks, bank statements and the bank reconciliations of the accounts maintained namely: Provincial Government Operating Account, Provincial Grant Account, and Provincial Works, Storm Water Drainage Account due to records not maintained properly and not provided in complete form.

However, it is noted that reconciling items continue to be shown in the reconciliation statements without being cleared. Significant bank reconciliation items of concern are still outstanding, not queried and cleared or adjusted in the records.

Payments of Accounts

A 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 (FF3) and the General Expenses Form as the Authorised Requisitioning Officer, the Section 32 Officer and the Financial Delegate. I noted that this is poor internal control and may result in conflict of interest and abuse of procurement and payment procedures;
- Instances were noted where no approvals were sighted before recreation leaves were taken. Amounts totalling K38,779 were paid in cash to three individuals instead of an airline company for air tickets;
- Expenditures were incurred out of incorrect votes in many instances. Even assets purchased were not purchased out of vote item 221 and 222 as budgeted but purchased out of vote items 124, 135, 143 and 225;
- The Provincial Administration lacked proper management over its transport and fuel usage. A total of K1,373,507 of fuel advances were paid to a number of fuel distributors for the supply of fuel. No monitoring systems were set in place to ensure that only authorised vehicles have access to refueling;
- Twenty eight laptop computers with their printers and accessories costing K95,092 were purchased for the Divisional Officers of the Provincial Administration during the year. In the absence of an Asset Register I was not able to confirm whether they exist during my audit in October 2012;
- Payments were made as refunds or reimbursements totaled K1,753,209. Certain invoices attached to paid vouchers had not clearly stated the purpose of the reimbursements. I was unable to confirm whether authorisation was obtained from the Provincial Administrator to use personal funds by claimants to be reimbursed later from the Provincial Government; and
- Payments totaling K630,868 made for stationeries and office supplies lacked underlying records such as three quotations, delivery dockets and other supporting documents.

Salaries and Wages

An over-expenditure of salaries by K6,047,858 was revealed when comparing the actual expenditure of K48,856,158 with the revised personal emoluments budget of K42,519,300.

Fifty-six unattached officers were still employed and paid by the Provincial Administration without actually performing any duties.

There was also recruitment being undertaken outside the normal selection and recruitment processes as prescribed by the General Orders.

There are instances of employees paid at levels above their salary grade and level. For example the Senior Personal Officer was over paid on his base salary.

Most employment contracts have not been renewed since the last contract period from 2006 to 2009 had expired. Thus, no contracts were sighted for senior officers for the relevant period 2010-2012. Without such, most payments made on contractual basis were deemed illegal.

There was no confirmed casual employment listing in place for casuals employed by the Provincial Administration in 2010. Payments totaling K217,445 were made to casuals during the period. There were instances of casuals employed without the knowledge of the Human Resource Division.

There are instances of payments totaling K72,885 for overtime which had no evidence to indicate that prior approval of the relevant sectional heads were obtained.

Journal Entries

Examination of the journal entries raised and posted during the year indicated that all journal entries were prepared, verified, certified and posted to ledgers by the same person. There was no segregation of duties maintained. Narrations on the journal entries raised were not descriptive enough to clearly explain the reason for raising the journal entries. Such practices could lead to concealment of fraudulent transactions.

Corporate Governance

There is a Corporate Plan 2009 to 2012 and associated plans in place. However, audit noted two significant areas of the Corporate Plan were not achieved based on audit observations. These are KRA 3 - Budget and Financial Management and KRA 5 - Physical Asset Management.

Internal Audit

There was no internal audit report provided for my examination, although requested. The routine areas of operation of the Provincial Government such as revenue generation, human resource, asset management, procurement and expenditure on capital works and maintenance amongst the major functions of the provincial funding have not been subject to any appraisal or audit check by the Internal Audit Unit.

5.4.2 Boram Hospital Board

Financial Statements

The Hospital Board has not complied with their requirement to furnish the annual Financial Statements for 2010 before 30 June 2011 either in such a form and detail and containing such other information as required. The issues regarding the control environment are detailed in the paragraphs below:

Corporate Governance

Wewak General Hospital Board does not have a Corporate Plan, which could have included, among others, its long-term objectives, priorities and targets taking in to account also the requirements of its stakeholders. The associated plans including financial, assets management, human resources, information technology, risk management and divisional operation plans were also not in place.

Budgetary Controls

A copy of an approved budget estimate, an Appropriation Act (if any) and other related records were not provided for my examination, although requested. As such, I was unable to ascertain whether the moneys received and expended during the year were in accordance with any Appropriation Act and related legislation.

There was no audit trail to verify the total appropriation, total CFC's received and total expenditure incurred during the year and whether there were any over commitments or expenditures due to non-maintenance and availability of proper accounting records. Extravagant payments, over commitment, and misuse or misappropriation were inevitable under such circumstances.

Revenue

It is the responsibility of the Chief Executive Officer to ensure that hospital revenue 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 to safeguard the collection of public moneys received and for their proper accounting.

Our past recommendations to management to institute corrections and impose stricter controls for cash collection have not been implemented to-date. Therefore, the control weaknesses reported in our previous report remain while further weaknesses were observed and are noted below:

- There is no safe being maintained to keep all unbanked collections and other valuables. All unbanked collections are locked away in a cabinet drawer in the cash office and later handed over to the officer in the Accounts Section for verification and banking. A cash count conducted on 9

October 2010 revealed that collections totaling K1,263 made from 4 to 8 October 2012 remained unbanked. As such, custody of public collections is not safe;

- Cash from the daily collections were not banked intact as a result of cash being used to purchase goods and services without being properly brought to account and then funds being reimbursed from the Operating Account. This practice is noted to be totally in violation to the Finance Management Manual procedures and also the Trust Instrument in respect to the Hospital Fees Trust Account; and
- Collections were not banked promptly as revealed by delays in banking ranging from two days to two months.

Cash Books and Bank Reconciliations

Complete cashbooks, general ledgers (either manual or computerised) together with supporting documents were not provided for both accounts for audit.

The bank reconciliation statements for both the Operating and Trust Accounts were not provided for my examination, although requested. This is not in compliance with mandatory requirements.

Payments of Accounts

Due to the already collapsed system controls and non-compliance highlighted along with the corresponding recommendations for improvements still pending, selected payment vouchers tested for irregularities and material defects revealed the following issues:

- It is noted that the CEO is performing incompatible functions such as the Section 32 Officer, Financial Delegate and also the signatory to the two cheque accounts. There is no segregation of duties for the incompatible functions which is noted to be a very serious control weakness;
- Paid vouchers are not stamped as "paid" and cheque numbers are not indicated on the vouchers. Also, the Requisitions for Expenditure (FF3) and the General Expenses (FF4) are not properly filled to clearly show the description of goods and services and the quantity of goods purchased or service provided. The chances of allowing duplicate payments is increased with not marking invoices as "paid" and inadequate checking performed in processing the payments;
- Payment vouchers totaling K286,934 were not sighted and as such I could not confirm the validity of the payments. Paid vouchers were misplaced or were not filed away safely;
- In most instances three quotations were not obtained to determine the most economical price of goods and services as required. Although most expenditure is below required written quotes but within the required verbal quotes, no Quotations Register was maintained to verify that the required quotes were obtained for goods and services;
- Instances were identified of payments made for reimbursements that do not have supporting documents attached to substantiate such claims;
- Payments totaling K14,500 were made to a legal firm as legal costs for the CEO against the Hospital Board with regard to the acting appointment of the CEO's position when his term had expired. This can be seen as direct misapplication of hospital funds for personal costs which the board has not given approval for such cost;
- Payments valuing at K297,624 were paid mainly for rentals. However, Lease/Rental agreements between the Hospital Board and the landlords' were neither sighted nor provided for my examination; and
- The Hospital was meeting the cost of maintenance work and also purchasing white goods for doctors' houses rented by the Hospital. I was of the opinion that these costs should be met by the landlords. Selected instances of such payments amounted to K29,940. Also, because of the poor record maintenance system, it is not known if these monies will be properly followed up and recouped from the rental.

Assets Management

Management responsibility is to ensure the accountability of hospital procurement, disposal of assets and maintenance of these assets are properly controlled and managed. Control weakness issues highlighted in our previous year's reports remained not actioned by management.

A complete and updated Asset Register was not provided for inspection as at the time of audit in 2012. It was ascertained that, no periodic stocktakes were undertaken to determine the existence, conditions and value of assets under the hospital's custody and ownership. Selected instances of assets purchased during the year amounted to K216,937 could not be confirmed to the Register.

Management of Advances

Hospital management has not shown any indication to comply with the Advances Management procedures contrary to Financial Instructions, Part 20, Paragraphs 5 and 14 by not maintaining any Advances Registers to record all payments and acquittal of advances, although recommendations were made in our previous years' reports. As such, there were no effective controls over payment and acquittal of advances during the year and also in previous years.

There was no proper Advances Register maintained to record salary advances payments paid to certain officers. Consequently, I could not ascertain whether the salary advances totaling K23,100 granted to officers at year-end has been recouped.

Salaries and Wages

A review of the staff establishment, payroll registers, personal files and other related records pertaining to payments of salaries, wages, overtime, gratuity and recreational leave entitlements revealed the following weaknesses:

- The total actual salary paid through the Hospital Concept Payroll System from the National Department of Health could not be ascertained due to lack of records. No payroll reconciliations were done as such Audit could not confirm how much was paid fortnightly;
- The hospital does not have a documented Human Resource (HR) Manual in place. The HR unit has eight positions, two are concentrating on salary processing and two on staff development while four positions are still vacant. Other Human Resource Management areas like Organisation Design, Recruitment and Selection, Contract Administration and Discipline are not tied to existing positions;
- Overtime payments totaling K51,670 were made in relation to overtime worked by hospital staff. However there was no evidence sighted to indicate that prior approval of the Chief Executive Officer and the sectional heads were obtained to enable the officers to work after hours. Furthermore, I noted instances of payments not supported by approved overtime forms and that calculation of amounts were not certified by the appropriate officer;
- I was not provided with a casual listing and approved rates of casuals, though requested.
- Also noted were payments meant for wages valuing at K41,860 could not be verified due to non-maintenance of paid vouchers or the vouchers were misplaced or were being paid without payment vouchers; and
- Perusal of the payment vouchers for leave fare payments totalling K158,803 do not have supporting concession documentations for proof to claim as dependents for leave entitlements. It was ascertained that dependents over the age of 18 were still receiving entitlements, however this is a serious breach of eligibility requirement for leave entitlements.

Trust Account

Management has not complied with Section 3(b) of the Trust Instrument, by failing to maintain proper books of accounts and records such as the payment vouchers and monthly bank reconciliation statements. Section 3 (c) of the Trust Account was also not adhered to as proper estimate of revenue and expenditure were not compiled and reported as required.

Payments totaling K29,555 made were for purchase of soft drinks for sale at the Revenue Section. Due to non-maintenance of proper records, I was not able to ascertain the total income received from these sales.

Total payments extracted as per the cheque butts and the expenditure ledgers amounted to K154,882. However, it was ascertained that payments valuing K124,401 do not have paid vouchers provided for examination.

5.4.3 Wewak Urban Local-level Government

Financial Statements

The financial statements for the year-ended 2010 had not been prepared at the time of the audit in October 2012. It was noted that the District Treasurer had failed consecutively to perform his mandated duty by not furnishing the financial statements for 2009 and 2010. It was also confirmed that the 2011 financial statements were also not done. The audit without financial statements was done and the Management Letter was issued in September 2013.

Corporate Governance

It was confirmed by the Town Manageress on 3 October 2012 that Wewak ULLG did not have a corporate plan or a five year development plan that established its long-term objectives, set priorities and targets and that takes into consideration the 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.

Budgetary Control

Total revenue of K645,356 against total spending of K636,300 had been noted per the expenditure transaction records, which revealed an under-spending of K9,056. However, the following issues were noted:

- The ULLG's annual budget appropriation, whether original or revised had not been made available to Audit, as such I was unable to confirm how much was appropriated to be expended over the period of 2010. Further, I was not able to determine the budgetary control exercised by the ULLG;
- I could not confirm to respective CFC's, the total grants of K392,147 that were received (and spent) from the National Government through the Provincial Treasury Department. The grant received was captured under the item "Village and LLG Service" of the transaction records. However, I was not sure if other expenditure items had been allocated funds out of this grant, as they were not shown per the transaction summary reports obtained from the District Treasury; and
- The ULLG had no proper budget forecast to plan and collect revenue from its internal sources. As such audit was unable to detect if revenues had been under collected. For unknown reasons, internal revenue sources of garbage and sanitation, court fines and dog registration had no record of actual funds being collected.

Revenue

Examination of receipts, collectors' statements, revenue summary reports and deposit slips revealed deficiencies as outlined below:

- There was no proper safe in the cashier's office to lock away the unbanked collections. The cash and cheques collected during the day or those which were not banked were just locked away in a cash box and put in an open cupboard which can easily be accessed;
- Bankings were delayed from a minimum of 5 days to a maximum of 14 days;
- One instance of under-banking was noted. Receipts and Collector statement records showed K5,224, while the deposit slip record showed an amount of K4,124 revealing an under-banked amount of K1,100. Further, it was not possible to determine the reasons as to why the under-banking was done;
- Collector statements for the months of October to December 2010 had not been sighted. As such, I was unable to confirm if the internal revenues relating to these 3 months had been collected, recorded and eventually been banked;
- Internal revenue collected were not sufficient due to lack of logistics support within the Urban LLG (listed below) to adequately follow up and collect all monies due to the Urban LLG during the year; and
- Logistics required include: a qualified revenue officer, a qualified debt collector, a dump truck for collection/dumping of rubbish, a vehicle for Officers to use in promptly collecting revenue and a computer to produce revenue reports that will enable them to regularly follow up on outstanding

debts and also accounting software that can regularly process monthly invoices or statement of accounts of debtors.

Cash Book and Bank Balances

Monthly reconciliations, whether or not done for each month was not provided except bank reconciliation statements for December 2010 was available and the following observations were noted:

- The bank reconciliation prepared had not been signed and dated by preparer and reviewer which render it to be invalid;
- Overdrawn cash balance of K28,122 reported on the reconciliation did not agree to the December 2010 cashbook records of K12,976 revealing a difference of negative K15,147. Cash book imbalances could result from non-updating of the cashbook regularly; and
- All the other outstanding items in excess of half a million Kina shown on the bank reconciliation were accumulated balances carried forward from prior years dating back to 2004. These outstanding items create an environment conducive to fraud and corrupt practices and they need to be cleared off the bank reconciliation statement after obtaining authorisation from the Department of Finance. The only outstanding items to be shown on the reconciliation are un-presented cheques and deposits not yet credited during the period.

Paid Accounts

A review of paid vouchers and related records on a random basis revealed the following concerns:

- Financial Instruments detailing formal appointment of financial delegates by authorising them to perform delegated tasks had not been maintained. As such I was unable to confirm if payments that were done in the year had been properly monitored to ensure necessary internal controls had been effectively managed;
- The duties of examining, certifying and approving of claims and expenditures in almost 90% of the payments done in 2010 had not been properly segregated. It was noted one person had acted in the position of all Section 32 Officers by examining, certifying and approving all expenditures under the FF3 form;
- In most payments, the requirement for three quotations together with proper invoices, where applicable, to determine an economic purchase had not been adhered to;
- It was also noted that much money was spent on financial assistance, funeral expenses, compensation, and many other commitments that were made by the Town Mayor and senior managers to various individuals and groups. This type of spending had not been budgeted for and the ULLG should not entertain such payments, while expenditure on the limited funds should be controlled effectively to providing service and developments within the Wewak ULLG for benefit of the whole community. It is strongly recommended that such unbudgeted spending be ceased to concentrate on vital areas;
- A total of K9,000 was paid to a Evangelyne Kisa (chq. 1316-K5,000, chq. 1317-K4,000) on 12 August 2010 to do painting on roads and the pedestrian crossings within the Wewak Town had revealed no work done to date, while the ULLG Management had failed to do follow ups or recoup the money from the person. Additionally, paid voucher and supporting documents relating to these two payments had not been sighted although requested;
- A reimbursement of K4,880 (chq 1187) made to a Lasena Ples Ltd on 24 April 2010 had no supporting documents to validate the purpose of its reimbursement. Further there was no record of authorisation from the ULLG to get Lasena Ples Ltd to use their funds for what purposes, and were to be reimbursed by the ULLG later on;
- It was also noted that most transactions were not charged to correct vote items. Payments had been incorrectly charged or had been split to wrong account codes.

Assets Management

Wewak ULLG does not have a comprehensive Fixed Asset Register showing details of assets owned and managed under the ULLG. A list that was compiled and provided during the audit in October 2012

had missing values of assets. Further, it was noted that various assets, including building, land, motor vehicles, computers and equipment, owned by the ULLG had not been recorded.

Advances

Cash and travel advances records were maintained together in a single register and showed unacquitted advances totalling K150,070 were from seven advance holders as detailed in my Management Letter issued to the Town Manager.

Additional issues noted related to records of reminders or follow up notices sent to outstanding advance holders were not sighted. Additional advances were given to the same people while previous advances had remained unacquitted.

Salaries and Wages

A total of 32 staff were employed by the ULLG currently (2012). It is comprised of eight public servants (paid under Concept), ten administrative casuals paid by the ULLG together with 14 other labourers. Review of wages and salaries paid by the ULLG had revealed the following concerns:

- Eight instances of payments totaling K38,320 had no details of signature and date of payments being received by the casuals to confirm that the individual casuals had received their pays;
- Employees personal files for several staff selected from the lists sighted in paid voucher were not sighted or had not been maintained; and
- 15 instances of payments totaling K29,834 paid to board members could not be established in the absence of the date and their signatures to confirm the receipt of the allowances paid to each member.

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	2011 and 2012	2010	December 2011 Disclaimer	Significant control weaknesses identified.
Goroka Hospital Board	2011 and 2012	2010	Nov 2011 Qualified	Improvements noted.
Goroka Urban LLG	2010	2010	Nov 2011 Disclaimer	Significant control weaknesses identified.
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

Financial Statements

The audit of the Eastern Highlands Provincial Government Financial Statements for the year-ended 31 December 2010 was completed. The Management Letter issued to the Provincial Administrator was responded and issues responded were taken into account when preparing my opinion and this report. A Disclaimer Opinion was issued in November 2013. The paragraphs below detail issues identified with the financial statements and accounts and records of the Provincial Government:

Investments

Statements "E" and "F" shows nil balances for Provincial Government Investments, However, a report containing three Provincial Government Business Entities will be discussed in detail below.

Assets

Assets purchased in the current year amounting to K1,656,827 and also assets purchased in prior years were not properly recorded in the Assets Register. In the absence of a complete Assets Register and annual stock-takes, I was unable to confirm the completeness and value of assets owned by the Eastern Highlands Provincial Government as at 31 December 2010. There is also lack of control over the use of Provincial Government fleet of vehicles.

Advance Management

Appendix 6 of the Financial Statements showed outstanding cash advances totaling K405,343 for previous years as well as the current year. Appropriate actions should be taken to recoup recent outstanding advances and write off irrecoverable advances that should be considered as bad debts with proper approval from the Department of Finance and the Provincial Administration alternatively the Provincial Government should liaise with the Payroll Section to recoup the monies from salaries.

A sample test checks for proper recording of advances in the Register appears to be satisfactorily updated and maintained. However, I could not properly trace outstanding advances from the Register to Appendix 6 of the financial statement due to details of advances not properly described in the Appendix.

Revenue Management

Although, there is improvement in certain areas of revenue collection such as PMV and driver's licenses, there was still significant shortfall in major revenue collection areas such as Motor Vehicle Registration Fees, Hospital Fees, GST Collections, Liquor License Fees and House and Office Rentals. I have noted that the Revenue Division lacks adequate resources such as, office equipment and working furniture for it to strive in collecting revenue for the Province.

Cash Book and Bank Reconciliations

The grant account revealed a credit balance of K9,005,630 as shown in its bank statement whilst its cashbook balance revealed an overdrawn amount of K29,681 which was also revealed in the bank reconciliation at year-end.

The Provincial Government Operating Account revealed a favorable cashbook balance of K4,457,311 and its operating bank account showed a credit balance of K10,565,558 at year-end, which was also revealed in the bank reconciliation statement.

Reconciliation items for both accounts totaling K27,390,469 needs to be identified and cleared as some of these items dates back to the previous years.

Grants and Subsidies

The expenditure ledgers revealed that grants totaling K4,252,415 were paid to various recipients.

Local-level Governments provide accountability reports through their financial statement reports. However, it is not known whether other grant recipients provide their expenditure reports to the Provincial Government as they were not provided for audit although requested.

Procurement Management

I requested for confirmation on number of Provincial Supply and Tenders Board (PSTB) Meeting Minutes and Resolutions held during the year, however no response was received at time of writing this report. However, from available documents and information it appears that five PSTB meetings were convened during the year. All Meeting Minutes were not signed by the Chairman and the Secretary, as such they may be considered illegal or null and void for all the contracts that were awarded during the year.

Various contractors and suppliers were awarded contracts and services during the year. However, completion stage could not be properly verified due to absence of a proper status reports for each of the projects.

Payment of Accounts

A selection of 118 payment vouchers valued at K8,637,102 were sampled and tested revealing the following procedural deficiencies:

- 16 payment vouchers totaling K1,123,769 were not provided;
- There was a failure to provide three written quotes on 29 payments vouchers amounting to K285,661;
- In 24 instances paid vouchers totaling K283,625 had no proper supporting documentation;
- Legal Fees totaled K139,359. Upon inspection of paid vouchers and relevant documentations it was satisfied that four law firm did not have any contractual documents with Provincial Government before being engaged. Furthermore, law firms did not have endorsement or deliberations as to the purpose of the engagement along with approved rates of each service being rendered. Contractual documents will detail responsibilities and obligations between both parties;
- Fuel payments totaled K523,069. Upon examination of paid vouchers, there was no proper receipting stating vehicle details and consumption of fuel or documents showing some sort of supplier agreement;
- Personal reimbursements made to various Provincial Government employees totaled K121,072. The risk of fraudulent claims is very high and as such the Provincial Government should ensure strict controls should be established to discourage such payments; and
- Rental expenses totaled K252,237. However, most rental payments did not have lease agreements between the tenants and the landlords. These practices may have exposed the Provincial Government to the risk of irregular practices.

Capital Works and Maintenance

The Provincial Government incurred a total expenditure of K6,280,097 on capital works and maintenance program.

These expenditures were incurred in new constructions and maintenance of existing infrastructures such as roads, bridges, electricity, buildings and others. A number of contractors were engaged in the above activities but I was unable to verify whether they have the necessary experience and expertise to undertake these projects due to unavailability of the updated Pre-Qualification Register.

Trust Fund Management

One Trust Fund coded 330-606 with BSP Bank account number 1001602945 EHPG Project forms part of the Provincial Government Fund. The review of the EHPG Project Account will be taken up in our 2011 report due to project funds being rolled over to the 2011 accounts.

Personal Emoluments

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

- The Provincial Government Human Resource Division (HRD) staffing grant expenditure report shows an appropriation surplus of K95,676. The estimated figure was K14,000,000 but the actual payroll payment for the year amounted to K13,904,324 resulting in the above surplus;
- Salaries and Wages Tax Declaration have not been updated. Some had theirs updated in 1983, 1993, 1994 and 1998: and
- Performance Appraisals have not been done regularly.

Internal Audit

Internal Audit Unit (IAU) Annual Work Plans for the year 2010 was in place and reviews of the plans were done during the year depending on situation and performance. The following notable audits were carried out by the IAU:

- Asaroka High School
- EHPG Revenues
- Provincial Education Division
- Goroka Urban LLG
- EHPG Development project (2006-2008)

However, no evidence of any actions taken by management with regards to these reports was sighted.

5.5.2 Goroka General Hospital

Financial Statements

The audit of the Goroka General Hospital Financial Statements for the year-ended 31 December 2010 was completed. The Management Letter issued to the hospital was not responded in the given time. The Audit Opinion is yet to be issued. The paragraphs below detail issues identified with the financial statements and accounts and records of the hospital:

Procurement and Payment of Accounts

A review of procurement procedures appeared to be satisfactory, however, minor weakness noted in areas of essential recreational leave supporting documentation for various dependents and recreational leave application forms were not sighted.

Payment vouchers totaling K30,553 of the five audit test sample selected were missing from the files inspected.

Capital Works and maintenance

A progressive report compiled in August 2011 shows the status of each of the 22 projects identified and funded. 14 of these projects were completed while eight had work in progress. Minor works contracts were seen to be properly managed through the hospital board as well as the PSTB for those worth more than K300,000. No major issues were noted except that:

- Additional variations were seen to be submitted on few instances by contractors but management had properly managed them; and
- Project completion reports were not sighted for those that have been completed.

Advances Management

A review of the cash and travel advances management and controls revealed that acquittals were not properly updated coupled with insufficient supporting documentations.

Salaries and Wages

Salaries and allowances paid to doctors, nurses and community health workers were correct and in order. However; great improvement is required to update the personal files of individual officers. Almost all files selected for inspection did not have Tax Declaration Forms while few had out dated completed forms and some personal files did not have salary history cards.

5.5.3 Goroka Urban Local-level Government

Financial Statements

The audit of the Goroka ULLG Financial Statements for the year-ended 31 December 2010 was completed. The Management Letter issued to the hospital was not responded to in the given time. The Audit Opinion is yet to be issued. The paragraphs below detail issues identified with the financial statements and accounts and records of the hospital:

Assets

An Assets Register is maintained manually by Goroka ULLG. However, for the period under review there were no significant assets purchased. A Nikon digital camera totaling K588 was purchased but not recorded in the Assets Register.

Appendix 4 of the Financial Statements showed a nil report of assets. Expenses regarded as assets were not updated in the Assets Register and Appendix 4 failed to show the cumulative assets purchased over the years.

Advances

Appendix 6 of the Financial Statements showed as nil advances. However, Expenditure Ledgers revealed cash and travel advances paid to various individuals totaling K16,810 and K4,700 respectively during the year. In the absence of an Advances Register, management confirmation or written representations I could not confirm the accuracy of this Appendix and the controls on the management of the advances paid.

Budgetary Control

The Goroka ULLG 2010 Appropriation Act (No.1 of 2010) authorised the estimates of revenue and expenditure totaling K3,000,000 for the year was passed by the Goroka ULLG on the 31st of December 2010. My review of the budget reveals the following matters:

- Ministerial Approval of the budget was not available and the Appropriation Act was incorrectly dated. The certification paragraphs by the Town Manager and the Lord Mayor incorrectly stated that the budget of K3, 000, 000 was passed by Goroka ULLG on the 31st of December 2010 instead of 31st of December 2009; and
- Expenditure budget was under spent by K887,027 comparatively Revenue budget was under collected by K922,030. Prudent cash management practices were not applied. Both the Revenue and Expenditure budget targets set were unrealistic hence, unachievable.

Cash Book and Bank Reconciliations

The Goroka ULLG maintained and operated only one operating Bank Account and one cashbook to conduct its financial transactions for both Grant and Internal revenues. Collection and banking functions are performed by the Goroka ULLG finance section while cashbook posting, reconciling and cheque raising functions are performed by the Goroka District Treasury. The year-end bank balance of K35,605 and cashbook balance of K5,661 were not properly reconciled.

Revenue Management

A review of the revenue controls reveals the following observations:

- An over banking in one instance totaling K3,077 was noted. Further, delays in banking were noted in various instances for working days ranging between 1 and 6 days;
- No Client Registers or Ledger Cards maintained manually at different revenue generating centers to record individual client details to monitor billings, collections and debtor's arrears;
- A computerized system is currently used for Water rates, Land rates and Municipals. Functions of monitoring client database, billing, collecting and issuing credit notice are performed using the system. The system has some limitations as well as benefits. Limitations include: Unable to generate complete client listing with annual applicable rates for each item of revenue, making it impossible to forecast or compute potential revenue and to ensure whether the potential revenue due to be collected was actually collected. The system also does not facilitates data backup for off shore storage, that exposes Goroka Urban Local-level Government to risks of permanent data loss if any form of disaster occurs to the computers;
- Goroka ULLG does not have a complete list of title holders of all state land in the township of Goroka. No supporting documentation was available to confirm that Goroka ULLG did comply with my recommendations in my previous Management Letters to take it up with Lands Department and National Housing Corporation to identify the title holders that will enable Goroka

ULLG to bill actual property owners instead of tenants who sometimes move locations regularly to avoid paying rates; and

- The latest Land Valuation Report from the Department of Lands was not available in Goroka ULLG Office therefore, old rates were used.

In the absence of the internal revenue controls I could not ascertain whether, potential revenue due to be collected from all sources were effectively and completely collected intact.

Procurement and Payment of Accounts

Examination of procurement and paid accounts revealed the following issues:

- Payment Vouchers totaling K56,528 were missing from sample selected. It indicates that the Payment Vouchers were not maintained and filed properly;
- Payments totaling K198, 997 were made as financial assistance, funeral expenses and various other related expenses during the year. No proper selection criteria were used in identifying benefactors that benefited the community at large. Most of these recipients were councilors and Goroka ULLG staff members. I consider these transactions were not performed at an arm's length; people in authority had abused their powers to manipulate the system and benefit themselves;
- Minor works were carried out during the year by women, youth groups etc. A review of a sample of these payments totaling K61,644 revealed that payments were not adequately supported with minor works contracts, work inspection reports and acquittal vouchers for cash payments made through the Paymaster; and
- A sum of K63, 420 was extracted and scrutinized for fuel expenditure control. There is no evidence to suggest if any controls such as, purchase orders issued to obtain fuel, log books maintained to monitor movement of vehicles, details of eligible vehicles supplied to pump stations, periodic reconciliations conducted between Goroka ULLG records and Fuel Station records were in place to monitor such expenditures. The supplier invoices attached to vouchers do not show details of vehicles, amount of litres supplied, drivers who refueled vehicles, purchase order numbers and dates.

Corporate Plan

Goroka ULLG did not have a Corporate Plan in place at the time of this audit. Despite my recommendations in 2006, no actions have been taken nor any deliberations made. Without a Corporate Plan, the Goroka ULLG budget lacks direction and guidance. Annual budgets should be formulated with the intention to achieve corporate goals set down in the Corporate Plan.

Regular audit by the Internal Audit Unit of the Eastern Highlands Provincial Administration would positively aid management in achieving greater results with limited resources.

5.5.4 Provincial Government Business Arms

The four business arms of the Provincial Government, namely, Akogere Estate Ltd, Al's Auto Repairs Ltd, Nokondi Investments Ltd and Eastern Highlands Properties Developers Ltd have submitted their 2009 financial statements and the audits were conducted in October 2010. The Management Letters were issued to each of the company in March 2011. However, the responses received from each of the companies in May 2011 were not complete. Some issues raised in the Management Letters were not responded to. The reason given was that the General Manager responded on internal control issues but issues on financial statements will have to be responded to by their accountant.

The Audit Opinions were being prepared and drafted based on the responses received when this report was finalised.

5.6 Enga Province

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Enga Provincial Government	2011 and 2012	2010	November 2013 Disclaimer	Significant control weaknesses identified.
Wabag Hospital Board	2010 not submitted	No F/S audit done	No opinion issued	Significant control weaknesses identified.
Wabag Urban LLG	2010 not submitted	No F/S audit done	No opinion issued	Significant control weaknesses identified.
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		
Wagi (Wage)	2006	No		
Wapenamanda	2006	No		
Wapi/Yengis	2006	No		
Enga Children's Fund Trustee Ltd	2010	2010	November 2012. Qualified Opinion	
Enga Mineral Rev. Stab. Fund	1992			No F/S. Status of audits to be determined.
Enga Construction Authority				Status of the entity/ audit to be determined.
Enga Engineering				No F/S; status of the entity/audit to be determined.
Pogera Development Authority	2009	2009	Yet to be done	Financial Statement issues identified.

5.6.1 Enga Provincial Government

Financial Statements

The audit of the Enga Provincial Government financial statements for the year-ended 31 December 2010 was completed, with a Disclaimer Opinion issued in November 2013. The Management Letter issued to the Provincial Administrator was not responded in the given time.

The paragraphs below detail issues identified with the financial statements and accounts and records of the Provincial Government:

Investments

Enga Provincial Government did not report any investments in Statements “E” and “F” of its Financial Statements. However, based on the information available, the Provincial Government owns companies such as Enga Children’s Fund, Mineral Resources Enga (MRE), and Miok Investments. It was noted that the investments held are not properly monitored by the Provincial Administration. Important investment related documents, such as share certificates, trust deeds, investment registers, company certificates and profiles, were not provided for my confirmation. Only Enga Children’s Fund is annually audited by my Office.

Assets

Appendix 4 of the Financial Statements, containing the details of assets, was not presented. However, Assets Register was not adequately maintained to record in detail the assets owned by the Provincial Government. Fixed assets including motor vehicles totaling K2,309,481 were purchased in 2010. However, in the absence of a complete Asset Register and annual stock stakes, I was unable to confirm the existence, accuracy and value of the assets owned by the Enga Provincial Government.

Advances

Appendix 6 of the Financial Statements, containing the details of outstanding advances, was not presented. However, advances totaling K5,317,826 were noted to have been paid in 2010. In the absence of an updated Advances Register and other related records, I was unable to verify the actual outstanding advances at year-end.

Budgetary Control

There was no evidence provided to show that periodical budget reviews have been done with the aim of proper budget management and controls of the Provincial Government Finances. I have noted revenue shortfall of K54,292,695 and under expenditure by K46,302,834 from the appropriation of K108,260,600. The Provincial Government did not appropriately explain the shortfalls and the under expenditure.

Revenue Management

Effective control mechanism over collection and banking of internal revenue in terms of segregation of duties was lacking as well as issues with the safeguarding of cash.

Revenue sections such as Traffic Registry, Liquor Licensing and Housing Rentals were not equipped with proper resources to ensure information on monitoring and inspection and arrears in fees and fines are recorded. Receipts were not properly classified under revenue heads and posted accordingly. No database on income receivable was in place.

Cash Book and Bank Reconciliations

Both the Internal Revenue Account and the Grant Account have shown the following anomalies:

- Bank reconciling items were not promptly followed up with the bank, adjustments were not promptly done to the cashbooks and the respective ledgers therefore an accurate cash balance could not be determined when required. Reconciliation items for both accounts totaling K22,306,909 needed to be identified and cleared as some of these items dates back to the previous years. Not promptly adjusting the cashbook and bank statement has led to significant understatement of revenue ledgers and caused the cashbook to operate in a negative balance;
- Bank statements although provided were not in order and as such I was unable to establish if all bank statements were intact; and
- For the Internal Revenue Account the 2009 closing and the 2010 opening cashbook balances of K8,595,262 and K13,359,682 respectively could not be matched resulting in a difference of K4,764,421.

Grants and Subsidies

Review of Grants and Subsidies revealed that a total of K8,967,500 was paid as grants to individuals, projects and local business groups. However, approvals by an established committee, which deliberate on the genuineness of requests submitted by applicants, or evidence of any guidelines governing the payment of the financial assistance were not sighted or provided.

Procurement Management

The *PFMA* provides for the procedures for purchases of goods, services and disposal of assets and provides for the establishment of a Provincial Supply and Tenders Board (PSTB) for the Provincial Government to control and regulate the purchasing procedures.

Resolutions of meetings convened by the board during the year and registers maintained to record all tenders invited, quotations received, contracts awarded and Certificates of Inexpediency issued were not provided for my examination.

Various contractors and suppliers were awarded contracts and services. However, the completion stage could not be properly verified due to absence of status reports, progress reports and completion reports or certificates for each of the projects awarded.

In view of the above observations, I was adamant that the Provincial Supply and Tenders Board may have not functioned as an effective authority during and over the years.

Payment of Accounts

Examination of payments selected on a random sample revealed the following unsatisfactory matters:

- 73 paid vouchers totaling K5,454,946 were missing. As such the validity of the payments made could not be ascertained. The extent of security and control over the records maintained at the Provincial Treasury office appears to be intact. However, the assessment of the key allocation to the main doors, filing, registration and storage of records should to be reviewed.

Procedural deficiencies were noted in the following areas:

- There was a complete ignorance of obtaining the required number of three written quotations for purchases of goods value over K10,000. Also many payments were made on quotations and in other instances payments were made without any source documents; and
- The Provincial Administration does not have a Procurement Officer's position, where procurement responsibility rest with respective divisions. It is noted with concern that purchases of assets, inventories, stationeries and related capital works and maintenance materials were exposed to fraudulent purchases, personal possessions and lack of information for purposes of assets and inventories record-keeping and economical usage.

Consultancy Services

Examination of payments relating to Professional Services totaling K2,313,376 consisted of Consultancy Fees K1,609,231, Legal Fees K288,965 and Survey Fees K415,180. The following unsatisfactory matters were noted relating to the above payments:

- Formal contract agreement documents were not sighted on file. Provincial Executive Council and PSTB deliberation and endorsement on these engagements were not made available;
- Many invoices with costing submitted by firms to the Provincial Government for payment lacked details of the charges made; and
- Due to lack of proper documentation I cannot ascertain whether jobs were satisfactorily completed and of value for the money spent.

Outstanding Claims Paid

Claims on outstanding payments made to various organisations and individuals for the year totaling K990,908. There was no control system in place, such as an accounts payable officer, to keep track of claimant's records and to determine the validity of claims received or to keep track of the claims outstanding and those settled. In the absence of any control mechanism the Provincial Government is exposed to the risk of misappropriation of funds.

Financial Assistance

Payments as financial assistance to individuals totaling K850, 012 were extracted. Evidence of any standard criteria being followed in determining the eligibility of claims received was not sighted. These practices may have exposed the Provincial Government to the risk of misappropriation and other irregular practices.

Motor Vehicle Hire

A total expenditure of K1,712,099 was on private vehicle hires was not supported with three written quotations was totally ignored when there are many hire car companies around. I noted that in the previous years and year 2010 the Provincial Government purchased many vehicles and simultaneously spent a substantial amount hiring vehicles. In the absence of a Fleet Register and a transport unit I was of the view that irregular activities may have occurred while taking advantage of the control weaknesses.

Fuel

Expenditures amounting to K1,548,999 were incurred on fuel purchases during the year and I noted the following matters:

- Payments were not supported with proper source documentation such as fuel purchase orders, supplier invoices showing details of vehicles that collected fuel, date, liters of fuels supplied and the officer that collected fuel;
- Many payments reflect outstanding payments on fuel indicating credit arrangement with suppliers, however there were no evidence of records, such as credit listing on fuel consumption and any repayments; and
- The transport and fuel unit is nonexistent while respective divisions are responsible for the management of their transport and fuel needs.

The control mechanisms in this area are nonexistent and the potential risk of fraudulent activities is high.

Accommodation

Expenditures of K745,285 for hotel accommodation were not supported with comparative written quotations from other hotels. In some instances invoices indicate the consumption of meals and beverages, which should have been paid in cash from staff's travelling allowances.

Capital Works and Maintenance

Examination of the expenditure ledgers, payment vouchers and other records relating to Capital Works and Maintenance expenditure of K28,469,233 revealed the following:

- There were numerous instances where payment vouchers lacked appropriate supporting documents such as PSTB approval, Major Works Contract Agreements, Work Inspection and Status Reports and Certificate of Completion Reports;

The matter was raised during the exit interview and was explained by management that appropriate files such as Project Files, Contract Agreements and Expenditure Ledger were kept by the Provincial Works and Transport Department. Our attempt to access these records was

unsuccessful as during our visit to the Provincial Works and Transport Department, the Provincial Works Manager was away on duty travel

- Cheque intended for Minor Works and Maintenance contracts payments were made payable to the paying officers instead of directing payments to the contractors concerned. Payments totaling K1,600,949 and numbering 110 have been paid in this manner. It is noted that cheques drawn to the paying officer was purposely to enable cash payments to be made to the contracted laborers;
- Expenditure such as accommodation expenses, travel warrant and allowances, vehicle hires, office stationeries and supplies and cash advances are some of the major expenses charged to project funds. I was unable to confirm whether all indirect expenses charged under the capital works program were relevant or associated with the purpose for which funds were appropriated. 165 instances of payments made in this manner were noted with amounts totaling K1,043,819; and
- Building and Construction Materials were purchased. However, I did not sight the relevant invoices, receipts and delivery dockets. Payments totaling K1,627,138 and numbering to 14 were noted to have been paid in this manner.

Personal Emoluments

A review of the processes and procedures together with an examination of records and documents relating to salaries, wages and allowances payments pertaining to the year-ended 31 December 2010 resulted in the following observations:

- The Provincial Government Budget appropriated a staffing grant of K14,673,700 and teaching service grant of K24,218,300, totaling K38,892,000. However, TMS 55 Report from the Department of Finance was not available to confirm the actual receipt and payment and also not disclosed in the financial statements as notes to and forming part of the accounts; and
- Payroll printout from the Department of Finance were not consistently forwarded to the Human Resource Division for purposes of performing payroll audits, reconciliations and recording data to the payroll ledgers maintained through PGAS at Wabag.

The Establishment Register compiled for the second quarter of 2011 recorded a total staff ceiling of 664 funded positions of which 464 positions were occupied while the remaining 249 positions were left vacant. A separate list provided to Audit revealed a significant number of unattached officers numbering 285 as at 30 October 2011. Remarks provided on these unattached officers indicated that:

- Some officers were actually doing nothing and yet continued to be paid from the public service payroll;
- There were cases where the Human Resource Division did not know how some ghost names appeared on the payroll; and
- Some officers were noted to be on the retirement list, however I could not confirm if the provincial government had in place a retirement program and funds to carry out the retirement exercise.

Selected sample of payments made for wages totaling K703,288 revealed following matters:

- Most wages payments were signed by the project supervisor on behalf of all labourers for respective projects. It is noted that in most instances a cheque payment is made to the paying officer who cashed the cheque for payment to individuals; and
- Overtime payments made in 2010 amounting to K55,927. Almost all overtime payments selected for testing revealed no evidence of a request for overtime duties or prior approval given before commencement of duties. Also in many instances the overtime sheets were not approved by responsible officers.

Internal Audit

The internal audit unit had an annual audit plan that set out the mandate and scope of internal audit activities. The plan was adequate and covered most major areas of the provincial government activities. However, not all major areas were audited due to lack of manpower and other logistics.

The Provincial Government established an Audit Committee in 2010 to oversee the activities of the Internal Audit Unit. Internal audit and investigation reports were presented to the Provincial Audit Committee for deliberations and appropriate actions.

5.6.2 Wabag General Hospital

Financial Statements

Wabag General Hospital financial statements were not produced at the time of audit in May 2012, and still not provided at the time of preparing this report. The Interim Management Letter issued to the Chief Executive Officer of the hospital was not responded to in the given time. The paragraphs below detailed internal control issues observed and identified with the books of accounts and records of the General Hospital:

Budgetary Control

Management of financial resources allocated and generated by the Hospital should aim at economical means of achieving the goals and objectives within the limit of allocated funds. A review of the budget control procedures and examination of budget appropriation documents noted that grants were not strictly used for purposes for which such grants were released.

Revenue Management

My review of the Grant and Internal Revenue collection and banking procedures revealed a satisfactory level of compliance except for the following observations:

- In a few instances direct bank deposits were not receipted to confirm receipt of cash in the bank account;
- Daily collections were not recorded in the hospital's cashbook on a regular basis; and
- The hospital did not maintain reconciliations for the salary advances made, nor did it keep a record of all staff housing rentals and other forms of refunds made through payroll deductions.

Cash Book and Bank Reconciliations

Examination of the cashbook and bank reconciliations for both the operating and trust accounts revealed that control mechanisms over cash management were effective, except for the following:

- The carry forward cashbook balances for both operating and trust accounts did not agree to the 2009 closing and 2010 opening balances as reported in my Management Letter issued to the CEO in June 2013;
- The stale cheques for 2009 and prior year totaling K13,490 and K12,355.45 for trust and operating accounts respectively were not written back and cleared from the cashbooks; and
- The December bank reconciliation statement for the operating account revealed an un-reconciled amount of K474. It was noted that the figure was a carry forward from 2009 and has not been cleared since.

Procurement Management

The regularity and propriety of expenditure was not consistent and lacked compliance as noted below:

- The hospital did not maintain a Quotations Register to record both verbal and written quotations obtained from suppliers to substantiate the quotations obtained;
- There was no instrument of appointment made for accounting officers such as Requisition Officers, Certifying Officer and Examining Officers which defines their designated responsibilities;
- Correspondence supporting expenditure was not attached to the payment vouchers to validate the payments made. Some payments made were based on the verbal requests which was no proof of the basis for payment; and

- Expenditure were not properly classified under respective expenditure code. Most capital assets both bio and non-biomedical equipment purchased were not captured and reported.

Payment of Accounts

Perusal of the payment vouchers revealed the following weaknesses:

- Filing and maintaining of payment vouchers was poor as such 13 vouchers totaling K140,838 were missing from the payment files;
- 31 instances of payments totaling K132,679 lacked supporting documents such as valid quotations, invoices, receipts, goods received notes and correspondence;
- The control over movement of motor vehicles and usage of fuel was lacking and as such the transport and fuel expense has escalated. Fuel expenses totaling K210,735 were paid without proper reconciliation of the claims made by the suppliers. The hospital did not maintain a Fuel and Motor Vehicle Register to monitor the movement of hospital vehicles and the fuel ceilings for economical usage;
- Wages calculation sheets were not attached to the payment vouchers to authenticate the correctness of the wages computed and paid;
- Instances of cash advances totaling K36,131 were not acquitted by cash advance holders and also cash advances for accommodation made to officers on duty travels were not properly acquitted with original receipts and invoices/quotations; and
- The hospital rented properties for accommodation for doctors. It was noted that some Lease Agreements were not renewed and listings for all rental properties were not maintained.

Assets Management

There were two Assets Registers maintained by Wabag General Hospital; one for biomedical equipment and the other for other equipment. The Assets Register for other equipment lacked vital information such as serial numbers, dates of purchase, and location. In addition no physical stock-takes were undertaken during the year. In the absence of an appropriate Assets Register and stock-takes, I was unable to verify the completeness, existence, accuracy and ownership of the fixed assets at the year-end.

The hospital supports its operations with a five vehicle fleet which come under its transport unit. I did not see any control procedures in place in terms of authorisation, monitoring vehicle usage and fuel consumption.

Advances Management

An Advances Register has not been properly maintained. In addition, the acquittal of advances had no supporting documentation. As a result, there was a limitation of scope as I could not ascertain the value of the advances and also whether advances were actually utilised for the intended purposes.

General Ledger

There were two sets of general ledger reports produced through the Excel program and the manual ledger since the Attaché Computer Accounting Program is not used. However the manual commitment ledger was not complete while the Excel program ledger did not contain detailed information such as transaction date, cheque number, commitment, and de-commitment. If properly maintained the manual commitment ledger should agree to the ledger report produced through the Excel program.

The ledger account forms the basis of the financial statement and it should be carefully compiled with great care so that the information contained is accurate and complete.

Journal Entry

Journalising a transaction is an important accounting procedure in any organisation for recording and accountability purposes. I noted that the hospital did not pass journal entries on all internal transfers (if any) and other cashbook adjustments with proper narrations and supporting documentations. Further, the hospital did not maintain a journal file.

Salaries and Wages

A review of controls and procedures relating to Salaries and Wages payments revealed the following matters:

- Processed batches and fortnightly salary printouts were not sent immediately to respective hospitals for verification and confirmation purposes. However it is the responsibility of the hospital to request such documents from time to time;
- The staff history cards were not maintained and attached to personal files to keep track of the salary history, higher duty allowances paid, sick, recreational and miscellaneous leaves taken and accruals for the year-end; and
- The personnel files of many officers were not created and filed as such personnel information on employees could not be established.

5.6.3 Wabag Urban Local-level Government

Financial Statements

Wabag ULLG financial statements were not produced at the time of audit in May 2012 and were still not provided at the time of preparing this report. The Interim Management Letter issued to the Wabag District Administrator was not responded in the given time. The paragraphs below detailed internal control issues observed and identified with the books of accounts and records of the Wabag ULLG:

Budgetary Control

A review of the budgetary control practiced by the ULLG resulted in the following observations:

- Budgetary documents such as Budget Estimates, Quarterly Review Records, Appropriation Act and legislations passed (if any), Warrant Authorities and Cash Fund Certificates issued in respect of the National Grant Appropriation were not provided for my examination; and
- In seven instances payments totaling K11,615 were charged to incorrect expenditure vote items.

Revenue Management

Wabag ULLG continues to restrict its internal revenue collections sources to Trading Licenses only while other potential areas of collection such as Market Fees, Garbage Fees, Property Rental, and Land Rates were not collected. The internal revenue estimate was K70,000 but collected only K6,353 with a shortfall of K63,947 implying a lack of proper control and management.

There was no monitoring system to ensure all cash collected were banked accordingly and that proper accounting was carried out.

Cash Book and Bank Reconciliations

A review of the monthly bank reconciliation statements revealed substantial reconciling items of revenue and expenditure not promptly adjusted to the cashbook as well as the revenue and expenditure ledgers. Consequently this resulted in outstanding reconciling items for prior years repeatedly reflected in the monthly bank reconciliation statements:

- Significant reconciling items of revenue (credits) totaling K34,482 and expenditure (debits) totaling K63,007 identified in the bank statement were not recorded to the cashbook and adjusted to the relevant revenue and expenditure ledgers; and
- Dishonored cheques amounting to K1,200 shown under schedule number 2 of the December Bank Reconciliation Statement represent three cheques which were dishonored during the year 2005 and continue to appear in the bank reconciliation statements.

Procurement Procedures

A review of procurement procedures applied revealed the following:

- A list of appointed financial delegates and their approval limits, Section 32 Officers and Requisitioning Officers and their specimen signatures were not maintained;
- Finance Form 3 (FF3), Claims, Verbal and Written Quotation Registers and Advances Register were not maintained; and
- The Wabag ULLG did not adhere to procurement procedures for the payments of its goods and services as stipulated in the *PFMA*.

Payment of Accounts

A total expenditure of K122,319 was made against the annual revised estimate of K178,600. Our analysis and examination of the related paid vouchers resulted in the following observations:

- Missing Paid Vouchers: Large volumes of the 2010 paid vouchers representing 59% of the total annual expenditure numbering 75 and totalling K71,654 were not provided for my examination. Consequently, I was not able to confirm the legitimacy of these payments with reference to procurement procedures and genuineness of payments made;
- Credit Purchase: Cheque number 320719 for the amount of K3,000 was paid to Liu Trading being described as settlement of outstanding fuel debts. Appropriate supporting documents such as daily fuel dockets showing details of persons collecting fuel were not provided to confirm the genuineness of this payment; and
- Councilor's Monthly Allowances: Cheques were normally drawn to the name of the councilors, however on two occasions cheques totaling K13,800 were drawn to the paying officer. It is noted with concern that the District Treasury Paying Officer had continuously failed to keep proper accountability reports on the disbursement of councilor's monthly allowances.

Assets Management

An updated Assets Register was not maintained to record assets owned by the Wabag ULLG. In the absence of a complete Assets Register and annual stocktakes, I was unable to confirm the existence and completeness of assets owned by Wabag ULLG as at 31 December 2010.

Advances Management

No Advances Register and acquittal files were maintained. However, there are instances of advance payments made but they could not be traced due to lack of proper records maintained.

Cash advances paid to the paymaster totalling K28,057 lack adequate supporting documents to confirm proper applications of funds for the purposes intended for.

In two instances Travel Allowances paid totalling K1,600 lack adequate support documents of accountability to confirm proper application of these allowances.

5.6.4 Porgera Development Authority

The field audit of 2010 accounts was completed. However, review on the Management Letter was pending when this report was finalised.

5.6.5 Enga Children's Fund Trustee Ltd

The audit of the accounts for the year 2010 was completed with a Qualified Opinion issued in November 2012. The Opinion contained two qualifications as summarised below:

- No supporting documents existed for an amount of K687,749 related to a shareholder loan provided to the Enga Provincial Government. The loan was unsecured, payable on demand and interest free. There was no agreement to formalise the arrangement; and
- No documented policy or criteria was available to confirm the expenditure of K2,142,064 on education projects was within the specified area.

5.7 Fly River Province

Entity	Year for which Last Financial Statements Submitted	Financial Statements Audited	Audit Opinion	Other Details
Fly River Provincial Government	2010	2010		Audit of 2010 accounts and records completed with results being evaluated.
Daru Hospital Board	2010	2010		Audit of 2010 accounts and records completed with results being evaluated.
Balimo Urban	2007	No		
Kiunga Dist. Hospital		No		No recent financial statements.
Bamu	2007	No		
Daru Urban	2008 and 2009	2008 and 2009	Disclaimer opinion issued	Significant control issued identified; Interim audit of 2010 accounts and records completed with results being evaluated.
Gogodala	2007	No		
Kiunga Urban	2009			2009 interim and final audit completed with the Management Letters issued. Interim audit of 2010 accounts and records completed with results being evaluated.
Kiunga Rural	2007	No		
Kivai	2007	No		
LakeMurray	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

The Fly River Provincial Government submitted its financial statements for the year-ended 31 December 2010. At the time of preparing this report, the field work associated with audit of the accounts and records had been completed and the results were being evaluated.

5.7.2 Daru Hospital Board

The Daru Hospital Board had submitted its 2010 financial statements. At the time of preparing this report, the field work associated with audit of the accounts and records had been completed and the results were being evaluated.

5.7.3 Daru Urban Local-level Government

Daru ULLG had submitted both its 2008 and 2009 financial statements. Field work associated with the audit of the accounts and records for both years have been completed with Management Letters and Opinions issued in July 2013. The ULLG had however, not submitted its 2010 financial statements. At the time of preparing this report, the field work associated with the interim audit of the accounts and records had been completed and the results were being evaluated.

Both 2008 and 2009 reports contained similar audit findings with a Disclaimer Audit Opinion issued. Consequently, only the summary of the 2009 report is restated in the paragraphs below:

Financial Statements

The financial statements did not fully comply with the format prescribed by Financial Instruction 5/2000 in that the Town Mayor and the District Administrator's Report on the budget and financial performance for the year under review were not included as part of the financial statements.

The following omissions, misstatements and errors render the financial statements as presented misleading, hence, unreliable:

- Statement "C" showed Trust Accounts as having nil balance as at year-end. I have noted however, that Daru ULLG had operated four Trust Accounts. Bank statements relating to three of these Trust Accounts revealed receipts and payments totaling K90,867 and K73,581 respectively with an accumulated closing balance of K17,278;
- Statement "J" showed revenue totaling K1,248,735.00 whilst the revenue ledgers had total revenue of K910,735 resulting in an unexplained variance of K338,000; and
- The brought forward fund balance contains errors noted in our previous audit reports which are yet to be adjusted.

Cash Balances

The fund balance of K327,510 shown in Statement "A" is misleading and unreliable due to:

- The accumulated opening account balance of K137,095 was not adjusted with prior year errors noted in our previous audits;
- The fund balance of K327,510 is misleading and therefore, unreliable as it is affected by the observations made in Statements "C" and "J":
 - Statement "C" reported a nil balance despite the various trust accounts closing balance of K17,278 at year-end thereby understating the Trust Account balance; and
 - Statement "J" had an unexplained variance of K338,000 between the reported revenue of K1,248,735 and a revenue ledger total of K910,735.
- The actual cash representation balance reported was a closing cashbook balance calculated with unexplained and unconfirmed balances rather than the year-end reconciled bank balance.

Receipts and Payments

- No proper revenue and expenditure ledgers were maintained to confirm whether potential revenue due to be collected from all sources were actually collected and accounted for. I have also noted significant variances between statement disclosures and related ledgers;
- Control weaknesses were noted in the procurement procedures relating to approval and authorisation by duly appointed personnel and lack of supporting documentations; and

- As noted in the paragraph on cash balances above, Daru ULLG had operated a total of four Trust Accounts with significant transactions and closing balances. The Trust Accounts were operated without Trust Instruments and details of transactions and closing balances were not disclosed in Statement “C”.

Assets Management

Appendix 4 of the Financial Statements showed a nil report of assets owned and in the custody of the Daru ULLG. In the absence of an Assets Register and management representations, I could not confirm the value and the controls over the assets purchased during the year under review.

Advances Management

Appendix 6 of the Financial Statements showed as nil advances. However, Expenditure Ledgers revealed cash advances paid to various individuals totaling K41,700 during the year. In the absence of an Advances Register and management representation, I could not confirm the accuracy of this Appendix and the controls on the management of the advances.

Significant Control Weaknesses

- Instruments of appointment for financial delegates for periods prior to December 2009 were not sighted rendering expenditures approved and processed in that period invalid;
- Payments totaling K444,976 not certified and examined by duly appointed Certifying Officer and Examiners respectively rendering the payments invalid;
- Payments totaling K390,619 lacked supporting documentation which indicates that either the Payment Vouchers were not properly filed or payments were fraudulently made;
- Payments totaling K100,000 made to a firm being for outsourced sanitation and garbage services were not supported with engagement contract documents detailing services and fees rates, period or manner of engagement, method of contract termination, and reviews;
- Minor works were carried out during the year by women and youth groups. A review of a sample of payments revealed that payments were not adequately supported with Minor Works Contracts, work inspection reports and acquittal vouchers for cash payments made through paymasters. Similarly cash advances paid for town beautification projects totalling K96,717 lacked supporting vouchers; and
- Grants and subsidies given to various individuals and groups totaling K153,839 were not acquitted.

5.7.4 Kiunga Urban Local-level Government

Kiunga ULLG had eventually submitted its 2009 financial statements late in 2012. The interim audit of the internal control environment followed by a final audit had been completed with the Management Letter issued. At the time of preparing this report, the Opinion to the Minister responsible was being finalised. The details of the 2009 Management Letter issued are as summarised below:

The ULLG had also submitted its 2010 financial statements. At the time of preparing this report, the field work associated with the accounts and records had been completed and the results were being evaluated.

Financial Statements

The financial statements for the Kiunga ULLG had the following presentation and disclosure errors:

- The Town Mayor and the Council Managers statements presented in the report were signed by one person on their behalf. The statements however, do not contain any message on the budget forecast and performance, economic overview and social implications resulting from implementation of the annual budget during 2009;
- Statement “B” balances were not separated using three digit separator, hence the amounts disclosed could not be clearly read;

- Statement “A” showed an account balance of K77,245 and was represented by cash at bank balance of K77,245 as at 31 December 2009. Audit procedures performed to confirm these balances reveal the following matters:
 - The accumulated 2009 opening fund balance of K49,228 used in Note 3 computations contains inherited errors brought forward from prior years. This balance remained unadjusted with the previous audit recommendations; and
 - The cash representation of the fund balance totaling K77,245 reported in the Statement and referenced with Note number 6.2 does not show details in the Notes to the accounts. Further the year-end bank and cashbook balances were not properly reconciled; as such the accuracy of the Kiunga ULLG cash position as at 31 December 2009 could not be established.
- Statement “B” is intended to show the summary of receipts and payments of the Revenue Fund, the details of which are shown in Statements “J” and “K”. Revenues and expenditures per Statements ‘J’ and ‘K’ totaling K576,852 and K548,835 respectively with a net surplus of K28,017 were correctly reported in this statement. However, the errors noted under Statement “J” below renders these balances unreliable;
- Statement “D” is intended to show the sources of funds available and how these funds have been applied during the year under review. The Statement presented showed source and application of funds totaling K576,852 and K548,835 respectively with a net surplus of K28,017.33. However, due to errors noted in Statement “J” and the cashbook, the balances reported in this Statement are incorrect hence, unreliable;
- Statement “J” is intended to show the details of receipts classified under Heads of Revenue Estimates. The Statement presented reported revenues totaling K576,852 against revenue ledgers total balance of K42,967. Trial Balance and other supporting documentation attached to the financial statements showed that the difference noted was composed of actual revenues received through the bank account were not identified and posted to respective revenue ledgers and the cashbook;
- Appendix 4 - Report on Assets of the Kiunga ULLG showed closing asset costs as K329,490.66. In the absence of an Assets Registers, Audit could not reliably confirm the balance reported; and
- Appendix 6 reported outstanding Cash and Travel Advances of K93,930 relating to 2008 and 2009. In the absence of an Advances Registers, Audit could not reliably confirm the balance reported.

Budgetary Control

Audit review of the Kiunga ULLG’s revenue and expenditure budget of K1,953,700 for the year-ended 31 December 2009 revealed the following matters:

- A Ministerial Approval was not sighted;
- The *Appropriation Act* and the detailed budget books were not provided to Audit;
- Periodic budget reviews and performance evaluations, if any, performed by management during the year under review were not provided; and
- Revenue and expenditure ledgers revealed total revenue and expenditures of K42,967 and K548,835 respectively. These figures indicate poor practice of budgetary control procedures. Proper recording of transactions were not done resulting in huge expenditure figures compared to revenue. Revenues actually earned during the year were not posted to the revenue ledgers and cashbooks respectively resulting in such variances as noted above.

Revenue

Audit examination of revenue collection and banking procedures together with controls revealed the following matters:

- Collector statements were not properly and sequentially filed. Further, revenue collections were not completely posted to respective ledgers and cashbook;

- Cancelled Original Official Receipts were not sighted among collector statements and used receipt books;
- Revenue collection, banking and preparation of Collector Statement duties were not segregated; instead such incompatible functions were performed by the same officer; and
- Collectors reports for October, November and December 2009 showed revenue collections of K16,695.50 were not submitted to the District Treasury for posting. In the absence of bank statements Audit is unable to verify and confirm the banking of these revenues into the Kiunga ULLG operating bank account.

Sundry Debtors

Audit examination of sundry debtor's ledgers and other related records reveal the following matters:

- A property rental debtors listing provided to Audit showed outstanding debtors amount of K38,700. Audit sighted copies of reminder notices sent to the defaulters however, responses were poor;
- The Debtors Register provided to Audit was incomplete; as such audit could not confirm all outstanding debtors; and
- Council members and senior staff borrowed cash from the daily revenue collections in the form of loans for personal use. An amount of K4,670 obtained as a loan remained outstanding at the time of this audit.

Procurement and Payment Procedures

Audit review of the procurement and payment procedures revealed following weaknesses:

- Specimen signatures of financial delegates, such as certifying officer or examiner, were not provided to Audit. Consequently Audit could not verify legality of all payments approved, authorised and paid during the year under review;
- Payments totaling K28,600 being the former year's outstanding claims were not provided for in the current year's budget. Such diversion of funds may suffocate budgeted projects and activities;
- Expenditure documentation and record maintenance was very poor. Cheque numbers were not quoted on some supporting payment vouchers which made it difficult for tracing and verifying the payments;
- Supporting vouchers for payments totaling K103,327 were missing from files provided for inspection, consequently these payments could not be verified by Audit; and
- Cash payments totaling K70,740 being for wages and mini works made through paymasters were not adequately supported. The wages sheets were not signed and attested by senior officers and recipients of cash not signed to confirm actual collection of cash.

Advance Management

An audit review of the advance management systems, controls and records revealed the following matters:

- Despite our previous audit recommendations, the Kiunga ULLG had failed to establish and maintain travel and cash Advances Registers and other supporting records. Audit could not ascertain whether cash and travel advances totalling K55,770 paid out during the year under review were properly accounted for;
- Payments totaling K25,720 made mostly to administration staff in the form of acquittable cash advances were not acquitted;
- A cash advance of K10,700 made to an individual being for the supply of mobile phones was not adequately acquitted. Audit could not ascertain whether such equipment were supplied and who were the actual officers who benefited from such an arrangement; and

- An advance payment of K18,600 on cheque number 986 to Peter Guli in 2008 being for repair and maintenance costs of a damaged Toyota Hilux vehicle owned by Kiunga ULLG. No work was done on the vehicle at the time of audit. Management either ignored or failed to implement the audit recommendation in our 2008 report.

Assets Management

Despite our previous audit recommendations, the Kiunga ULLG did not establish or maintain an Assets Register and other supporting records as per legislative requirements. Audit could not ascertain whether Assets totaling K13,622 purchased during the year under review were properly recorded and accounted for.

Cash book and Bank Reconciliation

- The PGAS cashbook was not adequately maintained in that most of the revenues actually received and deposited in the bank account were not posted to the cashbook. The credits in the bank account could not be reconciled with cashbook postings;
- The cashbook showed opening and closing overdrawn balances of K362,770 and K456,640 respectively. Over drawn balances were also noted for all twelve months. This reflects poor cash management practices; and
- The year-end bank reconciliation statement attached to the financial statements disclosed positive bank and cashbook balances of K39,973 and K77,245 respectively. The year-end bank and cashbook balances however, were not available to confirm accuracy of these balances.

Financial Assistance

Audit examination of the ledgers and records on financial assistances provided during the year totalling K104,136 revealed following matters:

- A payment of K10,000 being financial assistance for Kiunga women's training on various projects was not adequately supported with documents. Proper costing and break up for respective training programs not attached; and
- Financial assistance totaling K94,136 were paid to various individuals, suppliers, sporting clubs, schools and funeral expenses. The criteria used in selecting benefactors were not provided to Audit.

Corporate Governance

- Kiunga ULLG did not have a Corporate Plan in place at the time of this audit. Despite audit recommendations in our previous Management Letters, no actions have been taken nor any deliberations made in Kiunga ULLG General Meeting discussions regarding corporate plans;
- Audit review of General Council Meeting Minutes revealed that only one meeting was held during the year in contrary to four meetings per legislative requirements; and
- Some resolutions have been passed to endorse projects with significant financial values. Due to the poor response to audit queries Audit could not ascertain the implementation of these projects.

Internal Audit

The Internal Audit Unit of the Fly River Provincial Administration failed one of its responsibilities and duties by not conducting any audits during the year under review in relation to management conduct and financial affairs of Kiunga ULLG. This institution provides vital services such as garbage and sanitation, sewerage, and trade licensing to the Kiunga Town and the nearby villages. Its revenue base is vast and as such must be regularly and periodically audited by the Internal Audit Unit so that weaknesses and fraudulent activities can be identified earlier and corrected.

5.8 Gulf Province

Entity	Year for which Last Financial Statements Submitted	Financial Statements Audited	Audit Opinion	Other Details
Gulf Provincial Government	2006	2006		No recent financial statements, interim audit of controls for 2010 completed and the results were being evaluated.
Kerema Hospital Board	2009	2009		No recent financial statements, interim audit of controls for 2010 completed and the results were being evaluated.
Kerema Urban	2004	2004		No recent financial statements, interim audit of controls for 2010 completed and the results were being evaluated.
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			2004 - 2010 financial statements not submitted.
Gulf Papua Fisheries	2000			1997 – 2000 audit fees awaited; 2001 – 2010 financial statements not submitted.
Southern Star	2002			No recent statements submitted for audit.

5.8.1 Gulf Provincial Government

Gulf Provincial Government did not submit its 2010 financial statements. The interim audit of the internal control environment had been completed and the results were being evaluated at the time of preparing this report.

5.8.2 Kerema Hospital Board

Kerema General Hospital did not submit its 2010 financial statements. The interim audit of the internal control environment however, had been completed and the results were being evaluated at the time of preparing this report.

5.8.2 Kerema Urban Local-level Government

Kerema ULLG did not submit its 2010 financial statements. Consequently, audit was unable to comment on the financial status and the management of the funds of Kerema ULLG for the year under review. An interim audit on the internal control environment however, had been completed and the results were being evaluated at the time of preparing this report.

5.9 Madang Province

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Madang Provincial Government	2010	2010	May 2013 Disclaimer	Significant control weaknesses identified.
Modilon Hospital Board	2010	2010	October 2011 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	2010	2010	October 2011 Disclaimer	Significant control weaknesses identified.
Kovon	2006	No		
NahoRawa	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; 1999 – 2008 financial statements not submitted.
Madang Slipway Ltd				Entity deregistered on 31 July 1995.

5.9.1 Madang Provincial Government

Financial Statements

The audit of Madang Provincial Government's 2010 accounts was completed. The Management Letter sent to the Provincial Government detailing audit issues was not responded to. A Disclaimer Audit

Opinion was issued in May 2013 where the reasons for disclaimer were detailed. 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 the accuracy and completeness of transactions. The risk of fraud and misappropriation occurring and remaining undetected was high. The paragraphs below detail the issues identified:

Assets

The Provincial Government did not update its Assets Registers, although significant amounts of money have been spent on the purchase of assets in the current year and prior years. Appendix 4 shows assets valued at K4,845,714 were extracted from the Provincial Treasury records and not from an Assets Register. Assets were also purchased from votes other than votes provided for purchase of assets. In the absence of a complete and up-dated Asset Register and annual stock-takes, I was unable to confirm the existence and the completeness of assets owned by the Madang Provincial Government.

Advances

Advance management was very poor as shown in Appendix 6 where advances totaling K453,981 for the years 2004 to 2010 were not acquitted as at year-end. Some of the advances processed were not registered, officers did not provide sufficient supporting documentation when acquitting the advances, the Provincial Administration did not follow-up on long-term un-acquitted advances, and allowed new advances to be given to officers who had previous advances outstanding. As such, I was unable to confirm the existence and the completeness of un-acquitted advances.

Budgetary Control

The *Appropriation Act 2009* (No. 3 of 2009) appropriated K76,564,200 for the provision of goods and services for the fiscal year commencing 1 January 2010.

Transfer of funds, under Section 4 (1) and (b) of the *Appropriation Act* was not done in accordance with the Act. The *Appropriation Act* stipulates that the Chairman responsible for Finance may direct or approve transfer of funds upon recommendation from the Budget Review Committee. However, in all instances adjustments to the appropriation were approved by the Chief Accountable Officer and not the Chairman responsible for Finance. Also, the copies of the resolutions of meetings held by the Provincial Budget Review Committee to recommend the transfer of funds were not attached to the Request.

Expenditure in many instances was charged to incorrect votes during the year as reported in my Management Letter issued to the Provincial Administrator.

Revenue Collection

Controls surrounding revenue management in terms of revenue collected and revenue receivable, maintenance of records; data monitoring and reporting were insufficient and ineffective:

- Basic records such as GST receivable and registers of vehicles and liquor outlets in the Province were not maintained;
- Reporting was observed to be on an ad-hoc basis. A 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. The reports on outstanding fees and fines anticipated could not be compiled due to insufficient records and relevant resources, resulting in no disclosure on outstanding fees and fines to be collected as at 31 December 2010;
- Under banking totaling K6,442 incurred in 2007 and 2008 were noted. Recovery action was not taken on the responsible officer in order to recoup the monies not banked. This was raised in my 2009 audit report; and

Cash Books and Bank Reconciliations

Both bank reconciliations of the Provincial Government's Operating Account and Provincial Grant Account as at 31 December 2010 contained outstanding items dating back to previous years. These items should have been investigated and adjusted in both the cashbooks so that a realistic cashbook balances could be shown as at 31 December 2010. A total of K12,108,799 worth of cheques remained un-presented from both the Operating Accounts as at 31 December 2010 which included cheques issued as grants, subsidies and financial assistance.

Grants and Subsidies

Grants and subsidies paid totaling K2,776,469 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 by the Provincial Government. The Provincial Government had neither policy guidelines nor criteria for such grants and subsidy payments which poses a greater risk of abuse, misuse, and theft of public monies when there is non-compliance.

Procurement Procedures and Payment of Accounts

Four of the Provincial Tenders Board meeting minutes were not signed by the Chairman, causing doubt about the validity of the decision made at the meetings.

Payment of accounts process had some improvements compared to the previous year. The following issues were still outstanding and noted in 2010:

- Payments amounting K49,955 were made for hire of vehicles and purchase of fuel for the Governor's Office. It was not clear whether it was the Governor's use or his staff;
- Lump sums were paid to two fuel suppliers. No effective system of monitoring fuel purchases was in operation; and
- Due care was not taken when charging expenditure to the respective votes resulting in expenditures not fairly represented in the financial statements under their respective expenditure votes.

Trust Accounts

Payments out of Provincial Trust Fund Suspense account (vote 800/29) were for expenditures that should have been incurred out of recurrent vote items.

Salaries, Wages and Overtime

No fortnightly payroll reconciliations were done to confirm the validity of the payrolls. Personal files selected and audited were noted not to have been maintained adequately. An Assembly Member Allowances Register was not maintained.

Internal Audit

The performance of the internal audit unit needs to be closely monitored. The unit must be focused more on audit of routine areas of the Provincial Government and Local-level Governments. Any resource constraints with manpower or funding needs must be addressed to have an effective internal audit unit.

5.9.2 Modilon Hospital Board

General

The audit of Modilon General Hospital accounts for the year-ended 2010 was directed primarily to the evaluation of internal control systems. This was 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, regulations and directives. An audit report is yet to be issued at the time of

preparing this report. Issues identified in relation to the financial statements and the control environments are noted in the paragraphs below:

Financial Statements

Financial Instructions 2/2004 issued under Section 117 of the *PFMA* state the prescribed format for the preparation and presentation of the financial statements for Public Bodies. The financial statements of Modilon General Hospital were not presented before the prescribed date and were not accompanied in the declaration by the Chief Executive Officer certifying the Financial Statement as true and fair.

Although, the Hospital Administration was in possession of the completed financial accounts and data to form a Financial Statement, the required Financial Statement was not compiled and presented. The computerised financial report was only submitted on request during the time of this audit on 20 June 2011. Since this has been the precedence from past years, it demonstrated Management's inability to comply with the requirement of Section 63 (2) of the *PFMA*.

Supplementary Records

Notable supplementary records such as detailed cashbooks showing details of payee and payment descriptions could not be accessed since the accounting software was not programmed to produce and maintain it. The bank statement report designed and maintained by the computer was obviously a duplication of the reporting. It does not present the required record and format like the cashbooks.

Scope Limitation

There was limitation of scope arising from bank balances due to the inability of the hospital to maintain proper cashbooks and produce the same for timely bank reconciliations of the Operating and the Trust Accounts. Un-presented cheques of K95,273 for both accounts dating back to October 2008 were noted. Consequently, I was unable to verify the accuracy and completeness of the closing fund balance disclosed in the financial statements.

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 manual 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;
- 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 throughout the year; and
- The appropriation funds made available by the Department of Health by way of Cash Fund Certificate were over committed on five expenditure vote items totaling K168,850. Such actions indicate poor budgetary control practices by the management.

Budgetary Control

Accounting for Hospital Fees and formulation of the Annual Budget Estimate as required by the Trust Instrument was lacking. The existing accounting system does not facilitate the required expenditure ledger item. Evidence of a lack of oversight and weaknesses in commitment controls was observed when commitment of funds from expenditure items have been overlooked in five items resulting in an over commitment totaling K168,850.

Cash Book and Bank Account Reconciliation

Accounting records like the detailed and summary of revenue and expenditure ledgers and the cashbook were not produced, thus contravening the importance of proper accountability and strict compliance with proper record keeping and reporting.

Closing balances could not be verified and confirmed with the cashbooks. As noted above, neither the computer nor the manual cashbooks were maintained. The attempted manual cashbooks maintained were not prepared and kept in an orderly and accepted manner.

Procurement and Payment of Accounts

Examination of payment vouchers selected on a sample basis noted irregularities such as:

- Charges against unbudgeted expenditure votes;
- Incorrect expenditures incurred out of expenditure vote items, specifically Trust Account;
- Not obtaining required number of quotation; and
- Incurring expenditure on the advice of the Finance Committee (which is not a Section 32 Officers function).

Further, Accountable Officers have allowed payments to be incurred without due consideration of the procedures and purpose of payments such as: A Lease Agreement was signed with a Landlord of a property for rental to a doctor was not utilised during the year. The lease property was left unoccupied but the Hospital continued to pay the rental payment of K4,200 per month. An annual rental payment of K50,400 was paid for a lease property not occupied.

Trust Fund Management

Previous recommendations for improvement particularly in complying with the Trust Instrument were not adhered to. Notable lapses were incurring expenditures not in line with specified expenditures outlined in the Instrument. Instances of wrong expenditures incurred out the trust account are for wages for casuals K8,528, legal fees K8,120 and for the University of PNG study fee K22,876.

Assets

All fixed assets have not been brought to account. In the absence of an appropriate detailed Assets Register and other records, I was unable to verify the completeness, existence, accuracy and valuation of fixed assets at the year-end.

Advances

The control mechanism over advance management was ineffective. No Advances Register had been maintained, I was therefore not able to ascertain the value of the advances and also to confirm whether advances were actually utilised for the intended purposes.

Salaries, Wages and Allowances

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

Perusal of personnel files selected revealed the following;

- Payroll reconciliation was not done keeping the management in suspense;
- I highlighted in my previous report that an Officer who resigned without obtaining proper approval from the hospital management and board to stand in the 2002 National Election was put back onto the payroll by the Health Department without concurrence from the Hospital Board. During the year under review this officer was paid a total of K38,637 out of expenditure vote item

141 as his salaries and allowances. The concerned officer's resignation and re-instatement as Director Finance and Administration for the Hospital was noted to be improper and irregular; and

- Proper organisational design and structure was lacking resulting in two senior management positions being left vacant and acting appointees were effective for more than a year and one senior management position was held by two incumbents.

5.9.3 Madang Urban Local-level Government

Financial Statements

The audit of Madang ULLG's 2010 accounts was completed. The Management Letter sent to the Madang ULLG detailing audit issues was not responded to. A Disclaimed Audit Opinion was issued in September 2013 where the reasons for disclaimer were detailed.

Investments

Statement "E" disclosed as nil was incorrect. Based on the records available investments of more than K200,000 in Interest Bearing Deposits held with Finance Corporation Ltd and K100,000 with Mustard Seed Finance Company were not disclosed.

Creditors

A list of creditors provided revealed that a sum of K945,628 was unpaid in 2010. These amounts were carried over from 2008 and 2009 and were not reflected in Appendix 1 of the financial statements.

Debtors

The Debtors Listing provided disclosed total debtors as K2,776,997 representing arrears in garbage and sanitation and land rates. This amount was not disclosed in Appendix 2 of the financial statements.

Assets

Appendix 4 disclosed nil assets. However, an Assets Register was maintained but could not give a total value and details of all the assets owned including the ones purchased in prior years. The Expenditure Ledgers revealed that fixed assets totaling K122,569 were purchased during the year. All fixed assets including residential properties were not insured against loss. As such, I was unable to confirm the existence and completeness of assets owned by Madang ULLG.

Advances

Appendix 6 disclosed an un-acquitted figure of K13, 30 which differed from the list provided amount of K14,430 with the difference of K800 understated. Previous years un-acquitted advances were not disclosed as well. Advance payments were not managed and disclosed properly. As such, I was not able to confirm the correct un-acquitted advances.

Budgetary Control

Revenue was estimated to be K3,783,100 compared to actual collection of K2,923,063 resulting in an under collection of K 922,546. Instances were noted where expenditures totaling K487,665 were incurred out of incorrect expenditure vote items.

Revenue

The debt collection system in place was not able to ensure that all the debts were collected effectively and efficiently. Although the debtors ledgers were maintained; total outstanding debtors increased compared to same period for 2009. This is an indication of inefficient and ineffective debt collection measures in place resulting in the loss of revenue. Further, the current billing system for sanitation and garbage and land rates was not able to generate an age analysis of debtors at year-end.

An up-to-date register of Trading License Fees was not maintained for 2010. I was unable to verify the completeness of the reported revenue generated from Trading License Fees.

Instances of shortfall in market takings were noted where the daily collections brought in for receipting at the cash office did not agree with the total collections expected from market books issued daily resulting in loss of income.

Delays in banking were noted where daily market collections were held for more than one day instead of banking them immediately.

Cash Book and Bank Account Reconciliation

Schedules in the bank reconciliation statement contained reconciling items taken from the bank statement as debits (payments) or credits (receipts) which could have been used to update the cashbook. The cashbook was not updated and instead items are still carried in the schedule of the bank reconciliation statements.

There was no evidence to show that the monthly bank reconciliation statements done were checked and certified as correct by a senior person other than the one preparing it as a control measure.

An un-reconciled amount of K167,852 being an 'unidentified expenditure for 1999 not taken up' carried over from 2004 keeps appearing in all monthly bank reconciliation statements. This amount needs to be cleared.

Procurement Procedures

A list of properly appointed Financial Delegates and their approval limit, Section 32 Officers and Requisitioning Officers and their specimen signatures as required by the Financial Instructions were not maintained and provided by the Madang ULLG.

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.

Payment of Accounts

In almost all payments sighted, three written quotes were not obtained from various suppliers for comparison of the prices and ensuring value for money. The ULLG did not maintain a Quotation Register for recording of both written and verbal quotes obtained from different suppliers;

A total sum of K94,000 was paid to Mr. James Yali during 2010 in respect of Court Order number 1789 of 2000. Madang ULLG owed him K545,263 in total as at 31 December 2010 and the amount appears to increase every year taking into account the interest portion. This is an on-going payment and appears to be a big financial burden to the Madang ULLG given its financial position. A decision had not yet been reached as to how the full amount should be settled.

All expenditures incurred and charged to the trust ledger were not reversed back to their respective expenditure vote items. Hence, they were not taken up in Statement "K" of the Financial Statement and resulted in understatement of the expenditures in Statements "K" and subsequently Statements "B" and "A".

I noted that proper agreements and the basis of selection and engagements were not in place for the following payees and payments: Madang Analytical Laboratory K90,979, JD Building and Construction K13,591 and Saaku Ltd K108,900.

Trust Fund Management

A Non-Bank Trust Account was maintained by the Madang ULLG. The ledger was not maintained properly resulting in the following anomalies:

- The Trust Fund Suspense Ledger Account (320/405) was treated like any other recurrent expenditure ledger votes. Expenditures totaling K393,886 were charged to this account but not reversed back to their correct expenditure ledger vote items so that they would be included in Statement "K". Hence, the total expenditure disclosed in Statement "K" and subsequently

Statements “B” and “A” are understated by K393,886. The balance in this account at year-end should be nil;

- It was noted that an unexplained figure of K88,645 which is included in the total trust receipts in Statement “C” and also Note 14 of the Notes to and forming part of the Financial Statements. This figure could not be explained by either the Accountant or the District Treasurer; and
- The three payments totaling K10,582 appear to have been deliberately charged to the trust account instead of charging them to the correct expenditure votes. When queried, the Accountant responded that these were unbudgeted payments which appear to be not true.

Salaries and Wages

A review of payroll revealed that staff salary history cards were not maintained and the leave records were not updated. As a result I was not able to verify the salary grades they were paid on or leave taken. There were no indications of payrolls being checked and salaries and wages tax declarations being lodged or copies maintained in the file.

The SRC Determinations were not complied with when paying Assembly Members’ Allowances. An instance was noted where one Assembly member was paid on two payrolls. One from the Madang Urban payroll and another from the Madang Provincial Government payroll resulted in double dipping of benefits.

5.10 Manus Province

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Manus Provincial Government	2011	2010	Qualified Audit Opinion	Significant issues identified.
Lorengau Hospital Board	No recent financial statements	No		Interim audit Management Letter issued for 2010 financial year with significant control issues identified.
Aua/Wuwulu	2009	No		
Balopa	2009	No		
BisakaniSoparibeu	2009	No		
Lelemadih/BupiChupeu	2009	No		
Lorengau Urban	2010	2010	Disclaimer Audit Opinion	Significant issues identified.
Los Negros	2009	No		
Nigoherm	2009	No		
Penabu/NaliSopat	2009	No		
Pobuma	2009	No		
PomotuNdrehet/KurtiAndra	2009	No		
Rapatona	2009	No		
Tetidu	2009	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 BeseuKampani Ltd				2007 – 2009 audits done under private arrangement. No recent financial statements.
Lorengau (Harborside) Hotel				2007 – 2010 audits done under private arrangement. No recent financial statements.

5.10.1 Manus Provincial Government

The audit of the Manus Provincial Government financial statements for the year-ended 31 December 2010 was unsatisfactory with a Disclaimer Audit Opinion issued. My report to the Minister responsible contained the following audit findings as summarised in the paragraphs below:

Financial Statements

Financial Instruction 4/2000 issued under the *PFMA* states the prescribed format for the preparation and presentation of financial statements for Provincial Governments and Local-level Governments. The 2010 financial statements of the Manus Provincial Government were not prepared and presented in the prescribed format in view of the following observations:

- The Provincial Governor's statement on the budget performance of the Manus Provincial Government for the year ended 31 December 2010 was not presented;
- The Provincial Administrator's overview statement on the financial operations of the Manus Provincial Government for the year ended 31 December 2010 was not presented; and
- Relevant and necessary Appendices to the financial statements were not prepared and presented.

Cash Balances

- The Provincial Account balance of K1,330,921 is inaccurate and misleading as it also included Lorengau Market Trust Account balance of K2,569 which is not supported by the actual cash balance held in the bank account as this account was closed;
- There were errors in journal adjustments of revenues as well as reconciling items identified in the bank reconciliation statements of both the Operating and Grant Accounts relating to receipts and expenditure that were not adjusted in the cashbooks; and
- The balance of the Provincial Revenue Fund of K949,954 (overdrawn) could not be confirmed as correct due to errors and material misstatements of operating deficit as discussed under the paragraphs on Receipts and Payments for the year ended 31 December 2010.

Investments

The total cost of investments of the Manus Provincial Government totaling K71,258 at a total face value of K198,960 represented the shares held in Bougainville Copper Limited of K348, Lorengau Hotel Limited of K160,000, Kei Beseu Kampani of K522 and K38,100 held in Manus Marine Resources. The total cost of investment and the face value are misleading due to:

- Amounts incorrectly presented in 'thousands' instead of the original amounts resulting in material misstatement of value and costs of investments held by the Provincial Government at year-end; and
- The total value and cost of capital contributions during the year, if any, in addition to K50,000 paid in 1999 as its initial share contribution toward the establishment of Manus Provincial Shipping Authority, Manus Fishing Corporation, Manus Savings and Loans Society and National Gas Corporation were not disclosed in the financial statements nor the share certificates and Investment Register available to ascertain investment transactions during the year.

Assets

- The Provincial Government did not maintain an updated and complete Assets Register with records of fixed assets purchased and/or disposed of during the year. Consequently the completeness and accuracy of purchases totaling K398,009 could not be ascertained as recorded in the Register; and
- There was no evidence to indicate the periodic stock-takes were conducted to physically verify and determine the existence, condition and value of fixed assets owned and in the custody of the Provincial Government at year-end.

Receipts and Payments

The Manus Provincial Government reported its total revenue and expenditure as K32,961,133 and K33,855,641 respectively with an operating deficit of K894,508 (Statement "B"). I was unable to confirm the accuracy of the revenue and expenditure and, therefore, the correctness of the operating deficit as at 31 December 2010 due to the following reasons:

- The total revenue included former year (projects) receipts totaling K4,966,452 which should have been excluded from the actual receipts for the year and disclosed in the Notes to that effect;
- The total actual receipts from investments of K113,728 could not be confirmed as correct due to errors arising from incorrect and duplicate postings of journal entry adjustments; and
- There were material receipts and expenditure reconciling items not adjusted in the cashbook and posted to the appropriate revenue and expenditure ledgers.

Significant Control Weaknesses

- In seven instances payments totaling K810,250 were not certified to determine the legitimacy of the expenditure incurred prior to processing payment of the claims. The claims included two payments of K10,000 each that were not approved by the appropriate financial delegates;
- The Provincial Government had paid K150,000 to a South Pacific Seafood Company being for the establishment of a brick molding project and a further K100,000 for management and consultancy services on the installation of ice-making machines, cold storages and pump boats to a local fishing group for their fishing operations. Another payment for K80,000 was made to a newly established firm to facilitate on behalf of the resource owners, being Manus Provincial Government and a Watech Resources (HK) Co. Ltd., for the establishment of a stone crushing and spring waterbottling plant respectively. I sighted no evidences however, to indicate the Provincial Government had conducted proper feasibility studies on these projects to assess their viability and value for money;
- As stated in the previous year audit report, the Provincial Government continued to make payments in relation to a legal liability of K350,000 involving a plaintiff namely; Mr. Ken Kuso with Mr. James Pokris and the Manus Provincial Government as defendants. I observed the legal liability had increased to K477,060 as the outstanding balance as at 31 December 2010 as a result of imposition of interest charges of 8% calculated on the accumulated outstanding balance at the end of each year. The Provincial Government had not taken appropriate action to review and settle the prolonged legal matter;
- The Provincial Government paid a total of K451,600 and K376,128 to Air Niugini Limited and Hornibrooks (NGI) Limited respectively. I was not provided evidence to indicate the commitment of funds to incur the respective expenditures in excess of K300,000 were sanctioned by the Provincial Authority to Pre Commit Committee (PAPCC);
- Funds totaling K867,605 from the allocation of K1,000,000 intended for Climate Change and Sea Level Rise Mitigation were expended on unrelated related programs;
- A total K1,720,000 was expended on the construction of offices and staff residences for various Local-level Governments as well as the completion of the Manus Garment and Textile building. I was not provided evidence to indicate that proper tender processes were adhered to or that the projects were issued with the certified Certificates of Completion to indicate satisfactory execution and completion of the funded projects;
- Review of the PGAS Advances Register revealed payments of travelling allowances, casual meal allowances and cash advances to officers totaling K383,836 dating back to 2004 remained un-acquitted as at 31 December 2010. There were also numerous payments of cash advances to officers during the year totalling K566,513 that appeared not to have been recorded nor captured in the PGAS Advances Register;
- Payment of grants and subsidies and financial assistances to non-profit organisations, public authorities and schools totaling K1,387,000 lacked evidence of accountability reports by the recipients, nor were there records to indicate that the Provincial Government had sought these reports; and
- The Internal Audit Unit lacked adequate funding and necessary logistical support for the effective and efficient performance of its functions and responsibilities.

5.10.2 Lorengau General Hospital

Lorengau Hospital Board did not submit its 2010 financial statements. The interim audit of the internal control environment however, had been completed with the Management Letter issued. The paragraphs below give a summary of major issues identified:

Financial Statements

Financial Instruction 02/2004 issued under Section 117 of the *PFMA* states the prescribed format for the preparation and presentation of the financial statements for Non-Trading Public Bodies. Lorengau General Hospital however, have not been preparing or presenting its financial statements since 2005 financial year. The non-submission of successive years' financial statements had been highlighted in our previous Management Letters and audit reports; however, Hospital management had not taken appropriate action to address the issues raised. In the absence of the financial statements, audit could not conduct a review to express an Audit Opinion on the Hospital's financial performance and position for the year-ended 31 December 2010.

Budgetary Control

The Lorengau General Hospital prepared its estimates of revenue and expenditure totaling K5,790,961 for the year ended 31 December 2010. The following issues have been identified:

- The controls exercised over usage and management of funds was lacking at Lorengau General Hospital. For instance, a review of expenditure records pertaining to the Hospital Operating Account revealed expenditure totalling K309,228 in excess of funds allocated in respect of six expenditure vote items whilst funds totaling K486,062 were underspent on nine expenditure vote items.
- As stated in previous audit reports, the Lorengau General Hospital had not prepared its annual estimate of revenue and expenditure for Lorengau Hospital Fees Trust Account for the year under review as required under Section 3 (c) of the Hospital Fees Trust Instrument. Neither was a copy made available for Audit examination.

Similar issues noted above were highlighted in our previous audit reports which indicates hospital management had not taken appropriate action to improve on the weaknesses being identified.

Revenue Management

A number of control weaknesses were identified which included the following:

- As noted above, the Department of Health approved the release of funds to Lorengau General Hospital totalling K2,054,000. The CFC with Serial No.18 was not available and as such Audit could not verify the accuracy of receipt of funds released through the CFCs. The Hospital did not maintain proper revenue ledgers.

Consequently Audit could not ascertain the completeness and accuracy of Grants receipts approved and released by the Department of Health to the Lorengau General Hospital for the fiscal year-ended 31 December 2010. These issues were also highlighted in our previous years' audit reports.

The Income (Revenue) Statements provided to Audit showed actual internal revenues for the year ended 31 December 2010 as K193,788 represented by Hospital Fees of K47,368 and Other Income of K146,420. A review of the controls surrounding the collection, recording, banking and safe custody of revenue revealed the following weaknesses:

- The Hospital had not exercised any form of segregation of duties in revenue collection and banking;
- Review of the Hospital User fees was not done in view of the rising costs of delivering medical services.
- A loss of revenues from Hospital fees collections between the hours of 10 pm and 7 am from emergency treatments as there are no rostered shift work for Collectors of Public Monies;

- Lack of effective controls and monitoring exercised over collection of inpatient fees after patients are discharged from the Hospital;
- Lack of security over the safe custody of revenue collections as well as the Cash (Revenue) Office settings. A physical inspection conducted by Audit noted that ordinary table drawers or filing cabinet drawers were used to store daily collections;
- Official receipt books in use from 2010 up to current are in duplicate copy only and not in triplicate copies which pose a very high risk of daily collections being tampered with;
- Cash count conducted on the 31 August 2012 revealed a cash deficiency of K149. Recount in the afternoon revealed that K128 was made good while the balance of K21 was not made good. Although the deficiency is immaterial, as such it is an indication that cash from daily collections are being tampered with by collectors;
- Audit was aware of allegations of misuse of daily collections for the month of December 2011 by Revenue Clerks. Audit for instance sighted no evidence to indicate that the collector statements for the period 3 to 28 February 2012 were prepared or the collections banked. Consequently, collections totaling K1,256 could not be confirmed as duly banked; and
- Debtors Ledgers maintained, if any, to record outstanding hospital fees and other sundry debtors for the year under review were not provided for Audit verification.

Cash Management

The Lorengau General Hospital, among other major hospitals, was equipped with the Attaché Accounting Software with capabilities of recording transactions and providing daily balances and reconciliation of financial data. It also performs full reporting functions for management information purposes. Audit however did not sight evidence to indicate that the software was being utilised. Instead, the cashbooks were maintained on Excel spreadsheets and updated at the end of the month recording only the expenditures based on cheque butt details. The revenues received were also not captured into the Cashbooks maintained on Excel.

Trust Accounts

Audit review and examination of the existence and validity of the Trust Account and their transactions and compliance with the *PFMA* revealed the following:

- According to the Commitment Ledgers maintained, a total of K186,215 was incurred out of the Trust Account, most of which were payments related to items 112, 114, 121, 125, 127, and 136 which are expenditures not allowed by the Trust Instrument;
- Payments totaling K38,313 were made without the approval for expenditure by the respective Section 32 Officer. According to the Instrument, the Chief Executive Officer is the Accountable Officer for this Account and therefore all expenditures out of the Trust Account must be approved by the CEO only; and
- Audit noted a K50,000 deposit from the Department of Health for Cholera Funds; commitment ledger maintained revealed no expenditures incurred, however, total funds available as at 31 December 2010 for the Trust Account per the bank statement was only K7,590 which indicates total misuse or misapplication of funds.

Assets and Stock Management

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

- The Lorengau General Hospital has an extensive portfolio of fixed assets which includes bio-medical and static equipment, residential units, motor vehicles, office equipment, and furniture and white goods. Audit was not provided Assets Register(s) for examination. Also, there was no evidence to indicate that the Hospital had conducted periodic stock-takes to verify and determine the existence, conditions and value of fixed assets under its custody and ownership; and
- A review of the expenditure records revealed the Hospital purchased assets and other attractive items worth K88,801 during the year. In the absence of the Fixed Assets Register or records of periodic stock-takes, Audit could not determine whether or not all fixed assets held and under

ownership of the Hospital had been recorded, effectively managed and appropriately safeguarded against theft, fire, accidental loss, vandalism and misuse.

Advances Management

Audit review, inquiry and examination of records and related documents pertaining to the management of advances revealed the following discrepancies:

- Controls over the payment and acquittal of advances were noted to be very poor as revealed by a large number of outstanding advances. Perusal of the Advances Register revealed that all cash and salary advances and travel allowances given out during the years from 2007 to 2011 totaling K606,700 as summarised below all remained un-acquitted as at the time of audit in September 2012:

	<u>K</u>
2007	111,004
2008	83,347
2009	106,930
2010	190,362
2011	<u>115,057</u>
	<u>606,700</u>

- A test check of advances paid in 2010 to the Advances Register revealed five instances totaling K18,553 that had not been recorded in the Register;
- Separate files were not maintained for acquittals made. Audit perusal of the payment vouchers for selected cash advances totaling K119,269 revealed in seven instances totaling K15,200, although acquitted were not updated in the Register and remained as outstanding or un-acquitted. Further payment vouchers totaling K63,335 were missing from the file, missing payment vouchers were mostly for payments made to Mr Boe Avue (CEO). There was no evidence of any acquittals sighted for travel and salary advances;
- Audit also noted that senior management were allowed advances and were travelling excessively during the year whilst their previous advances were still outstanding. There was no evidence to suggest that correspondence or reminders were sent to un-acquitted advance holders and follow-up recovery actions taken on the outstanding advances. Thus there is a total breakdown in the internal controls of the advance management policy and misuse of hospital monies. Consequently Audit could not confirm whether 'official' trips were actually taken to warrant payment of these travel advances;
- Audit noted payments totaling K33,833 were made to officers as salary advances during the year under review. Instances of officers receiving salary advances more than once were also noted. It appeared that the salary advances were never recouped from the respective advance holders through salary deduction; and
- Instances of un-acquitted cash, travel and salary advances paid to the CEO during 2010 amounted to a total of K98,811. A large number of cash advances paid to the CEO from 2007 to 2009 also remained un-acquitted to date. Audit could not ascertain why cash advances were continuously made without proper acquittal been done. Also, such action by the Chief Accountable Officer is an indication of negligence and poor management.

Procurement and Payment Process

Audit review of procurement and payment practices at Lorengau General Hospital identified the following issues:

- There was no segregation of duties between authorisation and payment procedures. Audit observed the CEO and DCS were both involved in the authorisation of Requisitions for Expenditure as Section 32 Officers and approval of claims for payment as financial delegates. The processes of claims examination and certification to determine the validity and legitimacy of expenditures prior to processing payment of claims were also lacking;
- Payments totaling K135,559 were not approved by the appropriate Section 32 Officer;
- In 14 instances, the Authorised Requisitioning Officer did not endorse nor sign for the Requisitions for Expenditure in relation to payments totaling K26,937;

- Payments totaling K120,328 were effected without the certification of the Financial Delegate for funds availability which has resulted in over expenditures incurred on six vote items;
- Payment for most goods and services during the year were processed and paid without obtaining the required three verbal/written quotations from relevant suppliers which is indicative of the Hospital's Management decisions being made without due care to economy (in light of the hospital's level of limited funding) and also for value for money;
- Payments totaling K99,376 were made in relation to security services rendered to the Hospital at a monthly rate of K8,928. However, the Contract of Agreement relating to the engagement of the security firm was not made available for audit to verify the monthly rate;
- Tenancy Agreements were not sighted to verify the correctness of the monthly rental stated in the invoice for rental payments totaling K28,400 made for five Hospital staff. The monthly rental should be paid in line with policies established by the Hospital to ensure that the rentals are paid according to how much each officer is entitled to in terms of their signed contract of employment and/or the position held by the individual officers. Without such documents Audit was unable to ensure that the officer's rentals were paid according to their entitlements and also the amount stated in the lease agreement.
- Accommodation payment to Akau Guest House for three (3) doctors totalling K104,940 paid at the rate of K150 per night per person for twelve (12) months is noted to be very excessive which is again indicative of the Hospital's Management decisions being made without due care to economy in light of the hospital's level of limited funding;
- Payment for airfares during the year amounted to K139,867 which in most instances were supported with booking references only and not copies of e-ticket to confirm actual payment for the tickets and also boarding passes for official duty travel airfares;
- Reimbursement claims totalling K72,841 mostly for reimbursement of airfares for referral patients lacked proper supporting documents such as referral letters duly certified by Medical Officers, copies of e-tickets and boarding passes;
- Claims for personal monies used were reimbursed without proper supporting documents. Such practices create an environment conducive to corruption, misuse and illegal use of public funds for unauthorised personal expenses at the cost of the Hospital. Hospital staff can also collude with outside parties. Strictly, use of personal monies to incur expenditure on behalf of the Hospital and to claim reimbursements should have prior authorisation from the CEO;
- The Hospital had paid K4,500 (Chq No 035570) to John Paliau for installation of windscreen for CEO's vehicle LAV 929. The payment was processed and paid with the authority of the CEO when the claim was not approved by a/DCS as the cost was supposed to be met by the CEO and not the Hospital. The expenditure is considered to be extravagant and wastage of public money;
- Payments for travel and subsistence incurred during the year were noted to be very excessive which have resulted in over expenditure under item 121 by K111,333. Most of the duty travel undertaken during the year was made by the CEO, a/DCS and HR Manager in which all travel related expenses were never acquitted properly for accountability. In certain instances payments for accommodation, vehicle hire and airfares were paid to the officers and not to the suppliers and still remain un-acquitted to date;
- A payment voucher made to Magdelene Kassman being for reimbursement of personal monies used for accommodation, travel allowance and vehicle hire (CEO and DCS) totaling K9,896 (cheque no 035560) was missing from the files and as such audit could not ascertain the validity of the claim presented for payment;
- The Chief Executive Officer pre-signs a number of blank cheque leafs during his absence from office when on duty travels, etc. Such practice exposes the Hospital to the risks of fraudulent activities, abuse and misappropriation of public funds. The Hospital Management is advised to appoint alternative signatories to sign cheques for both the Operating and Trust Bank Accounts to avoid practices of abuse, fraudulent activities and misappropriation of public funds.

Salaries and Wages

- Staff personal files were poorly maintained, in addition, Audit noted that contract agreements for contract officers were not properly signed and no evidence was provided to prove extension of contract agreements;

- Audit noted that a total of K53,137 was paid to the CEO being for unpaid contractual allowances, outstanding leave fares (K37,371) and salary advances (K15,766). Perusal of the pay runs report for pay no.2 (PPE 14.01.10 to 27.01.10) revealed the CEO was paid a total of K15,897.84 as a lump sum leave pay which also included his contractual allowances. However, without proper and updated personal files and records as well as missing payment vouchers, Audit could not ascertain the accuracy of the calculations and the validity of these payments;
- Audit also noted an advance annual payment of housing and utility allowance of K2,625 paid to Mr Gabriel Yahu on cheque no.035702 to be improper as these allowances are supposed to be paid fortnightly on Concept payroll and not to be paid in advance locally;
- All payment vouchers relating to casual wages payment during the year totaling K183,520 were missing from the files for some unknown reasons. The Accounts Clerk when queried by Audit could not locate those vouchers and also provide any valid reasons. As such audit could not ascertain whether casual employee's wages were accurately calculated and paid accordingly;
- Gratuity payments are required to be paid to contract officers when due. It was noted that gratuity payments for the period under review amounted to a total of K82,250 which included some outstanding payments for 2009. However, without proper and updated personal records and documentation, Audit could not verify the accuracy of the calculations and validity of the payments made. Consequently, the hospital funds can be misappropriated through fraud and double dipping;
- Payments totaling K99,009 were paid in relation to recreation leave fares entitlements. However, the claims were processed and paid without the appropriate supporting documents, such as the approved application for recreation leave or invoices from travel agencies, to verify and confirm the accuracy and legitimacy of the dependent children and total leave fares claimed;
- Audit further noted that the CEO was paid a total of K16,642 being for outstanding leave fares on cheque no 035944 for K10,000, cheque no 035979 for K4,141 and on cheque no 925376 for K2,500. All these claims appears dubious, however, due to all payment vouchers missing from the file, it was not possible to verify the validity and accuracy of these payments. Also, the CEO was due for leave in 2010 but advance payments were made for his leave in 2009 for airfares at a total cost of K7,643, (chequeno. 035319);
- Staff identified below were paid their full airfares directly to them and not to Air Niugini or Travel Agents which violates the provisions stipulated in the General Orders:

<u>Name of staff</u>	<u>Amount</u>
	K
Leo Karis	12,830
Dr Moses Maire	17,703
Ella Michael	5,657
Rachael Ramus	5,136
	<u>41,326</u>

Corporate Governance

- Under Section 19 of the *Public Hospital Act 1994* the Hospital Board is required to convene four consecutive board meetings in a year with at least five members for a quorum. There was no active Board during the year under audit review. New Board members were appointed in 2011 financial year however the Board is now active;
- The Lorengau General Hospital had developed a five year Corporate Plan 2011-2015 that was in draft form and subject to review and final outcome; and
- There were no internal audit reports provided for the year under review. Audit noted that the Hospital does not have an Internal Audit Unit despite an internal auditor position been created in their structure.

5.10.3 Lorengau Urban Local-level Government

The audit of the Lorengau ULLG's financial statements have been completed with a Qualified Audit Opinion issued. The paragraphs below detail issues identified with the audit of the financial statements and with the control environment:

Financial Statements

The financial statements of the Lorengau ULLG for the year ended 31 December 2010 are misleading and unreliable due to the following reasons:

- The financial statements did not contain the District Administrators' statement on the administrative and financial performance for the year then ended; and
- There were errors of presentation of the statements. Namely amounts in Statements "A" to "D" were incorrectly presented in amounts of 'thousands' instead of the original amounts; The financial years reflected in the statement headings on pages 1 to 3 of Statement "A" were also incorrectly shown as 31 December 2009 and 31 December 2010 respectively.

Cash Balances

The accuracy of the cash at bank balance of K21,607 and consequently on the financial position of Lorengau ULLG as at 31 December 2010 could not be confirmed as correct due to the following reasons:

- The cash and bank balance could not be confirmed due to errors and misstatement of the Revenue Fund and Trust Fund Accounts balances. The closing Trust Fund balance of K21,607 shown in Note 4 to the Statement was not in agreement with the corresponding closing balance of K21,427 as revealed by the Trial Balance; and
- The Revenue Fund balance of K180 could not be confirmed as correct due to errors and material misstatement of the operating surplus as disclosed under the paragraph on Receipts and Payments for the year-ended 31 December 2010.

Receipts and Payments

The Lorengau ULLG reported its total revenue and expenditure as K340,718 and K340,537 respectively with an operating surplus of K180. I was unable to confirm the accuracy of the revenue and expenditure and therefore, the correctness of the operating surplus as at 31 December 2010 due to the following reasons:

- The total revenue included 2008 to 2009 unspent funds of K8,800 which should have been excluded from the actual receipts for the year and disclosed in the Notes to that effect as these are not actual receipts for the current year; and
- There were material receipts reconciling items outstanding for long period of time not adjusted in the cashbook and posted to the appropriate revenue ledgers.

Assets

- The Lorengau ULLG disclosed its assets as at 31 December 2010 as K27,271. I was however, unable to confirm the completeness and accuracy of the figure including purchases and disposals, if any, during the year due to lack of any updated and complete Assets Register; and
- Further, the ULLG owned portions of land and buildings comprising of an office, 12 houses/units, a workshop and motor vehicles. The cost of these fixed assets had not been ascertained and recorded in the Assets Register.

Significant Control Weaknesses

There were significant control weaknesses identified in the Lorengau ULLG's records and procurement processes as follows:

- No segregation of duties exercised in receipting, recording and banking of cash receipts;
- Revenue collections not banked intact promptly; and no proper official receipts not used in the collection of revenues;
- Payments totaling K38,775 were made in account of travelling allowances, accommodation, vehicle hire, incidentals and other related allowances during the year under review. Audit noted however, that only K29,837 was captured in the Advances Register of which K19,417 was properly acquitted while the balance of K10,420 plus the prior years' advances totaling K12,562 dating back to 2001 remained un-acquitted at year-end. The balance of the advances paid during

the year totaling K8,938 however, had not been recorded in the PGAS Advances Register and remained unaccounted for nor acquitted at year-end;

- Three employees of Lorengau ULLG were paid wages totaling K3,773 in advance. There was no evidence to indicate the employees concerned had repaid the wages paid to them in advance;
- The Lorengau ULLG had appropriated funds totaling K120,000 for payment of wages to its employees for the period under review. Audit noted that payments for salaries/wages were transferred from vote item 112 to vote item 135(Other Operational Expenses) without any justification;
- Payment of grants and financial assistances to various sporting clubs, community and church groups, and individuals totaling K16,000 lacked evidence of accountability reports by the recipients. There was also no proper mechanism in place or guidelines to monitor and ensure that the recipients had utilised the grant funds for the intended purposes; and

5.10.4 Manus Fishing Corporation Ltd

The Corporation was established by the *Manus Fishing Corporation Act 2003* with the objective and functions as stipulated under the relevant sections of the Act. 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 October 2013 financial statements have not 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 October 2013 the company has not submitted any recent financial statements 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 landowner groups. Copies of relevant documentation including the company's Act and share certificate were not available for my review. Previous as well as the current year audit of the accounts and records have been conducted by a private accounting firm under private arrangement. Consequently, I was unable to comment on the operation and financial position of the company for the year-ended 31 December 2010 as I was not a party to the audit of the accounts and records of the company for the year then ended. At the time of preparing this report in October 2013 the company had not submitted any recent financial statements for audit.

5.10.7 Lorengau 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. Previous as well as the current year audit of the accounts and records have been conducted by a private accounting firm under private arrangement. Consequently, I was unable to comment on the operation and financial position of the company for the year-ended 31 December 2010 as I was not a party to the audit of the accounts and records of the company for the year then ended. At the time of preparing this report in October 2013 the company had not submitted any recent financial statements for audit.

5.11 Milne Bay Province

Entity	Year for which Last Financial Statements Submitted	Financial Statements Audited	Audit Opinion	Other Details
Milne Bay Provincial Government	2010	2010	Disclaimer Audit Opinion	Significant control weaknesses identified.
Alotau Hospital Board	2010	2010	Disclaimer Audit Opinion	Improvements in internal controls noted.
Alotau Urban	2010	2010	Disclaimer Audit Opinion	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		No		1995 – 2010 financial statements outstanding.
Miba Microfinance		No		1995 – 2010 financial statements outstanding.

5.11.1 Milne Bay Provincial Government

For the last six years I have issued a Disclaimer Audit Opinion due to problems associated with the accuracy of the financial statements, scope limitation arising from the destruction of records by fire (as reported in my 2009 report) and significant control weaknesses.

The Milne Bay Provincial Government submitted its financial statements for the year-ended 31 December 2010 in July 2013. The audit of the financial statements again was unsatisfactory with a Disclaimer Audit Opinion issued. The report contained number of issues relating to the financial statements and the control environment weaknesses which are summarised in the paragraphs below:

Financial Statements

- Financial Instruction 5/2000 states a prescribed format of the financial statements for Provincial Governments and Local level Governments. The format requires the reports by the Provincial Governor and the Provincial Administrator on budget and financial performance for the year under review as part of the financial statements. The preparation and presentation of the financial statements of the Milne Bay Provincial Government however, did not comply with this prescribed format. Further, 2009 comparative figures were not shown in Statement “B”.

- The total Provincial Fund Balance of K27,109,993 represented by bank and financial investments shown in Statement “A” had disclosure errors detailed as follows:
 - The Accumulated opening Fund Balance of K19,431,357 used in Note 3 computations contains inherited errors brought forward from previous years;
 - A balancing amount of K1,269,002 used in Note 3 computations and titled “prior year errors” could not be traced to its source and or not adequately supported;
 - An investment security deposit of K300,000 held as collateral to guarantee bank loans that got reported in prior years statements was not disclosed in Statement “A”;
 - The bank balances of K23,391,376 (Westpac) and K3,718,617 (BSP) reported in the statement were the un-reconciled Cash Book balances at year-end. These disclosures were incorrect; the appropriate disclosure would have been the year-end reconciled bank balance that should reflect the Milne Bay Provincial Government actual cash position.

As a result, I was unable to verify the accuracy, completeness and existence of the fund balance with its representation of cash at bank balance;

- Disclosure errors noted in Statements “G” and “I” and Appendices 2, 4 and 6 noted as follows:
 - The Milne Bay Provincial Government loan of K2,186,289 loaned to Milne Bay Properties Limited in prior years that remained outstanding at year-end was not reported in Statement “G”;
 - The potential liability gained and accumulated from a Memorandum of Understanding signed between Milne Bay Provincial Government, National Development Bank and Oil Palm Industry Corporation was not established and disclosed in Statement “I”. The Statement presented only showed K300,000 that was held as collateral in an IBD Investment account for the loans given to village oil palm growers;
 - Interest income totaling K802,793 earned from loan to Milne Bay Properties Limited were not established and disclosed in Appendix 2;
 - The Provincial Government owned assets worth millions of Kina including assets acquired at a total cost of K6,709,454 and K1,234,193 respectively during 2010 and 2009 were not disclosed in Appendix 4; and
 - Appendix 6 showed un-acquitted advances totaling K521,051 as at 31 December 2010. My verification of disclosed balances against the Advances Registers revealed the following matters:
 - The Advances Register and related documents for advances totaling K227,785 relating to years prior to 2008 were not sighted to verify and confirm the outstanding un-acquitted advances; and
 - The schedule of outstanding advances reported in the Appendix included acquitted advances resulting in both the Travelling and Cash Advances totaling K116,907 and K176,360 respectively disclosed being overstated. Also the Registers revealed outstanding Travel Advance of K27,732 and Cash Advance of K17,079. It appears both these Registers were probably updated after compiling the financial statements.

Consequently, I was unable to verify and authenticate the existence, completeness and accuracy of the respective balances.

Budgetary Control

The Milne Bay Provincial Government’s 2010 *Appropriation Act* titled Appropriation Law 2010 authorising the estimates of revenue and expenditure totaling K95,525,000 for the year-ended 31 December 2010 was passed by the Milne Bay Provincial Assembly on 4 December 2009. I have reviewed the budget and noted the following matters:

- A Ministerial Approval of the above budget was not made available for my verification; as such I could not ascertain the legality of the budget;

- The expenditure budget was under spent by K20,319,444 and comparatively the revenue budget was under collected by K11,760,264. However, Milne Bay Provincial Government employed prudent cash management practices resulting in actual revenues exceeding actual expenditures by K8,559,180; and
- No budget reviews, revisions or performance evaluations were undertaken during the year to ensure the annual budget achieved its objectives.

I have highlighted to management that Ministerial Approval to spend the budget must be obtained and that the performance of the budget should be progressively monitored through quarterly budget reviews and revisions to ensure organisational goals and objectives were achieved.

Cash Book and Bank Balance

My review of the cashbooks, monthly bank reconciliations and bank statements relating to both operating bank accounts revealed that there had been a significant amount of bank reconciling items which needed to be identified, adjusted in both cashbooks to show accurate cash balances at the year-end.

Revenue Collections

My review of the revenue collections revealed that there was no segregation of duties in performing incompatible functions of revenue collection, banking, compiling receiver statements and data entry into the PGAS Revenue Ledgers. Further, the functions performed were not checked and attested by a senior officer and delays in banking of daily collections were noted for up to five working days;

In addition, I had noted during physical cash verification that cash reimbursements submitted from outlying Cash Offices had been held in the Treasury Cash Office over long periods without examining and verifying the cash reimbursement required and/or the surplus cash collected at the outstation cash offices to be banked. Such practices may cause unnecessary delay or interrupt normal business activities of Districts and also cash held over long periods are exposed to theft and fraud;

Therefore, I recommended to management that incompatible duties at the Provincial Treasury Office must be segregated and tasks performed by junior officers must be checked and attested by senior officers and cash be banked daily. Further, outstation cash reimbursement vouchers and collections brought in must be promptly attended to.

Payment of Accounts and Procurement Management

My examination of expenditure ledgers, paid vouchers and other related records and documents revealed the following matters:

- The specimen signatures for the Certifying and Examining officers were not provided to Audit for verification. As such I was unable to verify whether payments that have been examined, verified and paid were actually certified and examined by duly appointed certifying and examining officers. In the absence of specimen signatures I was unable to confirm the legality of payments certified, examined and paid;
- Of the samples selected for my audit inspection the payment vouchers for payments totaling K1,037,097 were missing from the files provide. As such I was unable to verify and confirm the validity and appropriateness of these expenditures;
- I noted that Milne Bay Provincial Government had engaged the services of a private law firm (Liosi Lawyers) thus incurring expenditures totaling K124,800 without formal approval from the Office of State Solicitors. As such the legal services engaged were outside the legislative requirements.

Therefore, I have recommended to management to compile and securely file the approved instruments containing specimen signatures of Section 32 Officers which include the Examining and Certifying Officers. And all supporting vouchers for expenditures incurred must be filled intact. I further highlighted to management that the engagement of legal services must be approved by the State Solicitors as required by law.

Grants and Subsidies

I have noted that no proper monitoring guidelines or mechanisms were formerly established to monitor, control and obtain accountability and disbursement reports from recipients of grants and subsidies provided during the year totaling K8,069,698. As such in the absence of accountability reports I could not ascertain whether grants and subsidies disbursed during the year were used for the intended purposes and procurement procedures per legislative requirement have been complied with when actually incurring expenditures.

I therefore strongly recommended to management that all recipients of grants and subsidies must furnish accountability reports back to the Provincial Treasury office to confirm that funds received were used for the intended purposes. Further, at the corporate management level proper guidelines must be set to control and monitor payment of grants, subsidies and financial assistances and to obtain accountability reports at year-end or on completion of funded projects.

Asset Management

My review of asset purchase, record, maintenance and disposals during the year under review has reveal that Fixed Assets Registers were being maintained by the various divisions within the Provincial Government to record assets allocated and in custody of each division. However, the Registers maintained were not comprehensively updated with all assets purchased during the year. In 2010 financial year assets worth K6,709,454 were purchased and allocated to various divisions of the Provincial Administration but the concerned divisional Asset Registers were not updated to show acquisition of these assets. Further, I noted that no physical verification of assets or periodical stock-takes were conducted for assets owned by the Provincial Government during the year under review. Consequently Audit could not ascertain whether the assets purchased, including those acquired in former years, were in the custody of allocated divisions and are actually in existence.

I highlighted to management that inadequate management of assets with an updated centrally controlled Asset Register, the Provincial Government may lose control of its assets. Assets may get stolen or change of ownership goes undetected. Further, relevant information would not be available for decisions relating to disposal and budget appropriations for replacements.

I recommended management ensure that a centrally controlled Master Assets Register be established and maintained to incorporate all divisional Registers and updated with details of every fixed asset purchased during each year. Both master and divisional Registers are comprehensively maintained side by side. Further, physical asset verification or periodical stock-takes must be conducted once a year to verify existence of all assets purchased and owned by the Provincial Government.

Salaries and Allowances

I noted from the examination of the payments of salaries and allowances for both the Provincial Administration and the Provincial Assembly Members the following matters;

- My perusal of the fourth quarter Staff Establishment Register had revealed that there were a good number of unattached officers still working within the provincial government administration. This may have resulted in double salary drawn on one funded position; consequently the salary budget may have been over spent;
- Assembly Members' meeting allowances were noted be paid to members of the Provincial Assembly, however I was not provided with the Provincial Assembly and Provincial Executive Council Meeting Minutes and Attendance Registers. In the absence of such documents and records I could not reliably verify the validity of these payments; and
- Pay variations noted during payroll inspections were not supported with valid pay variations advices and other necessary documents. In the absence of supporting documentation, Provincial Government Payrolls were exposed to fraud and manipulation.

I recommended the Provincial Administration ensure that all unattached officers were either retrenched or redeployed to other vacant positions within the Administration. Further any pay variations must be supported by necessary documentation. I also recommended the Provincial Assembly Clerk ensure that all business activities conducted at the Provincial Assembly and Provincial Executive Council be properly documented, filed, safely kept.

Trust Accounts

My review of the trust ledgers revealed that the Milne Bay Provincial Government operated 36 Trust Accounts in total without bank accounts. The respective Trust Ledgers were operated through the PGAS and cash controlled in the Provincial Government Operating Bank Account and its related system cashbook. 13 of these Trust Accounts did not show any opening, closing and transactions during the year while the other ten with the same opening and closing balances remained dormant during the year. Further, only one Trust Account had its Trust Instrument while all others were operated without Trust Instruments. Trust Instruments were confirmed destroyed when the Provincial Treasury Building burnt down in 2008. In the absence of Trust Instruments, I was unable to confirm if the Trust Accounts had served their purpose and the nature of transactions conducted in each Trust account was in accordance with the provisions of each Instrument. I have indicated to management that existence of dormant Trust Accounts in the system may facilitate fraudulent activities and recommended management review and identify Trust Accounts that had served their purpose and to close them.

Provincial Executive Council and Assembly Meeting Minutes

I was not provided with the Minutes of the Provincial Executive Council and Assembly Meetings held during the period under review despite three written requests and four physical attempts made to obtain the minutes. The Cabinet Secretary was not in his office during the entire period of the audit. In the absence of meeting minutes I was unable to verify and confirm the legality of any resolutions with significant financial implications that were passed and implemented or to be implemented in future. Further, I could not ascertain the authorisations by competent authority relating accounting treatments sighted in financial statements.

I strongly recommended management ensure that all Assembly and Provincial Executive Council Meeting Minutes and their Decisions be filed properly and kept securely for transparency and good governance and that Audit requests must be promptly attended to.

Internal Audit Reports

My review and inspection of the Internal Audit Unit revealed the following:

- The Internal Audit Unit was under staffed with an Acting Internal Auditor and one acting Assistant Auditor although the DPM approved structure provided for three auditors. To effectively audit all state institutions and entities annually, staff strength of five officers was required. I suggested that the Provincial Administration in their next restructure should allocate two more positions to the Internal Audit Unit;
- The logistic support provided to the Internal Audit Unit was insufficient. They require a photo copy machine, filing cabinets, tables and chairs, scanners, binding machines, a motor vehicle, and many other office consumables to effectively carry out their statutory duties;
- The current budget provision was insufficient for them to completely audit all state entities;
- I highlighted to management that to boost the competency levels of staff, management must develop good training policies and train the staff regularly; and
- The Internal Audit Unit had a good annual audit plan for 2010 which were not fully implemented in light of the problems noted above. Further, given the situation, provincial administration control systems were not effectively tested and monitored using the Internal Audit Unit. The Unit can be an important management tool that can be effectively used to do system checks, identify weaknesses and improve controls.

I highlighted to management that Internal Audit was the first line of detection of fraud, misappropriation and mismanagement in the Provincial Government and should have been fully supported in its operations with sufficient budget funding, adequately staffing and logistics to effectively carry out its duties. Further, valid recommendations of the Internal Audit Unit reports must be acted upon.

5.11.2 Alotau Hospital Board

The Alotau General Hospital submitted its financial statements for the year-ended 31 December 2010 in April 2011. The audit was completed with the Management Letter issued in August 2011 followed by an Opinion in October 2011. The report contained a number of issues relating to the financial statements and the control environment weaknesses which are summarised in the paragraphs below. The hospital however, has been gradually improving in its financial management practices.

Qualifications

Financial Instruction 2/2004 issued under Section 117 of the *PFMA* state the prescribed format for the preparation and presentation of the financial statements for Non-Trading Public Bodies. The 2010 financial statements of Ala-Tau General Hospital were presented in the prescribed format.

The financial statement presented showed consolidated revenue of K11,859,873 against expenditure of K11,442,460 with a surplus of K417,413. The balances disclosed are however, not reliable in light of the following observations:

- The reported consolidated revenue and expenditure amounts did not tie up with the supporting schedules and ledgers balances of K8,740,597 and K8,426,874 respectively;
- The consolidated accounts total receipts of K11,859,873 is misleading as it did not include “other receipts” from the Operating Account, Fund Raising Trust Account and Children Ward Account totalling K72,533. This has materially affected the accuracy of the total receipts and therefore, the consolidated surplus balance of K417,413 and the Fund Balance of K519,366 at 31 December 2010;
- The consolidated accounts expenditures on salaries, wages and employ benefits of K8,533,019 is inaccurate as it also includes salaries and allowances of K3,183,896 from 2009 pay roll received and posted in the 2010 Operating Account. This has materially affected the accuracy of the total payments of K11,442,460 and therefore, the consolidated surplus balance of K417,413 and the Fund Balance of K519,366 at 31 December 2010;
- The Operating Account total expenditure of K10,323,757 reported in the financial statements did not agree to the supporting schedules and ledger balance of K7,776,811. This has materially affected the accuracy of net surplus balance of K972,963. Further, the adjusting balance of K256,953 used in computing the year-end fund balance of K347,015 could not be confirmed to its source;
- The Fees Trust Account total expenditure of K649,853 reported in the financial statements agreed to the supporting schedules but not the expenditure ledgers total of K662,532. This has materially affected the accuracy of net deficit balance of K22,080. Further, the adjusting deficit balance of K146,427 used in computing the year-end fund balance of K156,421 could not be confirmed to its source. Management has since acknowledged the discrepancies noted above, as arising from records as per the accounting system used and the manual ledgers, and has advised of its endeavor to resolve the differences;
- The total cost of assets disclosed in the financial statements as per the schedule of assets as K2,347,429 is unreliable and incomplete as it only represented the carry forward balances from previous years and did not include the net result of the additions and disposals during the current year;
- The Debtors balance of K96,045 disclosed in the financial statements is misleading as it did not tie up with debtors ledgers accumulated balance of K64,766;
- The outstanding Travel and Cash Advances totaling K57,718 and K66,090 respectively reported in the financial statements are misleading as they did not tie up with ledgers balances totaling K104,268 and K133,084 respectively. The Hospital has since advised that the outstanding and un-acquitted advances dating back to over three to four years will be written off; and
- The Hospital has reported its Stores Inventory as K15,588. The accuracy and completeness of the balance disclosed could not be reliably confirmed in the absence of Inventory Registers and year-end stock-take sheets.

Significant Control Weaknesses

- In five instances payments totaling K39,335 were not supported with required written quotations, supplier invoices and delivery or consignment notes;
- The outstanding creditors balance totaling K637,747 as at 31 December 2010 was confirmed in audit. However, the creditor's ledgers was not adjusted with bills totaling K9,008 that were settled;
- Instances of salary variations not supported with relevant documentation such as adjustment of salary history cards, performance appraisals, temporary and permanent variation forms etc. Further, the employment contracts were not sighted on file for number of contract officers, and that Superannuation contributions totaling K9,936 for an officer were not remitted to Nambawan Supa Ltd. Management has since noted the discrepancies highlighted and has advised that the HR Division has started the process of collecting staff bio-data to update personal files. The Management has also advised that all outstanding contributions to Nambawan Supa Ltd have been settled;
- Lack of effective and proper bank account reconciliations resulted in the year-end closing cashbook balances of the Hospital's main bank accounts, namely the Operating Account and the Fees Trust Account remaining un-reconciled. Further, bank reconciliation statements, if any, for other accounts were not done nor provided for my review. Management has since advised that the Hospital has taken on the PGAS and hope to correct the discrepancies highlighted; and
- My review of the creditor's ledgers revealed that the Alotau General Hospital had owed former Board Members sitting allowances and stipends totalling K633,867 at year-end.

5.11.2 Alotau Urban Local-level Government

The audit of the Alotau ULLG financial statements was satisfactory with a Qualified Audit Opinion issued in July 2013. The report contained a number of issues relating to the financial statements and the control environment weaknesses which are summarised in the paragraphs below:

Financial Statements

- The Financial Statements presented were in the format prescribed by the Department of Finance Financial Instruction dated 7 July 2000. However, the Town Mayor's Reports on the financial operations of Alotau ULLG for year under review had not been included in the financial statements presented. Further, I noted that comparative figures for receipts had not been presented in both Statements "B" and "J";
- Disclosure errors noted in Statements "A", "D" and "F" and Appendices 1 to 6 noted as follows:
 - I was unable to confirm the correctness of the opening balance of the accumulated funds in Statement "A" due to errors expressed in the previous audit report. As a result of these non-adjustments, I was unable to verify the completeness and accuracy of the balance as at 31 December 2010. Further, due to poor performance of bank reconciliations at year end, the actual cash representation balance reported was an un-reconciled closing cashbook balance and as a result I was unable to express an opinion on the accuracy of the cash at bank balance;
 - Statement "F" showed nil Investments. However, investments in shares with Oil Search Ltd at a cost price of K31,968 reported in the 2009 Statement "F" was omitted in the 2010 Statement without any explanation. There was an authorisation from Alotau LLG in a 2009 General Council Meeting resolution to dispose these shares however, I have confirmed that the shares had not been disposed and as such non-disclosure was an error; and
 - Basic accounting records and documents such as registers had not been adequately maintained resulting in substantial financial data being either omitted or misstated in Appendices 1 to 6.

Consequently, I was unable to verify and authenticate the existence, completeness and accuracy of the respective balances.

Revenue

My review of the control mechanism over billing, receipting and banking of revenue revealed the following weaknesses:

- Although a client data base (including billing and reconciliations) had been maintained in the system, the computer system used did not have the option to generate individual data for each client. As such I was unable to test the billing and monitoring system. Also, only one officer possessed the technical skills and knowledge to operate the computer system used in billing and monitoring debt collections. The following were observed:
 - Management lacked total control over the very important function of billing and monitoring the system as senior officers had no knowledge of the computer system that was used by the junior officer for billing and monitoring debt collection. As such there was high potential for data manipulation risks;
 - No other officer is trained as an alternate in times of emergency, recreation or maternity leave. The system may collapse if the officer quits employment and departs suddenly;
 - The data backup was done on an external drive on a monthly basis and was kept by the system operator. I highlighted to management that data backups should be performed by another senior Officer and storage done off-site; and
 - The Officer In Charge of the computer system had not taken her recreation leave since she started employment with Alotau ULLG. I indicated to management that this practice was unethical and as such the officer should have been allowed to take leave.

I recommended management impose some controls over the function of customer billing procedures and that daily collections be checked and attested by a senior officer and then banked.

Salaries, Wages and Personnel

My review of the records and accounts relating to the payment of salaries, wages and personnel matters revealed the following weaknesses:

- The Establishment Register indicated 33 staff on strength comprised 25 casuals and 8 public servants. The public servant positions were DPM approved and funded positions on the Milne Bay Provincial Administration Staff structure. Casuals were either permanent employees or were engaged as and when needed. In the absence of DPM approved salary and wages applicable in 2010 I was unable to ascertain whether the correct rates had been applied in paying the casuals; and
- No salary reviews, staff appraisals and performance based rewards had been done for some time to motivate staff performance.

I recommended management recruit qualified staff with better conditions and permanently retain them for consistency and quality service delivery. I also recommended management obtain the DPM approved salary and wage rates and ensures correct salary and wages were paid. I further recommended management push for more permanent positions on the Milne Bay Provincial Administration Structure to reduce its casual wages bill.

Procurement Procedures and Payment of Accounts

My review of payment vouchers, expenditure transaction ledgers and related controls revealed the following deficiencies:

- Fuel consumption expenditures totaling K29,744 could not be verified due to records such as fuel consumption rate and costs ledgers not being maintained;
- A total of K12,270 paid to different officers for vehicle hires and accommodation while on official duty trips were not adequately acquitted; and
- Instances of payments totaling K8,900 to different payees have not been certified by the certifying officer on the FF4.

I recommended management ensure that all supporting documentation for payments are in order and adequately certified by a certifying officer before a cheque was processed and paid and such documentation be securely maintained. I also recommended all advances are acquitted.

Assets Management

My review of asset management and controls revealed that an Assets Register, including stock cards, had not been adequately updated despite my previous recommendations. As a result some assets purchased during the year could not be traced to the Register.

A payment of K9,451 for purchase of two new laptops was noted from the expenditure ledger. I noted that the amount paid as excessive compared to reasonable or cheaper current market prices. I therefore, recommended management ensure the Assets Register and stock-cards be properly maintained to record all assets owned and in the custody of the Alotau ULLG.

Advance Management

I noted that neither an Advances Register nor an acquittals file was maintained to record cash and travel advances paid during the year under review. Further I sighted no evidence to indicate that cash and travel advances had been monitored or the non-acquittals followed up. In the absence of these controls I could not ascertain whether all advances paid during the year were acquitted.

I highlighted to management that the Advances Register should be properly maintained and updated at all times to record all advances paid and an acquittal file be maintained for confirmation of acquittal of advances paid.

Cash Book and Bank Account

I have reviewed the cashbook, monthly bank reconciliation statements and bank statements of the Operating Account noted the following deficiencies:

- The bank reconciliations performed failed to reconcile the bank balances to the cashbook balances. As a result, the year-end closing cashbook balance of K170,146 was not properly reconciled with year-end closing bank balance of K354,867;
- The cashbook was noted to be appropriately maintained however, entries were not recorded in a timely manner;
- All bank reconciliation statements were neither signed by the person preparing the statement nor certified by a senior officer; and
- Reconciling items outstanding for a long period were not cleared to reflect a realistic cashbook balance.

Due to inadequate maintenance of the cashbook and poor performance of bank reconciliation procedures, the cash position of Alotau ULLG could not be established. I have highlighted to management that poor accounting practices may facilitate theft, fraud and other irregular activities.

I recommended to management that source accounting records be properly maintained to assist in the preparation of the cashbook and bank reconciliations, and also that bank reconciliations be correctly performed to reflect the cash position at any given time.

Minutes of Council Meetings

The Alotau ULLG failed to conduct four general meetings during the year under review as required by law. Three meetings held, however certified minutes of two meetings held were not made available for my review and as such in the absence of certified minutes I could not verify resolutions with significant financial values, if any, were passed and implemented.

I therefore recommended to management that all Assembly and Council Executive Committee meeting minutes were to be filed properly in a safe place. They should be signed off by the Chairman and the Assembly Clerk as a valid representation of true copies of meetings held.

Corporate Governance

My review of the Alotau ULLG five-year Corporate Plan for the period 2008 -2012 noted that the plan established long-term objectives and sets out its priorities and targets which take into account the requirements of its stakeholders and the needs of the communities it serves. However, in the absence of other associated plans and documental evidence of implementing the Corporate Plan, I could not ascertain whether the corporate plan was implemented and achieved its planned goals.

I recommended the Alotau ULLG ensure key developmental areas identified in the Corporate Plan be incorporated into the associated annual plans and annually funded through the budgets. Quarterly budget reviews and analysis should form part of plan implementation and management.

Internal Audit

There were no regular internal audit checks conducted by the Internal Audit Unit of the Provincial Government into the routine operations of Alotau ULLG during the year under review.

5.12 Morobe Province

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Morobe Provincial Government	2010	2010	November 2013 Disclaimer	Significant control weaknesses identified.
Angau Hospital Board	2009	2009	No 2010 F/S for Opinion	Significant control weaknesses identified.
Lae Urban	2010	2010	F/S not in the required format	Significant control weaknesses identified.
Ahi	2008	No		
Aseki	2004	No		
BurumKuat	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		
Leron/Wantoat	2007	No		
Morobe	2007	No		
Mumeng	2007	No		
Nabak	2004	No		
NamimaKariba	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		
Wampar	2007	No		
Wapi	2008	No		
Waria	2007	No		
Wasu	2009	No		

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
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 (Wawin) Ltd	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.
MorobeDevlpn. Eng. Serv Ltd	1999			No recent financial statements; entity status.
Umboi Timber Invest.Ltd				1999 – 2009; no recent financial statements.

5.12.1 Morobe Provincial Government

Financial Statements

The audit of the 2010 Financial Statements was completed and the Management Letter was issued but no response was received from the Provincial Administration. A Disclaimer Opinion was issued in November 2013. The control weaknesses identified in 2010 are detailed in the paragraphs below.

Budget Control

- It was noted that funds budgeted under votes 282 totalling K571,887 were not fully utilised for the purpose it was appropriated; and

- Instead these unspent monies were paid into the Morobe Provincial Government (MPG) Operating Account for receipting under Internal Revenue in 2011. However these funds should remain in the Grant Account to be spent in 2011 as budgeted in 2010 as per Financial Instruction 1B/2010.

Revenue

- Significant shortfall of revenue collections aggregating to K15,458,309 was noted in various revenue heads;
- Motor Traffic Registry lacks a proper computerised information system to record revenue collected from issuing of drivers and motor vehicle licenses. Instead all files are maintained manually which creates an environment conducive for data manipulation coupled with theft of cash collected;
- MPG had sold three of its properties at different locations within Lae City together with other assets of motor vehicles, etc., which had a total value of K3 million. Proceeds from the sale were supposed to be done through Manase and Company Lawyers to the MPG, however such formalities did not eventuate while Audit was unable to confirm how the proceeds were accounted for;
- No subsidiary records of goods and services taxes remitted by business houses in the Province was maintained to cross check the correction of the share of collections remitted by IRC;
- Incomplete records of liquor outlets in the Province, due dates of fees, and the amount of fees due were maintained. This could result in non-receipt of actual revenue receivable from the owners of the outlets;
- Records of properties owned by MPG, names of tenants, details of rental receivables and received were not available. Loss of revenue receivable could not be ruled out; and
- Banking delays of daily revenue collections by the Motor Traffic Registry were being noted from as minimum of 1 day to more than 6 days. The collection, receipting and banking of revenue from this source was unsatisfactory. At the time of the cash count as 3 March 2010 two weeks collections amounting to K246,452 remained unbanked.

Cash and Bank

- Under banking of K93,258 shown under schedule 4 of the Operating Account which appeared in the 2010 December bank reconciliation still remained unresolved while it was restated in Schedule 6 of the 2011 December bank reconciliation; and
- Interest revenue of K10,400 credited to the Provincial Government Grant account had not been updated to the cashbook which resulted in under stating the cashbook.

Grants and Subsidies

Substantial amounts totalling K2,070,490 were paid to the following during the year, for which no accountability statements were received:

- Business arms;
- District Treasuries;
- Individuals;
- Organisations and groups; and
- Churches.

In the absence of accountability statements it was not possible to check whether the monies given out were used for the intended purposes.

Procurement and Payment of Accounts

- Numerous payments were noted to have been effected, based on quotations received. However, no evidence was sighted to confirm that actual invoices for goods and services obtained were tendered;

- A sum of K200,000 paid to a certain fuel distributor for fuel by the Governor's office lacked a proper fuel usage record, while such fuel records if available, were not made available;
- A sum of K1,638,872 was paid to Silua Officer Supplies and Morobe Printing and Supplies Ltd for supply of basic curriculum materials for various Elementary, Community and Primary Schools in the Province. However, proper procedures were not sighted to ensure that materials for the specified values were received by the Schools concerned; and
- Cash Advances totalling K149,722 paid to certain officers of the Morobe Provincial Administration still remain unacquainted.

Capital Works and Maintenance

- A total of K7, 173,860 was paid to District Treasuries for various projects. Accountability statements for these funds were not provided to ensure that funds were used for intended purposes;
- A sum of K72,900 paid to a NPB plant for hire of its excavator to carry out work at the Morobe Technical School is yet to be effected;
- A total of K2,252,742 was paid to certain contractors for various works, related to the old Lae Airport Development, however I was unable to confirm how work had been supervised and contracts awarded. Further, I could not confirm if such works were properly being monitored from commencement to completion as necessary records of its status had not been sighted;
- Two contractors were paid K553,772 to provide engineering consultancy services for the development of old airport portion 362. No work reports were provided to ascertain whether work had been carried out. These payments and a further K725,175 paid to other contractors to develop the same land did not follow proper tender procedures; and
- A total of K771, 600 was paid to three contractors in for the Javani Land Development, however actual work was yet to be commenced as at the time of the audit.

Assets Management

- Although, improvements have been made in updating the Assets Registers in a database program maintained by the Provincial Finance Office, the database is not regularly being updated with purchases or disposal of assets since 2009 until 2010;
- Assets purchased out of vote item 221 and 222 amounted to K916,526 during the year were not included in the Assets Register being maintained. Consequently disposal of more than eight assets, including motor vehicles and boats, had not been updated on the Assets Register;
- Land and Buildings including Houses are not recorded in the Assets Register maintained; and
- Periodic (annual) stocktake of the Provincial Government assets were not conducted during the year 2009 as well as 2010. As such Audit was unable to ascertain the existence, ownership and value of assets as at 31 December 2010.

Advances Management

- Examination of the Advances Register maintained during the year and also other related records pertaining to advances management reveals that the Provincial Government has not shown any indication to comply with the advances management procedures stipulated under Part 20 of the Financial Instructions contained in the Financial Management Manual. The Provincial Government has not taken any actions to rectify the control weaknesses highlighted in our previous reports and as such the same control weaknesses continues to exist;
- According to the List of Outstanding Advances that was made available to Audit, cash and travel advances totalling K612,118 paid remained outstanding as at the time of audit in 2011 for the years 2007 to 2010;
- The status of outstanding advances prior to the 2007 financial year could not be established as a result of inadequate controls in existence over payment and acquittal of advances; and
- New advances were given to officers while their previous advances still remain outstanding.

Internal Audit

This division must be adequately resourced in terms of staff and funds to effectively carry out audits of the large amounts of money expended by the Provincial Government.

Corporate Governance

A Corporate Plan (2008-2012) was approved in November 2008 and addressed six important Key Result areas (KRA's). These are:

1. Management Co-ordination and Direction
2. Mobilise Support of Key Stake Holders
3. Budget and Financial Management
4. Human Resources Management
5. Physical Assets Management
6. Technical Systems Management

The Corporate Plan can only be successful and realised if the above Key Result Areas (KRA's) are successfully managed. One important KRA not being managed is Physical Assets Management.

5.12.1 Angau Hospital Board

Financial Statements

The financial statements for the year-ending 31 December 2010 was not prepared and compiled for presentation during the time of audit in January 2013, breaching Section 63(2) of the *PFMA*. The control weaknesses in 2010 are detailed in the paragraphs below:

Budgetary Control

- The approved 2010 budget estimates for the Hospital Board was not provided for Audit review. Further, the expenditure and revenue ledger records were incomplete due to incomplete posting to the ledgers in a timely manner; and
- As a result, no further audit checks were done to ensure funds appropriated were properly accounted for and expended.

Cash Books, Bank Accounts and Bank Reconciliations

- Unreconciled Operating Accounts' cashbook balance for 2009, brought forward to 2010 had also affected the 2010 accounts which render the monthly bank reconciliations inaccurate;
- Except for the Operating and the Fees Trust Accounts, no proper cashbooks were maintained for the IBD and the Project Accounts;
- The monthly bank reconciliation statements for all the bank accounts were not checked and certified as correct by a Senior Person other than the one preparing it. Interviews with concerned officers revealed that internal disharmony between officers had prevented access to accounting records and proper checks of the bank reconciliation statements and other important accounting functions not being carried out as required;
- Segregation of duties was not adhered to in data recording and preparing of the bank reconciliation statements. Monthly bank reconciliations were prepared by the same officer who checks and verifies the cash collections and the collector statements and also does the banking and the posting of the transactions to the cashbooks. This function is noted to be unsatisfactory as it should be performed by a person who does not perform duties of checking and handling cash, issuing receipts or entering of data in the ledgers; and
- I did not sight any approval from the Department Head for the investment of the K1.3 million in IBD in 2009 and which was redeemed in 2010.

Payments of Accounts

- My recommendations in the 2008 and 2009 Audit Management Letters were not implemented and as such, instances of non-compliance and control weaknesses highlighted in these previous reports continues to exist;

- Three quotations were not obtained to determine the most economical price of goods and services as required by Finance Management Manual in certain instances. Although, most expenditure were below the 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;
- Instances were also noted where payments were effected without proper supporting documents such as valid invoices and goods received notes being attached to validate the genuineness of payments;
- In almost all samples of payments selected, there was no indication of the quotes and the invoices being checked and certified by an authorised person before requisitions are raised; and
- In most of the selected payment vouchers, the FF4 was not signed by the Examining and Certifying officers to indicate that the claims were correct and can be paid.

Assets Management

- The Hospital did not maintain complete and comprehensive Assets Register during the year. A listing of assets totalling K2,725,825 was produced but it did not include assets purchased in years prior to 2010. The weakness of not maintaining proper Assets Register was highlighted in previous Audit Management Reports however, the Hospital Management did not appear to take heed of audit recommendations offered to them; and
- Further records show that a total of K1,374,746 worth of assets were purchased during the prior years 2007 to 2009 as detailed below, however these records were seen to be incomplete and were unreliable since values of land and buildings together with other bio-medical equipment were not taken on board. Also most fixed assets were recorded without their values:

	<u>K</u>
2007	158,530
2008	923,079
2009	<u>293,137</u>
	<u>1,374,746</u>

Advance Management

- Advances Registers together with acquittal records of cash and travel advances paid to various officers on duty travel were not maintained;
- An updated list of outstanding advances as at 2010 was not sighted. Further, total salary and wage advances amounting to K64,000 that were paid to employees between 2007 and 2009 still remained unacquitted, while the Hospital had failed to maintain individual advance ledgers for each advance holders to keep track of movements in their accounts; and
- Salary and wages advances totalling K7,078 remained outstanding from officers who left the hospital in 2009. No actions had been taken to recoup these outstanding advances.

Personal Emoluments

- Payroll reconciliation has never been done over the years until 2010. Neither the payroll data cleansing was conducted, while proper management of payroll was at risk of irregularities and even fraud without reconciliation; and
- An officer who occupies a senior position in the accounts section had claimed a gratuity payment of K7,260 said to be for acting in the position for more than a year since 2008 was not supported with an employment contract.

Corporate Governance and Internal Audit

- Although a Corporate Plan was in place, there were no written manual of procedures and policies in place to guide the core activities such as payment of accounts, preparation and payment of casual wages, assets and inventory management, stores and supplies and pharmaceutical services; and

- The Hospital did not have an internal audit unit.

5.12.3 Lae Urban Local-level Government

Financial statements

A draft set of accounts were furnished which was not certified and not in the required format. As such, no proper financial statements were submitted for my review for certification. Audit of control issues were conducted and the paragraphs below identified the issues:

General Accounting and Reporting

- The Encore software used as an operational system that could not be fully utilised and the ULLG was not producing financial reports in agreement with the required Government Accounting System and to meet the needs of management in terms of providing timely financial management information. As such, the core of the accounting transactions were substantially missing as all posting of accounts payable and receivable were not entered into the system or entered after prolonged delay which can lead to accidental or intentional omissions thereby under-stating the total revenue and expenditure; and
- The acting Manager Finance was performing incompatible functions such as signing cheques, entering of data into the computer, and bank reconciliation which increases the potential for non-detection of mistakes but also could lead to delays in postings and bank reconciliations as is the case presently.

Revenue and Cash Management

- There is no system in place to ensure regular reviews of the collectability of accounts receivable. Therefore management cannot make sure that there is consistency in practices and that they are promptly applied in the absence of exception reports being produced, nor statistics produced from records separate from those used for accounting records or a report showing the efficiency of collectability of accounts receivable;
- The procedures for follow-up for other revenue sources are not effective as can be seen in revenue shortfalls recorded. The capacity and the ability to collect revenue already invoiced are poor;
- There is no evidence to show that management is being provided with management information to monitor balances owed by clients/customers, control over the revenue and receipt function, ability to respond to management directions;
- The year-end revenue shortfalls greatly impact on the ability of the ULLG to provide the required services to the city resident on regular basis;
- Total income was stated as K10,549,327 in the Financial Statement. This figure could not be confirmed for its accuracy due to the following:
 - Summary of Receipts Classified under Heads of Revenue Estimates was not produced;
 - Revenue Ledgers were not produced for audit verification making it difficult to ensure all Collector Statements were checked and certified as correct by a Senior Officer and if these Collector Statements were posted to the correct revenue head; and
 - Necessary registers, such as Business Licences and Other Fees Registers, were not adequately maintained by the Lae ULLG.
- There were no records of names of officers who were duly appointed as Collector of Public Monies. Hence, Audit was not able to ensure that monies from all sources were collected by authorised Collectors only. Further, records were not reliable making it difficult for me to ensure the completeness of the Cash Receipts Journals provided;
- The delay in the number of days in bringing cash takings particularly from Health Centres located in remote areas and the market in the city during weekends and week days, and the subsequent delay in banking of these receipts could not be determined due to non-availability of the Collectors Statements, Official Duplicate Receipts and the Bank Deposit Slips;

- There was no evidences to prove that a Senior Accounting Officer had checked and certified the Cash Summaries as correct before banking;
- The possibility of manipulation of records was evident given the seriousness of the poor record maintenance system. The embezzlement and theft of public money was conducive to these conditions where there is breakdown in the systems and controls over revenue generating activities and the maintenance of proper records; and
- There was a substantial amount of uncollected receipts that still remained outstanding with no recovery action instituted. The outstanding debt as at 31 December 2010 was K15,112,814 which is made up of;

<u>Details:</u>	<u>K</u>
1. Land tax :	12,642,039
2. Head Tax	185, 240
3. Garbage/Rates	<u>997,275</u>
Total	<u>15,112,814</u>

Budgetary Control

- The annual Financial Statements were not being prepared and presented in a format according to the Expenditure Votes and Revenue Heads as they appear in the 2010 Budget Estimates. As such it was discovered that actual expenditure and revenue could not be analysed to determine if they were over/under commitments on expenditure votes and likewise to the revenue heads; and
- Further, it was not possible for audit to ensure that expenditures were incurred out of the correct votes as per the Budget in the absence of the expenditure transaction detail ledgers.

Cash Book, Bank Account and Bank Reconciliation

- The cashbooks for all bank accounts held by the Lae ULLG were not provided for my review. The Trial Balance and the Bank Reconciliation Statements showed conflicting cash balances which I could not verify in the absence of the cashbooks;
- The cash balances reported in prior years contained serious errors and misstatements which are brought forward to 2010 and affects the current year balances; and
- Reconciling items such as dishonoured cheques, reversing entries, deposits not in bank statement and other adjustments with substantial amounts continue to appear in all monthly bank reconciliation statements for the Operating Account and the Grant Account. Further, these items were not reconciled and cleared to arrive at a correct reconciled balance.

Payment of Accounts and Procurement Management

- Instances were noted where payments were made to companies for hiring trucks for rubbish removal and provision of security services. However, proper contract documents were not in place and the basis of selection of these companies was not known;
- Accountability statements including reports on acquittals from the recipients of grants such as schools, etc. in respect to payments made to them were not made available. As such I was unable to verify whether the funds were actually utilised for the intended purposes;
- No proper fuel records were maintained by the ULLG to reconcile with fuel accounts kept by the PNG Namibian Trophy Ltd which refills the ULLG fleet. As a result Audit could not determine if only the ULLG fleet had been refilling to avoid excessive costs; and
- There is high risk of misuse and abuse of public money at the Lae ULLG as it has become evident that there is total control break down in the systems and procedures where legislations and acts such as the PFMA, the Public Service General Orders and Financial Instructions have not been complied with.

Assets Management

- A complete and updated Assets Register was not maintained by the ULLG during the previous financial year, nor was any periodic (annual) stock-take of the ULLG assets and inventories undertaken. This is noted to be in breach of Part 32, Division 1 of the Finance Management Manual which requires all Departments, Provincial and Local-level Governments to maintain proper Assets Registers;
- We were unable to ascertain the status of additions, disposals, existence, valuation, condition and custody of all assets owned by the ULLG as at 2010; and
- The risk of not maintaining a complete and up-to-date Assets Register for all classes of assets and conducting periodic (annual) stock-take is that there would be abuse and/or loss of the ULLG assets through theft and unauthorised use of assets by dishonest employees or interested parties.

Advances

The Lae ULLG has not been maintaining any Advances Registers to record the payment and acquittal of all advances given to officers during the year and also previous years.

Trust Accounts

- Three Trusts with bank accounts were maintained during the previous years, namely the Lae City Road Maintenance Project Account, Car Park Account, and the Lae Sieng Trust Account. However the formal Trust Instruments which should set out the purposes and provisions relating to the financial operations of these trust accounts were not made available for my examination;
- The practice of establishing and operating trust accounts without formal Trust Instruments duly approved by the Minister for Finance and Treasury violates the provision of financial procedures relating to management of Trust Funds;
- Further, due to non-maintenance and availability of proper cashbooks, bank statements and Bank Reconciliation Statements for the Lae City Road Maintenance Project Account and Car Park Accounts, I was unable to confirm if these two account are in operation; and
- The LaeSieng Account had a closing balance of K191,489. This balance could not be verified as correct as the Cash Book and Bank Statements were not provided.

Council meeting minutes

A total of four full council meeting minutes were provided to Audit, however all minutes remained unsigned at the time of audit which renders the minutes and resolutions invalid.

Internal Audit

There was no Internal Audit Unit in existence nor there were regular internal audit checks being carried out by the Internal Audit Unit of the Provincial Government into the routine operations of the ULLG during the year under review.

5.13 New Ireland Province

Entity	Year for which Last Financial Statements Submitted	Financial Statements Audited	Audit Opinion	Other Details
New Ireland Provincial Government	2011	2010	Disclaimer Audit Opinion issued	Significant control issues identified.
Kavieng Hospital Board	2010	2010	Disclaimer Audit Opinion issued	Significant control issues identified.
Kavieng Urban	2011	2010		Field audit completed, Management Letter issued with significant issues identified.
Konoagil	2006	No		
Lavongai	2008	No		
Murat	2008	No		
Namatanai	2006	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 – 2010 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 – 2010 financial statements not submitted.
Malagan Lodge	2004			1998 – 2004 audit fees awaited; 2005 – 2010 financial statements not submitted.
New Ireland Shipping Ltd	2002			Company ceased operation.
Nimamar Investment Ltd	2004			2002 signed financial statements awaited; 2003 – 2004 audit fees awaited; 2005 – 2010 financial statements awaited.

5.13 1 New Ireland Provincial Government

The New Ireland Provincial Government submitted its financial statements for the year ended 31 December 2010. The audit of the Provincial Government for the year ended 31 December 2010 was unsatisfactory with a Disclaimer Audit Opinion issued. The paragraphs below give a summary of issues identified with the financial statements and the control environment:

Financial Statements

The financial statements of the New Ireland Provincial Government were misleading and unreliable due to errors in the presentation of the statements. Namely, amounts in Statements “C” and “D” as well as the closing balances reflected in the respective Notes 3 to 17 to Statement “A” were incorrectly presented in amounts of ‘thousands’ instead of the original amounts.

Cash Balances

- The New Ireland Provincial Government cash and bank balance of K13,243,129 as at 31 December 2010 included an old Operating Account balance of K765,007 which was not supported by evidence of any actual cash held in the bank account as it was dormant, and unspent grants of K25,131. The unspent grants amount could not be confirmed as correct as it relates to transactions of Payroll No.10 debited to Trust Holding Account and does not represent the closing cash balance at year-end;
- The balance of the Provincial Revenue Fund of K16,134,902 could not be confirmed as correct due to errors noted in relation to the inclusion of the prior year operating deficit of K750,667. The deficit was taken up again in 2010 as a prior year adjustment to arrive at the closing balance of K16,134,902. I observed also that there were errors and material misstatements of the operating surplus as discussed under the paragraphs on Receipts and Payments for the year ended 31 December 2010; and
- There were material reconciling items identified in the bank reconciliation statements of the Provincial Government Operating Account and Grant Account. These related to receipts and expenditure that were not adjusted in the cashbooks and respective revenue and expenditure ledgers and disclosed in Statements “J” and “K” which also affected the bank and cashbook balances at year-end.

Receipts and Payments

The New Ireland Provincial Government reported its total revenue and expenditure as K57,073,396 and K46,758,542 respectively with an operating surplus of K10,314,854 (Statement “B”). I was unable to confirm the accuracy of the revenue and expenditure and therefore the correctness of the operating surplus as at 31 December 2010 due to the following reasons:

- The total revenue of K57,073,396 included former years appropriation receipts totalling K1,520,807 which should have been excluded from the actual receipts for the year and disclosed in the Notes to that effect as these are not actual receipts for the current year;
- I noted that the Public Servants and Teachers’ Salaries actual receipts and expenditures were not obtained from the Department of Finance and recorded in the respective revenue and expenditure ledgers and also had not been disclosed in the financial statements as these were provided for in the *Annual Appropriation Act*; and
- Long outstanding material reconciling items pertaining to receipts and expenditure were not adjusted in the cashbook and posted to the appropriate revenue and expenditure ledgers.

Investments

The Provincial Government had not disclosed any information or balances relating to long-term investments in the financial statements. However, as stated in my previous year audit report and Note 8 to Statement “A”, the New Ireland Provincial Government held two shares at the cost of K2 in its business arm; New Ireland Development Corporation as well as 3,000 shares at the cost of K3,000 in Lottery Management Services which is understood to be defunct. In the absence of adequate confirmation including the Investment Register and related share certificates, I was unable to confirm the accuracy, existence, ownership and value of investments owned by the Provincial Government as at 31 December 2010.

Assets Management

The Provincial Government did not disclose any fixed assets details in Appendix 4 to the financial statements as at 31 December 2010. However, Note 15 to Statement “A” showed the assets value of K9,805,600 which was the same balance reported to have been brought forward since 2004.

As stated in my previous year audit report, no proper Assets Register was maintained to capture complete and accurate information on all fixed assets purchased, owned and in the custody of the Provincial Government during the year. For instance, fixed assets worth K1,226,689 purchased during the year under review were not recorded or periodic stocktakes done to verify the existence of the assets. Consequently, I was unable to confirm the completeness, accuracy and existence of the fixed assets owned and under the custody of the New Ireland Provincial Government.

Significant Control Weaknesses

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

- In 14 instances the Provincial Government incurred expenditure of tenderable values totalling K5,686,735 that were not approved by the Provincial Supply and Tenders Board;
- In 44 instances payments totalling K4,329,394 were not certified to determine the legitimacy of the expenditures incurred prior to processing payment of the claims;
- In 15 instances supporting vouchers for payments totalling K3,396,520 were not available or missing from files and as such, Audit could not ascertain the validity as well as proper authorisation of the claims presented for payment;
- The Provincial Government had paid total of K834,680 to Ela Motors for the purchase of seven Hino Trucks for various schools in Namatanai District from mining royalty funds. I observed the Provincial Authority to Pre-Commit Committee had sanctioned the commitment of funds for the expenditure. However, the actual expenditure incurred was not approved by the Provincial Supply and Tenders Board. Also, I was not provided with the meeting minutes of the Namatanai Joint District Planning and Budget Priorities Committee to satisfy myself that the expenditure was approved by the Committee;
- Payments totalling K392,411 were made in relation to teachers' recreation leave fare entitlements. However, the claims were not substantiated with approved applications for recreation leave to confirm the accuracy and legitimacy of the dependants children and total leave fares claimed;
- The Planning Consultant engaged by the Provincial Government was paid a total of K79,910 in reimbursement of personal money used on or for official purposes. The cost of return economy fares (USA/PNG) for dependent children totalling K46,029 and cost of meals for K1,462 were included as part of reimbursement of personal money spent. I observed the cost of return economy fare for dependent children are provided under the terms and conditions of the Consultancy Services Agreement. However, the reimbursement of airfares was paid based on one of the three quotations provided in determining the economical route to travel and that the payment was not supported by relevant documentation such as the itinerary receipts nor ticket stubs/boarding passes as evidence of having paid for the airfares from personal money and that the travel was actually undertaken by the dependent children. Further, the total reimbursement of K79,910 was in excess of the annual Maximum All-Up costs limit of K63,000;
- The Provincial Government had paid a total K715,066 on construction of classrooms, renovation and maintenance work to offices and staff residences. I was not provided evidence for me to indicate the work undertaken were issued with Certificates of Completion to indicate satisfactory execution and completion of the funded works according to specifications and scope of works;
- I observed a serious lack of proper monitoring and recovery exercises on travelling allowances and cash advances resulting in amounts totalling K1,763,945 dating back to 2005 being un-acquitted as at 31 December 2010. Further, the PGAS Register was not updated with cash advances granted during the year amounting to K82,052;
- The Managers of four LLGs were recipients of K20,000 each intended for the 35th independence anniversary celebrations. There was no evidence to indicate the LLGs had accounted for the receipt of these funds nor had acquitted the receipts and expenditure of this financial assistance by way of furnishing accountability reports to the Provincial Government;
- Payment of grants and subsidies and financial assistances to non-profit organisations, public authorities, schools and individuals totalling K3,763,120 lacked evidence of accountability and disbursement reports by the recipients nor were there records to indicate that the Provincial Government had sought these reports;

- The Provincial Government had paid total of K8,298,538 on free and subsidised education during the year. Although there was evidence of acquittals by few elementary, primary, community and high schools, I observed that the majority of schools and other recognised and selected tertiary institutions had not furnished acquittals to the School Subsidy Office to show the receipt and expenditure of the School Subsidy funds. Also, there was lack of proper monitoring conducted by the School Subsidy Office to ensure that all recipients of free and subsidised education furnished acquittals to show the receipt and expenditure of school subsidy funds;
- The Internal Audit Unit continued to lack adequate manpower, funding and necessary logistical support for the effective and efficient performance of its functions and responsibilities; and
- Several documents corroborating the financial statements, such as the registers of investment, fixed assets, inventory, debtors and receivables and losses and deficiencies, were not available. Consequently the audit could not ascertain the existence, completeness and accuracy of these items in the financial statements.

5.13.2 Kavieng General Hospital

Kavieng General Hospital had submitted its 2010 financial statements. The audit of the Hospital for the year ended 31 December 2010 was unsatisfactory with a Disclaimer Audit Opinion issued. The issues identified with the financial statements and the control environments are summarised in paragraphs below:

Financial Statements

The financial statements of Kavieng General Hospital had the following discrepancies:

- The Statement of Receipts and Payments was not prepared and presented in the prescribed detail and format;
- The Management Declaration pertaining to fair presentation and acknowledgement of approval of the respective financial statements were not signed nor endorsed by the Chairman of Kavieng Hospital Board, Acting Chief Executive Officer and Director Corporate Services respectively;
- There was limitation of scope arising from material misstatements of cash balances due to errors and omissions of receipts and payments in the Operating and Trust Accounts cashbooks, thus resulting in reconciling differences with the bank balances. For instance, the Statement of Receipts and Payments for Kavieng Hospital Operating Account showed total actual expenditure of K3,727,732 which was not in agreement with the corresponding total actual expenditure of K3,209,761 as revealed by the Summary Cashbook at year-end. Consequently, the accuracy and completeness of the excess receipts over payments for the Operating Account of K40,786 and Hospital Fees Trust Account of K74,492 disclosed in the financial statements could not be ascertained;
- As stated in the previous year audit report, Kavieng General Hospital did not maintain an Assets Register or records of periodic stocktakes of assets conducted during the year, if any. The Hospital purchased assets worth K241,504 that could not be verified due to non-maintenance of a Fixed Assets Register. Furthermore, a Hospital vehicle identified with registration number plate ZGY 110 was in the possession of the former acting Chief Executive Officer and had not been disposed through tender procedures;
- The Statements of Receipts and Payments for the Hospital Operating Account and Hospital Fees Trust Account showed actual revenues received for the year ended 31 December 2010 as K4,020,936. However, in the absence of proper revenue ledgers, the accuracy of actual revenue received could not be confirmed as correct; and
- The Hospital reported remittances of funds by the Department of Health into Kavieng Hospital Operating Account as K3,658,500. The supporting Cash Fund Certificates for the months of February to October 2010 were not available to confirm the accuracy of grant funds received for the year.

Significant Control Weaknesses

- There were prolonged and inordinate delays in banking of revenue received from hospital fees for up to a maximum of six days. The evenings' takings from 3.00 pm to 11pm were locked away in a cabinet drawer rather than a safe box under lock and keys for safe custody;
- There was no segregation of duties between receipting, banking and recording of cash receipts. There was also a lack of independent cash counts conducted by a competent authority (e.g. accountant) to ensure that all revenues collected are brought to account, recorded and banked intact on a daily basis;
- No rental income was received from a property leased to outside interests and used as a trade store. The Lease/Tenancy Agreement as well as the Hospitals Board approval relating to the property, if any, were not made available for my review;
- Kavieng General Hospital did not maintain effective budgetary control in its expenditure, including unpaid commitments, thereby exceeding its budgetary allocations in excess of K69,232; Funds totalling K203,703 from the Hospital Operating Account were paid into the Hospital Fees Trust Account without prior approval from the appropriate authorities;
- The Hospital had not prepared its annual estimates of revenue and expenditure for Hospital Fees Trust Account for the year under review as required under Section 3(c) of the Hospital Fees Trust Instrument, neither was a copy made available for my review;
- The Hospital's Fees Trust Account funds totaling K228,851 were used for operational expenses including wages, overtime, travel and subsistence, and other operational materials and supplies in breach of Section 2(c)(i) to (iv) of the Hospital Fees Trust Instrument;
- A purchase of a motor vehicle at a cost of K87,525 through a bank loan and a loan repayment of K52,000 was drawn against the Hospital Operating Account. I was not provided with relevant documentation to show evidence of approval granted by Kavieng Hospital Board to engage in such a loan facility. A Loans Register was also not maintained to record transactions in relation to repayments and interest charges incurred relating to the loan;
- Kavieng General Hospital operates two Interest Bearing Deposit (IBD) Accounts with Westpac Bank (PNG) Limited. I was not provided relevant supporting documents including statement of accounts, IBD Certificates nor independent bank confirmation of balances relating to principles amounts and accrued interest in order to verify the existence and ownership of these accounts;
- The Hospital did not maintain a cashbook or expenditure ledger nor prepared monthly bank reconciliations for a Vehicle Savings Account. In the absence of proper records and independent confirmation of the balance by the bank, I was unable to verify the balance of funds held in the account at year-end. Further, I was not provided relevant documentation to show Hospital Board approval for the creation of this account;
- Payments to various Suppliers totaling over K195,000 lacked evidence of proper documentation such as valid invoices, delivery dockets and goods received notes nor receipts to confirm the accuracy and completeness of the claims processed for payment;
- Engagement of private contractors on maintenance works at a cost of K167,414 lacked evidence of relevant supporting documentation such as the required quotations, request for maintenance forms, formal contract agreements, scope of works/job specifications and Certificates of Completion;
- Payments totaling K945,689 made out in the name of Pay-Mistresses lacked evidence of proper disbursement reports or acquittals;
- Serious internal control weaknesses were observed over expenditure on overtime, cash advances, salary advances, higher duties allowances and gratuity entitlements resulting in gross abuse of Hospital funds. The issues identified are as follows:
 - The Director, Corporate Services and staff from the Branch had claimed payments of overtime totaling K198,530 which was in excess of the approved budget appropriation of K30,000. The approval to work overtime was granted by the Director, Corporate Services rather than the Chief Executive Officer of the Hospital;
 - The Director, Corporate Services and staff of the Branch were paid a total of K98,982 in higher duties allowances, tax free and backdated to 2007. The Hospital reasoned that the new

hospital structure was approved in 2007 and there was no appropriate action taken to effect the changes applicable to the new salary structures. The payment of backdated salary adjustments were not approved by the appropriate authorities. Further, the payments were not coordinated through proper payroll processes with the Department of Health;

- The Director, Corporate Services was paid in duplicate K5,348 and K4,861 tax free in higher duties allowances for the periods 11 April 2009 to 31 December, 2009, 12 November, 2009 to 30 June 2010 and 01 January 2010 to 31 December 2010 respectively;
- A payment of K18,193 was made to Air Niugini being for the Hospital Administration Officer's leave fares entitlements. The officer was instructed to repay K7,000 from the total leave fares back to the Hospital due to errors in calculation of entitlements. The officer repaid the required K7,000 however, claimed and was reimbursed the entire amount thereafter. The payment voucher was missing from file and as such, Audit could not determine the circumstances surrounding the validity of the transactions;
- The Hospital totally lacked proper monitoring and recovery of cash and salary advances resulting in amounts totaling K166,044 remaining un-acquitted as at 31 December 2010;
- Gratuity payments to a number of Medical Officers and other staff on contract during year amounted to K81,671. Contracts of Employment and other relevant records however, were not made available to verify the accuracy and validity of these payments.
- Kavieng General Hospital did not have corporate governance mechanisms in place. This included no Corporate Plan that establishes long-term objectives and set priorities and targets that take into account the requirements of the stakeholders; or the associated plans to support the Corporate Plan; or an Internal Audit Unit to oversee the activities and accountability of the Hospital Board.

5.13.3 Kavieng ULLG

The Kavieng ULLG had submitted its financial statements for the year ended 31 December 2010 in June 2012. At the time of preparing this report in November 2013 the field audit had been completed and the Management Letter issued with significant issues identified as summarised in the paragraphs below:

Financial Statements

- Statement "A" is required to show the ULLG account balances represented by the year-end cash balances. The Statement showed the account balance as K1,776(overdrawn) as represented by the closing Operating Account balance of K1,776 (overdrawn) as at 31 December 2010:
 - However, although the closing cash balance was in agreement with the Trial Balance, the bank reconciliation statement for December 2010 showed a reconciled closing cash balance of K7,970 (overdrawn) at year-end thereby, resulting in a difference of K6,194;
 - In addition, audit noted that the accumulated opening balances of K85,230 and K42,187 (overdrawn) shown in respect of the LLG Revenue Fund and Trust Fund in Notes 3 and 4 to the Statement were not in agreement with the accumulated opening balances of K28,562 (overdrawn) and K13,625 (overdrawn) as revealed by the Revenue Fund and Kavieng ULLG Trust Fund ledgers respectively; and
 - There were reconciling items identified in the Operating Account bank reconciliation statements that have not been adjusted in the cashbook and respective revenue and expenditure ledgers and disclosed in Statements "J" and "K" which also affected the bank and cash balances at year-end.
- Statement "B" is required to show the summary of revenue actually received and expenditure actually paid as reflected in Statements "J" and "K" respectively. The Statement showed total revenue of K582,715 and expenditure of K617,761 with an operating deficit of K35,046 as at 31 December 2010. However, there were errors and omissions noted in our audit examination of Statements "J" and "K" which affected this Statement;
- Statement "C" is required to summarise the transactions of all the Trust Accounts operated by the ULLG. The Statement showed the Kavieng ULLG operated a non-bank trust account and Revenue Fund account code 399-99 with closing balances of K23,397 (overdrawn) and K28,562 (overdrawn) respectively;

- Audit was not provided an explanation for the inclusion of a revenue fund account as a trust fund and therefore, its disclosure as such; and
- The closing overdrawn balances were in agreement with the Trust Ledger balances at year-end however, were incorrectly disclosed in Notes 3 and 4 to Statement "A" as K85,230 and K42,187 (overdrawn) respectively.
- Statement "D" is required to show the sources and application of funds by Kavieng ULLG and the net movement of cash at year-end. The Statement showed a net decrease of K44,818 in the movement of cash as at 31 December 2010. However, the net decrease in the movement of cash could not be confirmed as correct as it was not in agreement with the net decrease of K41,268 resulting from the difference noted between the accumulated opening cash balance of K43,043 and closing cash balance of K1,776 (overdrawn) at year-end as per Note 6 to the financial statements and also, in view of other audit observations made in respect of Statements "J" and "K" respectively.
- Statement "J" is required to show revenue actually received by the LLG during the year. The Statement showed actual revenue received as K582,715 represented by internal revenue of K426,115 and National Government Grants of K156,600:
 - However, the total revenue included the 2009 brought forward Unspent Recurrent Receipts of K2,126 which should have been excluded from the actual receipts for the year and disclosed in the Notes to that effect as these receipts are not actual receipts for the current year; and
 - The bank reconciliation statement of Kavieng ULLG Operating Account showed reconciling items relating to receipts that should have been adjusted in the cashbook and respective revenue ledgers and incorporated in this Statement.
- Statement "K" is required to show expenditure actually paid during the year. The Statement showed actual expenditure by Kavieng ULLG as K617,763. However, although the actual expenditure was in agreement with the Trial Balance, the bank reconciliation statement for the Operating Account showed reconciling items relating to expenditure that should have been adjusted in the cashbook and respective expenditure ledgers and incorporated in this Statement.
- Appendix 2 did not disclose any information in relation to debtors or receivables as at 31 December 2010. The non-disclosure of debtors and receivables is misleading and unreliable in view of the trading licenses and garbage/sanitation charges owed to the Kavieng ULLG totaling K62,672 which were not taken up in the Appendix;
- Appendix 4 showed the summary of fixed assets disclosed at historical cost as K326,480 as owned and in the custody of the Kavieng ULLG as at 31 December 2010. The cost of assets disclosed may be unreliable as it only represented a brought forward balance from 2007 and did not include costs of additions and disposals during the years 2008 to 2010;
- Appendix 6 did not show any information nor balances in relation to un-acquitted advances as at 31 December 2010:
 - The nil balance disclosed is inaccurate and unreliable in view of the PGAS Advances Register record of eight instances of payments of travelling allowances and cash advances to officers totaling K32,805 dating back to 2006 was not acquitted as at 31 December 2010;
 - As stated in our previous year audit report, the un-acquitted advances of K32,805 included the payment of a cash advance of K26,560 to the Administrative Officer of New Ireland Provincial Police Headquarter dating back to 2009. Audit sighted no evidence to indicate that the management of Kavieng ULLB or Kavieng District Treasury Office had notified the officer concerned or had taken appropriate recovery action with the Department of Police accordingly; and
 - A review of the expenditure ledgers revealed three payments of travelling allowances and cash advances to officers during the year totaling K3,718 that had not been recorded/captured in the PGAS Advances Register.

Budgetary Control

- I noted an increase of K10,135 from the original budget appropriation of K2,311,831 to K2,321,966. In the absence of revised budget documentation, I could not determine whether the Kavieng ULLG Assembly or the Kavieng Joint District Planning and Budget Priorities Committee had approved the increased appropriation; and
- A sum of K10,000 was paid from Trust Fund 420-466 to an organisation namely; Kavieng Logistics to administer and facilitate the Mayor's Cup annual touch tournament in December 2010. Audit sighted no evidence to indicate that the expenditure was sanctioned by the Kavieng ULLG Assembly and that there was no provision for such expenditure provided for in the annual appropriation. The expenditure had also resulted in the cashbook being overdrawn by K1,776 at year-end.

Corporate Governance

- The meeting minutes (if any) for Kavieng ULLG Assembly for the year under review were not made available for Audit review. In the absence of minutes, Audit could not determine whether all members of the ULLG Assembly had met and sat on all the Assembly meetings scheduled for the year. Consequently, Audit could not ascertain whether important decisions and policy directives passed and issued by the Assembly had been implemented by management of Kavieng ULLG; and
- The Kavieng ULLG did not have a Corporate Plan in place with its long-term objectives, priorities and targets taking into account the requirements of its stakeholders and the needs of the community it serves.

Cash Book and Bank Reconciliations

The bank reconciliation statement compiled in respect of the Kavieng ULLG Operating Account for the month of December 2010 showed material amounts of reconciling items which were not adjusted in the cashbook and respective ledger accounts thus, resulting in an unadjusted reconciled cashbook balance of K7,970 (overdrawn) as at 31 December 2010. Audit noted however, the reconciled cashbook balance of K7,970 (overdrawn) did not correspond with the closing Trail Balance and cashbook balance of K1,775 (overdrawn) at year-end resulting in a difference of K6,195. The independent confirmation from the Bank showed the closing bank balance as at 31 December 2010 as K50,169. The major unadjusted reconciling items appearing in the bank reconciliation statement for December 2010 included the following:

- Under-banking of revenue collections dating back to 2005 totaled K7,705. Also, there were no official receipts issued to account for over-banking of K83 shown in schedule 10 of the bank reconciliation statement;
- Cheques on bank statement not in cashbook dating back to 2004 totaled K26,101. Several of these cheques were identified as manual cheques as well as others of which unidentified cheques that were incorrectly debited to Kavieng ULLG Operating Account;
- Other Items debited or credited to Kavieng ULLG Operating Account shown in Schedules 6 and 11 of the bank reconciliation statement dating back to 2005 totaled K3,986 and K10,044 respectively;
- The Kavieng District Treasury Office did not take appropriate action to identify and record in the cashbook outstanding deposits dating back to 2008 totaling K26,367 thereby resulting in revenue being materially misstated at year-end; and
- The un-presented cheques as per the Cheque Reconciliation Listing (CRL) totaled K66,222 as at 31 December 2010 dated as far back as 2007. There were ninety-three (93) un-presented cheques totaling K27,356 that had gone stale as they were drawn prior to 2010.

Revenue

- The Kavieng ULLG recorded significant shortfall in revenues totaling K1,767,414 in respect of nineteen (19) internal revenue sources and K158,000 in Local Level Government Administration

and Town and Urban Services Grants. The shortfall in revenues represents 83% of the annual revenue estimates of K2,311,831;

- The audit review of revenue collections per Collector Statements indicated prolonged and inordinate delays in banking. The revenue collections for Kavieng ULLG were not banked intact on a daily basis. Audit also noted that photocopies rather than duplicate copies of official receipts were used as supporting documentation to the Collectors Statement for record purposes;
- Un-banked cash were used to pay for minor operational expenses as well as cash advances to Ward Chairmen and Staff of the Urban LLG upon request. The delay in banking had also resulted in an alleged fraudulent activity involving repayment of loans given to staff from revenue collections. For instance, an employee, who had since been terminated, had altered documents resulting in the diversion of K6,065 in staff loan repayment monies credited by the Bank into his personal bank account instead of Kavieng ULLG Operating Account. The matter had been referred to Police for investigation and the outcome of such investigations undertaken (if any) are not known to date;
- A cash count at time of the audit in April 2013 revealed revenue collections totaling K18,868 consisting of cash and cheques were retained without being banked. The actual cash on hand of K18,868 was also noted to be less than the total amount of official receipts issued totaling K19,561 resulting in a deficiency of K693. Several documents tendered to audit revealed that K274 of the revenue collections were used to pay for various operational expenses while loans or advances to staff between March and April, 2013 totaled K2,770. Further, a listing provided to audit showed the ULLG was owed amounts totaling K14,693 by staff as at the time of cash count on 22nd of April, 2013; and

Paid Accounts

- There were four claims ranging from K2,300 to K5,000 totaling K14,630 were processed for payment without the Requisition for Expenditure (FF3) being approved by the appropriate Section 32 Officer.
- In six instances, payment vouchers with values between K1,000 to K10,000 totaling K24,226 not certified to determine the legitimacy of claims prior to processing payments:
- The survey work on Portion 13 intended for Kavieng ULLG Town Hall was quoted by the Division of Lands and Physical Planning at the cost of K4,490.
- Audit noted however, from the Cash Sheet that the cheque payment (Chq. No. 1665) was made in the personal name of the surveyor who provided and signed the quote rather than to the Division of Lands and Physical Planning.
- As stated in our previous year audit report, the Kavieng ULLG Town Hall Project commenced with the engagement of a private consultant providing an architectural design for the Town Hall at a contract value of K40,000. Another consultant was engaged during the year to prepare a project formulation for the Town Hall at a cost of K5,000. Audit could not determine whether or not work on the Town hall Project had been completed or that work is still in progress.
- Payments totaling K31,203 were approved by respective Wards Chairmen and paid as financial assistances directly to individuals for their intended projects. Audit noted that the Wards projects approved for payment were not supported by relevant meeting minutes as evidence to indicate the request for project funds were deliberated upon and sanctioned by the respective Ward Development Committees and consequently endorsed by the Ward Chairman concerned for payment.

Salaries and Wages

- The Town Manager confirmed the staff on strength for Kavieng ULLG in 2010 as 22. However, the audit review of wages sheets for pay period ended 28 December 2010 showed the number of staff on strength as 20 in total. Audit was not provided the Establishment Register, if any, to determine whether the number of staff employed was within the Manpower Ceiling (funded positions) approved for Kavieng ULLG.
- The employees of Kavieng ULLG were not placed on approved salary grades thereby resulting in the Rates of Pay (Annual/Fortnightly Wages) awarded being inconsistent or even below the Rates

of Pay as determined and approved by the Department of Personnel Management. Audit was not provided details of Rates of Pay used as the basis to remunerate the employees of Kavieng ULLG.

- A review of payments of wages for the year revealed the Town Mayor was paid net fortnightly wages of K1,160 for the twenty-six (26) pay periods by Kavieng ULLG and at the same time was also paid net fortnightly wages of K483 by New Ireland Provincial Government from pay periods 20 to 26 of 2010. Audit could not ascertain as to why the Town Mayor has to be on two different pay rolls.

5.14 Oro Province

Entity	Year for which Last Financial Statements Submitted	Financial Statements Audited	Audit Opinion	Other Details
Oro Provincial Government	2010	2010	Disclaimer Audit Opinion	Significant control issues identified.
Popondetta Hospital Board	2010	2010		Management Letter issued. Except for the control issues, some improvements noted.
Popondetta – Urban	2010	2010		Management Letter issued with significant issues identified.
Afore	2008	No		
Tufi	2008	No		
Safia	2008	No		
Higaturu	2008	No		
Kira	2008	No		
Kokoda	2008	No		
OroBay	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.
Oro Fisheries Authority				No recent financial statements; status of the entity/audit to be determined.

5.14.1 Oro Provincial Government

The audit of Oro Provincial Government for the year-ended 31 December 2010 was unsatisfactory with a Disclaimer Audit Opinion issued. The paragraphs below give a summary of issues identified with the financial statements and the control environment:

Financial Statements

The Oro Provincial Government had reported its total Fund and Bank Balances as at 31 December 2010 as K2,990,917(overdraft). I was unable to express an opinion on the accuracy of the cash at bank

and trust account balances and consequently, on the financial position of the Provincial Government due to the following reasons:

- Accumulated overdrawn opening fund balance of K4,318,225 used in Note 3 computations contains inherited errors brought forward from previous years;
- The reported year-end overdrawn fund balance of K2,990,917 is not in agreement with the year-end overdrawn bank balance of K3,058,017 as reported in Note 6 to the financial statements;
- The cash representation of the year-end overdrawn bank balance reported totaling K3,058,017 could not be traced to either the bank statements, the cashbook or Bank Reconciliation Statements;
- The Provincial Government had reported a total of three Provincial Trust Funds with bank accounts having opening and closing balances as K1,116,996 with nil movement of funds during the year. I confirmed however, to the contrary, that no Trust Accounts were operated by the Oro Provincial Government during the year. As such the balances reported are ghost figures hence, misleading;
- A cash balance of K1,000,903 was noted in the Oro Provincial Government Grant Bank Account at year-end. This balance was not reconciled and included in this Statement through Note 6 computations;
- The Oro Provincial Government did not maintain any comprehensive Assets Register to record all assets owned and under its custody during the year hence, reported a nil balance. Oro Provincial Government does own and has under custody assets worth millions of Kina which were not properly accounted for and disclosed in the statements; and
- The Oro Provincial Government had reported a nil balance in cash advances at year-end. However, my review of the expenditure ledgers revealed cash advances totaling K545,358 paid during the year. In the absence of an Advances Register and management confirmation the reported nil balance is unreliable and misleading.

Significant Control Weaknesses

The significant control weaknesses identified in Oro Provincial Government's records and processes are as summarised in the paragraphs below:

- There was no segregation of duties. Only one officer performs incompatible duties of revenue collection, banking, compiling receiver statements and posting revenue figures into the PGAS Revenue Ledgers. Further, the functions performed were not checked and attested by a senior officer. Fraudulent activities may exist and remain undetected in such situations;
- Receiver Statements were either missing or not checked and certified by a senior officer prior to posting;
- Vehicle hire payments totaling K108,585 were inadequately supported with vouchers such as quotations, invoices and receipts. In the absence of these documents Audit could not verify and certify the legality of these payments;
- The services of two private law firms were engaged at a cost of K80,000. Supporting documentation, such letters of engagement and executable contracts signed and approved from the Office of State Solicitors, were not sighted;
- Tender documents, including instrument of appointment of PSTB members, Tender Registers, PSTB meeting minutes, contract agreements, Work Inspection and Certification Reports, Work Variation Approval and Certificates of Completion were not maintained. Consequently, capital works and maintenance payments totaling K240,862 could not be verified. Further, supporting vouchers for payments totaling K412,709 were missing;
- Payment of grants and subsidies and financial assistances to non-profit organisations, public authorities, schools and individuals totalling K3,372,823 lacked evidence of accountability and disbursement reports by the recipients nor were there records to indicate that the Provincial Government had sought these reports; and

- The Provincial Executive Council and Assembly meeting minutes for the year-ended 31 December 2010 were not provided. Further, Oro Provincial Government did not have a Corporate Plan with long-term objectives, priorities and targets taking into account the requirements of its stakeholders.

5.14.2 Popondetta Hospital Board

The Popondetta General Hospital had submitted its financial statements for the year-ended 31 December 2010. The audit was completed with Management Letter issued. The Management Letter contained number of issues which are summarised in the paragraphs below:

Financial Statements

- Financial Instruction 2/2004 issued under Section 117 of the *PFMA* state the prescribed format for the preparation and presentation of the financial statements for public bodies. The Hospital's financial statements for the yearended 31 December 2010 however did not contain the Schedule of Capital Assets and Liabilities;
- Note 3 to the financial statements and the related schedule indicated that the Popondetta General Hospital had also operated a 'Project Account' during the year with a closing account balance of K76,896. A statement of receipts and payments however was not prepared and presented at the time of the audit;
- The Declaration pertaining to fair presentation and acknowledgement of approval of the financial statements was only signed by the Chief Executive Officer without the endorsement of the Chairman of the Hospital Board. This constitutes a scope limitation and affects every other Statement of the financial statements. Further, the financial statements did not contain a Statement of Management Representation, giving an overview or summary of events that occurred during the year;
- The financial statements presented showed consolidated revenue and expenditure of K8,405,201 and K8,047,578 respectively with a surplus of K357,623 for the period and a closing cash balance of K1,273,123. The balances disclosed are not reliable in light of the following observations:
 - The reported fund balance of K1,273,123 did not tie up with the reconciled cash balance of K1,200,271. Audit could not confirm a correct fund balance due to the fact that the reconciled bank balance had outstanding reconcilable items yet to be cleared. As such the reconciled bank balance of K1,200,271 are subject to change with the adjustments made to the bank balances;
 - A balance of K76,896 relating to the Project Account as noted above was not included in the Statement of Accumulated Funds resulting in understatement of fund balance; and
 - The Hospital had reported expenditures relating to salaries (item 111) as K4,855,130. Audit could not reliably confirm the stated expenditure against the actual payments per the TMS printout from the Department of Finance.

Budgetary Control

Audit review of the Hospital's budgets, appropriation and actual receipts against actual expenditures revealed that the Hospital budgetted a total appropriation of K10,523,324. The budget document provided to Audit did not show Grant and Internal revenues separately. As such the actual expenditures used in the comparison analysis were consolidated balances of Grant and Internal revenue related expenditures. The following other matters were noted:

- Audit noted instances of over and under spending under votes totaling K161,568 and K2,302,901 respectively;
- The Hospital Board did not have a Corporate Plan in place to guide its annual budgets setting, implementing, monitoring and measuring its performance against the set targets in the plan. Further, quarterly budget performance appraisals and reviews were not done.

Revenue

Audit tests performed on revenue controls, collection and banking procedures and other related tests revealed the following anomalies:

- Collector statements were not serially numbered to ensure that all statements were intact and available;
- Audit review of debt management revealed inadequate record maintenance and poor repayments hence I was unable to reconcile the year-end outstanding balance;
- Cash collection, posting and banking functions were not segregated;
- The user fees applied during the year had been in place since inception of Hospital Board and were not reviewed;
- The Hospital's Cash Office was accessed by people other than revenue section staff who also had their own keys to the door. Further, the safe combinations were known to three other persons who were not involved in revenue and cash collection functions; and
- The Hospital had no petty cash system in place hence, daily cash collections were used for minor expenditures. A petty cash must be established to avoid such practices.

Salary and Wages

Audit review and examination of payrolls systems, personnel files and related records revealed the following matters:

- Gratuity payments totaling K74,640 made to contract officers could not be verified in the absence of their contract documents. Employment contracts for all contract officers were not provided for Audit inspection. The Hospital CEO had commented that "due to indecisiveness and constant changes on the format of the contract by the NDoH and DPM the Hospital was not able to get the documents in order." He further stated that the doctors at the Hospital were bound by the National Doctors' Association(NDA)Agreement of 2007 – 2010, hence were paid their awards and gratuities. Audit noted the CEO's responses however, with some reservations;
- Payroll reconciliations were not performed to monitor salaries and wages paid by the Department of Finance;
- Advance salary payments totaling K84,210 were not adequately supported with supporting documentation relating to recording and recouping of such salary advances; and
- Recreation leave payments totalling K213,175 were not supported appropriate supporting documentation for the dependents claimed.

Cash Book and Bank Balance

The Hospital operated two bank accounts namely, Popondetta General Hospital Operating Account and Fees Trust Account. The status of each bank account is as discussed below:

- Popondetta General Hospital Operating Account # 1000490723: An Attaché Software system operated by the Hospital showed the reconciled bank balance of K1,075,884 as against the system ledger balance of K1,025,807 resulting in an unexplained difference of K50,077. The Acting Finance Manager's letter dated 26/10/2012 explained the cause of the problem as being system error resulting from a virus attack. Consequently, no proper bank reconciliations were done during the year and therefore, the account balance could not be confirmed as reliable; and
- Popondetta General Hospital Fees Trust Account # 1000490758: An Attaché Software system reconciled statement provided to Audit showed the reconciled bank balance of K124,386 against the system ledger balance of K123,208 resulting in an unexplained difference of K1,178. The Acting Finance Manager explained the cause of the problem as being system error resulting from a virus attack. Consequently, no proper bank reconciliations were done during the year and therefore, the account balance could not be confirmed as reliable.

Assets Management

- The Hospital Board did not maintain any Assets Register during the year under review. The Hospital did however, maintained an Equipment Inventory Listing which also lacked other details such as purchase and disposal dates. Consequently, Audit was unable to ascertain whether the Hospital had adequately managed all its fixed assets owned and under its custody during the year; and

- Audit was not provided evidence to suggest that the inventory physical stock-takes were performed during the year

Advances Management

Review of various Advances Registers, acquittal files and other related records maintained during the year reveal the following matters:

- A register for salary advances was seen to have been maintained and when it was provided to Audit showed an outstanding salary advance of K277,781 as at 31 December 2010; and
- No Advances Registers for travel advances, airfare advance, hotel accommodation, hire cars and cash advances were maintained during the year hence were not provided to Audit. Similarly no acquittal vouchers were maintained. Further subsequent advances were seen to be repeatedly given to officers despite outstanding acquittal of the previous advances.

Payment of Accounts

Audit examination of paid vouchers and test carried out on procurement procedures revealed the following matters:

- Supporting vouchers relating to 24 payments totaling K227,156 were missing from the files provided to Audit for inspection. As such these expenditures could not be reliably verified;
- In four instances payments totaling K28,739 were not signed by the duly appointed requisition officer;
- In five instances payments totaling K38,757 were not adequately supported with supporting vouchers;
- Audit noted a payment of K41,260 made to the Hospital Board being stipends was not supported with the Instrument of Appointment of the Hospital Board;
- Written quotations and delivery notes were not sighted in most of the payments, consequently Audit could not verify whether goods and services paid for were received and delivered to the Hospital in quantity or quality; and
- Payment of K50,000 to a private law firm made on cheque numbers 858069 and 859164 had no supporting payment vouchers and management written representation to verify the purpose and authorisation.

Corporate Governance

- Although the Hospital Board was seen to be in place and functioning, documentation such as Appointments and Gazettal Notices as proof of legitimacy of the Board were not provided for Audit confirmation. As such, the legality of Board decisions and resolutions passed and their implementation could not be ascertained;
- Although no Corporate Plan was in existence for the five years ending 2010, Audit sighted a five year Corporate Plan for the period (2011- 2016). Audit noted this as a step in the right direction by the Hospital Board; and
- Although the Hospital Board had no internal audit function in its structure, the internal audit unit of the Department of Health did not carry out any audits during the year under review. As such no internal audit reports were provided to Audit.

5.14.3 Popondetta Urban Local-level Government

Popondetta ULLG submitted its 2010 financial statements in August 2012. The audit was completed with the Management Letter issued. The Management Letter contained a number of issues which are summarised in the paragraphs below:

Financial Statements

The Financial Statements presented were in the format prescribed by Financial Instruction 4/2000 issued under section 117 of the *PFMA*. However, the following presentation and disclosure errors were noted:

- The Town Mayor's Reports on the financial operations of Popondetta ULLG for the year under review was not included in the financial statements;
- Appendices 1 to 6 required by the reporting format were not included as part of the financial statements presented;
- Statement "A" is required to show the ULLG account balances represented by the year-end cash balances. The Statement showed the fund balance of K1,179 as represented by year-end bank balance of K1,179. The following observations render these balances unreliable:
 - The 2009 closing overdrawn fund balance of (K1,179) was not used as opening fund balance for 2010 in Note 3 computations. The brought forward fund balance had not been adjusted with our previous audit comments;
 - The reported Trust Fund balance of K500 is not in agreement with Statement "C" showing a nil balance. Further, the prior year adjustment balance of K679 could not be traced to its source; and
 - The cash at bank balance of K1,179 reported in the Statement is not correct as the bank reconciliation performed failed to establish a reconciled balance for the differing bank and cashbook balances. The year-end bank reconciliation procedures or formats applied failed to reconcile the year-end closing bank and cashbook balances of K3,916 and K1,179 (overdrawn) respectively.

Corporate Governance

- The Popondetta ULLG did not have a Corporate Plan. In the absence of a Corporate Plan, the Popondetta ULLG annual budget was not plan driven. Consequently developmental needs and key result areas have not been identified and annually funded through their budgets.
- Certified copies of the Popondetta ULLG meeting minutes and Attendance Registers were not provided to Audit for inspection; and
- There were no regular internal audit checks conducted by the Internal Audit Unit of the Oro Provincial Government into the routine operations of Popondetta ULLG during the year under review and previous years.

Budgetary Control

The key documentation required to be maintained for proper budgetary control procedures, including 2010 Budget Appropriations, the ministerial approval on the ULLG budget, Warrants and CFCs, and quarterly budget performance review notes, were not provided to Audit. Consequently, Audit was unable to ascertain whether the reported revenues and expenditures of K547,045 were within the budget estimates and whether public funds were legally expended during the year under review.

Revenue Collection and Banking

An audit review of revenue controls, collection and banking procedures revealed the following weaknesses:

- The ULLG had failed however, to collect the following potential revenues during the year which could have boosted its revenue base:
 - Sanitation and Garbage fees;
 - Informal sector market fees or peddlers licenses; and
 - Rules fines and charges
- Cash management was poor and no safe was sighted for safe keeping of daily collections. Some were held for almost half of the year;
- Audit noted that daily collections were subject to delayed banking from one day to six months; and
- Incompatible functions such as collection, banking and posting of revenues were not segregated, thus posing a risk of fraud and abuse.

Cash Book and Bank Reconciliations

Audit review of the cashbook, monthly bank reconciliation statements and bank statements of Popondetta ULLG Operating Account No.1000490785 resulted in the following deficiencies:

- All bank reconciliation statements were either not signed by the person preparing the statement or certified by a senior officer. Further, the reconciling items outstanding for a long period should have been cleared to reflect a realistic cashbook balance; and
- Due to the inadequate maintenance of cashbook and poor performance of bank reconciliation procedures, the cash position of Popondetta ULLG could not be established. Such poor accounting practices may facilitate theft, fraud and other irregular activities.

Advance Management

Audit review revealed that neither an Advances Register nor acquittals vouchers file were maintained to record cash and travel advances paid and monitor the acquittal of these advances paid out during the year and prior years. In the absence of these controls Audit could not ascertain how cash and travel advances totaling K57,829 were accounted for.

Assets Management

Audit review of asset management controls revealed the following matters:

- The Popondetta ULLG did not respond to our previous audit recommendations by establishing and maintaining a comprehensive Assets Register during the year under review; and
- Assets totaling K12,972 purchased during the year were not recorded and monitored. Audit concluded that fixed asset management was very poor and needed improvement.

Procurement and Payment Procedures

Audit review of payment vouchers, expenditure transaction ledgers and related controls reveal the following deficiencies:

- 13 payment vouchers totaling K49,526 were missing from files provided to Audit for inspection;
- Payment vouchers and related records were seen to be poorly maintained;
- Fourteen payments totaling K76,255 were not authorised by duly appointed certifying officer and the examiners respectively;
- Most payments were inadequately supported with necessary supporting documentation such as three written quotations, supplier invoices, etc. Further, control registers such as a Claims Register, Verbal and Written Quotations Register and Cheque Disbursement Registers were not maintained during the year under review;
- In 19 instances expenditures totaling K114,132 were incurred on materials for poultry projects in council wards. In the absence of proper controls relating to project identification, screening, approving, distribution of materials and acquittals by recipients, Audit could not ascertain whether project materials were actually purchased and supplied to the council wards as intended;
- The grass cutting expenditures totaling K104,620 were not adequately supported with minor works contracts, work inspection and certification reports and documents evidencing the actual collection of cash and cheques by service providers. In the absence of these supporting documents Audit could not verify these payments to be genuine;
- Audit noted total expenditure of K30,340 was paid to Ward Councilors for monthly sitting, and Mayor's entertainment allowances. These expenditures were not adequately supported with Attendance Registers, meeting minutes and applicable SRC determinations relating to the Mayor's terms and conditions;
- Expenditure totaling K25,935 was incurred on grocery items and said to have been distributed to council wards to assist the informal sectors. In the absence of proper controls relating to project identification, screening, approving, distribution of groceries and acquittals by recipients, Audit could not ascertain whether groceries were actually purchased and supplied to council wards as

intended. However, this expenditure was not a budgeted expenditure. As such this constitutes misappropriation of Popondetta ULLG funds; and

- Cash reimbursements totaling K5,168 were made to various staff for use of their personal cash for official business was inadequately supported with acquittal vouchers.

Salaries and Wages

A review of the records and accounts relating to the payment of salaries, wages and personnel matters revealed the following weaknesses:

- The Popondetta ULLG did not have qualified personnel officer(s) in its personnel section to manage personnel affairs;
- The personnel files of staff requested were not provided to Audit for inspection. As such it is not known whether any personnel files were maintained at all;
- An amount of K47,192 was seen to be paid as casual wages and allowances. In the absence of a casual employees list or DPM approved salary and wages rates applicable in 2010 Audit could not ascertain whether the correct rates were applied in paying the casuals; and
- Overtime payments totaling K13,309 were not supported with overtime approved hours and applicable rates applied.

5.15 Sandaun Province

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Sandaun Provincial Government	2010	2009	March 2012 Disclaimer	Significant control weaknesses identified.
Vanimo Hospital Board	2010	2009	March 2012 Disclaimer	Significant control weaknesses identified.
Vanimo Urban	2010	2009	March 2012 Disclaimer	Significant control weaknesses identified.
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

Financial Statements

The audit of the 2010 financial statements was completed and a Management Letter was issued but no response was received from the Provincial Administration. A Disclaimer Audit Opinion was issued in September 2013.

Investments

Statement "E" showed an interest bearing deposit (IBD) of K41,696 held with Westpac Ltd as at 1 January and a closing balance of K42,899 as at 31 December 2010. Similarly, Statement "F" showed the Provincial Government share of K373,592 with Ramu Sugar. In the absence of an Investment Register, IBD Certificate and other related supporting documents, I was not able to confirm these investments.

Assets

The Provincial Government did not update its Assets Registers during the year although significant amounts of money were spent on the purchase of assets in the current year and prior years. Selected instances of assets totaling K351,535 purchased during 2010 were not recorded in the Assets Register. In the absence of a complete and up-dated Assets Register and annual stock-takes, I was unable to confirm the existence and completeness of assets owned by the Sandaun Provincial Government.

Advances

Appendix 6 of the financial statements showed a total of K2,447, 760 as outstanding advances at year-end while the list showed a total of K4,025,593. This amount not only included advances paid out of votes 285 and 713 but also included advances paid out of vote 227 Treasury Vote Series and Trust 460/31. As such, I was not able to confirm the correct figure of advances not acquitted related to the Provincial Government at the end of the year.

It was also noted that cash advances were obtained to pay for accommodation and vehicle hire which should have been made direct to the suppliers.

Management in its reply to our 2007 Audit Management Letter stated that control measures are being put in place to manage advances. The option of using PGAS to restrict new advances for advance holders who have not acquitted their advances will be applied immediately as a control measure. However, at the time of audit in April 2011, the control measure to be installed in PGAS was not implemented.

The control weaknesses identified in 2010 are detailed in the paragraphs below:

Budgetary Control

The summary of budgetary results is as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Under</u>
	K	Expenditure K	K
Vanimo PGAS	17,436,096		
Waigani TMS	<u>30,974,205</u>		
	<u>53,427,100</u>	48,410,300	5,016,895

Funds were not utilised for the purpose appropriated for in the budget. Instead funds remained un-utilised at year-end. This practice has been going on for the prior years as well.

Expenditure in many instances was charged to incorrect votes during the year which was a common trend in previous years as well.

Revenue

Significant under-collections were noted under seven internal revenue votes, especially under SPG Housing Rentals and SPG Timber Taxes and Levies. Outstanding uncollected revenue for the year relating to SPG Housing Rentals amounting to K29,000 and Timber Taxes and Levies under revenue votes 604/000-3, 604/000-4 and 604/000-5 amounted to K261,311.

As mentioned in my previous years Audit Management Letters, adequate and up to date Revenue Registers relating to Liquor Licensing, Motor Vehicle Registration and Driver's Licenses were not maintained by the Revenue Officer to monitor and receive revenue due to the Provincial Government.

Cash Books and Bank Reconciliations

It was not clear as to whether the Provincial Government Operating Account old cashbook numbered 501-1 was formally closed with the closing balance transferred to the new cashbook numbered 500-142. To-date the cashbook remained open and still disclosed a balance of K2,603,865 in the PGAS Trial Balance.

For the Internal Revenue Account, the monthly bank reconciliations for January to December 2010 had not been done. Action was initiated to reconcile the Bank Accounts effective from 2001 after the burning down of the Provincial Treasury Office. I was informed that an officer was engaged to update the bank reconciliations to current.

The Provincial Government Grant Account had balances agreed. However, prior months reconciling items totaling K3,372,350 for un-presented cheques remained unresolved and other outstanding reconciling items amounting to K38,814 were not adjusted in December 2010.

Grants

A sum of K250,000 paid in 2009 and K395,000 in 2010 to More Stationery for the supply of school materials (text books) for various lower and upper primary schools in Sandaun Province. However, the Invoices submitted by More Stationery totaled K 3,795,980.

It is not understood how the Provincial Government through its coordinating agency, the Education Division was able to ensure that the money paid was all spent on the purchase of curriculum materials and that all of the above curriculum materials paid for were actually delivered and received by the intended schools. A Report on the dispatching and issuing of materials to schools had not been made available for my examination.

Procurement Procedures

There was no Tender Box in use as required by Tender Board Regulations. I also noted that proper procedures were not adhered to in the calling, lodging, opening, recording and awarding of tenders. All meeting minutes of meetings held by the PSTB in 2010 were filed in an unacceptable manner and were not easily accessible. Meeting minute numbers 01/2010 and 06/2010 were not sighted.

Payment of Accounts

Three quotations were not obtained prior to the purchase of goods and services costing up to K300,000.

Expenditures including overtime, purchase of assets were incurred out of incorrect expenditure votes.

Cash advances totaling K 33,030 to three Officers were paid out of wrong expenditure vote items under questionable circumstance to purchase furniture and medical equipment's in Indonesia. Further cash advances to two other officers totaling K 8,779 for budget book printing were also from wrong votes. All were not acquitted appropriately.

No proper control mechanisms were in place to control and monitor fuel advances totaling K 16,464.

A sum of K25,000 was paid to Island Mobile Hire Cars Ltd of Mt. Hagen on cheque number 131387 on 16 December 2010 out of Honorable Governor's PSIP Fund Vote 460/31 being for hire of cars. However it was established that the vehicle was purchased for the Executive Officer to Governor Mr. Anton Walaku. The vehicle was registered under his name and he eventually sold the vehicle to the Vanimo Forest Product for an undisclosed amount and benefited personally. This payment had been discovered as fraudulent and warrants prosecution.

A sum of K8,000 per cheque number 131383 was paid to Mr. James Manino on 16 December 2010 out of the Governor's PSIP Fund Vote 460/31 as financial assistance for school fees to complete a Diploma in Accountancy at the Institute of Public Administration in Port Moresby. However, I noted that the officer may not have gone to complete his Diploma and may have misapplied the sum of K8,000 for personal use. This payment should have been made to the Institute instead and seemed fraudulent in nature and warrants further investigation and prosecution.

Significant payments were made out of Governor's Funding (PDIP) out of Votes 713-2100-1167-225 / 285-2040-3915-1430 and 285-2100-3924-135. These payments were made out of the above expenditure votes during the year to individuals, groups, schools and aid posts for projects such as cocoa fermentary, poultry projects, trade store items, piggery projects, health projects, school projects, crocodile farming and fish projects without any control and monitoring systems.

Capital Works and Maintenance

A total sum of K500,000 was paid to Glace Construction Company during 2010 for the Maintenance of Vanimo Town Roads. However, according to the Contract Agreement sighted, the Provincial Supply and Tenders Board approved the contract work for only K399,300 resulting in an overpayment of K100,700. No Progress or Inspection Report was attached to the claims submitted for payment by the Contractor as evidence of work done and furthermore, a Completion Certificate was not attached to the final claim as evidence of work completed.

In 2010 the Provincial Supply and Tenders Board in Meeting Number 04/2010 again awarded Awerah Limited through 'Closed Tender' the contract of road gravelling and associated works on Mai/Tadji Road – Komul 3 to Boni Junction. A total sum of K400,000 was paid to Awerah Limited for this road work. The PSTB had awarded the contract to Awerah Limited without calling for 'Open Tenders' due to the contractor being currently on site. The Contract Agreement between the Sandaun Provincial Government and Awerah Limited was not sighted. No progress or inspection reports or completion certificates were sighted nor produced for payments as evidence of work completed.

Salaries, Wages and Allowances

The Provincial Government does not have a documented Human Resource Manual or Policies in place.

The Payroll Reports received from the Department of Finance have not been reconciled (checked against individual staff payments) to ensure that the amount paid to employees are correct.

Salary History Cards were not updated for selected employees. As a result, the fortnightly salary paid as per the payroll could not be verified to the annual salary on the Salary History Card.

Officers who were not entitled to receive Domestic Market Allowances (DMA) on their current position were receiving these allowances despite an instruction dated 12 January 2009 issued by the Care Taker Provincial Administrator to cease these allowances.

Contracts of Employment covering the 2009 period for selected Contract Officers were not sighted in the Contract Officers Personal Files.

Job descriptions for employees and salary and wages tax declarations for selected employees were not sighted in the Employees Personal Files.

The Director of Health was still receiving overtime and on-call allowances of K287.54 per fortnight since 2008 although this officer is currently not performing any clinical duties.

Trust Accounts

The Provincial Government did not maintain any Trust Accounts during the year and previous years. However, audit noted that a total sum of K2,320,000 consisting of Fund Assistance have been incorrectly receipted to the National Trust Fund Suspense Account vote number 360/31 and expenditure incurred out of Trust Fund Suspense Account Vote number 460/31. These funds should have been accounted for under the recurrent revenue and expenditure votes as appropriation had been provided for in the provincial budget.

	<u>K</u>
West Sepik Province	70,000
Governor's PSG Discretionary Component	250,000
PSIP Grant	<u>2,000,000</u>
	<u>2,320,000</u>

Corporate Governance

The Provincial Government had a Corporate Plan and associated plans in place. However, the following three Key Result Areas (KRAs) were not realised by the Provincial Government:

- KRA 3 – Budget and Financial Management
- KRA 4 – Human Resource Management
- KRA 5 – Asset Management

Internal Audit

The Internal Audit Unit of the Provincial Government during the year consisted of the Chief Internal Audit Manager and a Senior Finance Inspector. Except for investigations done by the Internal Audit Unit, 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.

The only check done into the routine areas of operation of the Provincial Government was an internal audit check into a double payment of contract gratuity to Mr. Eugene Raire and DMA payments to officers of the Provincial Government.

5.15.2 Vanimo General Hospital

General

The audit of Vanimo General Hospital accounts for the year-ended 2010 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, regulations and directives. A Disclaimer Audit Opinion was issued in September 2013. Issues identified in relation to the financial statements and the control environment are noted in the paragraphs below:

Financial Statement

The Hospital Board has not complied with the legal requirement to furnish the annual Financial Statements for the 2010 financial year before 30 June 2011 either in such a form and detail and containing such other information as required by an Act of Parliament or as the Minister requires or the acceptable format.

The opening balances of the Operating Account and trust account on 1 January 2010 could not be assumed correct as matters raised in 2009 were not corrected thereby affecting the closing balance of 31 December 2010.

Funds received to date during the year totalling K 2,915,981 could not be verified as accurate and fair due to a lack of proper records maintenance.

The major memorandum records that are subsidiary to the financial accounts such as the total value of Hospital Asset Listing and Debtors ledger were not maintained and disclosed in the financial statement.

Proper cashbooks were not maintained to keep proper and up-to-date accounting records, reflecting opening balances and reconciled closing balances at end of each month in order to reconcile with figures and balances presented in the financial statements.

Budgetary Control

Accounting for receipts from grants, user fees, and project funding was not procedurally sufficient in the absence of an operating accounting system. The manual cashbook and ledger were not maintained appropriately to consistently account for all grant remittances and user fees to enable proper accounting and reporting. As such financial resources allocated to the Hospital or generated by the Hospital could not be ascertained as to whether all appropriated grants and internal revenue receipts were properly accounted for and expended according to the budget.

There was no budget estimate for User Fees or Trust Monies, while the specified expenditures prescribed in the Trust Instrument were not complied with as instances of improper expenses were noted.

Evidence pertaining to non-compliance and weaknesses in commitment controls were noted in instances of over commitment by seven expenditure vote items totaling K 448,728 whilst unspecified expenditures out of revenue funds for expenditures were made contrary to the Trust Instrument.

Revenue

Absence of an operating accounting system has affected the recording and posting of receipts while manual records have not sufficiently and efficiently been utilised to properly account for collections from Grants and User Fees, and other Project Funding;

Delay in posting deposits to the 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 the monthly bank reconciliations. The December reconciliation presented a sum of K202,939 not credited to the account.

Debtor’s Ledger was not maintained to register outstanding debts from reimbursements of cash advances, salary advances, and rentals.

Bank Accounts, Cash Book and Bank Reconciliation

The Trust fund account had been accommodating funds from PIP and HSIP is contrary to Trust Instrument.

The manual cashbooks and ledgers were not maintained appropriately for proper accounting and reporting for all grants, user fees, and project funding after the collapse of the Attaché Software program;

The reconciled closing balance of K191,970 and K5,864,948 for the operating and the trust accounts respectively represented the closing cash balances as at year-end could not reconcile with any cashbooks or general ledgers or the financial statement balances.

Procurement and Payment Procedures

Significant lapses and non-compliance to procurement and payment procedures were noted in most instances. Concerns were noted pertaining to advances paid out of other expenditure vote items and issued to officers without due regard to *PFMA* procedures.

The expenditure for the infrastructure development project for the completed segment stood at K2,834,731. However the operating theatre was incomplete and an undisclosed amount had been paid to the contractor and remained unresolved.

Assets

A complete and updated Assets Register was not maintained by the Vanimo General Hospital during the current and previous years. No periodic (or annual) stock-takes of Hospital assets and inventories were undertaken;

In the absence of a properly kept Assets Registers for the private residences and hospital rented properties, the cost of maintenances and purchases of household assets in the respective premises were not accounted for. It has been noted that a substantial amount of monies had been incurred on maintenance and purchases without proper valuation and accountability.

Advances

Payment of cash advances has become regular without proper registration of cash advances paid to advance holders and also a lack of adequate acquittal processes. These reflected deficiencies in the control and management of advances.

12 instances of cash advances issued during the year totaling K13,415 remained un-acquitted.

Salaries and Wages

The payroll for the year is not reconciled.

Corporate Governance

Implementation of the Development Plan for 2004 to 2010 was progressing well despite having limited and insufficient resources. Awarding of a Five Star Hospital Award was evident of the implementation of the Plan. The Hospital was also in an infrastructure development phase having a number of projects

in progress which indicate an improvement in the operational affairs of the Hospital. Management has shown efficient and effective Corporate Governance.

5.15.3 Vanimo Urban Local-level Government

Financial Statement

The audit of the financial statements of Vanimo ULLG for the year ended 31 December 2010 was conducted and found to be unsatisfactory. As a result a Disclaimer Audit Opinion was issued in September 2013. Issues identified in relation to the control weaknesses are detailed in the paragraphs below:

Budgetary Control

The *Appropriation Act 2010 No.1 of 2010* passed by the Vanimo ULLG authorised total revenue and expenditure of K536,000 for the provision of services for the fiscal year 2010. Revenue was estimated to be K536,000, however actual collection was K717,997 resulting in an over collection of K181,552 which was a good sign of improvement compared to prior years. Expenditure in 20 instances totaling K22,850 was incurred out of incorrect expenditure vote items.

Revenue

Although overall revenue collections of K717,997 exceeded the appropriation of K536,000, there were several internal control issues noted. Under collection was noted on six revenue heads totaling K138,966 and delays in banking of receipts ranged from one to 21 working days. Further, collection of public monies is done by an officer who is not duly appointed as Collector of Public Monies. Collection and banking of market takings were ineffective and uncontrolled.

The Vanimo Urban LLG did not maintain proper records of all types of debtors for the revenue heads such as garbage and sanitation, property rentals, land rates and trade licenses. Proper control measures were not taken with regard to long outstanding debtors and no follow up actions were taken during the year to ensure that defaulters paid up their dues.

Cash Book and Bank Reconciliation

The cashbook maintained for the ULLG Operating Account No. 1000603031 carried a favorable balance of K156,195 as at 31 December 2010. Monthly Bank Reconciliation Statements were not checked and certified as correct by a senior person other than the one preparing it.

Reconciling items have been carried over from prior years dating back to 2002 and were not identified and written back to the cashbook or the respective revenue and expenditure ledgers. Bank fees and taxes directly deducted by the bank were not taken up in the cashbook

Procurement Procedures and Payment of Accounts

In almost all the payments sighted there appeared to be no systematic procedure in place for procurement of goods and services. Quotations were not obtained from three suppliers as required by the *PFMA*.

The Vanimo ULLG did not maintain a Quotation Register where all quotations obtained are recorded and the reasons for obtaining only one or two quotation and the reason for not obtaining a quotation at all are recorded.

Instances were noted where payments totaling K41,100 were paid to the Chairman of the seven ward areas as quarterly allocation for town services for which Acquittals or Responsibility Reports from the respective wards were not received.

20 instances were noted where expenditures totaling K22,850 were incurred out of incorrect expenditure vote items.

Debtors

The statement presented does not show any details on debtors. Not all fees and charges due were collected in full during the year, especially sanitation, garbage and trading license fees. However, due to non-maintenance and availability of proper Debtors Ledgers, I was unable to ascertain the total debts outstanding as at year-end.

Assets

An Assets Register was maintained but it was incomplete and not updated for all classes of assets in accordance with Section 3, Part 32 of the Finance Management Manual. All assets purchased during the year and prior years were not recorded in the Register and no regular stock-takes were done. In the absence of a complete Assets Register and annual stock-takes, I was unable to confirm the existence, completeness of the Register and value of assets owned by Vanimo ULLG as at 31 December 2010.

Advances

Appendix 6 disclosed K7,873 as total un-acquitted Advances for 2010 only but did not include un-acquitted advances relating to 2009 and prior years. Note 17 of the Notes to the financial statements disclosed total opening balance as K11,266 at 1 January 2010. This balance did not include un-acquitted advances totaling K50,228 which were brought forward from years prior to 2009 as reported in our 2008 Audit Management Letter.

An Advances Register was maintained but was not updated properly. A perusal of the Register revealed incomplete records and it was not possible to determine whether advances were acquitted in full or not. Also no proper acquittal files were maintained.

Salaries, Wages and Allowances

The ULLG did not have a Staff Establishment Register with funded positions. As a result, the pay rates paid to the staff and the councilors could not be verified as correct.

Salaries, wages and allowances paid totaling K 150,304 for councilors and LLG staff could not be ascertained and verified against approved structure as all these were not provided.

Personal files containing pay history and leave cards were not properly maintained by the ULLG. As a result, Audit was not able to verify the calculation of final benefits and leave pay for officers.

Wages and Salaries Tax Declaration Forms were not filed and maintained for individual staff.

Council Meeting Minutes

The Vanimo ULLG did not maintain records of all minutes of Council meetings held during the year. In the absence of meeting minutes, allowances recorded as paid to the Councilors could not be confirmed

Corporate Governance and Internal Audit

The Vanimo ULLG does not have a Corporate Plan in place that establishes long-term objectives, set priorities and targets and takes into account the requirements of its stakeholders.

In the absence of an annual audit inspection by the Internal Audit of the SPG Administration, the ULLG management will not be provided with confidential, independent and impartial advice on a timely basis as to whether the activities of the ULLG are managed and controlled in an efficient and effective manner and in cases where there are deficiencies, these deficiencies will not be detected and corrected in a timely manner.

5.16 Simbu Province

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Simbu Provincial Government	2011 and 2012	2010	October 2013 Disclaimer	Significant control weaknesses identified.
Kundiawa Hospital Board	2011 and 2012	2010	October 2013 Qualified	Improvements noted.
Kundiawa Urban	2010	2010	October 2013 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		
Kerowagi Rural	No data			
KumaiBomai	2005	No		
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 the Simbu Provincial Government financial statements for the year-ended 31 December 2010 was unsatisfactory with a Disclaimer Audit Opinion being issued. The paragraphs below detail issues relating to the financial statements and the control environment:

Budgetary Control

The Simbu Provincial Government may have passed a *Provincial Appropriation Act* for 2010, however a copy of the Act was not made available for confirmation although requested.

The TMS 55 Report provided by the Department of Finance shows actual total payment of K41,705,416 as salaries for Public Servants and Teachers as compared against the estimated salaries appropriation of K37,828,300 revealing an over expenditure of K3,877,116.

Warrant Authorities and Cash Fund Certificates issued under National and Provincial accounts were not provided, as such I was unable to conduct the necessary examinations.

Revenue

I have reviewed the control mechanism of the internal revenue and noted the following:

- The cashier was in custody of the keys to the cash office, the safe room and the safe itself. This posed a high risk of public funds being misused, abused and possible theft;
- Inordinate delays in banking done ranging from one to 12 days were noted. Banking should have been done on a daily basis as required by the Financial Procedures;
- Although strategies to improve internal revenue were implemented progressively from 2007 to 2010 the achievements were below the expected level;
- Due to an inefficient GST Office, sales data for the Province has not been maintained accurately. The Simbu Provincial Government was unable to establish actual or expected GST that was due to the Province;
- The revenue division lacked funding and much needed resources such as office furniture and equipment to perform effectively in maximising provincial revenues; and
- I highlighted to the administration that inadequate control of internal revenue poses the risk of funds being misused, abused and possible theft.

Cash Book and Bank Reconciliation

Bank reconciliation items outstanding for both bank accounts were not identified and cleared, showing unrealistic cashbook balances at the year-end.

I recommended to Management that the outstanding reconciliation items should be identified and cleared promptly in order to maintain a reliable cashbook balance at any given point in time.

Assets Management

The Simbu Provincial Administration did not maintain a proper Assets Register to record all the assets purchased, maintained and disposed during the year under review, nor was a stock-take conducted to verify the existence and value of assets as at 31 December 2010. In the absence of the Assets Register, major assets purchased during the year totaling K1,219,665 could not be confirmed. I have recommended Management immediately establish and maintain a proper Assets Register.

Procurement Management

Quotations, Certificates of Inexpediency, Tender Registers and pre-qualification listing of contractors were not provided for my review. The Provincial Supply and Tenders Board Meeting Minutes and its decisions provided were incomplete and not properly numbered. In this regard I was unable to ascertain whether procurement procedures have been complied with.

Payment of Accounts

Payment Vouchers of which payments were made amounting to K26,500 were missing from the file.

In four instances claims totaling K97,000 had not been certified by certifying officers before payments were made.

A payment of K300,000 on cheque number 670 had not been approved by the authorised Section 32 Officer before the payment was being made.

Legal and Consultancy Fees

Payments relating to legal and consultancy service engagements totaling K24,500 was noted that:

- Deliberations and endorsement on the engagement of the legal and consultancy firms by the relevant authorities was not sighted and as such Audit could not ascertain the purposes of the engagements; and
- Contractual agreements for the engagement of these firms were not made available to authenticate the payments made.

Reimbursement of Personal Expenses

127 instances were identified where reimbursements of personal expenses totaling K199,772 had been paid to individuals. However, prior approvals of such commitments were not sighted and in most instances these claims lacked proper documentation to confirm the validity of the expenses incurred.

Financial Assistance

Payments as financial assistances to individual totaling K560,113 were noted during the year; however evidence of any standard criteria being followed in determining the eligibility of claims received and the establishment of a committee to deliberate on payments made in this regard were not sighted. These practices may have exposed the Provincial Government to the risk of misappropriation of funds and irregular practices.

Motor Vehicle Hire

Expenditures totaling K167,131 had been incurred for private vehicle hires during the year. These were not supported with three written quotations and invoices. Furthermore payments were made from wrong vote items. Also the purposes of these hires were not stated on documents sighted. For instance, payment in excess of K4, 900 for cheque number 1669 was made to Nana Finance Car Hire with only the FF3, FF4 and invoice attached without any other source documentation. There was no evidence of any controls established to ensure that all requests for private hires had been submitted to the appropriate administration authority for approval prior to engagements.

Outstanding Payments

Outstanding payments to various organisations and individuals for claims dated back to 2007 were amounting to K267,628. I noted no evidence to suggest that a standard criterion in place to determine the validity of such claims received nor was there a committee or an office established to keep track of the claims outstanding and those settled. In the absence of any control mechanism the Provincial Government was exposed to the risk of misappropriation of funds and other irregular practices.

Fuel

Expenditures amounting to K328,693 were incurred on fuel purchases during the year. I noted that the payments were not supported with proper source documentation such as fuel purchase orders, supplier invoices showing details of vehicles that collected fuel, date, litres of fuels supplied and officer that collected fuel. Further, the transport and fuel unit had not existed during the year under review as such the respective divisions were responsible for the management of their transport and fuel needs. Proper care and due economical fuel purchase had not been practiced by the Provincial Government.

Accommodation

Expenditures totalling K106,367 for hotel accommodation were not supported with comparative written quotations from other hotels and without proper source documentation such supplier invoices showing details of service rendered. In the absence of proper documentation I was not able to ascertain the genuineness of these payments. Without administration controls on expenditure for procurement of goods and services the risk of committing fraudulent activities was high. I noted with concern that the financial procedures have been grossly overlooked.

Trust Accounts

The Trust Accounts Summary showed that the Simbu Provincial Government had 49 Non-Bank Trust Accounts relating to Provincial Operations. There had been no movement of funds during the year thus revealing only the brought forward balance from the previous year. It is recommended that

Management review its Trust Accounts and close all dormant accounts with clearance from the Department of Finance.

Advances Management

Advances totaling K3,343,294 have been paid during 2010 from the National and Provincial Vote series. The Advances Register was not properly updated and maintained as such I was not able to trace the outstanding advances from the Register to Appendix 6 of the financial statements. Further, fuel advances amounting to K101,444 were not captured in the Advances Register. Subsequent advances were given to officers while previous advances remained outstanding.

Capital Works and Maintenance

The Provincial Government incurred a total expenditure of K2,299,019 on the capital works and maintenance program. The expenditures were mostly spent on maintenance of existing infrastructure projects such as roads, bridges, building and other routine maintenance works. The following observations were made in relation to expenditure on roads, airstrips and bridges:

- Although various contractors were engaged in the above activities I was unable to verify whether these contractors had the necessary experience and expertise to undertake the projects due to the unavailability of the Pre-qualification Register and the respective company profiles;
- Various payments totaling K557, 089 were made for casuals maintaining roads and airstrips. The job inspection, progress and/or completion reports for these works done were not sighted on file. Also confirmations, if any, were not sighted for labourers receiving their due wages. Also PSTB approval, if any, was not sighted; and
- A cheque for K120,000 was paid to Cotex Pacific Ltd being for payment of the housing maintenance of Governor's residence. Examination relating to this payment revealed that PSTB approval and other relevant supporting documentation was lacking and as such the validity of this payment could not be verified.

I recommended management ensure that all related documents regarding capital works and maintenance is properly filed and furnished to Audit upon request.

PEC Meeting Minutes

The Simbu Provincial Executive Council and Assembly had conducted various meetings during the year. I noted in PEC Meeting No. 2 of 2010 that an upfront payment of K200,000 was paid to acquire Arabica Coffee (coffee processing plant). Further, the Governor had admitted that the JPP/BPC was not consulted due to urgency to secure Arabica Coffee. However, there was no mention on who was supposed to manage the company, who the owners/directors/shareholders of the company were, or reporting procedures and profit sharing benefits.

Internal Audit

The internal audit plans, programs and copies of audit reports had not been provided to my office for verification although various verbal and written requests were being made. However, the following observations were revealed in my last report:

- There was no Audit Charter to set out scope of audit coverage and activities to be undertaken. The Provincial Government did not have an independent Audit Committee to oversee the activities of the Internal Audit Unit. The Internal Audit Unit appeared to be understaffed and the skills and training level of the staff members were below acceptable levels. Resources in terms of funding and provision of logistics (transport) to undertake audit assignments appeared to be inadequate. I was unable to follow up on internal reports, if any, to ensure they were adhered to by management and related entities.

5.15.2 Kundiawa Hospital Board

Financial Statements

The audit of the Kundiawa General Hospital's Financial Statements was satisfactory and was issued with a Qualified Opinion in October 2013. Issues identified with the control environment are detailed in the paragraphs below:

Budgetary Control

The General Hospital had in place budget documents detailing revenues and expenditures for National Government Grants and Internal Revenues of K9,310,200 and K380,000 respectively for the 2010 financial year. The actual exceeded the budget amounts as shown below. Although vote item to item transfers were noted in almost all items for the operating fund, prudent cash management by management resulted in net surpluses for the year as reported in the Financial Statements.

	<u>Grant Revenue</u>	<u>Internal Revenue</u>
	<u>K</u>	<u>K</u>
Budget	9,310,200	380,000
Actual	<u>9,569,830</u>	<u>910,627</u>
Surplus	<u>259,630</u>	<u>530,627</u>

Budgetary control procedures were effective and satisfactory. I commended Hospital Management for prudent cash management and applying best budgetary control practices that resulted in net surpluses at year-end.

Cash Management

The cashbook, monthly bank reconciliation statements and bank statements of Kundiawa Hospital Board's Operating Account No. 1000 930802 and Trust Account No. 1000 930832 revealed that the Operating Account's year-end closing cashbook balance of K690,304 was not properly reconciled with the year-end closing bank balance of K807,454. Similarly, the Trust Account's year-end closing cashbook balance of K497,866 was not properly reconciled with year-end closing bank balance of K503,370. Thus, the year-end bank reconciliation performed failed to reconcile the above balances resulting in variances of K965 and K1,389 respectively.

Revenue Management

Control mechanisms employed by the hospital management to effectively monitor revenue collection and banking were intact, effective and satisfactory except for a few delays in banking that range one to three working days.

Purchasing and Payment Process

The following shortcomings were noted from random sample of selected payments as follows:

- Payment vouchers totaling K186,612 were missing from the files inspected.
- Some cheque numbers in the excel cashbook cheque numbering sequence were entered using formulas, thus most cheque numbers were displaced during sampling. Consequently amounts for eight cheques totaling K123,101 could not be traced to actual payment vouchers and reliably verified.
- Payments totaling K187,895 were made to TNA Holdings for credit facilities used to obtain operational materials and goods. The following weaknesses were noted regarding this credit facility arrangement:
 - Triplicate purchase order books were not used in order to retain a copy for verification of supplier invoices. Further, delivery notes were not attached to confirm actual delivery and receipt of goods as per the purchase orders placed;
 - Original purchase orders were not attached to support some invoices submitted for payment, thus facilitating double payments and manipulation of invoice amounts; and
 - No Register was maintained to monitor such transactions.
- Instances of payments totaling K50,282 were noted to be made without obtaining quotations.

Salaries and Allowances

The salaries and other allowances paid to doctors, nurses and community health workers were confirmed as correct and in order. However, great improvement was required to update the personal files of individual officers. Most of the files selected for audit inspection did not have Tax Declaration Forms and Salary History cards.

Assets Management

The schedule of assets presented in the financial statements show an asset value of K4,788,873. This schedule could not be reliably confirmed in the absence of a biomedical Assets Register and a register containing assets purchased prior to 2009. The Register provided showed details of non-biomedical assets purchased during 2010 and 2009 totaling K 317,489.

Advances Management

The hospital management failed to comply with Part 20 of the *PFMA* by not maintaining Temporary and Travel Advances Registers and the respective Acquittal Files. In the absence of the Registers and the acquittal files it was not possible to determine the advances paid and acquitted, outstanding advances, if any acquitted, amount and date acquitted, evidence of course of action taken on advances not acquitted and if any subsequent advances given to holders of first un-acquitted advances.

5.15.3 Kundiawa Urban Local-level Government

The financial statements for the year-ended 31 December 2010 was unsatisfactory with Disclaimer Audit Opinion had been issued. Paragraphs below detail issues identified during the audit of 2010 accounts:

Budgetary Control

Total revenue estimates of K1,362,400 was under collected by K946,236 which had resulted from shortfall in internal revenue collections by K773,436 and non-realization of project grants of K170,000. The significant shortfall in revenue had restricted important expenditure to be committed.

Cash Book and Bank Reconciliation

The Kundiawa ULLG operated two separate bank accounts with BSP Bank Kundiawa branch. The Kundiawa ULLG account number 1000930877 was for the operation of National Government funds and the Town Services Account number 1000930876 for internal revenue funds. I noted that regular bank reconciliations for both bank accounts were properly done and maintained.

Revenue Management

I could not satisfactorily report whether collection of revenue and banking procedures were adhered as important documents such as collector statements and deposit slips were not provided. No sub-ledger of debtors collection, outstanding revenues and other related listings and schedules were maintained. No Accountable Form's Register such as receipts, debit notes, and invoices were maintained. No segregation of duties was maintained between receipting, recording and banking. As such, I recommended management give priority to improving revenue management and collection procedures.

Payment of Accounts

Kundiawa ULLG estimated total expenditure of K1,362,700. However, actual expenditure per the expenditure ledger report totaled K195,900. The following deficiencies were noted:

I was unable to review the control mechanisms surrounding payment of accounts due to non-availability of all payment vouchers for 2010. This further resulted in the limitation of scope of audit of the expenditures of the Kundiawa ULLG.

I made a few observations based on Cash Book and Expenditure Ledgers as follows:

- Kundiawa ULLG had failed miserably in maintaining all paid vouchers related to both procurements and other expenditures made during the year. I was unable to verify and confirm the authenticity of various payments totaling K195,900 as per Expenditure Vote Summary balance for the period under the review;
- The Instrument of Appointment of Section 32 Officers where the Provincial Administrator delegates financial powers to appointed officers was not made available;

- Payments totaling K61,803 were made to Kundiawa ULLG staff wages and councilors' allowances from the vote item 112. I could not establish the exact figure of casual and permanent staff employed as the Employees' Establishment Register was not made available for verification;
- Payments totaling K5,000 made to a legal firm for legal services rendered were not supported with related documents such as an engagement contract detailing legal services to rendered, fee rates, period or manner of engagement, method of contract termination, or reviews;
- Financial Assistance given to various councilors, individuals and mayors during the year totalled K20,430. No proper selection criteria were being used in identifying benefactors that benefited the community at large. Most of these recipients were councilors and Kundiawa ULLG staff members. I considered these transactions were not performed at an arm's length and people in authority had abused their powers to manipulate the system and benefit themselves; and
- Total expenditure of K20,427 was incurred for various services rendered. It is not known what the services were provided and by whom the payments were made.

I recommended the Simbu Provincial Administration take immediate and necessary measures to ensure that Kundiawa ULLG adhere to relevant provisions of financial procedures and directives. This included maintaining all financial records and other important documents for independent audit inspection.

Salaries and Wages

My review of the paid accounts, cashbooks, expenditure transaction details and other underlying records revealed the following matters:

- Staff establishments and ceilings approved by the Department of Personnel Management were not made available to Audit for inspection;
- The Kundiawa ULLG did not apply pay rates approved by SRC Determinations but instead came up with their own;
- Except for the town manager and the deputy town manager, all other positions in the organisation were not DPM approved, hence people that occupy them were all casuals. Due to this problem the staff turnover rates were very high; and
- From the payments sampled for vouching, I noted that an aggregate amount of K61,803 was paid for wages. Due to comments made above and other related paid vouchers not available I could not reliably verify these expenditures.

I recommended that greater care should be taken to ensure that records such as the Establishment Register and payroll were maintained, electronic and hard copies were taken and safely kept. Also that the staffing level was to be maintained as stipulated by the legislation and that suitably qualified staff were employed to support the operations.

Corporate Governance

I noted that the Kundiawa ULLG did not develop a Corporate Plan for 2010 and beyond. I also noted that the ULLG did not have other associated operational plan with set objectives and strategies on a short-term basis to support developments in financial, human resource and asset management needs.

I recommended the Kundiawa ULLG to develop and launch its Corporate Plan that will enhance the process of addressing the priority issues and constraints in order to achieve the targeted outputs as identified under each of the Key Result Areas (KRA) set out in the Corporate Plan.

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	2010	2010	October 2013 Disclaimer	Significant control weaknesses identified.
Mendi Hospital Board	2010	2010	October 2013 Disclaimer	Significant control weaknesses identified.
Mendi Urban	2010 None	2010 None	None	No financial statements 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	2005-2009	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

Financial Statements

The audit of the financial statements of Southern Highlands Provincial Government for the year-ended 31 December 2010 was unsatisfactory with a Disclaimer Audit Opinion being issued. The deficiencies identified in the control environment created opportunities for misuse of public money. The paragraphs below detail issues identified:

Investments

The Provincial Government did not report any investments as at 31 December 2010. However, the 2005 financial statements disclosed investments in BSP Ltd totaling K2,000,000, Southern Highlands and Gulf Energy K60,000 and Kaupena Coffee Exports K100,000. In the absence of an Investment Register, share certificates or documentation available to indicate whether the investments were disposed, I was not able to ascertain the value of the investments held.

Assets

Assets purchased during the year were not properly updated in the Assets Register. Assets totaling K1,359,677 extracted were noted to have been purchased in 2010 were not recorded resulting in the significant understatement of Appendix 4. In the absence of a complete Assets Register and annual stock-takes, I was unable to confirm the completeness and value of assets owned by the Southern Highlands Provincial Government as at 31 December 2010. There is also weakness over the control of the Provincial Government fleet of vehicles.

Advances

Advances totaling K2,135,699 were paid during the year from the National and Provincial Budgets. Test checks for proper recording of advances in the Register appears to be unsatisfactory as the Register was not updated. I could not properly trace outstanding advances from the Registers to Appendix 6 of the financial statements due to no disclosure. Selected sample of payments relating to advances revealed a lack of supporting documents.

Budgetary Control

The Original Provincial Budget passed by the Provincial Assembly was not made available for my examination. However, a Revised Appropriation Act authorising a total of K276,060,200 was passed subsequently. I raised a number of issues regarding the significant shortfall in revenues and under expenditures in my Management Letter have not been responded by the Provincial Administration.

251 instances of payments totaling K63,747,504 were noted to have been made out of incorrect vote items during the year.

Revenue Management

Administrative staffing grants, teacher's service leave fares, member's discretionary fund and SSG development grant amounts have not been disclosed in the revenue ledgers, Statements "J" and "B" consequently affects Statement "A". The actual amount (estimate K58,916,500) of the salaries grant from the Department of Finance TMS 55 Report has not been obtained and disclosed as notes to accounts.

I was concerned regarding the completeness of Statement "J". Many items of revenue, for which a budget has been established, have no revenue recorded or the revenue is significantly less than that proposed in the budget. Budgeted revenue relating to natural resources benefits including K18,600,000, Development Levy of K35,200,000 and Dividends on Investments of anticipated K6,000,000 were not taken up in the revenue ledgers or Statements "J", "B", and "A" during 2010.

I was reliably informed that the revenue earned from natural resources are usually picked up by relevant members and deposited directly in the bank thus prior arrangements are done at the Provincial Treasury Office where cheques are drawn immediately after the cheques are deposited. Such behaviour has caused the books of accounts to significantly understate its revenue and totally misled the users of the report. Accountability was totally ignored and lacking as far as revenue accounting was concerned.

Cash Book and Bank Reconciliation

The cashbooks, bank accounts and bank reconciliations were poorly managed and as such reliable cash balance could not be determined at any time from their books of accounts. The table below shows the vast difference of balances between the cashbooks and the bank accounts as at 31 December 2010:

	Cashbook	Bank	Variance
	<u>K</u>	<u>K</u>	<u>K</u>
Grant	(23,563,789)	2,315,289	(21,248,500)
Operating	(296,232,879)	7,017,901	(289,214,978)

Based on my Management Letter issued to the Provincial Administrator, there are K478, 981,556 of reconciling items relating to the previous and the current years yet to be sorted out at the end of the year.

Grants and Subsidies

Grants totaling K22, 322,085 were paid to various recipients during the year but the Accountability Reports from the grant recipients were not sighted. Other issues included:

- Officers signing as Section 32 Officers would also sign as a Financial Delegate;
- In so many instances, payment vouchers would normally show evidence of procurement checks being done through the signatures of Examiners and Certifying officers with foot notes indicating procedural lapses, claims were still able to proceed for payments; and
- In reference to expenditure amounts exceeding K100, 000 but less than K3, 000,000 there was no evidence sighted to confirm approval was obtained from PSTB and APC to Pre Commit.

Payment of Accounts

Some control weaknesses identified in the Provincial Government's records and processes in relation to payment of accounts were as follows:

- In 251 instances, the Provincial Government incorrectly charged expenditures totaling K63,747,504 to unrelated vote items during the year, contrary to the Appropriation Act;
- In most instances, procedural deficiencies such as claims not certified and examined by respective Certifying and Examining officers have occurred;
- 235 payment vouchers totaling K1,865,151 were not provided, thus I was unable to validate these payments;
- K4, 259,664 was expended on consultancy and legal fees however in most instances contract agreements and other supporting documents were not available. As such I was unable to ascertain the validity of the payments;

- There were instances where reimbursements of personal expenses totaling K960,400 were approved for payment, however prior approval of such commitments and in most instances lack of proper documentation to confirm the validity of the claims;
- Payments as financial assistances to individual totaling K905,669 were noted during the year; however evidence of any standard criteria being followed in determining the eligibility of claims received and the establishment of a committee to deliberate on payments made in this regard were not sighted; and
- A total expenditure of K1, 741,142 was noted on private vehicle hires during the year. Expenditure for hire cars was not supported with three written quotations and also most payments were made from wrong vote items.

Capital Works and Maintenance

An analysis of expenditure relating to vote items appropriated for capital works and maintenance programs budgeted under vote series 705 and 277 revealed total expenditure of K45,843,914. Examination of selected payment vouchers and other related documents revealed the following observations:

- Funds committed under the capital works and maintenance program were mostly to settle outstanding contract payment and continuity of ongoing projects for which contracts were awarded in prior years. Consequently the Certificate of Inexpediency was used as a requirement to satisfy tender procedures;
- A written request was forwarded to the PSTB Secretariat for the submission of PSTB Minutes of all meeting held during the year, Project Files, Contract Agreements for Consultants and Major Contracts, Certificate of Inexpediency Issued and Authority To Pre-Commit Files was not responded to during the time of audit in the month of March 2010; and
- It was generally observed that relevant documents in support of substantial amounts of payments expended under the capital works and maintenance program for consultancy services and major works contract engagements were either, not in order or not provided. Consequently I was not able to verify the extent of compliance to Proper Contract Engagements, Approval and Endorsement from Provincial Executive Council, Satisfying Provincial Supply and Tenders Board Requirements and Physical Verification performed by technical division of Engineering Management Ltd for proof of services provided.

Salaries and Wages

Examination of records and documents relating to salaries, wages and allowances revealed the following matters:

- During the course of the audit, it was generally observed that most of the Provincial Government Staff were either unavailable or absent from work, the same scenario was experienced with the Human Resource Division. Consequently I was unable to examine all relevant documents and records relating to the existence of all public servants employed by the Provincial Government and determine the extent of compliance with applicable Salaries and Remuneration Determination;
- Although requested, the Staff Establishment Register for the permanent and casual employees under both Divisions 277 and 705 were not provided for my audit examinations. The Register acts as a guide to the organisation on the number and levels of positions approved by competent authorities such as DPM. Without the Register, it was difficult to determine what positions were filled and what positions were still vacant. As such, I was unable to determine whether employees on the organisation's payroll were bona fide and the positions that they held were approved by the DPM. Similar situations were reported in our previous Management Letters;
- The total anticipated expenditure component of the Provincial Staffing Grant, retained and spent from the Department of Finance is not captured in the books of account of the Provincial Government. In the absence of personal record files, fortnightly payroll printouts and organisation structure, I was not able to confirm the total number of public servants attached to the payroll system and determine the total amount and correctness of salaries paid during the year.

Salaries, Wages and Allowances Paid From Provincial Government Account

According to the expenditure ledgers, a total expenditure of K5,538,684 was incurred under the Provincial Government Account. The examination of the expenditure ledgers, selected payment vouchers and other related records pertaining to the processes and expenditure of salaries, wages and allowances for the year under review, resulted in the following observations:

- Salaries, Wages and Allowances expenditure were budgeted under specific items 111, 112 and 141. However, it is noted that a large volume of these transactions totalling K2,085,126 were charged to inappropriate expenditure vote items. It is also noted that wages for casual employees were not consistently paid on a fortnightly basis depending on the availability of funds. Consequently, this resulted in an accumulation of substantial amounts of outstanding salaries, wages and allowances dating back to previous years;
- Cheques were drawn to the Chief Collector of Taxes totaling K106,308 during the year. However, related payment vouchers were not compiled for all payments made to the Chief Collector of Taxes. It was also noted at the time of audit on March 2012 that a significant amount of cheques written to Chief Collector of Taxes (IRC) still remained unbanked at the Revenue Office relating to the years 2009, 2010, 2011 and 2012. Urgent measures need to be taken by the Provincial Government to deposit these cheques; and
- Four cheques totalling K660,574 were paid as salaries and allowances to a person named Sarah Israel. According to documents sighted during audit, it appeared Sarah Israel was employed as a Business Development Advisor of the Southern Highlands Provincial Government. The following matters were noted regarding the engagement.
 - Sara Israel did not sign the Employment Contract Agreement; and
 - Provincial Executive Council approval for the employment was not sighted.

Internal Audit

Internal Audit Unit Annual Work Plans for 2010 was in place. Internal Audit produced 14 Internal Audit Reports from 2009 to 2011 as reported in my Management Letter. Those reports revealed serious allegations of maladministration, mismanagement, misappropriation, lack of proper accountability corruption and fraudulent practices. The Internal Audit Unit did not keep a status report on the actions taken by the Provincial Administrator on those reports at the time of audit.

5.17.3 Mendi General Hospital

Financial Statements

The audit of the Mendi General Hospital's Financial Statements was unsatisfactory and was issued with a Disclaimer Opinion in October 2013. Issues identified with the control environment are detailed in the paragraphs below:

Budgetary Control

The Hospital Budget was not made available for my examinations as such I could not establish whether the receipts and payments incurred during the year were budgeted for.

Revenue Management

The salary component of K7,323,500 could not be confirmed due to unavailability of the supporting schedules. Further both the payroll reconciliation for 2010 and the appropriation schedule from the Department of Finance provided did not agree with the amount stated in the financial statement.

The hospital did not maintain a reconciliation for the salary advances made, nor did it keep a record of all staff housing rentals and other forms of refunds made through payroll deductions as such I could not verify the receipt of K24,264 stated in the financial statement as rentals or salary advance refund.

The hospital disposed one of the old ambulances for K25,000. The tender documents in relation to the sale of the old ambulance was not made provided, as such I could not establish whether proper procedures and processes were complied with in the disposal of the state asset.

Cash Book and Bank Reconciliations

The hospital lacked competent personnel in its accounts section to do proper book keeping in compliance with the Cash Accounting Practices.

The monthly bank reconciliations were not properly done however they were corrected and cashbook adjusted during the audit when the weaknesses were highlighted. All the bank reconciliation statements were not independently checked and verified to authenticate the accuracy of the balances.

There was no segregation of duties between data entry, bank reconciliation and weekly or monthly reports to minimize the risk of error, manipulation or fraud and also to identify and correct the incorrect postings of debits and credits entries.

Procurement Procedures and Payment of Accounts

- The regularity and propriety of expenditure was not consistent and was lacking in compliance. Correspondences originating the payments were not attached to the payment vouchers to validate the payments. In many instances payments were made on the verbal requests which have no proof of the basis for payment;
- The Hospital did not maintain a Quotations Register to record both verbal and written quotations;
- Filing and maintaining payment vouchers was very poor. 32 payment vouchers totaling K294,305 were missing from the payment files;
- 35 instances of payment vouchers amounting K302,367 were identified for which Requisitions for Expenditure (FF3) were not approved by the Chief Accountable officer or his delegate;
- 31 instances of payments totaling K308,714 lacked supporting documents such as valid quotations, invoices, receipts and goods received notes; and
- The hospital did not maintain a Motor Vehicle Register to monitor the movement of hospital vehicles and the fuel ceilings for economical usage. The control over movement of motor vehicles and usage of fuel was lacking during the year.

Assets Management

The Hospital was reported to have maintained a Fixed Assets Register for both bio-medical and non-biomedical assets. However they were not provided for my examination. As a result of the above weakness the total value of the assets owned by the Hospital Board were not disclosed as Schedules attached to the Financial Statements.

Advances Management

The Hospital incurred expenses in relation to Travel Allowances and Cash Advances amounting to K114,459 and K53,571 respectively. In the absence of the Registers and the acquittal files I was not able to determine whether the advances were properly managed and fully accounted for.

5.17.3 Mendi Urban Local-level GovernmentFinancial Statements

The Financial Statements for Mendi ULLG for the year-ended 31 December 2010 was not done and were not furnished to Audit as requested. Matters highlighted below are the interim assessment of internal controls. My examination revealed several observations which may explain why the Financial Statements were not produced:

- The Management Team appeared to be lacking leadership where there was no coordination and cooperation within the management team. As such there could be no control and direction from the management level and the performance from all levels of employees appeared to be lacking;
- I was of the view that the Urban LLG does not have any competent accounting staff properly trained and experienced to perform accounting duties; and
- There could be political differences that influenced the administrative operation of the ULLG.

Budgetary Control

The Appropriation Act of 2010 was passed and certified by the Mendi Urban Assembly on the 25 March, 2010 authorising an appropriation of K862,800.

- There was no evidence pertaining to proceedings of the meeting involving the 2010 budget. The Finance Minister's approval for the appropriation was not made available;
- In the absence of accounts and records, actual revenue collected from National Government Grants and Internal Revenue could not be established and compared to the budget estimate for the year; and
- There was no indication of any budget performance reviews done during the year to monitor, control, and minimise significant variance. For instance, all internal revenues were not itemised and posted to the chart of accounts, cashbook and ledger accounts.

Cash Book and Bank Reconciliations

The Mendi ULLG operates two bank accounts with BSP Bank with Mendi Branch. Mendi ULLG Operating Account (No 1001106087) for National and Provincial Government Grants and the Mendi Market Trust Account (No 1001521066) for internal revenues. My review revealed the following matters:

- In relation to the Grant Account the Bank Reconciliation statement for the month of December 2010 was incomplete and other months were not submitted, cashbook and related documents were not prepared, as such the cash position as at 31 December 2010 could not be established;
- Apart from market collections other internal revenue collections are deposited into the Operating Account which is not proper where the Operating Account should strictly hold grant funds; and
- Bank Reconciliation Statements, Cash Book and all other related records for the Mendi Market Trust Account were not submitted to Audit to confirm the cash balance as 31 December 2010.

Revenue Management

A review of the revenue management process revealed the following matters:

- No revenue ledger accounts were maintained to record grant and internal revenues collected. The duties of the officers responsible for revenue collection, monitoring, review and reporting were not properly defined;
- No Debtor's Ledgers, Accountable Form's Register, such as receipts, debit notes and invoices, were maintained. There was no proper maintenance of records such as filing and safe keeping of records; and
- A total amount of K416,300 was estimated to be received in National Government grants. However, no Cash Fund Certificates were made available to ascertain how much was actually received.

Payment of Accounts

My reviews of controls surrounding payment of accounts were as follows:

- The Instrument of Appointment of Section 32 Officers were not sighted;
- Expenditure Ledgers were not submitted as such I was not able to establish total payments and the validity of those payments;
- Payment vouchers were not examined, certified, organised and filed in serial sequence of cheque numbers or date of payment. They were put in plain boxes and not all payment vouchers were submitted for my examination; and
- I was of the view that there is not much coordination between the Office of Mendi District Administrator, Mendi ULLG and the Mendi District Treasury Office for the purpose of accounting of public funds appropriated and spent by the ULLG. It is the responsibility of the District Treasury Office to take ownership of the accounting of public funds spent by government organisations within the Mendi District.

Assets

I noted that Mendi Urban LLG did not have an Assets Register to record assets owned. There may be substantial public investments such as land, building and other assets which are not taken stock of.

Advances

In the absence of an Advances Register I could not establish the total advances paid as at 31 December 2010. Also in the absence of a cashbook and expenditure ledgers, the extent of advance payments for the year could not be ascertained.

Salaries and Wages

Review of the ULLG staffing structure, salaries and wages payments during the year noted the following matters:

- The ULLG Staffing Structure, Establishment Register, Staff Personnel Files and other related records were not provided for audit examination;
- The Mendi ULLG in its 2010 budget estimated Salaries and Wages expenditure total of K111,400. In the absence of expenditure ledger records, payroll, wages sheets and related documents I could not ascertain how much was paid in salaries and wages during the year; and
- An interview conducted with several officers revealed that staff wages were considerably delayed for six to 12 months which was also evident in the payment vouchers.

Internal Audit

The Provincial Government Internal Audit did a considerable job in the Mendi ULLG. In 2009 Internal Audit had conducted an audit investigation on the operations of the ULLG operations and uncovered serious corrupt practices and reported to the Provincial Administration.

The Provincial Administrator wrote a letter dated 10/6/2010 to the Provincial Police Commander and referred certain management staff of Mendi ULLG for misuse of a substantial amount of public funds totalling K418,000. However police action on this matter is not known at the time of audit.

Corporate Governance

The Mendi ULLG did not develop a Corporate Plan for 2010 and beyond. I have noted that the ULLG did not have other associated operational plans with set objectives and strategies on a short-term basis to support developments in financial, human resource and asset management needs.

5.18 West New Britain Province

Entity	Last Financial Statements Submitted	Financial Statements Audited	Audit Opinion	Other Details
West New Britain Provincial Government	2011	2010	Disclaimer	Significant control weaknesses identified.
Kimbe Hospital Board	2011	2010		Significant control weaknesses identified.
Bali Witu LLG	2010	No		
Bialla LLG	2010	No		
Gasmata	2007	No		
Gloucester	2007	No		
Hoskins	2010	No		
Kandrian Coastal	2007	No		
Kandrian Inland	2007	No		
Kimbe Urban LLG	2010	2010	Disclaimer	Significant control weaknesses identified.
Kaliai Kove LLG	2010	No		
Mosa LLG	2010	No		
Talasia	2010	No		
West New Britain Development Corporation	2004			2002 – 2004 audit fees awaited; no recent statements submitted for audit.
Cape Hollman Corporation				Entity dissolved.
West Farm Resources				No recent financial statements submitted.
Kimbe Frozen Food Delicatessen				No recent financial statement submitted.
Kimbe Enterprises				No recent financial statements submitted.
West New Britain Building Supplies				No recent financial statements submitted.

5.18.1 West New Britain Provincial Government

The audit of West New Britain Provincial Government financial statements for the year ended 31 December 2010 was generally unsatisfactory with a Disclaimer Audit Opinion issued. My report to the Minister responsible contained the audit findings as summarised in the paragraphs below:

Cash Balances

The accuracy of the cash at bank and Trust Account balances and consequently the financial position of West New Britain Provincial Government as at 31 December 2010 could not be confirmed due to the following reasons:

- The Provincial Government cash and bank balance of K41,392,784 included unconfirmed dormant account balances totaling K1,216,832;
- The opening Trust Fund balance of K9,344,413 was not in agreement with the previous year overdrawn closing balance of K74,413. Balances between the Statement and Note to the account were also inconsistent;
- The Provincial Revenue Fund balance of K2,858,610 could not be confirmed as correct due to errors and material misstatement discussed under the paragraph on Receipts and Payments below;
- The Provincial Revenue Fund Account outstanding receipts of K71,700 had not been adjusted in the cashbook or the revenue ledgers; and.
- Interest Bearing Deposits (on-call) of AUD2,704,40 had not converted to Kina value and disclosed accordingly. Further, the confirmed accrued interests on the Term Deposit Accounts totaling K25,562 was not in agreement with the statements balance of K11,237 resulting in an unexplained difference of K14,325.

Receipts and Payments

The accuracy of the reported total revenue and expenditure of K70,044,882 and K68,180,480 respectively and an operating surplus of K1,864,402 as at 31 December 2010 could not be confirmed due to the following reasons:

- The total revenue included former year appropriation receipts totaling K5,900,921 which were not actual receipts for the current year. A note to be inserted to the effect.
- The Public Servants and Teachers' Salaries actual receipts and expenditures of K9,755,858 and K25,536,800 respectively were not taken up in the ledgers as a note to accounts. Further, the total actual salaries expenditure was in excess of the year to date target expenditure resulting in the unexplained difference of K1,778,890.

Investments

- The accuracy and completeness of the reported investments balance of K38,534,175 and an accrued bank interest of K66,355 could not be confirmed as correct as this did not include a converted equivalent Kina value of an On-Call Term Deposit of AUD2,704,401; and
- As stated in my previous year audit report, the Provincial Government held investments in various business arms namely, Cape Hollman Corporation, West New Britain Development Corporation, West Farm Resources Limited and Mokmok Development Corporation. The status and the existence of this investment, if any, could not be ascertained due to non-availability of an Investment Register and other related records.

Assets

The Provincial Government had disclosed its fixed assets as K10,889,534 as at 31 December 2010. This however, could not be confirmed as correct due to the following reasons:

- The opening balance of K10,889,534 was not in agreement with the previous year closing balance of K35,151,736; and
- The Fixed Asset Master Registers have not been comprehensively updated with purchases and disposals during the year. For instance purchases totaling K1,905,956 had not been captured in the Register.

Significant Control Weaknesses

- A serious lack of proper monitoring and recovery exercises on travel and cash advances resulted in un-acquitted advances of K992,234 as at 31 December 2010. Further, other cash advances totaling K34,788 had not been captured in the PGAS Advances Register;
- Payments totaling K110,464 were not certified to determine the legitimacy of the expenditure incurred prior to payment of claims:

- Payments totaling K86,891 and K50,759 were inappropriately approved by the Advisors for Divisions of Agriculture and Livestock and Education respectively, as the Section 32 Officers, as they were well in excess of their financial limits of K50,000;
- The legitimacy and validity of a payment of K100,000 to the Open Member of Parliament for Kandrian/Gloucester Electorate as an advance on the accommodation allowance could not be determined as the expenditure was charged and paid from funds intended for Provincial Assembly Members salaries and allowances;
- The payment of outstanding leave fares entitlements to public servants and teachers totaling K2,470,560 lacked appropriate supporting documents, including approved applications;
- Payments described as 'Selection Committee Allowances' to certain Provincial Administration Officers ranging from K1,000 to K3,500 for engagement on the screening and selection process of new applicants for employment with the Provincial Government were made tax free rather than being charged as overtime allowances based on the actual number of hours worked;
- The capital and maintenance works expenditure of K715,066 had no evidence of a duly certified Certificates of Completion indicating satisfactory execution and completion of project;
- The awarding of a contract for Hoskins Secondary School maintenance at a cost of K1.8 million lacked evidence of a proper tender processes and approvals;
- Payments of grants, subsidies and financial assistance in lump sum to public authorities, non-profit organisations, tertiary institutions and schools totaling K2,461,521 lacked evidence of accountability reports by recipients nor had the Provincial Government sought these reports; and
- Salary advances to newly appointed employees of the Provincial Administration totaling K145,340 were not recovered.

5.18.2 Kimbe Hospital Board

The audit of Kimbe Hospital Board's financial statements for the year ended 31 December 2010 was unsatisfactory and as such a Disclaimer Audit Opinion was issued. My report to the Minister responsible contained the audit findings as summarised in the paragraphs below:

Financial Statements

The financial statement for Kimbe General Hospital were not prepared and presented in the prescribed format and not in compliance with the relevant provisions of the *PFMA*.

The 2010 fund statements had errors and inconsistencies which render the respective Hospital Operating and Hospital Fees Trust Accounts and Consolidated Fund Statements together with the opening balances, receipts and payments and closing balances shown at year-end, inaccurate and misleading

Cash Balances

There was a limitation of scope arising from material misstatements due to errors and omissions of receipts and payments in the Operating and Trust Accounts cashbooks, resulting in reconciling differences with the bank balances. Consequently, I was unable to verify the accuracy of the Operating and Trust Fund Account reported cash at bank balances of K551,786 and K199,466 respectively disclosed in the financial statements.

Significant Control Weaknesses

- The Assets Register maintained by the Hospital was incomplete and had not been updated with movements in fixed assets during the year. For example, medical equipment purchased at the cost of K72,051 had not been recorded in the Fixed Assets Register. Consequently, I was unable to verify the completeness, existence and value of all fixed assets owned and in the custody of the Hospital at year-end;
- The Kimbe General Hospital did not maintain proper revenue ledgers to adequately account for the revenues received during the year. Consequently, I was unable to confirm the completeness and accuracy of the combined Hospital Operating Account and Hospital Fees Trust Account reported revenue of K9,849,174;

- Undue and prolonged delays in banking of revenue collections had resulted in the abuse and misuse of cash collections totaling K85,572 either borrowed, used directly for operational expenses or cash unaccounted for;
- The Hospital did not exercise effective budgetary control in its expenditure, including unpaid commitments, resulting in over and under expenditure of its budget allocations by K1,095,315 and K1,392,829 respectively;
- Lack of proper and effective cash and salary advance control had resulted in amounts totaling K64,419 not acquitted as at 31 December 2010;
- No proper Petty Cash Registers were maintained to ensure that complete and accurate records of expenditure incurred from the petty cash float were recorded and kept for acquittal purposes. Consequently, advances paid to the senior management totaling K14,500 could not be confirmed as acquitted;
- No approved delegated responsibilities for Requisitioning Officers and Financial Delegates. Also, officers were not properly appointed and charged with the responsibilities to execute examination and certification of claims prior to processing payments;
- Claims totaling K73,189 were processed and paid without the appropriate supporting documents such as the suppliers' invoices to confirm the accuracy and completeness of the payments made;
- Payments to private contractors for maintenance work at the medical and surgical ward buildings amounted to K82,166. I noted that the scope of works required at the medical ward building were not executed and completed satisfactorily while no work had been carried out at the surgical ward building despite the contractors concerned having been paid 80% of the contract cost;
- The Hospital Fees Trust Account was used on unrelated operational expenses and contrary to Section 2(c)(i) to (iv) of the Hospital Fees Trust Instrument. For example, funds totaling K45,751 were expended on wages, cash advances, travelling allowances and accommodation that should have been paid from funds allocated to the Hospital Operating Account; and
- The Kimbe General Hospital did not have a Corporate Plan with long-term objectives, priorities and targets and taking into account the requirements of its stakeholders and the needs of the people it serves. Further the associated plans that are needed to support the Corporate Plan such as financial management, asset management, human resources, information technology and risk management plans have not been established.

5.18.3 Kimbe Urban Local-level Government

The Kimbe ULLG submitted its financial statements for the year-ended 31 December 2010. Field work associated with the audit of the accounts and records was completed with the Management Letter issued. A Disclaimer Opinion was issued in June 2013. Issues identified are highlighted below:

Financial Statements

The financial statements of Kimbe ULLG for the year ended 31 December 2010 are misleading as a result of error in the presentation of the statements. Namely, amounts in Statements "A" to "K" and Appendices 1, 2 and 4 were incorrectly presented in amounts of 'thousands' instead of the original amounts.

Cash Management

An opinion on the accuracy of the cash at bank and trust account balances and consequently, on the financial position of Kimbe ULLG as at 31 December 2010 could not be expressed due to the following reasons:

- The ULLG cash and bank balance of K852,204.00 was not confirmed as correct due to errors and material misstatements of the Revenue Fund and Trust Fund account balances;
- The ULLG Revenue Fund balance of K110,695.00 was not confirmed as correct due to errors and material misstatements of the operating deficit as discussed under the paragraph on Receipts and Payments; and

- The stated accumulated Trust Fund balance of K741,509 was not in agreement with the corresponding trust ledger balance of K930,852 at year-end.

Receipts and Payments

The reported total revenue and expenditure of K771,382 and K780,353 respectively with an operating deficit of K8,971 could not be confirmed as correct due to:

- The total revenue inappropriately included former year appropriation receipts of K15,561 which should have been excluded from actual receipts for the year; and
- There were material receipts and expenditure reconciling items not adjusted in the cashbook and posted to the appropriate ledgers.

Assets

The ULLG did not disclose any details, including values, of fixed assets owned as at 31 December 2010. Further, the Assets Register or other records of periodical stock-takes of assets, if any, were not provided for review. Consequently, I was unable to verify the completeness and accuracy of the value and costs of assets owned and held by the Kimbe ULLG.

Significant Control Weaknesses

- The Kimbe ULLG reported its annual budget estimates as K2,372,300. However, I was not provided evidence to suggest that the original as well as the revised budgets, if any, were duly sanctioned and certified prior to implementation;
- The Kimbe ULLG disclosed un-acquitted advances dating back to 2009 as K7,845. However, I observed six payments of travel allowances and cash advance to officers dating back to 2006 totaling K18,301 appeared not to have been incorporated. Consequently, I was unable to confirm the completeness and accuracy of the reported amount at year-end; and
- All records pertaining to revenue collections, payment vouchers and other vital accounting records maintained for Kimbe ULLG as well as four other LLGs administered through the Talasea District Treasury Office were lost through a fire that gutted the office building on 3 April 2010.

5.18.4 West New Britain Provincial Government's Share Trust Number 1 and 2

The West New Britain Provincial Government is the trustee of New Britain Palm Oil Limited Trust Deed No. 1 and 2 Accounts. The Provincial Government is required to report on the operations of the Trusts to the trust's beneficiaries, namely the residents of West New Britain Province.

The audit of the financial statements of West New Britain Provincial Government's Share Trust Number 1 and 2 for the years ended 31 December 2010 was 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	2010	2010	Yet to be done	Significant control weaknesses identified.
Mount Hagen Hospital Board	2010	2010	August 2013 Disclaimer	Significant control weaknesses identified.
Hagen Urban	2010	2010	Yet to be done	Significant control weaknesses identified.
Aiya	2008	No		
Anglimp	2008	No		
Baiyer	2008	No		
Muglamp	No data	No		
Hagen Rural	2007	No		
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 and draft report missing	WP File missing between AGO and Auditors; no recent statements; audit to be determined.
WampNga Holdings	2007	In progress		2007 audit in progress.
Petrol Haul Ltd	2007	In progress		2007 audit in progress.
Peninsula Shipping Lines (PNG) Ltd	2007	In progress		2007 audit in progress.
Western Highlands Sport Stadium Trust				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
Western Highlands Development Corporation				No recent financial statements submitted; status of the entity/audit to be determined.

5.19.1 Western Highlands Provincial Government

Financial Statements

Presentation and Submission of Financial Statements

The financial statements submitted by the Western Highlands Provincial Government had the following discrepancies:

- Signed statements from the Provincial Governor and Provincial Administrator with comments relating to the 2010 budget performance as required were not included;
- The Financial Statements were not correctly compiled, contained numerous errors, misstatements and omissions. The prime Statements “J”, “K”, “C” and “D” contained errors and inconsistencies and cannot be relied upon and as such the overdrawn cash balance of K606,720 in Statement “A” could not be confirmed; and
- The Western Highlands Provincial Government 2010 Financial Statements were submitted to me in July 2012, a delay of 19 months. This is contrary to Section 113 (8) of the *Organic Law*.

The Provincial Government did not respond to my 2010 Management Letter on the audit of the financial statements and accounting records and as such, I was reporting on the major issues as follows:

Cash Balances

The accumulated fund balance of K606,720 (overdrawn) is represented by overdrawn bank and investment balances. The discrepancies of the cash balances were as follows:

- The closing revenue fund figure of K6,318,189 overdrawn in 2009 did not agree to the opening revenue fund figure of K2,442,323 overdrawn in 2010, resulting in an unexplained difference of K3,875,866 overdrawn as per Note 3 to the Accounts;
- The accumulated bank balance of K606,720 overdrawn could not be confirmed due to the non-provision of the bank reconciliation statements including the December 2010 statements. Note 6.2 to the accounts disclosed an accumulated credit bank balance of K871,597 which indicates that the cash balance has not been reconciled appropriately; and
- The Trust Fund balance totaling K1,200,851 could not be confirmed to the underlying records such as Trust Instruments, ledgers and the bank documents as these were not provided for my examination.

Consequently, I was unable to express an opinion on the accuracy of the cash at bank and trust account balances and consequently, on the financial position of Western Highlands Provincial Government as at 31 December 2010.

Receipts and Payments for 2010

I was unable to verify the accuracy of the total receipts K100,526,973 and payments K99,892,221 and subsequently the accuracy of the operating surplus of K634,752 in Statement “B”. This is due to the inclusion of the public servants and teachers’ salaries totaling K58,346,621 in the related Statements “J” and “K” as a receipt and payment respectively. I was unable to confirm these as the underlying records (like the TMS 55 Report from the Department of Finance) were not provided for my examination.

Investments

The Financial Statements "I" and "F" presented do not indicate short and long-term investments (if any) held by the Provincial Government as at 31 December 2010. No Investment Registers and other related records were provided for my examination. Further, the Financial Statements and other related information on the Provincial Government Business Arms, such as the Melpa Properties Limited and Western Highlands Development Corporation, have not been submitted to me for my examination. This matter has been outstanding as noted previously and nothing has been done to address this issue.

Assets

Appendix 4 did not disclose information about assets purchased and owned by the Provincial Government as at 31 December 2010. The Management Letter issued to the Provincial Administrator (which has not been replied to) reported that assets worth of K1,468,702 purchased in 2010 were not fully recorded in the Register.

Good asset management was not practiced and in the absence of a complete Assets Register and annual stock-takes, I was unable to confirm the completeness and value of all assets owned by the Western Highlands Provincial Government as at 31 December 2010. This included motor vehicles as there was also a lack of control over the Provincial Government fleet of vehicles.

Advances

Appendix 6 did not disclose a cumulative figure on un-acquitted advances as at 31 December 2010. Advances totaling K1,451,624 were obtained but not recorded in the Advances Register and as such there was no evidence of acquittals.

Significant Control Weaknesses

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

- Provincial Assembly meeting minutes and the resolutions taken to pass the budget could not be provided. The initial appropriation shows a difference of K1,472,600 between the ledgers and the budget book. No records were provided to support the upward adjustments of K728,400 made to the original appropriation;
- The Grant Account had an overdrawn cashbook balance of K301,000 as at 31 December 2010. The bank reconciliation statements for the months of January, February and August were not provided for audit. Reconciling items totaling K3,858,084 should have been cleared during the year but were not. The Internal Revenue Account had an overdrawn cashbook balance of K305,720 as at 31 December 2010. Also, the bank reconciliation statement for December was not provided for my examination;
- I was not able to ascertain the effectiveness of the Provincial Revenue Office in terms of revenue collections due to the Provincial Government. From the 13 Internal Revenue Charts of Accounts formulated, no explanation was given for the six which were not used. Cash and cheques were locked in ordinary drawers and no safe was used, hence exposed to a high risk of theft;
- My examination of paid accounts on a sample basis revealed unsatisfactory matters as reported in my Management Letter issued to the Provincial Administrator. Some of the significant issues were:
 - Three laws and 11 consultancy firms were engaged whose fees were K750,000 and K1,958,445, respectively. The underlying records like PEC and PSTB approvals, contract documents, suppliers invoices were not provided in support of the payments;
 - Reimbursement of personal monies totaling K88,078. As there was no evidence to show prior approval was granted, the validity of such expenses could not be established in the absence of supporting documentations;
 - Financial assistance to individuals totaling K498,493. There was no evidence of any standard criteria being followed in determining the eligibility of claims paid;
 - A total expenditure of K684,603 was incurred on private vehicle hires. The payments were not supported with three written quotations, suppliers invoices, payments were made from wrong vote items and the purposes for hires were not stated in most cases;

- Payments relating to previous years claims amounting to K1,121,699. No Outstanding Claims Register was provided for me to confirm whether the payments were valid and not paid earlier,
- Payments totaling K532,664 were incurred on fuel purchases. There was a substantial amount of advance payments on fuel purchases indicating prior arrangement with fuel suppliers. There was no evidence of records such as reconciliation on fuel consumption and balance remaining, dates and person that collected fuel; and
- Fuel worth K22,853 was purchased by the Provincial Government for Western Highlands Engineering Management Limited. The cheque was paid to an individual rather than an established fuel supplier.
- Non-compliance of procurement processes was noted over usage of funds appropriated for capital works and maintenance and for engagement of consultancy and legal services. Documents such as consultancy contract agreement, Provincial Executive Council approvals or Provincial Supply and Tenders Board approvals were not provided for my examination;
- All records relating to salaries and wages were not provided although requested. Responsible officers in charge of records were said to be involved in the 2012 national election duties and were not available at the time of audit to provide required records;
- The Western Highlands Provincial Government did not have a Corporate Plan in place during 2010; and
- Resolutions and the minutes of the Provincial Executive Council and Assembly meetings held were not furnished my examination.

5.19.2 Mount Hagen General Hospital

Financial Statements

The audit of the Mt Hagen General Hospital's Financial Statements was unsatisfactory and was issued with a Disclaimed Opinion in August 2013. Issues identified with the control environment are detailed in the paragraphs below:

Budgetary Control

Examination of the budgetary control practices observed during the year revealed the following matters:

- Commitments Ledgers were not maintained for recording expenditure commitments and de-commitments when actual payments are made. The Expenditure Ledgers were not submitted and could not be down loaded for audit examination. As such actual expenditure incurred could not be compared against the budget appropriation; and
- There was no evidence to prove that budget reviews were done during 2010.

Revenue Management

The following matters were weakness noted in the revenue management;

- There was no proper safeguarding of the collections and custody of the user fees collected. There was no safe used to store cash collected over the weekend and afternoons for next day's banking. The cashier office register is not secured and there is greater risk of cash being stolen;
- There was no proper transport arrangement in place for on-time banking and security during transportation;
- Review of debtors listing revealed that salary advances dating back to 2006 were still outstanding and there were no movements during the year. There was also no evidence that procedures were in place to recover the debts in terms of follow ups of debtors, sending notices and reminders or any legal actions initiated against the debtor; and
- Another area of specific concern was inadequate staffing of revenue officers to cover for 24 hours shift. There is a lack of adequate office space and there is no control in the access of the cashier

office. Apart from the OIC, the other staff were seen to be moving freely through the Cashier's office.

Cash Book and Bank Reconciliations

The General Hospital was using the Attaché computer accounting program to maintain all its accounting transactions. However no cashbooks and bank reconciliations were provided for the operating and the trust accounts, as such Audit could not verify if the cashbooks were properly maintained or confirm the cash balance reported in the financial statement.

Payment of Accounts

Audit examination and verifications of paid vouchers and related records in relation to payment of accounts and procurement management revealed the following discrepancies

- Selected samples of payment vouchers were examined to ascertain whether procurement procedures were adhered in terms of certifying, examining and approving of claims. I noted in three instances totaling K74, 660 there was no sign off by the Section 32 Officer;
- There was an ongoing practice by the Hospital where cheque leaves were removed from the cheque book even without necessary vouchers been raised and no formal approvals; and
- There was no segregation of duties in the use of the account software. This represented a breakdown in the internal controls of the hospital's procurement process and procedures and may result in misappropriation and fraud of hospitals funds.

Salaries and Wages

A total of K30,082 was paid to contract officers as educational benefits for the period under review. However, a review of the contract officer's personal files and contract documents had no clause for such benefits. Hence, I could not ascertain the nature and validity of such payments.

Casual Wages

The approved list of casual employees and their rates for the year were not provided for verification although requested. In the absence of the listing and rates, I could not ascertain whether casual employee's wages were accurately calculated and paid accordingly. A total of K185,790 was paid as casual wages during the year.

Advances Management

The hospital did not maintain accounting records for advances paid during the year and prior years. Therefore, there was a limitation of scope as I could not ascertain the value of the advances and also whether advances were actually utilised for the intended purposes.

Assets Management

Notes to and forming part of the financial statements were incomplete in that other disclosures such as a Schedule of Assets and Schedule of Liabilities as at the year-end were not presented. The Fixed Assets Register was not properly maintained and annual stock-takes were not undertaken during the year. Consequently, I was not able to verify the completeness, existence, accuracy and valuation of the fixed assets as at year-end.

5.19.3 Mount Hagen Urban Local-level Government

Financial Statements

The Audit Report of the Mount Hagen ULLG Financial Statements for the year-ended 31 December 2010 is yet to be done at the time of preparing this report. The Management Letter issued to the Town Manager was not responded to in the given time. The paragraphs below detail issues identified with the financial statements and accounts and records of the Mt Hagen ULLG:

Budgetary Control

Mount Hagen Urban Local-level Government Appropriation Act of 2009 was passed by the ULLG Assembly on 27 October 2009 appropriating the sum of K2,829,000 for the fiscal year ended 31 December 2010.

During our review of the Budgetary Control Practices I noted the assembly meeting minutes in relation to the passing and certification of the original budget and Finance Minister's approval for the appropriation were not provided. There was no indication of any budget performance reviews and revisions done during the year to monitor, control, and minimise significant variances. In the absence of these reviews I was not able to confirm that adequate budgetary control practices were observed in the application of funds appropriated.

Revenue Management

There was no monitoring system to ensure all cash collected was banked accordingly and that proper accounting was done. Custody of cash was poor in that cash was locked in the ordinary drawers and cabinets.

There was no compliance to procedures pertaining to compiling of collector statement undermining the integrity of the revenue procedures and system in process. Internal Revenue Ledgers accounts were not maintained to record actual revenues collected from the nine internal revenue head as per the budget estimate which not a single revenue was in order, all records were either incomplete or not maintained. In the absence of the above and collector statements, comparative analysis of collections and deposits could not be done.

Cash Book and Bank Reconciliations

Cash transactions were not promptly recorded to the cashbook on a daily basis and bank reconciliation statements were not compiled on a monthly basis. The cashbook transactions provided were constructed only at year-end from the cheque butts, deposit slips and bank statements basically for the purpose of preparing the bank reconciliation statements and financial statements. Therefore, I was not able to confirm the accuracy of the closing balances as reported.

Procurement Procedures

The file containing signatures of all appointed financial delegates was not provided for my examination. The Finance Form 3 Register, Claims Register, Verbal and Written Quotation Registers and Inventories Registers were not maintained.

Purchases of goods were executed on the basis of quotations and not on pro-forma invoices. As such, I could not verify whether or not the invoices were checked against goods received and any deficiencies noted were communicated to management.

Payment of Accounts

Payments vouchers were not provided for review due to these being taken by Internal Auditors and not returned at the time of the audit. Official written request for these records was not attended to and as such I could not ascertain whether payments made complied with required payment procedures. Following are some weaknesses noted:

- The total of K92,340 paid to the former ULLG Manager, Pious Pim, as final entitlement could not be ascertained;
- Payments totaling K59,334 were paid to individuals instead of registered groups or organisations for various routine maintenance programmes; and
- Total of K167,123 was spent on transport and fuel during the year of which K72,331 was spent on fuel alone. There were many outstanding payments made on fuel indicating credit arrangement with suppliers, however the control and monitoring measures such as reconciliation on fuel consumption, payments made and outstanding, date of fueling, and authority to patch fuel, was absent.

Advances Management

An Advances Register and Acquittal files were not maintained. The expenditure ledger revealed 19 instances of advances totaling K39,873 were paid during the year, which were not registered due to no register being maintained.

In the absence of an Advances Register and the related records I could not ascertain whether advances paid were properly monitored to ensure completeness in recording to the Register, acquittals requirements were complied with or remedial actions were taken against those failing to provide acquittal reports.

Assets Management

Examination relating to assets management revealed that there was no Assets Register being maintained and as such the value of assets owned and currently purchased cannot be established and also there was no any physical stock-takes undertaken during the year.

Salaries and Wages

A total of K251,052 was paid for salaries and wages during the year. However, I was unable to ascertain the number of staff employed, positions held since there was no Staff Established Register, no payroll record for the year as well as staff personnel files. As such I was unable to verify and confirm wages and salaries payments made during the year.

Corporate Governance

The Mt Hagen Urban LLG did not develop a Corporate Plan and other associate operational plan with set objectives and strategies to support developments in financial, human resource and asset management needs.

6. ACKNOWLEDGEMENT

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
Auditor-General