



Report of the Auditor-General - 2009

**on the Accounts of Public Authorities and Statutory Bodies
established under the Act of Parliament and Government Owned
Companies established under the Companies Act**

Part IV

- Public Bodies and their Subsidiaries
- National Government Owned Companies
- National Government Shareholdings in Other Companies

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- National Government Shareholdings in Other Companies

10 October, 2010

The Honourable Jeffery Nape, MP
The Speaker of National Parliament
Parliament House
WAIGANI
National Capital District

Dear Sir,

In accordance with the provisions of Section 214 of the Constitution of the Independent State of Papua New Guinea, I forward herewith a copy of my report signed on 10 October, 2010 upon the inspection and audit of the financial statements of the Public Bodies and their subsidiaries and National Government owned companies for tabling in the National Parliament. This Report (Part IV) also contains information on companies in which the Government does not hold majority interest. Section D of this Part of the Report contains information on the status of certain entities which have ceased operations and those entities audits of which have been in arrears.

Yours sincerely,



GEORGE W. SULLIMANN
Auditor-General

REPORT OF THE AUDITOR-GENERAL - 2009

PART IV

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GENERAL

1.1 FOREWORD

My Annual Report to the National Parliament for the 2009 financial year is presented in four Parts. Part I deals with the Public Accounts of Papua New Guinea. Part II deals with National Government Departments and the Provincial Treasury Offices, whilst Part III deals with the audit of the Provincial Governments and Local-Level Governments.

Part IV (this Part) of my Report deals with Public Bodies and their Subsidiaries, Government Owned Companies and National Government's shareholdings in Other Companies.

This Report is divided into four sections. Section A deals with Public Bodies and their subsidiaries, Section B deals with National Government owned companies and Section C deals with Companies in which the National Government has shareholdings. Section D is an additional section which provides details of entities that have ceased operating and those other entities the audits of which have been in arrears due to non-submission of financial statements.

The audit findings contained in Sections A and B of this Report have been reported to the Management of the respective entities and to the responsible Ministers.

1.2 AUTHORITY TO AUDIT

1.2.1 Constitution

Under *Section 214(2) of the Constitution* of the Independent State of Papua New Guinea, I am required to inspect and audit all bodies set up by Acts of the Parliament, or by Executive or Administrative Act of the National Executive for governmental or official purposes unless other provisions are made by law in respect of their inspection and audit.

I am also empowered under Section 214(3), if I consider it proper to do so, to inspect and audit and report to the Parliament on any accounts, finances or property of a body, insofar as they relate to, or consist of, or are derived from public moneys or property of Papua New Guinea.

1.2.2 Audit Act

By virtue of *Section 214(4) of the Constitution*, the *Audit Act, 1989*, which became effective from 1 May, 1989, provides more details of my functions under Sub-sections (1), (2) and (3) of the *National Constitution*. The Audit Act that was derived from the Constitution elaborates the functions and the duties of the Auditor-General. This Act was amended in 1995, and the relevant provisions of the amended Act are explained below.

1.2.2(a) Auditing and Reporting Requirements

In Section 8, Sub-sections 2 and 4 of the Act were amended to include provisions governing the auditing and the reporting requirements of public bodies including government owned companies incorporated under the *Companies Act*.

1.2.2(b) Matters of Significant Importance

Under Section 8(2) of the Act, I am required to inspect and audit the accounts and records of financial transactions and the records relating to the assets and liabilities of these public bodies and their subsidiaries, and to report to the Minister vested with the responsibility for the public body and the Minister in charge of Finance any irregularities found during the inspection and audit.

1.2.2(c) Audit Opinion on Financial Statements

Section 8(4) of the Act requires me to audit the financial statements of the public bodies and to report an opinion to the aforementioned Ministers on:

- (i) whether the financial statements are based on proper accounts and records;
- (ii) whether the financial statements are in agreement with those accounts and records; and
- (iii) whether they show fairly the financial operations for the period which they cover and the state of affairs at the end of that period.

1.2.3 Public Finances (Management) Act, 1995

The submission of the financial statements of the public bodies for audit is required under Section 63(4) of the *Public Finances (Management) Act, 1995*.

The section requires each public body to prepare and furnish to its Minister before 30 June each year, a report on its operations for the year ended on 31 December preceding, together with financial statements in respect of that year duly audited by me.

The Minister is then required to table the report on the operations and the financial statements, together with my report on the financial statements, at the first meeting of the Parliament after receiving them.

1.2.4 Companies Act, 1997

I am required to audit National Government owned companies and subsidiary companies under the provisions of the *Companies Act, 1997*.

Though these companies are registered under the Companies Act, my responsibility to audit them is by virtue of Sections 48 and 63 of the *Public Finances (Management) Act* and Section 3 of the *Audit Act*.

1.3 AUDIT OF PUBLIC BODIES

1.3.1 Scope of Audit

Presently, the limited resources available to my Office are directed primarily towards financial attestation and compliance or regularity audit of Public Bodies. Due to resource constraints, I have not been able to venture into the audits of information systems and performance audits.

The full scope of my audit responsibility in respect of Public Bodies covers the Statutory Bodies and their subsidiaries, National Government owned companies and their subsidiaries, and the companies in which the government has minority interest.

1.3.2 Audit Objectives

Under the Companies Act, I am required to ascertain whether proper accounting records have been kept; whether the financial statements comply with generally accepted accounting practice; and whether those financial statements give a true and fair view of the matters to which they relate. The Act also requires the auditor to report the instances of non-compliance with these requirements. More details on the audit responsibilities under the Companies Act are provided in paragraph 69 which covers the National Government owned companies.

1.3.3 Reporting Framework

My audits are conducted in accordance with International Standards on Auditing to provide reasonable assurance that the financial statements are free of material misstatements. The audit procedures include examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, evaluation of accounting policies and significant accounting estimates, and ensuring that the financial statements are presented fairly and in accordance with International Accounting Standards and the Statutory requirements.

1.4 APPOINTMENT AND USE OF AUTHORISED AUDITORS

Section 8(5) of the *Audit Act, 1989 (as amended)*, empowers me to employ registered company auditors to assist me in undertaking my constitutional duties, where such assistance is required.

During the period covered in the Report, I engaged a number of registered Company Auditors to perform audits of numerous Statutory Bodies and National Government owned companies.

2009 AUDITOR-GENERAL'S REPORT – PART IV

1.5 EXECUTIVE SUMMARY

1.5A Report Coverage

- 1.5A.1** This Report covers the audit reports issued by my Office on the audits of Public Bodies and their Subsidiaries, Government Owned Companies and National Government's shareholdings in Other Companies during the period July 2009 to June 2010 (2009/2010 Audit Cycle). The Report covers the audits of these entities' financial statements for a number of years, and not just of 2009.

In 2009 there were **88¹ public entities** subject to audit by my Office, consisting of **75 Public Bodies and their Subsidiaries** and **13 National Government Owned Companies**.

I am also responsible for reporting on the audits of **6 Companies**, in which the National Government has a minority shareholding, that are audited by the private sector. These are reported under Section C of this Report.

1.5A.2 Consistency in audit findings over a number of years

The Report's findings are consistent with those in my previous years' reports that have highlighted my concerns over the number of entities that do not submit current year financial statements for audit, and the poor state of the financial management structure in most public entities whose statements are subject to my audit and inspection.

1.5A.3 Submission of current year Financial Statements

Section 63(2) (a) of the *Public Finances (Management) Act, 1995* requires a „...public body to prepare and furnish to its Minister before 30 June each year, a performance and management report of its operations for the year ended 31 December preceding, together with financial statements to enable the Minister to present such report and statements to the Parliament ...". Before submitting the financial statements to the Minister, Section 63 (4) requires a public body to submit the financial statements to the Auditor-General and for the Auditor-General to report to the Minister in accordance with Part II of the *Audit Act, 1989 (as amended)*.

¹In 2009, the Auditor-General became responsible for four additional public bodies – Kranton No.2 Ltd, PNG Dams Ltd, National Airports Corporation and Unigor Consultancy Services. Of 88 audits conducted in 2009, the 2006 audits of two (2) entities – **Motu Koitabu Council and Tabudubu Ltd** - were still in progress. The results of these audits will be reported in my Part IV Report in 2011 for the last time. My future audit reports on these entities will be covered in Part III Report. A further two entities - **Privatisation (Garden Hills) Ltd and Unisearch (PNG) Ltd** - were deregistered in 2008 and 2006 respectively. The audit of **Privatisation (Garden Hills) Ltd 2007** was still in progress, and will be reported for the last time in 2011. The audit report for 2006 audit for **Unisearch (PNG) Ltd**, is my last report to Parliament.

Despite these legislative requirements, **48 entities** had not submitted their **2009 financial statements** to be audited and overall some **106 financial statements for 2009** and prior years had not been submitted for audit (see **Table 1** and **Schedule „F“**).

The details of the audits in arrears and those entities whose financial statements have been outstanding for a number of years are shown in **Schedule „B“**.

Table 1

STATUS OF AUDITS AS AT 30 JUNE 2010 (END OF 2009/10 CYCLE)

Year	Audits Completed	Audits substantially Completed	Audits in Progress	Audits to Commence Shortly	Financial Statements not Submitted	Total T2009/2010	Total 2008/2009
2009	11	10	7	8	48	84	82
2008	25	14	5	8	22	74	72
2007	18	11	9	3	10	51	41
2006	16	1	3	2	7	29	24
2005	5	-	4	2	6	17	16
2004	2	-	5	1	5	13	10
2003	-	-	3	1	5	9	7
2002	1	-	2	1	2	6	4
2001	-	-	1	-	1	2	3
2000	-	-	1	-	-	1	2
1999	-	-	1	-	-	1	1
1998	-	-	1	-	-	1	0
Total	78	36	42	26	106	288	262

Table 1 shows that 156 audits were completed, substantially completed or still in progress as at 30 June, 2010. **Table 1** also shows that of the **78 audits completed**, only **11 were of the current year (2009)**, with **17 current year's audits** substantially completed or in progress. A further **8 audits** were to commence shortly. The list of entities is at **Schedule „A“ (i), (ii), (iii) and (iv)**.

1.5A.4 Type of Audit Opinions Issued²

In the period covered by the audit, **seventy-eight (78) audit opinions were issued**. Of the **seventy-eight (78) audit opinions issued**, **thirty-one (31) were unqualified**, **twenty-two (22) were qualified**, and **twenty-five (25) were Disclaimer Opinions**.

² The types of audit opinions are: **Unqualified Opinion** – A Company's financial statements are presented fairly, in all material respects in conformity with generally accepted accounting principles. **Qualified Opinion** – The financial statements "except for" certain issues fairly present the financial position and operating results of the firm. The except for opinion relates to inability of the auditor to obtain sufficient objective and verifiable evidence in support of business transaction of the Company being audited. **Disclaimer** – When insufficient competent evidential matter exist to form an audit opinion due to scope limitation or uncertainties Disclaimer of Opinions issued. **Adverse** – The Company's financial statements do not present fairly the financial position, results of operation, or changes in financial position or are not in conformity with General Accepted Accounting principles.

Of the thirty-one (31) unqualified opinions issued, twenty-one (21) related to prior years and only ten (10) were for 2009 as follows:

- Bank of Papua New Guinea;
- Post (PNG) Limited;
- Independent Consumer and Competition Commission;
- Tourism Promotion Authority;
- Security Industries Authority;
- PNG Institute of Public Administration;
- General Business Trust;
- Kroton No. 2 Limited;
- National Agriculture Research Institute; and
- Ombudsman Commission.

All of the 22 qualified opinions were for prior years. The number of Disclaimer Audit Opinions issued are reflection of the poor state of accounting and record keeping in a number of public bodies.

The list of entities and the type of audit opinions issued during the period July 2009 to June 2010 are provided in **Schedule „G“**.

1.5B Key Findings

The key findings from the audits centred around on the non submission of the financial statements, non compliance with the SCMC regulatory mechanisms for salaries and wages, lack of basic accounting records and ineffective internal control systems. These issues are highlighted in the paragraphs below:

1.5B.1 Non-Submission of Financial Statements

The *Public Finances (Management) Act, 1995*, requires each public body to prepare and furnish to its Minister before 30 June each year, a report on its operations for the year ended 31 December preceding together with financial statements in respect of that year duly audited by me for tabling in Parliament. This legislative requirement has not been strictly adhered to by respective public entities' managements. To comply with this requirement, the financial statements are required to be submitted to my Office well before 30 June each year for my audit and inspection. Consequently, out of **84 public entities** (excluding those whose audits are done by private auditors) only **36 entities** submitted their financial statements for 2009 for my audit and inspection up to the time of preparing this Report. **Forty-eight (48)** entities failed to comply with these provisions. **Paragraph 77.5** of this Report provides the details.

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

- *My Office may not be able to report adequately on the accountability of the use of public resources in a timely manner;*
- *A build up of audits in arrears; and*
- *The non-tabling of Annual Reports on performance and management by public entities in the Parliament.*

Responsibility for Submission of Financial Statements

An entity's management is responsible for preparing and presenting financial statements for my audit and inspection. It is also the responsibility of management to ensure that an adequate and effective internal control system is maintained to ensure that complete and accurate financial statements are produced on a timely basis.

My Office recommends:

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

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

Details of audits that have gone into arrears due to non submission of financial statements are given below in **Table 2** and **Schedule „C“**.

Table 2

Financial Statements not Submitted

No.	Section	Para No.	Entity	Year in Arrears	Audits in Arrears 2008 & Prior Years
1	B	64	North Fly Highway Development Company Limited	8	2001-2008
2	A	31	National Narcotic Bureau	6	2003-2008
3	A	47	Papua New Guinea Sports Commission	6	2003-2008
4	A	50	Public Curator of Papua New Guinea	5	2004-2008
5	A	11E	Papua New Guinea Dams Limited	4	2002-2003, 2007-2008
6	A	17A	Tabudubu Limited	4	2003-2006
7	A	55A	Unigor Consultancy Limited	4	2005-2008
8	A	23B	Port Moresby City Development Enterprises Limited	3	2006-2008
9	A	22	National Broadcasting Corporation	2	2007-2008
10	A	25	National Economic and Fiscal Commission	2	2007-2008
11	A	36	National Volunteer Service	2	2007-2008

12	A	8	Government Printing Office	1	2008
13	A	11B	Aquarius No. 21 Limited	1	2008
14	A	11C	Port Moresby Private Hospital Limited	1	2008
15	A	20	National Aids Council	1	2008
16	A	21	National Airports Corporation Limited	1	2008
17	A	24	National Cultural Commission	1	2008
18	A	27	National Gaming Control Board	1	2008
19	A	28	National Housing Corporation	1	2008
20	A	38	Oil Palm Industry Corporation	1	2008
21	A	42	Papua New Guinea Forest Authority	1	2008
22	A	48A	Unitech Development and Consultancy Company Ltd	1	2008
23	B	68A	Kalang Advertising Limited	1	2008

My Arrears Reduction Strategies

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

- (i) Forwarding reminder letters to entities on a regular basis until the submission of the financial statements.
- (ii) Copies of these reminder letters were forwarded to the Public Accounts Committee and to the Secretary for Finance for their necessary action.
- (iii) My officers have visited various entities and had meetings with the Chief Executive Officers about the non-submission of the financial statements and drew their attention to their responsibilities under the *Public Finances (Management) Act* and resultant breach of the *Public Finances (Management) Act*.

1.5B.2 Non-Compliance with the Salaries and Conditions Monitoring Committee Act (SCMC), 1998

The Salaries and Conditions Monitoring Committee (SCMC) was established to regulate the mechanism for salaries and wages in the public sector. Sadly, some public bodies do not comply with the provisions of this Act because of legislative changes in their constituent Acts. As a result, these bodies pay salaries and allowances without any monitoring from this Committee. Consequently, they have contravened Section (3) of the *Salaries and Conditions Monitoring Committee Act, (SCMC) 1998* which stipulates:

“(1) *The provisions of this Act apply notwithstanding anything in any other relating to the determination of salaries and conditions or employment of employees of a public authority; and*

- (2) *Whereby or under any law, power is given to a public authority, to determine or vary the salaries and conditions of employment of employees of the public authority, that power shall be exercised subject to this Act."*

1.5B.3 Lack of Basic Accounting Records and Inadequate Control Systems

As reported in previous years, I noted serious deficiencies in accounting and record keeping and maintenance of internal controls during the course of audits. These deficiencies, which contributed to the limitation on the scope of my audit procedures, included:

- bank reconciliation statements not being prepared in a timely way or not being prepared at all;
- transactions not having supporting documentation;
- fixed assets registers not being properly kept or maintained;
- no consistent and proper valuation of assets;
- physical asset stock-takes not being carried out;
- property being acquired or disposed of without proper procedures being followed;
- failure to comply with International Financial Reporting Standards in the preparation of the financial statements;
- travel and other allowances not being fully acquitted;
- internal Revenue Commissions regulations on payment of taxes not being followed;
- entities paying housing allowances and Board members allowances without tax but allowing officers to pay the tax;
- accounting, administrative and procedural manuals not being available;
- public Servants serving on Statutory Board receiving Board allowances contrary to regulations;
- ineffective internal audit functions; and
- ineffective budget controls.

The above factors contributed to the limitations on the scope of my audits which resulted in the issuance of Disclaimer Audit Opinions in respect of many of the reports issued during the year, as shown in **Schedule „G“**.

1.5B.4 Poor Financial Management

Over a number of years, I have expressed my concern about public bodies' poor accounting records, weaknesses in internal controls and management information systems, and non-compliance with legislative requirements and *International Financial Reporting Standards*.

I also consider that a large number of Chief Executive Officers do not pay sufficient attention to the financial management in their entities. In my view, the concept of effective, prudent and efficient finance management is yet to be absorbed by many Chief Executive Officers.

1.5B.5 Recommendations for Improvement

Consistent with comments in previous years' Reports, I will report to the Parliament in future that proper accounting records and adequate internal control systems exist in all public entities subject to my audit. For that to be achieved, I believe that Chief Executive Officers are required to exercise proper leadership that provides an environment where there is:

- *Timely submission of financial statements;*
- *Improved record keeping and documentation;*
- *Provision of quality information;*
- *Effective implementation of internal control systems; and*
- *Entity financial management that is carried out by qualified and experienced accountants³.*

1.5B.6 Improvement Strategies

In my view, for improvement to occur:

- *Chief Executive Officers must employ trained accounting staff to manage the financial affairs of the organization;*
- *Chief Executive Officers must understand the value of and how to implement a strong governance framework; and*
- *Parliament must increase its reviews of the management of public entities and their accountability.*

1.5B.7 Structure of the Report

This Report is structured as follows:

Section A – Public Bodies and Their Subsidiaries;
Section B – National Government Owned Companies;
Section C – National Government Shareholdings in Other Companies; and
Section D – Problem Audits.

³ In my view, policies be reviewed to ensure that the Chief Finance Officers of Government are qualified accountants and members of CPA PNG. Although this may take some time to achieve, Government should consider this as one way of improving financial management in the Public Sector.

SECTION A

PUBLIC BODIES AND THEIR SUBSIDIARIES

1A FOREWORD

This Section of my Report deals with the audit of public bodies and their subsidiaries.

The auditing and reporting requirements of the public bodies and their subsidiaries are stipulated in Section 8 of the *Audit Act, 1989 (as amended)*. My responsibilities in that regard are detailed in paragraph 1.2 of this part of my Report.

2. BANK OF PAPUA NEW GUINEA

2.1 INTRODUCTION

2.1.1 Legislation and Objectives of the Bank

The Bank of Papua New Guinea was established under the *Central Banking Act (Chapter 138)*. This Act was in operation until 16 June, 2000 when it was repealed and replaced by the *Central Banking Act, 2000*.

The main objectives of the Bank of Papua New Guinea as stipulated in the new Act are:

- (a) to formulate and implement the monetary policy with a view to achieving and maintaining price stability;
- (b) to formulate financial regulation and prudential standards to ensure stability of the financial system in Papua New Guinea;
- (c) to promote an efficient national and international payments system; and
- (d) subject to the above, to promote macro-economic stability and economic growth in Papua New Guinea.

2.1.2 Functions of the Bank

The primary functions of the Bank are to:

- (a) issue currency;
- (b) act as banker and agent of the Government;
- (c) regulate banking, credit and other financial services as empowered by the Act or by any other law of the Independent State of Papua New Guinea;
- (d) manage the gold, foreign exchange and other international reserves of Papua New Guinea;
- (e) perform any function conferred on it by or under international agreement to which Papua New Guinea is a party;
- (f) perform any other functions conferred on it by or under any other law of Papua New Guinea; and
- (g) advise the Minister as soon as practicable where the Bank considers that a body regulated by the Central Bank is in financial difficulty.

2.1.3 Structural Reforms at the Bank

In addition to the *Central Banking Act* which was enacted in June 2000, three (3) other Acts were legislated in 2000 which gave enormous responsibilities to the Bank. These other Acts are:

- (a) The *Banks and Financial Institutions Act, 2000*,
- (b) The new *Superannuation Act, 2000*, and
- (c) The new *Life Insurance Act, 2000*.

Each of these Acts provides additional responsibilities to the Bank.

2.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

2.2.1 Comments on Financial Statements

My report to the Minister under *Section 8(4)* of the *Audit Act, 1989 (as amended)*, on the financial statements of the Bank for the year ended 31 December, 2009 was issued on 18 June, 2010. The report did not contain any qualification.

2.2.2 Audit Observations Reported to the Minister

My report to the Minister under *Section 8(2)* of the *Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Bank for the year ended 31 December, 2009 was issued on 19 July, 2010. The report contained the following comments:

1. Internal Control Reports for External Fund Managers

Internal Control reports (commonly referred to as SAS 70 reports) on two of the Fund Managers' operations were not made available to me. It was unacceptable when such reports were not provided on the operations of outsourced service providers, especially when providing services to such an institution as the Bank of Papua New Guinea.

Given the magnitude of the investments managed by these Fund Managers on behalf of the Bank and the level of reliance placed by the Bank on the information generated by these Fund Managers, there is a potential risk that weak internal controls in the fund managers may result in material misstatements in the information generated by them and consequently in the Bank's financial records.

Internal control assurance over the operations of external service providers, particularly where the information provided by such a service provider forms a significant input in the Bank's financial information is an important aspect of the Bank's overall control environment.

I strongly recommended the Bank to take this matter up with the Fund Managers concerned and arrangements to be put in place to ensure that such internal control assurance reports were provided to the Bank. This will enhance the reliability of the information provided by the Fund Managers.

Management responded that:

There was an understanding between the Bank and the EFM to ensure compliance with their respective internal governance policies and the charter in the Investment Management Agreement (IMA). The Bank noted the audit concerns and agreed to make amends in the next EFM review of the Fund Managers' operations.

2. Significant build up of Notes and Coins

As a standard policy, the Bank was expected to reorder approximately five (5) years' supply of currency, with a reorder point occurring when the currency on hand falls below one year supply projection. However, the Bank currently holds in stock certain denominations of notes and coins in excess of fifteen (15) years' supply. As a result of bulk ordering, the Bank did not only incur significant notes production cost, but also faces major storage issues and associated risks. As a matter of priority, I urged the Bank to resolve the storage issues in the most secured manner.

It was important that the Bank reviews the current policy in relation to the reordering level. Also, the associated issues such as storage capacity and the costs involved be considered prior to commitments being made.

Management concurred with my comments and added that corrective measures will be taken. Further, the Bank sought assistance from the Reserve Bank of Australia (RBA) to draft the currency policy in relation to stock level management, risks, quality standard and other currency issues.

3. Information Technology Related Issues

• Monitoring of the effectiveness of internal controls

I acknowledged that Bank Management established formal mechanisms for reporting over the effectiveness of IT General Controls. Nevertheless, I noted that there was still lack of effective monitoring to ensure remedial action is taken in a timely manner. Several IT issues were repetitively identified along the years, including some noted in this audit. The lack of formality in monitoring the progress and remedial action of IT issues, introduced the risk that:

- *IT issues may be overlooked or left unmonitored; and*
- *Inappropriate assignment of responsibility over remedial actions and timeframes.*

I recommended the Management of the Bank to establish formal procedures for defining a timeframe, assigning overall responsibility for remedial actions and follow up in relation to IT issues raised regarding the effectiveness of IT General controls.

I also requested the Management of the Bank to consider producing a formal periodic report or minute for the Board and relevant business line management detailing all issues requiring corrective action and the resolution timeframes.

Management responded to my comments as follows;

“Our planned corrective action was not carried out. ITD Management will readjust work in the next three weeks to define an overall IT process monitoring procedure for adoption by Operations Unit. The Department has acquired the international standards for IT Process Management, ITIL, to help fill the gaps in our current procedures”.

- **Logical Access to Applications**

After a high level review of logical user access in Oracle Financials, there were instances of access by users without access rights, as well as business areas managers accessing using administrator access rights. Administrative or privileged access rights were to be limited only to system administrators in the IT group. Administrator access provides unauthorized users with full access privileges. Any task in any module in the system could be undertaken without restriction, as a result of such uncontrolled access thereby bypassing the normal segregation of duties. Additionally, with such access, user accounts could be created, modified or removed. As system administrators had the highest level of access, such access should be reserved only for those users who are qualified and authorized as administrators.

Where possible, I recommended system administration procedures to be carried out centrally by the IT Department and to ensure privileged access rights such as system administrator be restricted only to those who require this high level access for administration purposes. Enabling audit logs were recommended to allow monitoring and tracking of tasks performed by these privileged users.

Management responded to my comments as follows:

“This issue will be addressed through improvement to the User Accounts Administration process”.

- **Lack of Segregation of Duties within IT Functions**

It was noted that a developer had Database Administrator (DBA) access rights in Oracle. The risk was even higher considering that audit trail was not enabled in the Oracle Database to allow monitoring of tasks performed by privileged users, such as Database Administrator (DBA). Unauthorised changes to the database or the systems functionality could be made without following Bank of Papua New Guinea’s policies and procedures.

I recommended sensitive IT functions such as systems security and database administration and configuration, development and deployment to production to be segregated. When resource constraints prevent the segregation of such functions, I strongly recommended audit logs (or other compensating controls) to be enabled and to be periodically monitored by an independent individual.

Management responded as follows:

“Staff shortage contributed to this problem when Development Unit Staff have also been used to support their own products when migrated to the production environment. This is something we cannot avoid but ITD believes once we adopt proper programming standards, controls can be put in place to better coordinate development work and porting of completed work to production environment”.

- **Logging and Monitoring of Privileged Access to Operating Systems, Applications and Database**

Audit trail and logging were not enabled in operating systems, applications and at the database levels. These include Oracle Financials, Alesco, CLS, SWIFT, GTS, RMS, Oracle Databases and BPNG computer network. Uncontrolled privileged user access pose potentially higher risk for the Bank.

I recommended management to enable the audit logs over privileged accounts at operating systems, applications and more importantly at Oracle Database, including the monitoring of security activities in order to identify, escalate and report security violations or abnormal behavior to senior management.

Management responded as follows:

“Audit trail for all privileged users has not been done as planned. We are now embarking on this task as a matter of priority. A four weeks effort is required to configure and test”.

3. BORDER DEVELOPMENT AUTHORITY

3.1 INTRODUCTION

3.1.1 Legislation

The Border Development Authority was established under the *Border Development Authority Act, 2008*. This Act came into operation on 7 October, 2008.

3.1.2 The Objectives of the Authority

The objectives of the Authority are to manage and fund development activities in the Border Provinces of Papua New Guinea and to make provision for the functions and powers of the Authority and for related purposes.

3.1.3 Functions of the Authority

The functions of the Authority generally are to consult with relevant agencies and to supervise and co-ordinate all development activities in each of the border provinces and, without prejudice to the generality of the foregoing, are:-

- (a) the co-ordination of the planning, and implementation of capital works, infrastructure and socio-economic programs in respect to:-
 - (i) education, health care, road network, communication, transport system, electricity, water, sewerage and all activities relevant to the improvement of basic living standards in the border provinces;
 - (ii) liaison with public bodies, non-government organisations and private enterprise in identifying and negotiating sources of funding for short to medium term activities;
 - (iii) the co-ordination of the development of specifications for contracts for all capital and infrastructure works and the advertising, evaluation and awarding of such contracts;
 - (iv) the supervision and monitoring of the implementation of all contracts relating to such capital and infrastructure works;
 - (v) the transformation of border provinces into agro financial sector by developing their respective natural resources; and
 - (vi) the promotion of investors both foreign and local into the border provinces and to encourage and facilitate international cross border and inter border trade.
- (b) the establishment of programs and regulatory framework for immigration including the monitoring of immigrants and immigrant activity along the border with respect to:-

- (i) establishment of proper state of the art offices, and facilities for relevant government agencies including customs, immigration, quarantine, police, defence force such as security monitoring systems, communication, transport, electricity, water, sewerage, staff accommodation, computers and all other facilities that would be relevant to the administration of border activities;
 - (ii) establishment of dialogue and co-operation with the respective cross border authority or government for the prevention of diseases, drug trafficking, human smuggling, money laundering and other illicit activities; and
 - (iii) the development of long term activities for the establishment of infrastructure and other facilities.
- (c) such other functions as are likely to assist in the border administration activities.

3.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

3.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4) of the Audit Act, 1989 (as amended)*, on the Authority's financial statements for the two (2) months period ended 31 December, 2008 was issued on 29 January, 2010. The report did not contain any qualification.

3.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the audit and inspection of the accounts and records of the Authority for the two (2) months period ended 31 December, 2008 was issued on 29 January, 2010. The report contained the following observation:

Accounting Systems, Personnel and Statutory Records

The Border Development Authority (BDA) was established by an Act of Parliament in October, 2008 and commenced its operations in November, 2008. Since the Authority was in operation for only two (2) months as at 31 December, 2008, a properly established Office with adequate management and staff were not in place. As such, a lone officer (Executive Chairman) was involved in setting up the Office and involved in the day to day operation of the Authority.

I recommended the Authority to establish proper procedures in relation to accounting, administration and work process, and employ properly skilled staff with sufficient knowledge and expertise to perform key functions and tasks of the Authority.

3.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Authority for the year ended 31 December, 2009 had not been submitted for my inspection and audit.

4. CIVIL AVIATION SAFETY AUTHORITY OF PAPUA NEW GUINEA

4.1 INTRODUCTION

4.1.1 Legislation

The Civil Aviation Authority of Papua New Guinea was established in November, 2000 by the enactment of the *Civil Aviation Act, 2000*.

4.1.2 Functions of the Authority

The principal functions of the Authority are to undertake activities that promote safety in civil aviation at a reasonable cost; ensure the provision of air traffic services, aeronautical communications services and aeronautical navigation services; ensure the provision of meteorological services and science; and to own, operate, manage and maintain airports.

4.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

4.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act, 1989 (as amended)*, on the Authority's financial statements for the year ended 31 December, 2006 was issued on 26 October, 2009. The report was a disclaimer of opinion.

“BASIS FOR DISCLAIMER OF OPINION

Limitation of Scope regarding Opening Balances

My report on the financial statements of the Authority for the year ended 31 December, 2005 was disclaimed on the basis of limitation of scope due to lack of information and adequate supporting evidence. Consequently, I was unable to determine the accuracy of the opening financial position of the Authority as at 1 January, 2006 because the results for the year ended 31 December, 2005 enter into the determination of the opening balances as at 1 January, 2006 and therefore the financial performance for the year ended 31 December, 2006. Due to the size and fundamental nature of the matters referred to, I was unable to determine whether the results of the Authority for the year and the net assets at year end are fairly stated.

Transfer of State Assets and Liabilities

As explained in Note 1(a) to the financial statements, the Civil Aviation Authority, in conjunction with the State, is currently determining the most appropriate process by which to transfer the State's assets and liabilities to the Authority.

Consequently, it is not yet in compliance with Sections 328 to 333 of the *Civil Aviation Authority Act, 2000* which stipulate that State assets and liabilities should be transferred to the state aviation enterprise. The financial statements therefore, do not include substantial assets owned by the State.

Trade Creditors and Other Creditors - K7.1m

Trade creditor's balance includes K2.6m in trade payables and K4.5m in other creditors. However, the other creditors and accruals balance of K4.5m could not be supported by any form of reconciliations and my attempts to carry out unrecorded liabilities tests to confirm the possible understatements was not made possible. Hence, I was unable to confirm the correctness of other creditors balance.

Employee Provisions - K3.4m

Annual leave provisions of K1m and Long Service leave provisions of K2.4m included in the financial statements were properly supported by employee provisions listings. However, further information requested to carry out detailed work to confirm the calculations, existence, completeness and accuracy of the listings was not provided. I was therefore, unable to confirm if the employee provisions included in the financial statements were fairly stated.

Trade Debtors & Other Debtors - K14.2m

Trade and other debtors balance of K14.2m includes K8m of trade debtors, K2.1m in other debtors and prepayments and K4.1m in GST receivables. I was only provided with information on the trade debtor's balance of K8m but the other debtors and prepayments and the GST receivable balances could not be supported by any reconciliations and GST returns. Therefore, I was unable to confirm the completeness, accuracy and existence of these balances.

Revenue - K59m

I was not provided any supporting documents to support the significant components of the total revenue of Air Navigational Support revenue of K17.6m, Government Grants and Subsidies of K20.6m and Community Service Obligation income of K6.5m. Therefore, I was unable to confirm the completeness and accuracy of these significant revenue amounts and the total revenue of K59m recorded for the year.

Payroll & Personnel Costs - K27.7m

Payroll and personal costs of K27.7m included in the profit and loss statement were not supported by supporting documents. Further, information requested to carry out normal audit procedures to verify the payroll and personal costs were also not provided. Accordingly, I was unable to confirm the completeness and accuracy of this amount.

DISCLAIMER OF AUDIT OPINION

Due to the limitation in my audit procedures referred to in the preceding paragraphs, I was unable to express an opinion as to whether the financial statements present fairly, and in accordance with the *Civil Aviation Authority Act, 2000, International Financial Reporting Standards and other Generally Accepted Accounting Practices in Papua New Guinea*, the financial position of the Civil Aviation Authority as at 31 December, 2006 and its performance for the year ended on that date.

4.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Authority for the year ended 31 December, 2006 was issued on 26 October, 2009. The report contained the following observations.

1. PNG Air Traffic Services Limited

The *Civil Aviation Authority Act, 2000*, gave authority for the incorporation of the PNG Air Traffic Services Limited as a subsidiary of the Authority. However, the Authority was unable to produce any financial records in respect of this company and is unaware of its existence. I recommended Management to review the requirements of the Act in respect of this subsidiary and to take the necessary action to comply with the provisions of the Act. The Management has advised as follows:

“The CAA has subsequently incorporated a company called Papua New Guinea Air Services Limited and the company has commenced operations on 1 January, 2008.”

2. Goods and Services Tax (GST)

The Authority did not prepare and submit GST returns to the Internal Revenue Commission (IRC) for the year under review. The failure to comply with the GST provisions may result in late payment and non-lodgement penalties being levied by the IRC against the Civil Aviation Authority. I drew Management’s attention to this and I was advised by Management that it was aware of this issue and was in negotiations with the IRC to rectify the situation.

3. Internal Audit

The Internal Audit Division of the Authority did not appear to be functioning effectively as was evidenced by the lack of internal audit work performed during the year under audit. Management advised me that CAA has been in the process of developing and strengthening the Internal Audit function and have now recruited qualified personnel who started leading the team in the 2008 financial year.

4.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December, 2007 and a Special Investigation as directed by the Public Accounts Committee were in progress.

The financial statements of the Authority for the year ended 31 December, 2008 had been submitted. The fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority will commence shortly.

The financial statements of the Authority for the year ended 31 December, 2009 was not submitted for my inspection and audit.

5. COCOA BOARD OF PAPUA NEW GUINEA

5.1 INTRODUCTION

5.1.1 Legislation

The Cocoa Board of Papua New Guinea was established under the provisions of the *Cocoa Act, 1981*.

5.1.2 Subsidiary

Cocoa Coconut Institute Limited of PNG (formerly PNG Cocoa and Coconut Research Institute) was amalgamated with PNG Cocoa and Coconut Extension Agency Ltd in 2003. The Institute is owned equally by the Cocoa Board and the Kokonas Industri Koporesen of Papua New Guinea. Comments in relation to the PNG Cocoa Coconut Institute Limited are contained in paragraph 6 of this Report (Part IV).

5.1.3 Functions of the Board

The principal functions of the Board are: to control and regulate the growing, processing, marketing and export of cocoa and cocoa beans and the equalisation and stock holding arrangements within the cocoa industry; to promote research and development programmes for the benefit of the cocoa industry; and to promote the consumption of Papua New Guinea cocoa beans and cocoa products.

5.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

5.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act, 1989 (as amended)*, on the financial statements of the Board for the years ended 30 September, 2006 and 2005 were issued on 18 June, and 29 January, 2010 respectively. The 2005 and 2006 reports contained similar Qualified Audit Opinions hence, only the 2006 report is reproduced as follows:

“BASIS FOR QUALIFIED AUDIT OPINION

1. Debtors and Prepayments

Included in the total debtors and prepayments of K205,662 reported in the financial statements, are amounts totalling K68,067 which consist of fraudulent payments made to former employees who had left the employ of the company. As a result, I was unable to satisfy myself as to the recoverability of these amounts and whether the closing Debtors and Prepayments balance was complete since no documentary evidence was provided for my review.

2. Investments

The financial statements disclosed investments of K280,006 at year end representing shares held in PNG Cocoa Coconut Institute Limited (*Formerly PNG Cocoa and Coconut Research Institute & PNG Cocoa Coconut Extension Agency*). However, PNG Cocoa Coconut Institute Limited disclosed only K266,003 as 50% investment from Cocoa Board in its financial statements. Since no share certificates were made available for my verification, I was unable to verify the accuracy of the investment balance as stated at year end.

3. Fixed Assets

The Board's total Fixed Assets amounted to K1,674,171 for the year ended 30 September, 2006. Included in this account balance are land and buildings with a carrying value of K86,264 and K779,054 respectively. I was not provided the registered title deeds in relation to these land and buildings. Further, the Board did not carry out any physical stock-take to ascertain the assets owned by the Board and its physical condition. As a result, I was unable to state the propriety and the ownership of these buildings as disclosed by the Board at 30 September, 2006.

4. Going Concern

The Board has prepared its financial statements on a going concern basis. However, the National Court in its ruling of 19 March, 2010 awarded Agmark Pacific Limited K4,885,260 plus 8% interest and costs. This was subsequent to an earlier decision on 27 July, 2007 whereby an award of K6,292,441 was made against Cocoa Board. These rulings resulted from legal proceedings against Cocoa Board allegedly for collections of Stabilisation Bounty illegally without the Minister's approval.

Further, should the appeal made in 2010 fail, the Board will not be able to pay the K4,885,260 within its current financial position unless an agreement is reached with Agmark Pacific Limited to pay the award over a period of time, or the State agrees to bail out the Board by paying the award, otherwise the Board may be considered as insolvent and may be placed under receivership.

QUALIFIED AUDIT OPINION

In my opinion, except for the effects of the matters described in the Basis for Qualified Audit Opinion paragraphs, the financial statements of the Cocoa Board for the year ended 30 September, 2006:

- (a) give a true and fair view of the financial position and the results of its operations for the year then ended; and

- (b) with exception of instances of non compliance described under Other Matters, the financial statements have been prepared in accordance with the *Public Finances (Management) Act, 1995* and generally accepted accounting practice.

OTHER MATTERS

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

1. Differences in the Opening Balances of the General Ledger

Differences were noted in the opening balances of the general ledger in relation to PNG Cocoa Coconut Institute Limited (K1,374,600), Trade Creditors (K130,035), Group Taxes (K259,055), Staff Advances (K36,587) and Rental Bonds (K2,367). Adjusting journal entries were passed to correct the opening balances on the general ledger to agree to the audited financial statements of 30 September, 2005. However, I was not provided the relevant journals and supporting documentation in relation to the adjustments, which I consider as immaterial on aggregate to further qualify the financial statements for the year ended 30 September, 2006.

2. Report under *Public Finances (Management) Act, 1995*

The Board is required to submit an annual report on performance and management and a quarterly report on all investment decisions, a detailed report on investments, performance and returns for each year and a five year investment plan (up-dated each year) setting out investment policies, strategies and administrative systems to be pursued and providing forecasts of investment flows and returns. However, I noted that the management did not submit its relevant reports as required under *Section 63 (2)* of the *Public Finances (Management) Act, 1995* to the Minister for the year ended 30 September, 2006.”

5.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Board for the years ended 30 September, 2006 and 2005 were issued on 18 June, and 29 January, 2010 respectively. My reports contained the following observations:

2006 Report:

OTHER MATTERS

1. Board of Directors

The Cocoa Board of Papua New Guinea was operating without a Board for the Cocoa season ending 30 September, 2008 and 30 September, 2009. As there was no Board, executive and strategic decisions may have been made without the Board's consent. I noted that the corporate governance structure of the Board was weak and lacked executive direction and control.

The management responded that it had made several submissions regarding the appointment of Board members to the Minister and to date no appointments were made. Further, I was also informed that decisions requiring the Board's deliberation and approval in those periods were referred to the Secretary of the Department of Agriculture and Livestock as stipulated by the *Cocoa Act, 1981*.

2. Accounting, Administration and Procedural Manual

The Board did not have an Accounting, Administration and Procedural Manual in place for its daily operations. In the absence of the documentation in relation to systems and controls, I had no basis to measure the standards of operations in existence. I also noted that the Board was not aware of the requirements of the *General Orders* or the *Public Finances (Management) Act, 1995*.

In response to my recommendation for the Board to adopt an Accounting, Administration and Procedural Manual in line with the *General Orders* of the Public Services and the *Public Finances (Management) Act, 1995* the Board informed me that a manual would be drafted for formal adoption by the Board.

3. Review of Board's Salary and Wages

In my review of the staff positions and the pay structure, I noted that there were no reviews conducted by the Board on a periodic basis. In the absence of a salary review and a restructure of the Board positions, staff and job marketability of the Board positions were deemed to have been non competitive and had affected staff morale for staff performing comparable job classifications as those in the market.

I recommended the Board to review the salary structure, the staff and organizational requirements and restructure to cater for CPI adjustments and comparable job marketability. The Board concurred with my observations and advised that a review was done by a consultant but was not implemented.

4. **Staff Advances – K60,832**

Note 14 to the financial statements shows that advances granted to the staff members had increased by K24,245 (2005: K36,587) in the year ended 30 September, 2006. The *Public Finances (Management) Act, 1995* requires outstanding advances to be recouped in the year of the advance. However, I noted that the Board did not comply with the requirements of advance acquittal and recoveries.

I recommended management to take heed of the requirements of the *Public Finances (Management) Act, 1995* and was informed that the Board had since ceased paying such advances. However, that had not been the case as was evidenced by additional advances of K24,245 during the year.

5. **Amount of K4,885,260 awarded by National Court against the Board**

Note 8 to the financial statements refers to events after balance date whereby the National Court in its ruling of 27 July, 2007 awarded K6,292,441 to Cocoa Board. On 19 March, 2010 the Court changed the award to K4,885,260 to Agmark Pacific Limited. The latter Court Order, ordered the Board and the State to pay with 8% interest within 21 days and to meet the costs of the proceedings. Agmark Pacific Limited had sued the Board for illegal collection of Stabilisation Bounty since the Minister had not gazetted the bounty collection as required under the *Cocoa Act, 1981* and thereby deeming as illegal the bounty collected and used by the Board between January, 1997 and October, 1999.

In my view this case was not defended adequately and the Board had appealed against the verdict. I brought this to the attention of Management and have since been advised that the Board had engaged a private lawyer to take the matter further and an appeal was lodged at the Supreme Court of Papua New Guinea in 2010.

6. **Fixed Assets**

The Board did not provide registered title deeds and documentary evidence for all the buildings that were stated as owned by the Board. I was unable to determine the propriety and the validity of the ownership of those land and buildings totalling K86,264 and K779,054 respectively as the title deeds provided of the mentioned properties were not registered in the name of the Board. I was promised by the Board that the title deeds for the property mentioned as Section 34, Allotment 11 would be provided in due course. Further, the Board had not carried out any physical stock-take to ascertain the assets owned by the Board and its physical condition.

In response to my observations the Board informed me that a staff had been recruited to perform the stock-take of all fixed assets and a new software program was adopted to cater for the Board's assets in the future.

7. Differences in Opening Balances

Differences were noted in the opening balance of the general ledger in relation to PNG Cocoa Coconut Institute Limited (K1,374,600), Trade Creditors (K130,035), Group Taxes (K259,055), Staff Advances (K36,587) and Rental Bonds (K2,367). I noted that adjusting journal entries were passed to correct the opening balances on the general ledger to agree to the audited financial statements of 30 September, 2005. However, I was not provided the relevant journals and supporting documentation in relation to these adjustments.

In response to my queries, the management informed that the variances came about due to the incorrect opening balances that were inherited from the previous years. Due to the backlog of outstanding financial statements, the accounts were rolled over without closing the accounts in the MYOB Accounting System and as a result, incorrect balances were reported as opening balances in the subsequent accounting period.

2005 Report:

OTHER MATTERS

1. Report under *Public Finances (Management) Act, 1995*

The Board is required to submit an annual report on performance and management and a quarterly report on all investment decisions, a detailed report on investments, performance and returns for each year and a five year investment plan (up-dated each year) setting out investment policies, strategies and administrative systems to be pursued and providing forecasts of investment flows and returns. However, I noted that the management had not submitted its relevant reports as required under *Section 63 (2)* of the *Public Finances (Management) Act, 1995* to the Minister for the year ended 30 September, 2005.

2. Goods and Services Tax – K88,030

Note 14 to the financial statements disclosed Goods and Services Tax as K88,030. However, in my review of the account I noted that remittance of the GST Returns were not periodically remitted to the Internal Revenue Commission as stipulated by the *Goods and Services Tax Act, 2003*.

I recommended management to lodge the GST returns periodically as stipulated by the Act and the management concurred to pursue the recommendation.

3. Staff Advances – K36,548

Also in *Note 14* to the financial statement, advances granted to the staff members had increased by K29,803 (2004: K6,745) in the year ended 30 September, 2005. In compliance with the *Public Finances (Management) Act, 1995* outstanding advances were to have been recouped in the year of the advance, however, I noted that the Board had not complied with the recovery and acquittal of advances.

I recommended management to take heed of the requirements of the *Public Finances (Management) Act, 1995* and was informed that the Board had since ceased paying such advances.

4. Amount of K6,292,441 awarded by National Court against the Board

Note 8 to the financial statements refers to events after balance date whereby the National Court in its ruling of 27 July, 2007 awarded K6,292,441 to Agmark Pacific Limited. This Company had sued the Board for illegal collection of Stabilisation Bounty since the Minister had not gazetted the bounty collection as required under the *Cocoa Act, 1981* and thereby deeming as illegal the bounty collected and used by the Board between January, 1997 and October, 1999.

It appeared that this case was not defended adequately and the Board had appealed against the verdict. I brought this to the attention of Management and have since been advised that the Board had engaged a private lawyer to take the matter further and an appeal was lodged at the Supreme Court of Papua New Guinea in 2008.

5. Going Concern

The Board had prepared its financial statements on a going concern basis. However, should the appeal made in 2008 fail, the Board will not be able to pay the K6,292,441 within its current financial position unless an agreement is reached with Agmark Pacific Limited to pay the award over a period of time, or the State agrees to bail out the Board by paying the award, otherwise the Board may be considered as insolvent and may be placed under receivership.

5.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records, and the examination of the financial statements of the Board for the years ended 30 September, 2007 and 2008 were completed and the results were being evaluated.

The Board did not submit its financial statements for the year ended 30 September, 2009 for my inspection and audit.

5A. COCOA STABILISATION FUND

5A.1 INTRODUCTION

5A.1.1 Legislation

The Cocoa Stabilisation Fund was established under *Section 18* of the *Cocoa Act, 1981*. The Fund is administered by the Cocoa Board of Papua New Guinea with the objective of establishing price stabilisation, price equalisation and stockholding arrangements within the cocoa industry.

5A.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

5A.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act, 1989 (as amended)*, on the financial statements of the Fund for the year ended 30 September, 2005 was issued on 29 January, 2010. The report was a Disclaimer of Opinion.

“BASIS FOR DISCLAIMER OF OPINION

1. I audited the Statement of Receipts and Payments of Cocoa Stabilisation Fund for the year ended 30 September, 2004 and issued a disclaimer of opinion on them. Consequently, I was unable to quantify the effects of any material misstatement on the opening balances that might have a bearing on the balances reported for the year ended 30 September, 2005. Therefore, I was unable to perform sufficient audit procedures to satisfy myself as to the accuracy or completeness of the opening balances that would have consequential effect on the Statement of Receipts and Payments for the year ended 30 September, 2005, and the comparative amounts presented.
2. The Cocoa Board is responsible for the administration of the Cocoa Stabilisation Fund. The Cocoa Stabilisation Fund had a net deficit of K22,835,965 (2004: K22,063,320), which represents borrowed funds. The ability of the Cocoa Stabilisation Fund to repay the borrowed funds totalling K26,219,934 (2004: K26,219,934) depends on the Government's preparedness to inject more funds, guarantee additional loans for the operations of the Fund or substantial increases in cocoa prices above the trigger price to occur to be able to collect bounty to be used for the repayment of the Loan.

As mentioned in *Note 1* to the Statement of Receipts and Payments, the Government has committed K26,219,934 (2004: K26,219,934) as a loan to the Cocoa Board of Papua New Guinea to assist the Cocoa Support Scheme as detailed below:

- 2.1 Total loan balance as at 30 September, 2005 stood at K26,219,934. I was unable to satisfy myself as to the completeness and accuracy of the loan balance as I was not provided a confirmation from the bank.

- 2.2 Total outstanding levies/bounties were disclosed as K626,205 as there were no movements during the year. I was not provided with confirmations from the exporters to substantiate the outstanding amount. Consequently, I was unable to conclude on the accuracy of this figure.
- 2.3 The Cocoa Stabilisation Fund's Statement of Receipts and Payments disclosed bank balance as K3,383,969. The bank balance included debit adjustments totalling K821,594 and credit adjustments totalling K232,614 of which details were not provided for my verification.

DISCLAIMER OF OPINION

In my opinion, because of the significance of the matters discussed in the preceding paragraphs, I am not in a position to and do not express an opinion as to whether the accompanying statement gives a true and fair view of the revenue collected and loan repayments by the Cocoa Stabilisation Fund during the year ended 30 September, 2005 in accordance with the receipts and disbursements basis as described in *Note 1 (IV)*. ”

5A.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Fund for the year ended 30 September, 2005 was issued on 29 January, 2010. This report revealed generally satisfactory results.

5A.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the field work associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Fund for the years ended 30 September, 2006, 2007 and 2008 were completed and the results were being evaluated.

The Fund had not submitted its financial statements for the year ended 30 September, 2009 for my inspection and audit.

6. COCOA COCONUT INSTITUTE LIMITED OF PAPUA NEW GUINEA (FORMERLY PNG COCOA AND COCONUT RESEARCH COMPANY LIMITED)

6.1 INTRODUCTION

6.1.1 Legislation

Cocoa Coconut Institute Limited of PNG (formerly PNG Cocoa and Coconut Research Company Ltd) was amalgamated with PNG Cocoa and Coconut Extension Agency Ltd in 2003. The Company is owned equally between the PNG Cocoa Board and the Kokonas Indastri Koporesen of Papua New Guinea.

6.1.2 Functions of the Company

The principal functions of the Company are: to conduct research into all aspects of Cocoa and Coconut growing and production and all aspects of the Cocoa and Coconut industries; to promote research and beneficial programs for these industries; to provide assistance to all persons and bodies engaged in any aspect of the Cocoa and Coconut industries; to produce planting materials for the Cocoa and Coconut industries; and to provide consultancy services.

6.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

6.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4) of the Audit Act, 1989 (as amended)*, on the Company's financial statements for the year ended 31 December, 2006 was issued on 31 May, 2010. The report contained a disclaimer of opinion.

“BASIS FOR DISCLAIMER OF OPINION

Accounting Records

The general ledger and trial balance for the year 2006 were very unreliable. The opening balances of assets, liabilities and equity accounts did not agree to the 2005 audited financial statements and most closing balances as per the 2006 trial balance were not supported by appropriate schedules or reconciliations. Consequently, I was unable to utilise the general ledger to confirm the accuracy of the amounts disclosed in the financial statements as at 31 December, 2006.

Financial Statements

The financial statements for the year ended 31 December, 2006 is unreliable as a result of anomalies indentified in the disclosures therein. The Balance Sheet has an unexplained difference of K1,595,401 between the Net Assets amount of K9,718,566 with total Share Capital and Reserves amount to K8,123,166. No explanation was provided for these discrepancies.

As a result, I was unable to rely on the accuracy and completeness of the financial statements balances as at balance date.

Fixed Assets

The carrying value of fixed assets at 31 December, 2006 was K8,456,450. The depreciation schedule for the year 2006 was not provided to me for audit review and a difference of K273,157 existed between the fixed assets value recorded in the financial statements and the balances as per the general ledger. An amount of K346,088 recorded as works in progress in the assets listing comprises of fixed assets additions are yet to be allocated to the respective asset's categories and depreciated accordingly. Consequently, I was unable to determine the completeness, existence, accuracy and valuation of the fixed assets balance and the impact of these factors on the financial statements as at 31 December, 2006.

Closing Stock

The Company has recorded stock as K726,575 in the financial statements as at 31 December, 2006. I observed that the Company did not undertake any physical stock-take at the year end and due to the nature of inadequate stock records, I was unable to satisfy myself as to the quantities and valuation of the materials and supplies. As a result, it was not practical to extend my audit procedures to satisfy myself as to the existence and valuation of the stock on hand at the balance date.

Trade Debtors

No reconciliation and supporting documents for debtors were available. No provision for doubtful debts were made despite some debtors balances remaining unchanged from previous years. As a result of the above, I was not able to confirm the completeness and accuracy of the debtors balance of K1,052,508 disclosed in the financial statements as at 31 December, 2006.

Cash and Bank

Bank reconciliation for twenty five (25) out of a total fifty-six (56) bank accounts maintained were not available for my audit verification. A difference of K381,111 also existed between the cash at bank disclosed in the financial statements and the general ledger. No details of this difference were available. Further, a difference of K466,845 exists between the cash at bank balance and cash flow statement balance in the financial statements. As a result, I was unable to confirm the accuracy of K4,203,926 disclosed as bank balance in the financial statements as at 31 December, 2006.

Trade Creditors and Accruals

Trade creditors and accruals were recorded as K3,342,488 in the financial statements. No reconciliations and supporting documentation were available to verify the balances recorded in the financial statements. Consequently, I was not able to perform the necessary tests to satisfy myself as to the accuracy and completeness of the creditors and accrual balances taken up in the financial statements at 31 December, 2006.

Provisions

The Company was unable to provide satisfactory records in respect of Cocoa and Coconut Extension Agency Limited staff provisions of K299,552 transferred to the Company after the Extension Agency merged with the Company. An under provision of K661,009 exists between the Attaché Payroll System leave liability report of K1,421,054 and financial statements gross balance of K760,045. Further, the staff net provision of K346,163 included a debit balance of K413,883 as staff leave fares which was not appropriate in a provision account. As a result, I was unable to satisfy myself as to the accuracy of the provisions included in the financial statements.

Inter-company Account Balance

The amount of K205,146 disclosed as Inter-company account in the financial statements was incorrect. This comprised transfer of funds from one (1) bank account to another within PNGCCI Limited itself. This account should have a zero balance at balance date. As a result of this inconsistency, I was unable to satisfy myself as to the accuracy of this balance.

Issued Share Capital

The records currently held at the Investment Promotion Authority office disclosed the issued share capital to be 100,000 ordinary shares of K1.00 each and not 100,000 ordinary shares valued at K532,006 as recorded in the financial statements as at 31 December, 2006. As a result, I was unable to confirm as true and correct the amount disclosed in the financial statements as at 31 December, 2006.

Unspent Grants

Unspent Grants (liability) balance of K543,201 disclosed in the financial statements include INCO Beetle Grant account with a debit balance of K67,529 but no explanation was provided. Therefore, I was unable to confirm the accuracy of the unspent grants balance of K543,201 as at 31 December, 2006.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion, I have not been able to obtain sufficient appropriate audit evidence and accordingly, I am unable to express an opinion on the financial statements of the PNG Cocoa Coconut Company Limited for the year ended 31 December, 2006.”

6.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Company for the year ended 31 December, 2008 was issued on 31 May, 2010. The report contained the following observations.

Control over Assets

A proper fixed assets register was not maintained to record and monitor the location, custody, usage and condition of all assets controlled by PNGCCI and further, management had not undertaken any physical inspection of the assets. In addition, the depreciation schedule for 2006 was not made available for my inspection and material differences were noted between the general ledger and the financial statements. As a result, it was not practical to satisfy myself as to the existence and control over these assets.

Trade Creditors and Accruals

The incurrence of liabilities is a major concern with total trade creditors and accruals standing at K3,342,488 for 2006. There was an apparent weakness in the management’s ability to take measures to manage the escalating costs.

Collection of Debtors

Total receivables of K1,052,508 recorded as at 31 December, 2006 must be confirmed and aggressively pursued and collected. These are significant funds needed by the Company but tied up. The management was advised to take measures to realize these debts to enable the settling of its liabilities.

Company Statutory Records

Serious differences were noted between the statutory records maintained by the Company and those records held by the Investment Promotion Authority (IPA). I advised management to identify the outstanding issues with IPA to avoid deregistration as well as to confirm the validity of the Company’s issued share capital and appointment of Company’s Secretary and Directors.

Expenditure Control

Analytical reviews done on expenses indicated substantial increases in operational costs incurred, and management was advised to apply cost control measures to create savings to offset the existing liabilities.

Plantation Productivity

Site inspections and interviews indicated that management of plantations was poor and that the full potential of these plantations were not fully utilized thus leading to under production. Management was advised to improve management practice and seek funding to increase its capacity to generate internal revenue.

6.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the field work associated with the inspection and audit of the accounts and records for the year ended 31 December, 2007 was completed and the results were being evaluated.

The financial statements for the years ended 31 December, 2008 and 2009 had been submitted for my inspection and audit and arrangements are being made to commence the field work shortly.

7. COFFEE INDUSTRY CORPORATION LIMITED AND ITS SUBSIDIARIES

7.1 INTRODUCTION

7.1.1 Legislation

The Coffee Industry Corporation Limited was incorporated under the *Companies Act*, as a company limited by guarantee, and was conferred with statutory powers relating to the control and regulation of the production, processing, marketing and export of coffee by the *Coffee Industry Corporation (Statutory Functions and Powers) Act, 1991*. Under this Act, the undertakings of the Coffee Industry Board, the Coffee Development Agency and the Coffee Research Institute were, on 1 October, 1991, transferred to and vested in the Coffee Industry Corporation Limited.

The members of the Corporation, according to the Articles of Association are from the Growers Associations, the Coffee Exporters Association, the Plantation Processors Association, the Block Development Association, the Secretary - Department of Agriculture and Livestock, the Secretary - Department of Finance and the Secretary - Department of Trade and Industry. The liability of each member is limited to an amount not exceeding one hundred kina.

7.1.2 Functions of the Corporation

The principal functions of the Corporation are: to engage in research, extension, promotion, marketing, administration, management and control of the coffee industry in Papua New Guinea; to act in the best interests of coffee producers; and to promote development of the coffee industry in Papua New Guinea.

7.1.3 Subsidiary of the Corporation

The Corporation has a subsidiary company, Patana No. 61 Limited and Coffee Industry Fund. Comments in relation to the subsidiary and the Fund are contained in paragraphs 7A and 7B, respectively, of this Report (Part IV).

7.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the field work associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Corporation for the year ended 31 December, 2009 was substantially completed and the results were being evaluated.

7A. PATANA NO. 61 LIMITED (A SUBSIDIARY OF COFFEE INDUSTRY CORPORATION LIMITED)

7A.1 INTRODUCTION

Patana No. 61 Limited was incorporated under the *Companies Act*. The Company with a total issued capital of two (2) ordinary shares of K1.00 each, was acquired by the Coffee Industry Corporation Limited on 10 February, 1994. The Company is wholly owned by the Coffee Industry Corporation Limited. The principal activity of the Company is to invest in property.

7A.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the field work associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December, 2009 was substantially completed and the results were being evaluated.

7B. COFFEE INDUSTRY FUND

7B.1 INTRODUCTION

The *Coffee Industry Corporation (Statutory Functions and Powers) Act, 1991* provided for the establishment of the Coffee Industry Fund (CIF). The main purpose of the Coffee Industry Fund is to stabilize the Coffee Industry by giving the Coffee Industry Corporation the financial ability to implement schemes relating to stabilization and equalization of coffee prices and stock holding of coffee.

7B.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the field work associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Fund for the year ended 31 December, 2009 was substantially completed and the results were being evaluated.

8. GOVERNMENT PRINTING OFFICE

8.1 INTRODUCTION

The Government Printing Office was established by the British Colonial Administration in 1888.

The functions of the Printing Office is empowered by Section 252 of the *Constitution, Interpretation Act (Chapter 2)* and Printing of the Laws.

8.1.2 Objective of the Government Printing Office

The main objective of the Printing Office is to provide efficient and quality printing services to the executive arm of the government, judicial arm of the government, government departments and various statutory bodies at affordable cost.

8.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

8.2.1 Comments on the Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act, 1989 (as amended)*, on the financial statements of the Printing Office for the year ended 31 December, 2007 was issued on 7 January, 2010. The report contained a disclaimer of opinion.

“BASIS FOR DISCLAIMER OF OPINION

1. Limitation on the Scope of my Audit

Due to the disclaimer of opinion issued in respect of the year ended 31 December, 2006, I was unable to satisfy myself as to the opening balances. I was also unable to quantify the effects of misstatements, if any, which might have a bearing on the results of the operations of the Office. The general ledger and trial balance generated by the present system did not agree with the financial statements by an aggregate amount of K202,079. I was not provided with any valid explanation for the differences. As a result, I was unable to form an opinion regarding the accuracy of the financial records maintained by the Office and the closing balances stated in the financial statements.

2. Trade Debtors

The trade debtors balance was stated as K7,090,428 at the year end. I was unable to independently verify the existence, valuation and completeness of the debtors balance due to the absence of proper debtors ledger and lack of supporting documentations.

3. Inventory

I was unable to independently verify and conclude on the accuracy, valuation and existence of the inventory balance of K559,774 stated in the financial statements as I was not able to physically verify the inventory held at the year end and due to lack of supporting documents.

4. Trade Creditors

Due to lack of supporting documentation, I was unable to independently verify the existence, valuation and completeness of the creditors balance of K39,835 as stated in the financial statements.

5. Other Creditors

I was unable to conclude on the accuracy and completeness of other creditors balance of K60,000 due to the unavailability of supporting documentation.

6. Group Tax and Goods & Services Tax

The financial statements disclosed Group Tax as K87,148 and Goods and Services Tax as K747,474. I was unable to independently verify the group tax balance and GST balance due to lack of supporting documentation.

The permanent staff salary cost and other entitlements had not been incorporated into the financial statements to reflect the true cost of the Office. Further, the Government Printer's report on page 2 of the financial statements disclosed that permanent staff salaries and benefits of approximately K500,000 were paid directly by the State. I was unable to verify the correctness of this balance in the absence of any supporting documentation.

DISCLAIMER OF OPINION

Because of the significance of the matters referred to in the preceding paragraphs, I had not obtained sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I did not express an opinion on the financial statements of the Government Printing Office for the year ended 31 December, 2007."

8.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Office for the year ended 31 December, 2007 was issued on 7 January, 2010. The report contained the following observations:

1. Property, Plant and Equipment

The Printing Office disclosed fixed assets as K4,205,569 in the financial statements. However, it was noted that the Office did not maintain a proper fixed assets register to record details of purchases made, disposals done and those assets written off during the year. As a result, the ledgers for depreciation expense and assets written off did not agree with the financial statement figures by an aggregate amount of K104,049.

2. Revenue

The Government of Papua New Guinea through the Department of Prime Minister provides salaries for permanent staff only of the Printing Office. I noted that the principal activity of the Office is to provide printing services to the government and its arms which was fully funded from the internally generated revenue from the printing services.

From my review of the revenue process, it was revealed that there was no clearly documented work process in place for the staff with fine lines of responsibility to follow from receiving of orders right through to collecting of monies and dispatching of the printed materials. As a result, the following weaknesses were noted:

- The quotations were done by anyone within the sales section and they were not attached to the final invoices for validation which are filed at the sales sections;
- The delivery dockets were not pre-printed and numbered with book fast copies in the dockets, instead photocopied dockets were used resulting in mismatches between orders and deliveries during reconciliation; and
- Collection and receipting of cash and cheques had been a function within the Finance Section. I noted that the publication section, along with its own functions was performing the role of collecting cash and cheques. No segregation of duties were noted which may contribute to ineffective internal control, and may encourage fraud.

3. Cash at Bank

My review of the Bank reconciliations revealed that there were no monthly bank reconciliations done for January, July and August, 2007. Since the bank reconciliation is a basic control function of the cash collection I recommended that it must be performed on a regular basis and checked by a senior staff member.

4. Non-Acquittal of Travel Advances

My review of the travelling advances revealed that travel advances totalling K41,646 were not acquitted on a timely basis and were still outstanding as at 31 December, 2007.

I recommended that the advances be acquitted after return within seven (7) days.

5. Financial Operations

My review of the financial operations and the systems of the Office revealed the following;

- a) *The Office does not have a financial manual or procedural manual;*
- b) *Documented segregation of duties with delegated financial limits was absent; and*
- c) *There were casual employees working with the Office for prolonged periods.*

8.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Office for the years ended 31 December, 2008 and 2009 had not been submitted for my inspection and audit.

9. INDEPENDENCE FELLOWSHIP TRUST

9.1 INTRODUCTION

9.1.1 Legislation

The Independence Fellowship Trust was established under the *Independence Fellowship Trust Act (Chapter 1040)*.

The object of the Trust is to benefit village development by making annual awards to selected citizens for the purposes of broadening their knowledge and experience, as well as implementing and encouraging that development.

9.1.2 Functions of the Trust

The functions of the Trust are:

- to make selections of candidates to receive the awards of fellowships;
- to determine the number and value of awards; and
- to invest the funds of the Trust.

9.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

9.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act, 1989 (as amended)*, on the financial statements of the Trust for the year ended 31 December, 2009 was issued on 25 May, 2010. The report contained the following disclaimer of opinion:

“BASIS OF DISCLAIMER OF OPINION

1. Limitation of Scope with respect to Receipts

The Trust reported receipts as K26,375 in the financial statements as at 31 December, 2009. This amount was taken from the transactions shown in the bank statements. In addition, this amount did not agree with the receipts register total of K20,220. There was no reconciliation and supporting documents available for my verification. As a result, I was unable to confirm the authenticity and completeness of the receipts disclosed in the financial statements.

2. Limitation of Scope in regards to Payments

The Trust disclosed its total payments/withdrawals as K24,902 in the financial statements. A difference of K7,212 existed between the payment vouchers file and the financial statements. No additional supporting documents were made available for me to verify the completeness of payments. As a result, I was unable to satisfy myself as to the accuracy and correctness of the payments as reported in the financial statements.

3. IFT Recurrent Budget

Personnel emoluments, and procurement of goods and services and assets paid by the Department of Labour and Industrial Relations on behalf of the Trust during the year and were not reported in the Trust's financial statements as at 31 December, 2009. As a result, the Trust's financial position and operation were not fairly presented in the financial statements.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion, I do not express an opinion as to whether the financial statements of the Independence Fellowship Trust are drawn up so as to give a true and fair view of the Trust's financial position as at 31 December, 2009 and the results of its operations for the year then ended."

9.2.2 Audit Observations reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Trust for the year ended 31 December, 2009 was issued on 25 May, 2010. The report contained the following comments.

1. Passbook Bank Account

I noted that the Trust funds were kept in a passbook account instead of a cheque account. In this system, there was no audit trail while making payments as the passbook system cannot provide copy of the withdrawal slip. I brought this matter to the management and it responded as follows:

"The idea of passbook account came about when there was no money to operate in 2002 to 2007. Payment records are there but during the transfer to AON Haus from Pacific Place the files were misplaced. We have already under taken the responsibility to establish a cheque book account at Bank of South Pacific."

2. Receipts – K26,319

The Trust has no proper system in place to account for monies received during the year. The receipts reported in the financial statements were extracted from the bank statements and not from the original receipts and/or from a receipts register. In addition, there was no audit trail to confirm that receipts collected were subsequently banked. I brought this matter to the management and it responded as follows:

"We do have a system to keep account of all receipts, however during the transfer of office the files were lost or misplaced."

3. Payments – K24,902

I noted that payments reported in the financial statements were taken from the bank statements instead of actual source documents. It was further noted that many payments were not supported by required documents. I brought this matter to management and it responded as follows:

“The Independent Fellowship Trust Secretariat has undertaken the necessary measures to maintain a proper cashbook to facilitate the receipts and payments. We have already undertaken to open up the cheque account for payment in the near future.”

4. Other Internal Control Weaknesses

Other weaknesses noted were:

- Bank reconciliation was not done on a periodic basis.
- Fixed Assets Register and records of liabilities were not maintained.

I drew management’s attention to these weaknesses and it responded as follows:

“The bank reconciliations were not done on a periodic basis due to capacity problem the Independent Fellowship Trust Secretariat is encountering. As recommended, to strengthen its finance and accounting, we have already put in place a proposed organization structure which will be submitted to the Corporate Services of the Department of Labour and Industrial Relations for its endorsement and approval. The Department of Labour and Industrial Relation is responsible for all Independent Fellowship Trust fixed assets and liabilities. Therefore, all copies of the fixed assets are maintained at the Account section of the Department and not with Independent Fellowship Scheme.”

10. INDEPENDENT CONSUMER AND COMPETITION COMMISSION

10.1 INTRODUCTION

10.1.1 Legislation

The Independent Consumer and Competition Commission was established by the *Independent Consumer and Competition Commission Act, 2002*. The Act came into operation in January 2003.

10.1.2 Functions of the Commission

The main functions of the Commission are: to formulate and submit to the Minister, policies in the interest of consumers; consider and examine and, where necessary, advise the Minister on the consolidation or updating of legislation providing protection to the consumer; liaise with Departments and other agencies of Government on matters relating to consumer protection legislation; receive and consider complaints from consumers on matters relating to the supply of goods and services; investigate any complaint received; make available to consumers general information affecting the interests of consumers; liaise with business, commercial and professional bodies and associations in order to establish codes of practice to regulate the activities of their members in their dealings with consumers; advise consumers of their rights and responsibilities under laws relating to consumers protection; promote and participate in consumer education activities; establish appropriate systems whereby consumer claims can be considered and redressed; liaise with consumer organisations, consumer affairs authorities and consumer protection groups overseas and to exchange information on consumer issues with those bodies; arrange for the representation of consumers in court proceedings relating to consumer matters; and to do all other things relating to consumer affairs.

10.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

10.2.1 Comments on the Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act, 1989 (as amended)*, on the financial statements for the year ended 31 December, 2008 and 2009 were issued on 28 September, 2009 and 4 May, 2010 respectively. The 2008 and 2009 reports did not contain any qualifications.

10.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act, 1989 (as amended)*, on the audit and inspection of the accounts and records of the Commission for the year ended 31 December, 2008 and 2009 were issued on 28 September, 2009 and 4 May, 2010 respectively. The reports revealed generally satisfactory results.

10.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Commission for the year ended 31 December, 2010 will be submitted to my Office by 31 March, 2011.

11. INDEPENDENT PUBLIC BUSINESS CORPORATION

11.1 INTRODUCTION

The Independent Public Business Corporation was established under the *Independent Public Business Corporation of Papua New Guinea Act, 2002 (as amended)* which came into operation on 27 March, 2002.

The above Act was amended through the *Independent Public Business Corporation of Papua New Guinea (Amendment) Act, 2007* and the objectives and functions of the Corporation were changed.

A major impact of the amendments made in the amended Act was that the Corporation, the Trusts, the State Owned Enterprises or any other enterprises in which the Corporation, the Trusts or a State Owned Enterprises holds any interest shall not be subject to the *Public Finances (Management) Act, 1995*. The amended Act also excludes the Corporation from the application of the *Public Services (Management) Act, 1995* and the *Salaries and Conditions Monitoring Committee Act, 1988*.

These amendments came into operation on 08 June, 2007.

11.1.1 The objectives of the Corporation shall be:-

- (a) to act as trustee of the Trust and hold assets and liabilities that have been vested in or acquired by it, on behalf of the State;
- (b) to act as a financial institution for the benefit of and the provision of financial resources and services to State Owned Enterprises and the State, where this is approved by the National Executive Council;
- (c) to enhance the financial position of the State or State Owned Enterprises; and
- (d) to enter into and perform financial and other arrangements that in the opinion of the Corporation have as their objective either:-
 - (i) the advancement of the financial interests of the State or State Owned Enterprises; or
 - (ii) the development of the State or any part thereof.

11.1.2 Functions of the Corporation

- (1) The Corporation shall administer the Trusts and monitor the performance of the assets of the Trusts in such manner as provided under this Act and shall perform such other functions as are required under this Act.
- (2) Without limiting the generality of Subsections (1) but subject to the provisions of this Act, the Corporation:

- (a) may undertake the function of holding and monitoring corporation for State owned assets and Majority State Owned Enterprises;
- (b) may undertake the function of planning, coordinating and managing State assets, infrastructure and projects; and
- (c) may determine policies regarding:
 - (i) the conduct of its affairs and the affairs of any of the Trusts;
 - (ii) the administration, management and control of the Corporation and any of the Trusts; and
- (d) may borrow, raise or otherwise obtain financial accommodation in Papua New Guinea;
- (e) may advance money or otherwise make financial accommodation available to the State or State Owned Enterprises;
- (f) may act as a central borrowing and capital raising authority for State Owned Enterprises;
- (g) may act as agent for State Owned Enterprises in negotiating, entering into and performing financial arrangements;
- (h) may provide a medium for the investment of funds of State Owned Enterprises;
- (i) may manage or cause to be managed the Corporation's financial rights and obligations; and
- (j) has such other functions and duties as are prescribed by the Act or any other Act.

11.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

11.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4) of the Audit Act, 1989 (as amended)*, on the Corporation's financial statements for the years ended 31 December, 2008 and 2007 were issued on 9 December, 2009 and 19 November, 2009 respectively. These reports contained similar qualified audit opinions, hence only the 2008 report is reproduced as follows:

"BASIS OF QUALIFIED AUDIT OPINION

1. Non Compliance with International Accounting Standards

The carrying value of certain Fixed Assets Held for Sale (Office Furniture and Fixtures) at 31 December, 2008 was K707,723. These assets were bought in 2000 for the 13th floor Deloitte Tower office, but this decision was later abandoned.

The initial cost of these assets was K1,210,842 but was depreciated since 2003 up to 2006. The Corporation stopped providing depreciation in 2007. The net balance of K707,723 then has been shown as Assets Held for Sale. However, there was no consistency in applying the policy on depreciation on the assets which are held for sale, no respective adjustments on depreciation charged and no program of sale was evident. As a result, *International Financial Reporting Standards (IFRS-5) - Non-current Assets Held for Sale and Discontinued Operations, (IAS-8)-Accounting Policies, Changes in Accounting Estimates and Errors, (IAS-16) - Property, Plant and Equipment* were not complied with.

Accordingly, I was unable to satisfy myself on the accuracy of the balance of the Assets Held for Sale shown as K707,723 and the fixed assets balance of K738,168 respectively disclosed in the financial statements.

2. Related Party Balances

The financial statements disclosed K11,889,011 as receivables due from related parties under non-current assets. However, the components of this total had the following anomalies and incorrect accounting treatments;

- 2.1** An amount of K2,212,439 was disclosed as receivable from Port Moresby Private Hospital Limited (POMPH). However, K117,500, K300,000 and another K300,000 received as rental income from the Hospital for the years 2006, 2007 and 2008 respectively were not adjusted from the K2,212,439, thus overstating this balance by a total of K717,500;
- 2.2** The above rental income were shown as payable in the books of General Business Trust (GBT) as at 31 December, 2008. The showing of rental income from the Hospital in the GBT accounts as payable and the expenses in the IPBC accounts as receivable was not based on an approved arrangement;
- 2.3** Receivables from Investment Corporation of Papua New Guinea (ICPNG) were disclosed as K325,159. However, the accounts of the Investment Corporation of PNG (ICPNG) were not audited since 2002. Therefore, the exact status of its financial position could not be determined to ensure whether the receivable was infact payable in the books of ICPNG;
- 2.4** Receivables from Aquarius No. 21 Limited were disclosed as K53,997. The only asset claimed as owned by Aquarius No. 21 Limited in its financial statements was a vacant land at Portion 1570 Granville, National Capital District.

However, the lease of the land expired in 2000 which indicates that the land was not legally owned by the Company. As such, there was no asset owned by the Company to extinguish its liability owed to the parent entity; and

- 2.5 Receivables from the Ministry of Public Enterprises and the Ministry of Communication and Information were disclosed as K2,319,521 and K6,977,895 respectively. These amounts were spent from the General Business Trust operational funds. The operational fund was allocated by the Trust to Independent Public Business Corporation for its own normal operations as Trustee. However, the above ministerial expenses were also paid out of this and shown as related party balances which were not appropriate. In addition, no operational/consultancy expenses during 2007 and 2008 and the specified time limits to refund was available.

The above accounting treatments were not based on appropriate accounting practice or policy on fair presentation of the financial statements in compliance with *International Financial Reporting Standards (IAS-1) -Presentation of Financial Statements*.

Consequently, I was unable to ascertain the correctness and validity of showing K11,889,895 as related party balances under Non-Current Assets in the financial statements for the year ended 31 December, 2008. In addition, the Corporation did not have a policy setting out the conditions in respect of expenses incurred on behalf of other government entities and accounting them in its books.

QUALIFIED AUDIT OPINION

In my opinion, except for the effects of the matters referred to in the qualification paragraphs, the financial statements of the Independent Public Business Corporation comply with generally accepted accounting practice, and give a true and fair view of the Corporation's affairs as at 31 December, 2008 and of the results and cash flows for the year then ended.

OTHER MATTER

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

Non-Applicability of *Public Finances (Management) Act, 1995, Public Service (Management) Act, 1995* and the *Salaries and Conditions Monitoring Committee (SCMC) Act, 1988*.

In 2007, through the *Independent Public Business Corporation (amendment) Act, 2007*, amendments were made to the *Independent Public Business Corporation Act, 2002 (as amended)* which specifically excluded the applicability of the *Public Finances (Management) Act, 1995, Public Services (Management) Act, 1995* and the *Salaries and Conditions Monitoring Committee Act, 1988* to IPBC, its Trusts and State Owned Enterprises (SOE's). However, these Acts were enacted by the Parliament as standard policies and procedures to be adopted for the public bodies and organizations owned by the State of Papua New Guinea.

The Acts were the basis to ensure public funds are managed properly by the organizations and further to ensure that corporate governance is initiated for all the organizations owned by the State. I was concerned that removing the applicability of these Acts may not be in the spirit of the legislative framework.

Further, I have noted that some Board members of the previous board have raised their concerns against the amendments. I have enquired whether appropriate corporate governance policies were in place before this legislation was enacted. Management responded that corporate governance policies and procedures will be developed in due course. At the time of preparing this report, it has been two (2) years since the enactment of the new legislation and no policy and procedures have yet been developed."

11.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Corporation for the years ended 31 December, 2008 and 2007 were issued on 9 December, 2009 and 19 November, 2009 respectively. These reports contained similar observations and as such, only the comments in the 2008 report are reproduced as follows:

1. Business Travel Advance

Internal controls over business travel advances were not adequate. Most of the overseas travel advances were not acquitted as per the Corporations travel advance policy of 2004. I brought this to the attention of management and it responded that *"we have written to the officers concerned to acquit the travel advances. In respect of the internal control system over business travel advances, we will review the current system during 2009/2010 and put in place additional control procedures wherever necessary."*

2. Managing Director's Remuneration

The Managing Director's position was confirmed by National Executive Council (NEC) on 07 July, 2008 for a period of four (4) years. The Board in its meeting held on 13 March, 2009 has approved the Contract of Employment of the Managing Director and recommended to the Salaries and Conditions Monitoring Committee (SCMC) for its final approval of the remuneration package. However, I was not provided the copy of the SCMC approval. The Management advised that *"the Managing Director's annual remuneration has been approved by the IPBC Board and is currently with the SCMC for endorsement. We will provide a copy of the signed contract when we receive it from the SCMC."*

3. Exemption of Allowances from Income Tax without Internal Revenue Commission (IRC) Approval

The Managing Director was entitled to various non taxable allowances amounting to K70,990 per annum. These allowances were exempted from income tax under Section 29(1) of *Income Tax Act, 1959*, provided that the Corporation obtained prior approval from the Internal Revenue Commission for the exemption. However, these allowances were excluded from tax without prior approval from the IRC thereby contravening the requirements of the Act.

I advised the management to seek the exemption approval from the IRC and it responded that *“we do not consider it necessary to seek a separate exemption from the IRC for the present Managing Director’s allowances as the position is the same.”*

4. Non-Compliance with Contract

An expatriate officer’s contract of employment clearly stipulates that he is entitled to six (6) weeks annual leave or thirty (30) working days. However, forty five (45) working days has been claimed as annual recreation leave and provision made which is not appropriate. I brought this matter to management for correction and I was advised by the management that *“we will amend the contract of the Senior Manager (Finance & Administration) in respect of his annual leave days from 45 to 30, then make the necessary changes to the employee annual leave provision for any annual leave accrued as at 31 December, 2009.”*

5. Dependent’s Leave Fares

The Corporation had not developed a policy in respect of leave fares paid to dependents of the officers. In 2008, contract officers claimed leave fares to their dependents who were aged over eighteen (18) years. I brought this to the attention of management for their appropriate action and it advised that *“the Corporation’s policies are currently being drafted. Therefore, at present we do not have any policy in respect of the payment of leave fares of dependents. However, with respect to the airfares for dependents, the payments have been made with reference to each individual staff’s contract of employment.”*

11.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Corporation for the year ended 31 December, 2009 was completed and the results were being evaluated.

11A. GENERAL BUSINESS TRUST (TRUST UNDER INDEPENDENT PUBLIC BUSINESS CORPORATION)

11A.1 INTRODUCTION

The General Business Trust was established under Section 31 of the *Independent Public Business Corporation of Papua New Guinea Act, 2002* which came into operation on 20 June, 2002.

11A.1.1 Objectives of the Trust

- The Independent Public Business Corporation of Papua New Guinea (IPBC) was appointed as Trustee of the Trust and all moneys belonging to the Trust shall be invested or dealt with by IPBC in accordance with the *Act*.
- At anytime before or after the commencement date of the *Act*, the Minister responsible for privatization matters may vest certain assets and liabilities in the IPBC as Trustee of the Trust.
- All the State Owned Enterprises and other investments owned by the State of Papua New Guinea are vested in the Trust by the Minister responsible for privatisation as approved by National Executive Council from time to time.

11A.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

11A.2.1 Comments on the Financial Statements

My reports to the Ministers under *Section 8(4) of the Audit Act, 1989 (as amended)* on the financial statements for the years ended 31 December, 2009, 2008 and 2007 were issued on 18 June, 2010, 24 November, 2009 and 15 October, 2009 respectively. The 2009 report did not contain any qualification but the other matters reported are reproduced. The 2007 and 2008 reports contained similar qualified audit opinions, hence only the 2008 report is reproduced.

2009 Report:

Investments in PNG Series II and PNG Series III Notes

Note 7 to the financial statements disclosed a loss of K430,836 from the investment in PNG Notes Series III in Lehman Brothers. In 2008, PNG Series II and Series III Notes have incurred losses of K9.432 million and K2.954 million respectively in investing with Lehman Brothers. According to a valuation done by Structured Credit Research & Advisory Pty Limited, if one or two of the borrowers default on large credits supplied by Lehman Brothers the value of the investment in PNG Notes Series III may also be wiped out.

I was concerned that the Trustee had not done proper evaluations and failed to obtain the Board's approval before the investments were made. In my view, investments in overseas financial/money markets are not the core purpose of the establishment of the Trust. Further, I still believe that the funds vested with the Trust and managed by the Trustee (IPBC) are owned by the State although the amendments made to the *Independent Public Business Corporation Act, 2002 (as amended)* specifically excluded the compliance of *Public Finances (Management) Act, 1995*. Accordingly, the management still needs to seek the necessary approval from the Board before making investment decisions in overseas money markets and the sale of assets vested with the Trust. Therefore, the Board needs to bring in an adequate and appropriate corporate governance regime in the management and affairs of the Trust which I believe was lacking.

Foreign Exchange Loss on the issue of Exchange Bonds

I draw your attention to the exchange difference loss of K1,232,024,814 disclosed in the Statement of Trust Operations in respect of foreign currency transactions and foreign currency balances held in the Quarantined Accounts. This foreign exchange loss on translating foreign currencies to the functional currency was incurred as a result of issuing the Exchange Bonds of AUD\$ 1.681 billion (K3.183 billion) for funding towards the investment in the PNG LNG Project.

The above amount was additional to the value of the Oil Search shares required by IPBC if the Bonds were redeemed or exchanged as per Bond Deed Poll of the Exchange Bonds agreement as at 31 December, 2009.

2008 Report:

“QUALIFICATION

Value of Non-Current Investments

The value placed on most of the investments as disclosed in Note 9 of the financial statements were based on the most recent financial statements derived from the books of the investee entities without an independent valuation. Accordingly, the value of these investments may not bear any relation to the amounts that could be exchanged between knowledgeable willing parties in an arms length transaction. As a result, I was unable to conclude as to whether the carrying value of non- current investments of K5,485,192,429 at 31 December, 2008 was appropriate.

QUALIFIED AUDIT OPINION

In my opinion, except for the effects on the financial statements of the matter referred to in the qualification paragraph:

- (a) the financial statements are based on proper accounts and records; and

- (b) the financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the General Business Trust as at 31 December, 2008 and the results of its financial operations and its cash flows for the year then ended.

EMPHASIS OF MATTERS

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

Loss on Investments in PNG Series II and III Notes

Note No.7 (2) to the financial statements disclosed that a loss of K12.4million was incurred in the investments in PNG Series II and III Notes. The manager of the Trust, Independent Public Business Corporation (IPBC), invested K15.0 million (AUD\$ 5,920,500) in PNG Series II on 01 June, 2007 and further invested K16.0 million (AUD\$ 6,250,000) in PNG Series III Notes on 21 September, 2007 in Lehman Brothers through BSP Capital Limited. Both investments totaling K31 million were made without proper evaluations on the overseas money market and without the Board's consent. The losses occurred in September, 2008 when Lehman Brothers filed for Bankruptcy in the United States as a result of the global financial crunch.

I was concerned that the Trustee had not done a proper evaluation and failed to obtain the Board's approval before the investments were made. Further, I still believe that the funds vested with the Trust and managed by the Trustee (IPBC) are owned by the State and although amendments made to the *Independent Public Business Corporation Act, 2002 (as amended)* specifically excluded the compliance of the *Public Finances (Management) Act, 1995*, the management still needed to seek necessary approval from the Board before making investment decisions in overseas money markets and also for the sale of assets vested with the Trust.

Foreign Exchange Loss on Investments (AUD\$ IBD, PNG Series II and III Notes)

I draw your attention to the Note No. 7 disclosure of a foreign exchange net loss of K17,312,647 for the financial year. The Trustee made an investment of K39,192,418 (AUD\$15.0 million) in Australian Dollar IBDs with the Bank of South Pacific Limited in 2007. At 31 December, 2008 the value of the investments had reduced to K29,142,471 as a result of foreign currency fluctuations and the investments suffered a foreign exchange loss of K9,629,287 (2007: foreign exchange loss of K3,034,670). Similarly, the investments made in the PNG Series II and III Notes have also incurred foreign exchange losses of K3,368,452 and K3,555,920 respectively for the year ended 31 December, 2008 as a result of foreign currency fluctuations.

I was gravely concerned over these overseas currency investments (IBD's and Notes) in a period of unstable and volatile financial markets.

In my view, investment in overseas financial/money markets is not the core purpose of the establishment of the Trust. Since the exclusion of the *Public Finances (Management) Act, 1995* in the amendments through the *Independent Public Business Corporation Act, 2007* the Board needs to bring in an adequate and appropriate corporate governance regime in the management and the affairs of the Trust which I believe is lacking at present.

Loss on the Investment in New Britain Palm Oil Limited (NBPOL) Shares

I also draw your attention to the Note No. 7(1) disclosure that Ramu Agri Industries Shares of 5,954,480 (28.41%) were exchanged for New Britain Palm Oil Limited (NBPOL) shares of 1,349,682 (0.93%) at a value of K40,490,464 at a price of K30 per share. Of the 1,349,682 NBPOL shares, 1,000,000 shares were purchased from the London Stock Exchange whereas the balance was obtained from the Port Moresby Stock Exchange as advised by their Consultant. However, at 31 December, 2008 the NBPOL stock value at the London Stock Exchange fell to £1.5825 (K5.769)/share resulting in a loss of K24,230,000. The POM Stock Exchange share values also dropped to K12 at year end resulting in a loss of K6,294,276. The total loss experienced at year end was K30,525,276.

The NBPOL shares were valued at K30.00/share at the time of exchange whereas the value of the shares quoted at the Port Moresby Stock Exchange was K20.00/share. I have not sighted any valid reason explaining why the NBPOL shares were purchased at a higher price at an overseas stock exchange when stocks were quoted for less at the POM stock exchange.

Although, the National Executive Council (NEC) has approved this divestment of shares in Ramu Agri Industries, the investment trading on the London Stock Exchange was not properly managed resulting in the loss of the capital gain earned from the sale of Ramu Agri Industries shares.”

11A.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2) of Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records for the years ended 31 December, 2009, 2008 and 2007 were issued on 18 June, 2010, 24 November, 2009 and 15 October, 2009 respectively. These reports contained similar observations and as such, only the comments in the 2009 report are reproduced as follows:

1. Sale of State Owned Assets without NEC Approval

Several assets were sold between 2004 and 2007 totaling K4,865,176 without obtaining written National Executive Council (NEC) approval as required under *Section 9(b)(1A) of the Independent Public Business Corporation Act, 2002 (as amended)*.

When the matter was brought to the attention of management, it responded that “management will make a decision on making a submission to NEC to ratify the decisions made by IPBC to sell the above assets in the years specified above.”

2. Lease of Government Stores

The Government Store located at Lot 136 Section 37 Badili/Matirogo was leased to POM Productions Limited for 20 years by IPBC, the trustee of GBT for the annual rental of K20,000 which was less than 1% of the property's value of K2,524,500. No valid reason was made available for such a long term lease agreement made by IPBC. Further, the lease can be terminated by the lessee by notice to the lessor but not otherwise.

I brought this matter to the attention of management and it responded, *"IPBC is going through the process of reviewing this lease agreement between IPBC and POM Production Limited over the leasing of the Government Stores."*

11B. AQUARIUS NO. 21 LIMITED (A SUBSIDIARY OF INDEPENDENT PUBLIC BUSINESS CORPORATION)

11B.1 INTRODUCTION

11B.1.2 Legislation

Aquarius No. 21 Limited was incorporated under the *Companies Act, 1997*. It was acquired by the Motor Vehicles Insurance (PNG) Trust, now Motor Vehicles Insurance Limited, in 1998.

The objective of Aquarius No. 21 Limited is to purchase property to improve, develop, sell and let any part thereof where necessary.

The Company was transferred to the General Business Trust on 2 August, 2002 as per the Settlement Deed between the Independent Public Business Corporation (IPBC) and the Motor Vehicles Insurance Limited dated 3 April, 2002.

11B.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December, 2007 was completed. In spite of repeated requests from my Office, responses for the management letter and signed financial statements were not provided by the Company to enable me to issue my report under *Companies Act, 1997* and *Section 8(2) of the Audit Act, 1989 (as amended)*.

The Company had not submitted its financial statements for the years ended 31 December, 2008 and 2009 for my inspection and audit.

11C. PORT MORESBY PRIVATE HOSPITAL LIMITED (A SUBSIDIARY OF INDEPENDENT PUBLIC BUSINESS CORPORATION)

11C.1 INTRODUCTION

11C.1.1 Legislation

Negliw No. 81 Limited was incorporated under the *Companies Act, 1997* and was acquired by the Motor Vehicles Insurance (PNG) Trust, now Motor Vehicles Insurance Limited, on 30 September, 1994 as a subsidiary. Negliw No. 81 Limited changed its name to Port Moresby Private Hospital Limited in 1996.

The Company was later transferred to the General Business Trust on 2 August, 2002.

11C.1.2 Objective of the Company

The objective of Port Moresby Private Hospital Limited was to construct, furnish and equip a building to operate as a hospital.

11C.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December, 2007 was completed. In spite of repeated request from my office, response for the management letter and signed financial statements were not provided by the Company to enable me to issue the audit reports under the *Companies Act, 1997* and the *Audit Act, 1989 (as amended)*.

The Company had not submitted its financial statements for the years ended 31 December, 2008 and 2009 for my inspection and audit.

11D. PRIVATISATION (GARDEN HILLS) LIMITED (A SUBSIDIARY OF INDEPENDENT PUBLIC BUSINESS CORPORATION)

11D.1 INTRODUCTION

11D.1.1 Legislation

Privatisation (Garden Hills) Limited was incorporated as a 100% owned company under the *Company's Act, 1997* by the Privatisation Commission on 21 March, 2002 to own the residential vacant plots which were transferred by Papua New Guinea Banking Corporation Limited (PNGBC) prior to its amalgamation with Bank of South Pacific Limited (BSP) as part of the non-banking assets to be transferred from the PNGBC to the Privatisation Commission.

On 20 June, 2002, the Independent Public Business Corporation was established under the *Independent Public Business Corporation of Papua New Guinea Act, 2002* and took over the assets and liabilities of the Privatisation Commission from the succession date of 30 June, 2002.

11D.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December, 2007 was completed. In spite of repeated request from my office, response for the management letter and signed financial statements were not provided by the Company to enable me to issue the report.

The Company was deregistered in 2008. That being the case, my report on the Company for the year ended 31 December, 2007 in my next report to the Parliament would be the last.

11E. PNG DAMS LIMITED (A SUBSIDIARY OF INDEPENDENT PUBLIC BUSINESS CORPORATION)

11E.1 INTRODUCTION

11E.1.1 Legislation

PNG Dams Limited was incorporated under the *Company's Act, 1997* on 05 June, 2002. This Company was established under Section 3(1) of the *Electricity Commission (Privatisation) Act, 2002 (the „Act“)* by transferring to it the Sirinumu Dam and Yonki Dam from Papua New Guinea Electricity Commission (“ELCOM”). This was Gazetted through Gazettal Notification No. G114 dated 16 July, 2002. This Company was vested with Independent Public Business Corporation (IPBC) through the Gazettal Notification No. G125 dated 02nd August, 2002.

11E.1.2 The Objective of the Company

These dams are used as water storage and for the controlled release of water from the storage for the generation of electricity.

11E.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December, 2004, 2005 and 2006 were still in progress. The Company has failed to provide the financial statements for the period ended 31 December, 2002, and the years ended 31 December, 2003, 2007 and 2008 for my inspection and audit.

The Company had submitted the financial statements for the year ended 31 December, 2009 for my inspection and audit, however inspection and audit were not commenced because the financial statements for the years ended 31 December, 2007 and 2008 were not provided.

11F. KROTON NO. 2 LIMITED (A SUBSIDIARY OF INDEPENDENT PUBLIC BUSINESS CORPORATION)

11F.1 INTRODUCTION

11F.1.1 Legislation

Kroton No. 2 Limited was incorporated under the *Company's Act, 1997* and was acquired by Independent Public Business Corporation on 24 November, 2008.

Independent Public Business Corporation was approved as the State nominee in the PNG LNG Project as resolved by National Executive Council (NEC) in its Meeting No. 36/2008 through Decision No. 223/2008.

11F.1.2 The Objective of the Company

The objective of Kroton No. 2 Limited is to invest in the PNG LNG Project as PNG State nominee holding 19.6% Equity in the Project.

11F.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

11F.2.1 Comments on Financial Statements

In accordance with the provisions of the *Companies Act, 1997*, my report on the financial statements of Kroton No. 2 Limited for the year ended 31 December, 2009 and the period ended 31 December, 2008 were issued on 28 May, 2010. These reports did not contain any qualification. However, the 2009 report contained the following Other Matter:

Related Party Payables

During the year K787,481,725 was paid by Independent Public Business Corporation (IPBC) to ESSO Highland Limited, the operator of the PNG LNG Project, on behalf of Kroton as its 16.57 % participating interest in the project as Back-In Cost. IPBC funded this participating interest required by Kroton as a loan for the investment in the PNG LNG Project. The IPBC Board resolved that the funds advanced to Kroton should be refunded as agreed through a loan agreement. However, the signed loan agreement between Kroton and IPBC was not made available for me to determine whether the terms and conditions were agreed to by both organizations. Accordingly, I was unable to determine the actual terms and conditions of the loan that was disclosed as related party payables in the financial statements for the year ended 31 December, 2009.

11F.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of accounts and records for the year ended 31 December, 2009 and the period ended 31 December, 2008 were issued on 28 May, 2010. These reports contained similar observations, hence the significant matter reported in 2009 is reproduced as follows:

Appointment of Director of Kroton No.2 Limited

According to *Section 9A of the Independent Public Business Corporation Act, 2002 (as amended)*, prior to nominating a person as a member of the Board of a State Owned Enterprise, the Corporation must notify the Secretary of the National Executive Council (NEC) of the identity, experience and proposed remuneration of the person to be appointed. I was not provided with the necessary documentation or the Board minute and the NEC endorsement of the Director's appointment in 2008. Accordingly, I could not determine whether the present Director's term and position is valid.

12. INDUSTRIAL CENTRES DEVELOPMENT CORPORATION

12.1 INTRODUCTION

12.1.1 Legislation

The Industrial Centres Development Corporation was established under the *Industrial Centres Development Corporation Act, 1990*, which came into operation on 23 August, 1990. The Corporation commenced trading on 5 January, 1994.

12.1.2 Functions of the Corporation

The main functions of the Corporation are overall planning and implementation of the Government's industrial centre development programme; preparation of feasibility studies in order to identify appropriate forms of industrial development, to identify therewith or otherwise, regions and sites in the country for industrial centres, and to do such supplementary, incidental or consequential acts, as are necessary for the development and promotion of industrial centres in Papua New Guinea.

12.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

12.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act, 1989 (as amended)*, on the financial statements of the Corporation for the year ended 31 December, 2007 was issued on 04 May, 2010. The report contained a qualified opinion.

"BASIS FOR QUALIFIED OPINION

Employee Provisions

Employee provisions disclosed in the financial statements was K182,388. This amount did not agree with the listing provided for audit. As a result, I was unable to satisfy myself as to the accuracy and correctness of the employee provisions of K182,388 at year end.

Prior Year Adjustments

Prior year adjustments amounting to K288,877 was made during the year for previous irregularities as mentioned in the Notes 10 to the financial statements. I could not verify this amount as no proper supporting documents were provided for my examination. Consequently, I was unable to satisfy myself with the completeness and accuracy of these adjustments.

QUALIFIED AUDIT OPINION

Except for the effects of the matters referred to in the Basis for Qualified Opinion paragraphs, in my opinion:

- (a) the financial statements are based on proper accounts and records; and
- (b) the financial statements are in agreement with those accounts and records and show fairly the state of affairs of the Corporation for the year ended 31 December, 2007 and the results of its financial operations and cash flows for the year then ended.”

12.2.2 Audit Observations reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Corporation for the year ended 31 December, 2007 was issued on 4 May, 2010. The report contained the following comments:

1. Minister’s Approval of the Land Sale

Most of the vacant land in Malahang Industrial Centre and Ulaveo Industrial Centre were sold during 2006 and 2007 without Ministerial approvals. Again, I brought this matter to the attention of management and it responded as follows:

“The actual copy of the approval letter by the Minister according to the then acting Managing Director, Mr. Leo Goina, misplaced and that he is still looking for it.”

2. Bank Reconciliations

Most of ICDC bank accounts were not reconciled in a timely manner. I brought this matter to management and it responded as follows:

“Those staff responsible have been directed to adhere and do monthly bank reconciliations to be reviewed by the Financial Accountant each month as per the ICDC financial procedural manual.”

3. Budget against Actual

The Corporation committed a significant overspending of expenditure without the Board’s approval. I advised the management to always follow the approved budget. The management responded that they are aware of the problem and have agreed to stick to the budget and any amendment to the budget will be submitted to the Board for approval.

4. Submission of Financial Statements

The Corporation has not prepared and submitted their financial statements to the Minister and the Auditor-General prior to 30 June for the year ending December preceding, resulting in breaches of Section 63(2) and Section 63(4) of the *Public Finances (Management) Act, 1995*.

5. Other Internal Control Weaknesses

Other weaknesses noted were:

- No adequate control procedures in place over payments made directly to suppliers by open cheque;
- No maintenance of travel advance register;
- No control on staff advances;
- Purchase of Unbudgeted Motor vehicle;
- GST returns were not prepared and submitted to IRC;
- No maintenance of staff ledger and employees history cards;

I drew management's attention to these weaknesses and I was advised that these matters were now being looked into and addressed.

12.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and examination of the financial statements of the Corporation for the year ended 31 December, 2008 was substantially completed and the results were being evaluated.

The Corporation had not submitted its financial statements for the year ended 31 December, 2009 for my inspection and audit.

13. INVESTMENT PROMOTION AUTHORITY

13.1 INTRODUCTION

13.1.1 Legislation and Objective of the Authority

The Investment Promotion Authority was established under the *Investment Promotion Act, 1992*. The objective of the Act was to provide for the promotion of investment in the interests of national, social and economic development. This Act repealed the *National Investment and Development Act (Chapter 120)* and the *Investment Promotion Act, 1991*.

13.1.2 Functions of the Authority

The principal functions of the Authority are: to provide information to investors in the country and overseas; to facilitate the introduction of citizens and foreign investors to each other and to activities and investments of mutual benefits; to provide a system of certification of foreign enterprises; to advise the Minister on policy issues which relate to the Act; and to maintain a register of foreign investment opportunities.

13.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

13.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act, 1989 (as amended)*, on the Authority's financial statements for the years ended 31 December, 2008 and 2007 were issued on 28 June, 2010 and 9 November, 2009 respectively. The 2008 report contained a qualified audit opinion.

“BASIS FOR QUALIFIED OPINION

Creditors and Accrual Balance

The Authority disclosed K1,275,611 as the closing balance for Creditors and Accruals in the financial statement at the year end. However, I was not provided with valid explanations for a debit balance of K84,655 comprising of various accounts. As such, I was unable to confirm the accuracy and determine the value of over or understatement of this balance as stated in the accounts.

QUALIFIED AUDIT OPINION

In my opinion, except for the effects of the matter referred to in the Basis for Qualified Opinion paragraph above:

- (a) the financial statements are based on proper accounts and records; and
- (b) the financial statements are in agreement with those accounts and records and show fairly the state of affairs of the Authority as at 31 December, 2008 and the results of its financial operations of the year then ended.”

The **2007 report** contained a disclaimer of audit opinion.

“BASIS FOR DISCLAIMER OF AUDIT OPINION

Limitation of scope due to weaknesses in the Accounting System

The Authority did not fully utilize the accounting system maintained and the reconciliations were not done on a timely basis to verify the differences between the general ledger, trial balance and the financial statements. My review of the accounts indicated that proper accounting entries were not passed in the General Ledger accounts to arrive at the year end account balances. Although, the records were maintained outside the accounting system to substantiate these balances, individual transaction details were not recorded in the accounting system maintained by the Authority. As a result, I was unable to place reliance on the adjusting entries posted to the general ledger. Further, proper rollover procedures were not followed by the Authority to reflect the correct opening balances. Accounting staff also lacked sufficient knowledge and expertise to perform key accounting functions and tasks of the Authority, thus reducing the level of reliance and integrity that could be placed on the financial statements and internal controls.

Bank Reconciliations

Basic accounting functions such as the preparation of bank reconciliation statements were not performed on a regular basis and neither were they checked nor verified by an independent person. My review of the Authority’s bank reconciliation into subsequent periods revealed K486,747 as an un-reconciled amount. The source documents for un-reconciled items were not made available for my examination. As a result, I was unable to confirm the accuracy and completeness of cash at bank balance of K349,850 at the year end.

DISCLAIMER OF OPINION

Because of the significance of the matters referred to in the preceding paragraphs, I am not in a position to, and do not express an opinion on the financial statements of the Investment Promotion Authority for the year ended 31 December, 2007.”

13.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8 (2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records for the years ended 31 December, 2008 and 2007 were issued on 28 June, 2010 and 9 November, 2009 respectively.

The **2008 report** contained the following matter:

Lack of Segregation of Duties

My review of the journal entries passed in the ledgers showed that there was no segregation of duties between the officer raising the journal and the officer approving and effecting the posting into the accounts. In addition, bank reconciliations prepared were neither checked nor verified by an independent person.

I recommended that proper segregation of duties be implemented.

The **2007 report** contained the following comment:

Non Acquittal of Travel Related Expenses

From my sample tests carried out on traveling expenses, it was revealed that travel advances totaling K29,265 were not properly acquitted with relevant supporting documents as required by the *Public Finances (Management) Act* and the Financial Instructions.

Further, the Authority did not maintain a proper advance register. As such, I was unable to ascertain whether the advances were used for the intended purposes.

I brought this matter to the attention of the Authority and it agreed to take remedial action.

13.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements for the year ended 31 December, 2009 had been completed and the results were being evaluated.

14. KOKONAS INDASTRI KOPORESEN (FORMERLY COPRA MARKETING BOARD OF PAPUA NEW GUINEA)

14.1 INTRODUCTION

14.1.1 Legislation

The National Executive Council (NEC) through its Gazettal Notice No. G19 abolished the *Copra Marketing Board Act, 1992* on 4 June, 2002 and replaced it with *Kokonas Indastri Koporesen Act, 2002* which established the Kokonas Indastri Koporesen (KIK). The new Act decentralised copra buying and selling in Papua New Guinea and required KIK to only regulate the copra price in Papua New Guinea.

The *KIK Act, 2002* subsequently established Papua New Guinea Coconut Extension Fund, Papua New Guinea Coconut Industry Fund and Papua New Guinea Coconut Research Fund. Comments in relation to these Funds are contained in paragraphs 14A, 14B and 14C respectively, of this Report (Part IV).

14.1.2 Functions of the Koporesen

The principal functions of the Koporesen are to regulate and assist in the export and marketing of copra in the best interest of the copra producers of Papua New Guinea, and to administer the Papua New Guinea Coconut Industry Fund, the Papua New Guinea Coconut Research Fund and the Papua New Guinea Coconut Extension Fund.

14.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

14.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act, 1989 (as amended)*, on the financial statements of the Koporesen for the year ended 31 December, 2007 was issued on 25 November, 2009. The report did not contain any qualification except for an emphasis of matter as follows:

“EMPHASIS OF MATTER

Copra Fund Loan Balance

Without qualifying my opinion, I wish to draw your attention to Note 4 of the financial statements which disclosed K18,395,558 as overall outstanding loan balance for Copra Fund in the Koporesen’s capacity as Trustee of the Fund. Necessary supporting documents including confirmation from the Bank were not provided for audit verification. Consequently, I was unable to ascertain the accuracy of the loan balance.”

14.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the financial statements of Kokonas Industri Koporesen for the year ended 31 December, 2007 was issued on 25 November, 2009. The report contained the following observations:

Purchases with no Invoice

The fixed assets purchased on four (4) occasions to the value of K25,355.50 were based on quotation instead of proper invoices. I advised management to obtain proper invoice when making purchase and management responded to my observation as follows:

“KIK does not have credit facilities with these suppliers. As a result, when items are required we request them to fax us invoices/quotes where payments are made based on them. We will improve on this in future.”

Board Meetings Minutes

KIK conducted five (5) Board meetings during the year but minutes of three (3) meetings were not signed by the Chairman. I recommended management to ensure that minutes are signed by the Chairman or his delegate to authenticate the actual proceedings discussed at these meetings.

14.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing the Report, the inspection and audit of the accounts and records and examination of the financial statements of the Koporesen for the year ended 31 December, 2008 was substantially completed and the results were being evaluated.

The Koporesen did not submit its financial statements for the year ended 31 December, 2009 for my inspection and audit.

14A. PAPUA NEW GUINEA COCONUT EXTENSION FUND

14A.1 INTRODUCTION

The *Copra Marketing Board (Amendment) Act, 1997*, provides for the establishment of the Papua New Guinea Coconut Extension Fund for the purpose of receiving levies and engaging in extension services and related programmes in accordance with the terms of the Act.

14A.1.1 Objective of the Fund

The objective of the Fund is to engage in extension services and related programmes by itself or in co-operation with other persons or bodies for the benefit of the Copra Industry.

The Fund was administered by the Copra Marketing Board, up to 3 June, 2002 and has since been administered by Kokonas Indastri Koporesen.

14A.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

14A.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4) of the Audit Act, 1989 (as amended)*, on the financial statements of the Fund for the year ended 31 December, 2007 was issued on 25 November, 2009. The report contained a qualified audit opinion:

“BASIS FOR QUALIFIED OPINION

Trade Debtors

I was unable to satisfy myself as to the validity and recoverability of the trade debtors balance of K87,000 as stated in the financial statements as over 50 percent of this amount remained outstanding for more than 90 days.

QUALIFIED AUDIT OPINION

In my opinion, except for the possible effect of the matter discussed in the Basis for Qualified Opinion paragraph:

- (a) The financial statements were based on proper accounts and records; and
- (b) The financial statements were in agreement with those accounts and records and show fairly the state of affairs of the Fund as at 31 December, 2007 and the results of its financial operations for the year ended on that date.”

14A.3 Audit Observations Reported to the Minister

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Fund for the year ended 31 December, 2007 was issued on 25 November, 2009. The report contained the following observation.

Payment Out of Extension Fund

Section 37 of *Kokonas Indastri Koporesen Act, 2002* states that no money shall be paid out of the Fund except for the purpose of research under 4(1)(c). However, I noted that payments were made to various law firms for legal fees and PNG Cocoa Coconut Institute Board of Directors allowance and related expenses. The Fund responded to my concern as follows:

“The legal fees were paid for legal services rendered to CCIPNG. Payments from the levy account were made after receiving direction from CCIPNG.”

14A.4 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records of the Fund for the year ended 31 December, 2008 was substantially completed and the results were being evaluated. The Extension Fund had not submitted the financial statements for the year ended 31 December, 2009 for my inspection and audit.

14B. PAPUA NEW GUINEA COCONUT INDUSTRY FUND

14B.1 INTRODUCTION

14B.1.1 Legislation

The *Kokonasi Industri Koporesen Act, 2002*, provided for the establishment of the Papua New Guinea Coconut Industry Fund for the purpose of receiving levies and fees and for making bounty payments in accordance with the terms of the Act.

14B.1.2 Objective of the Fund

The objective of the Fund is to stabilize as far as possible, the copra prices payable to copra producers by collecting levies in times of favourable market prices and by making bounty payments in times of depressed prices, and also establishing credit facility for producer and investment promotion within the industry.

The Fund is administered by the Kokonas Industri Koporesen.

14B.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

14B.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4) of the Audit Act, 1989 (as amended)*, on the financial statements of the Fund for the year ended 31 December, 2007 was issued on 25 November, 2009. The report contained a disclaimer of opinion.

“BASIS FOR DISCLAIMER OF OPINION

Limitation of the Scope on my Audit

The Fund did not maintain proper books of accounts and records and neither did it maintain a general ledger to produce a trial balance for the preparation of the financial statements. Due to the above limitation on the scope on my audit, I was unable to conduct the necessary audit procedures and the necessary examination to enable me to verify the accuracy of the following account balances as at 31 December, 2007.

Cash at Bank	- K 15,649;
Trade Debtors	- K 127,426;
Amount Receivable from Related Entity	- K 5,926,112;
Trade Creditors	- K 21,343; and
Non Current Liabilities	- K22,395,558.

As described in Note 2 to the financial statements, the continuing viability of Coconut Industry Fund and its ability to meet its debts as and when they fall due are dependent upon:

- a) The Independent State of Papua New Guinea waiving or deferring the requirement of the Fund to repay both the K4,000,000 Stabex loan and the Copra Support Scheme loan of K18,395,558 administered by the then Papua New Guinea Banking Corporation; and

- b) Receiving sufficient grants from the Independent State of Papua New Guinea or levies from the Kokonas Indastri Koporesen to enable the Fund to meet its obligations.

The financial statements have been prepared on a going concern basis on the assumption that such support will continue to be available.

Trade Debtors

Trade debtors and amount receivable from Kokonas Indastri Koporesen are disclosed in the financial statements as K127,426 and K5,926,122 respectively. I was unable to satisfy myself on the recoverability of these amounts as they remained the same since 1999.

Copra Price Support Scheme and Stabex Loans

I did not receive any bank confirmations for the Copra Price Scheme Loan of K18,395,558 and the Stabex Loan of K4,000,000 and as a result, I was unable to satisfy myself as to the accuracy of these balances by alternate audit procedures.

DISCLAIMER OF OPINION

In my opinion, because of the potential effect of any adjustments to the financial statements that might have been found to be necessary had I been able to obtain sufficient evidence concerning the matters referred to in the preceding paragraphs, I was unable to, and did not form an opinion on the financial statements of the PNG Coconut Industry Fund for the year ended 31 December, 2007.”

14B.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Fund for the year ended 31 December, 2007 was issued on 25 November, 2009. The inspection and audit revealed generally satisfactory results.

14B.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records of the Fund for the year ended 31 December, 2008 was substantially completed and the results were being evaluated.

The Fund had not submitted the financial statements for the year ended 31 December, 2009 for my inspection and audit.

14C. PAPUA NEW GUINEA COCONUT RESEARCH FUND

14C.1 INTRODUCTION

14C.1.1 Legislation and Objective of the Fund

The Papua New Guinea Coconut Research Fund was established by the *Kokonasi Industri Koporesen Act, 2002* following the repeal of the *Copra Marketing Board (Amendment) Act, 1986*, and the cessation of the Papua New Guinea Copra Research Fund. The Kokonasi Industri Koporesen deducts a copra research CESS of K4 per tonne of copra purchased from producers and pays it to the Research Fund. The Research Fund in turn, pays this CESS to the Cocoa Coconut Institute of Papua New Guinea.

14C.2 AUDIT OBSERVATIONS

14C.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4) of the Audit Act, 1989 (as amended)*, on the financial statements of the Fund for the year ended 31 December, 2007 was issued on 25 November, 2009. The report contained a qualified audit opinion.

“BASIS OF A QUALIFIED OPINION

Trade Debtors

I was unable to satisfy myself as to the validity and recoverability of the trade debtors balance of K87,000 as stated in the financial statements as over 50 percent of this amount remained outstanding for more than 90 days.

Qualified Audit Opinion

In my opinion, except for the possible effect of the matter discussed in the Basis for Qualified Opinion paragraph:

- (a) the financial statements were based on proper accounts and records; and
- (b) the financial statements were in agreement with those accounts and records and show fairly the state of affairs of the Fund as at 31 December, 2007 and the results of its financial operations for the year ended on that date.”

14C.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Fund for the year ended 31 December, 2007 was issued on 25 November, 2009. The report contained the following observation:

Payment Out of Extension Fund

Section 37 of *Kokonas Indastri Koporesen Act, 2002* states that no money shall be paid out of the Fund except for the purpose of research under 4(1)(c). However, I noted that payments were made to various law firms for legal fees and PNG Cocoa Coconut Institute Board of Directors allowance and related expenses. The Fund responded to my concern as follows:

“The legal fees were paid for legal services rendered to CCIPNG. Payments from the levy account were made after receiving direction from CCIPNG.”

14C.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records of the Fund for the year ended 31 December, 2008 was substantially completed and the results were being evaluated.

The Research Fund had not submitted the financial statements for the year ended 31 December, 2009 for my inspection and audit.

15. LEGAL TRAINING INSTITUTE

15.1 INTRODUCTION

15.1.1 Legislation

The Legal Training Institute was established in 1972 under the *Post Graduate Legal Training Act (Chapter 168)*.

15.1.2 Functions of the Institute

The functions of the Institute are to provide practical training in law, the conduct and management of legal offices, trust accounts and related subjects for candidates for admission, to a standard sufficient to qualify them for admission to practice as lawyers under the Admission Rules as contained in the *Lawyers Act of 1986*.

15.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

15.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4) of the Audit Act, 1989 (as amended)*, on the financial statements of the Institute for the year ended 31 December, 2008 was issued on 29 October, 2009. The report did not contain any qualification.

15.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records and the examination of the financial statements of the Institute for the year ended 31 December, 2008 was issued on 29 October, 2009. The report revealed generally satisfactory results.

15.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the field work associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Institute for the year ended 31 December, 2009 was completed and the results were being evaluated.

16. MINERAL RESOURCES AUTHORITY

16.1 INTRODUCTION

16.1.1 Legislation

The Mineral Resources Authority was established by the National Parliament under the *Mineral Resources Act, 2005* on 9 November, 2005. This Act came into force on January 2006 but commenced operations in June 2007.

16.1.2 Objectives of the Authority

The objective of the Authority is to be able to achieve stability, industry growth and a degree of assurance of future revenues from the mineral industry. More effective management of issues concerning landowners and their participation in the development process and allow for the development of a more settled investment climate and industry development.

16.1.3 Functions of the Authority

The functions of the Authority are described as follows:

- (a) to advise the Minister on matters relating to mining and the management, exploitation and development of Papua New Guinea's mineral resources;
- (b) to promote the orderly exploration for the development of the country's mineral resources;
- (c) to oversee the administration and enforcement of the *Mining Act, 1992*, the *Mining (Safety) Act* (Chapter 195A), the *Mining Development Act* (Chapter 197), the *Ok Tedi Acts* and the *Ok Tedi Agreement*, the *Mining (Bougainville Copper Agreement) Act* (Chapter 196) and the agreements that are scheduled to that Act, and any other legislation relating to mining or to the management, exploitation or development of Papua New Guinea's mineral resources;
- (d) to negotiate mining development contracts under the *Mining Act, 1992* as agent for the State;
- (e) to act as agent for the State, as required, in relation to any international agreement relating to mining or to the management, exploitation or development of Papua New Guinea's mineral resources;
- (f) to receive and collect, on its own account and on behalf of the State, any fee, levy, rent, security, deposit, compensation, royalty, costs, penalty, or other money, or other account payable under the *Mining Act, 1992*, the *Mining (Safety) Act* (Chapter 195A), the *Mining Development Act* (Chapter 197), the *Ok Tedi Acts* and the *Ok Tedi Agreement*, the *Mining (Bougainville Copper Agreement) Act* (Chapter 196) and the agreements that are scheduled to that Act, or any other Act the administration of which is the responsibility of the Authority from time to time;

- (g) on behalf of the State, to receive and collect from persons to whom a tenement has been granted under the *Mining Act, 1992* the security for compliance with the person's obligations under the *Mining Act, 1992* required to be lodged with the Registrar, and to hold and such security received or collected;
- (h) on behalf of the State, to administer and be responsible for the administration of any public investment programme relating to mining;
- (i) to conduct systematic geoscientific investigations into the distribution and characteristics of Papua New Guinea's mineral and geological resources, located on, within or beneath the country's land mass, soil, subsoil and the sea-bed;
- (j) to provide small scale mining and hydrogeological survey data services, and occupational health and safety community awareness programs;
- (k) to collect, analyse, store, archive, disseminate and publish (in appropriate maps and publications) on behalf of the State geoscientific information about Papua New Guinea's mineral and geological resources;
- (l) to carry out such other functions as are given to the Authority by this Act or by any other law; and
- (m) generally to do such supplementary, incidental, or consequential acts and things as are necessary or convenient for the Authority to carry out its functions.

16.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the Authority's financial statements for the year ended 31 December, 2008 was completed and the results were being evaluated.

The Authority had not submitted its financial statements for the year ended 31 December, 2009 for my inspection and audit.

17. MOTU-KOITABU COUNCIL AND ITS SUBSIDIARY

17.1 INTRODUCTION

17.1.1 Legislation

The Motu-Koitabu Interim Assembly was established under Section 12 of the *National Capital District Government (Preparatory Arrangements) Act (Chapter 392)*.

17.1.2 Functions of the Interim Assembly

The Principal functions of the Interim Assembly were: to control, manage and administer the Motu-Koitabu areas, and to ensure the welfare of the Motu-Koitabu areas and of the persons therein; to assist in the preparations for the establishment of the proposed Assembly; and to make preparations for the establishment of a Motu-Koitabu business arm.

This Act was repealed by the *National Capital District Commission Act, 1990*, which came into operation on 5 November, 1990. The assets and liabilities of the Interim Assembly were transferred to the Commission by virtue of the requirements of the new Act. Subsequent to this, the *National Capital District Commission (Amendment) Act, 1992*, came into effect on 30 November, 1992 and hence the establishment of the Motu Koitabu Council.

This Act was further amended by the *National Capital District Commission (Amendment) Act, 1995*, which became effective on 19 July, 1995 and this facilitated the establishment of a system of Local Level Government for National Capital District. The government of the National Capital District comprises the National Capital District Commission, the Motu-Koitabu Council and the Local-Level Governments in the National Capital District.

The Interim Assembly had a subsidiary Company, Tabudubu Limited, which operated as the business arm of the Interim Assembly. The shares in the Company were transferred to the Commission as required by the *National Capital District Commission Act, 1990*, and are held in trust for the Motu-Koitabuan people. Comments in relation to this subsidiary are contained in paragraph 17A of this Report (Part IV).

With the introduction of the *Motu Koita Assembly Act, 2007*, a system of Local Government was established for the Motu Koita people of the National Capital District.

17.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Council for the years ended 31 December, 2003 and 2004 were still in progress due to the inability of the Council to provide the necessary information for the audits to be completed.

The Council had submitted its financial statements for the years ended 31 December, 2005 and 2006 and arrangements were being made for the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements to commence shortly.

My reports on the entities for the years ended 31 December, 2007 to 31 December, 2009 will be reported in the future under Part III of my Annual Reports. Since, the audit portfolios were transferred to the Provincial and Local Level Government Audit Branch.

17A. TABUDUBU LIMITED (A SUBSIDIARY OF MOTU-KOITABU COUNCIL)

17A.1 INTRODUCTION

17A.1.1 Legislation

Tabudubu Limited was incorporated under the *Companies Act, 1997*. It is a subsidiary of Motu-Koitabu Council.

Motu-Koitabu Interim Assembly, which held 99 percent of the shares in Tabudubu Limited, was established under the *National Capital District Government (Preparatory Arrangement) Act (Chapter 392)*. This Act was repealed by the *National Capital District Commission Act, 1990*, which became effective on 5 November, 1990.

With the introduction of the *National Capital District Commission Act, 1990*, Motu-Koitabu Interim Assembly was amalgamated with the Commission and the “Interim Assembly” became the Council. The assets, liabilities and the obligations of the Interim Assembly were absorbed by the Commission on the commencement date.

The shares in Tabudubu Limited were transferred to the Commission to be held in Trust for the Motu-Koitabuan people of the National Capital District by virtue of *Section 47(2)* of the *National Capital District Commission Act, 1990*.

17A.1.2 Functions

The main functions of the Company as per the Memorandum of Association are:

- (a) to promote the development of the Motu-Koitabu people living within the National Capital District by the promotion of trade, commerce, communication and co-operation; and
- (b) to implement the directives of the Motu-Koitabu Council and the National Capital District Commission.

17A.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Company had not submitted its financial statements for the years ended 31 December, 2003 to 31 December, 2006 for my inspection and audit despite several reminders to the Company.

My reports on the entities for the years ended 31 December, 2007 to 31 December, 2009 will be reported in the future under Part III of my Annual Reports.

18. NATIONAL AGRICULTURE QUARANTINE AND INSPECTION AUTHORITY

18.1 INTRODUCTION

18.1.1 Legislation

The National Agriculture Quarantine and Inspection Authority (NAQIA) was established by the *National Agriculture Quarantine and Inspection Authority Act, 1997*. This Act came into operation on 29 May, 1997.

Under this Act, all assets used for Quarantine and Inspection Services (other than land held by the State) and previously held by the Department of Agriculture and Livestock which were necessary to be transferred to the Authority for the purposes of the Authority, were transferred to and became the assets of the Authority at commencement.

18.1.2 Objective of the Authority

The main objective of the Authority as mentioned in the Act, are the conduct of quarantine and inspection of: any animal and species; any fish species; any plant species; and any products derived from animals, fish and plants; and to prevent pests or diseases from entering in or going out of Papua New Guinea.

18.1.3 Functions of the Authority

The functions of the Authority, as mentioned in the Act, are:

- to advise the Ministry and the National Government on policy formulations and legislative changes pertaining to agriculture quarantine and inspection matters;
- to monitor and inspect all imports of animals, fish and plants and their parts and products, including fresh, frozen and processed food to ensure that the imports are free from pests, diseases, weeds and any other symptoms;
- to regulate and control all imports of animals, fish and plants and their parts and products, including fresh, frozen and processed food to ensure the imports are free from pests, diseases, weeds and any other symptoms;
- to undertake all necessary actions to prevent arrival and spread of pests, diseases, contamination, weeds, and any undesirable changes pertaining to animals, fish and plants and their parts and products, including fresh, frozen and processed foods;
- to monitor, inspect and control the export of animals, fish and plants and their parts and products to ensure that they are free from pests, diseases, weeds and any other symptoms;

- to undertake all necessary actions to ensure that the export of animals, plants, fish and their parts and products are free from pests, diseases, weeds and any other symptoms so as to provide quality assurance to meet the import requirements of importing countries;
- to issue permits, certificates and endorsements pertaining to imports and exports of animals, fish and plants and their parts and products to provide quality assurance and to ensure that they are free from pests, diseases, weeds and any other symptoms;
- to inspect and treat vessels, aircraft, vehicles, equipment and machinery, that are used in importing and exporting animals, fish and plants to ensure that they are free from pests, diseases, weeds and any other symptoms;
- to regulate the movement of animals and plants from one part of the country to another, to control and prevent the spread of pests, diseases, weeds and any other symptoms;
- to undertake and maintain inspection and quarantine surveillance pertaining to pests, diseases, weeds and any other symptoms on animals, fish and plants within and on the borders of the country;
- to monitor, assess and carry out tests on animals, fish and plants and their parts and products that are introduced into the country, to ensure that they are free of pests, diseases, weeds and any other symptoms;
- to liaise with other countries, international agencies and other organizations in developing policies, strategies and agreements relating to quarantine, quality and inspection matters in respect of animals and plants;
- to provide quarantine and inspection information and services to individuals, agencies and other organizations within the country and overseas in respect of animals and plants;
- to levy fees and charges for any of the purposes of this Act and any regulations made thereunder;
- to exercise all functions and powers and perform all duties which, under any other written law, are or may be or become vested in the Authority or are delegated to the Authority; and
- to do such matters and things as may be incidental to or consequential upon the exercise of its power or the discharge of its functions under this Act.

18.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

18.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4) of the Audit Act, 1989 (as amended)*, on the Authority's financial statements for the year ended 31 December, 2008 was issued on 16 March, 2010 and contained a qualified audit opinion:

“BASIS FOR QUALIFIED OPINION

Fixed Assets - K5,598,860

The Authority had not maintained proper accounts and records to record the movements and details of fixed assets under its custody. The fixed assets register did not capture the detailed description and location of various assets held by the Authority. I was unable to verify the additions of K820,212 made during the year due to lack of supporting documentation.

The Authority carried out its last revaluation of its properties in 2002 and since then no revaluation was done. That was not in compliance with the requirement of *International Accounting Standards 16 (IAS 16), Property, Plant and Equipment* (paragraph 31) which requires an entity to revalue its assets at regular intervals. Further, the Authority has not maintained proper inventory reports for certain assets to identify its serviceability, therefore, I was unable to verify the accuracy, ownership and valuation of fixed assets at the year end.

Staff Entitlements Provision - K561,728

The Authority paid K561,728 during the year to various staff members in respect of long service leave, annual leave and contract gratuity. I was not provided with necessary documentation to verify the amount. Further, I noted that the Authority adopts *International Accounting Standards* as a basis for preparation of financial statements. However, no provisions were made in respect of employee benefits in accordance with *International Accounting Standards 19 (IAS 19) Employee Benefits*. As a result, I was unable to verify the accuracy and completeness of the payments made during the year.

Limitation of Scope - Expenses

The Authority had not provided the necessary supporting documentation in respect of the following expenses to enable me to verify the expenses.

		<u>K</u>
• Repair and Maintenance	-	294,477
• Management Charges	-	227,546
• Board Meeting Expenses	-	91,415
• Consultancy/Professional Charges	-	38,119
• Lease Expenses	-	365,125

As a result, I was unable to confirm the above account balances as stated in the financial statements.

External Donor Grants - K883,708

During the year, the Authority received K883,708 as Grants from various Donor Agencies. I was not able to verify the total receipts from Donor Agencies due to lack of supporting documentation. Further, I was not able to sight the Memorandum of Understanding or agreements with the Donor Agencies. Due to the limitation on the scope of my examination, I was unable to confirm the accuracy of the total grants received during the year.”

QUALIFIED AUDIT OPINION

In my opinion, except for the effects of the matters referred to in the qualification paragraphs above:

- (a) the financial statements of the Authority were based on proper accounts and records; and
- (b) the financial statements were in agreement with those accounts and records, and show fairly the state of affairs of the Authority as at 31 December, 2008, and the results of its financial operations and cash flows for the year then ended.

18.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the audit and inspection of the accounts and records for the year ended 31 December, 2008 was issued on 16 March, 2010. The report contained the following comments:

Tender Committee

During the year the Authority acquired assets amounting to K820,212. The assets purchased were within the limit approved by the Board. However, I was not provided with any Tender Committee approval documentation to ascertain the basis of selection of the suppliers. As a result, I was unable to ascertain whether proper procedures were followed in accordance with the *Public Finances (Management) Act, 1995* in procuring the resources of the Authority.

I brought this to the Authority's attention and I had since been advised as follows:

"All additions made during the year were approved by the full board based on the Authority's annual budget which is inclusive of capital expenditure for the year and therefore it is needless to have an internal tenders committee members" approval as most of the tender committee members are members of the Board."

18.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December, 2009 had been completed and the results were being evaluated.

19. NATIONAL AGRICULTURAL RESEARCH INSTITUTE

19.1 INTRODUCTION

19.1.1 Legislation

The National Agricultural Research Institute (NARI) was established by the *National Agricultural Research Institute Act, 1996*. This Act came into operation on 10 October, 1996.

Under this Act, all monies allocated to or standing to the credit of the research division of the Department of Agriculture and Livestock, and all assets used for research and research related functions (other than Land held by the State) and previously held by the Department of Agriculture and Livestock prior to the operationalisation of the Act, were transferred to the Institute to become the assets of the Institute at commencement.

19.1.2 Objectives of the Institute

The main objectives of the Institute stated in the Act are to conduct and foster research into:

- any branch of biological, physical and natural sciences related to agriculture;
- cultural and socioeconomic aspects of the agricultural sector, especially of the smallholder agriculturalists; and
- matters relating to rural development, relevant to Papua New Guinea.

19.1.3 Functions of the Institute

The primary functions of the Institute spelt out by the Act are:

- to generate and adapt agricultural technologies and resource management practices appropriate to the needs, circumstances and goals of smallholder agriculturalists;
- to promote and facilitate applied and adaptive research in food crops, livestock, alternative cash crops, and resource management;
- to promote the use of appropriate agricultural technologies and provide essential technical services to improve the productivity, income, nutritional status and food security, resource base and quality of life of rural households and communities;
- to develop and promote ways of improving the output, quality, harvesting, post-harvesting, handling and processing, and marketing of food crops, livestock produce and alternative crops;
- to maintain and conserve the diversity of genetic resources for food and agriculture, act as custodian for these resources and promote the effective utilization of these resources in the country;

- to update and maintain the national inventory on soil resources; and to develop, promote and maintain sustainable practices in agriculture;
- to provide agricultural information services, extension service support and other such assistance packages to the agricultural sector; and to provide liaison and access to international agencies that promote agricultural development;
- to perform such other functions as are given to it under this Act or any other law;
- to formulate national agricultural research policies, define sectoral research priorities and allocate funds and advise the Minister and the National Executive Council on these matters; and
- generally, to do all such things as may be incidental or consequential upon the exercise of its powers and the performance of its functions.

19.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

19.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4) of the Audit Act, 1989 (as amended)*, on the financial statements for the years ended 31 December, 2009 and 2008 were issued on 28 June, 2010 and 8 September, 2009 respectively.

The 2009 report did not contain any qualification while the 2008 report contained a qualified audit opinion.

"BASIS OF QUALIFIED AUDIT OPINION

Kilakila Chemistry Laboratory

Note 2(d) of the financial statements disclosed that the old Chemistry Laboratory located at Kilakila in Port Moresby had a carrying value of K1,120,000. However, this property was partly destroyed by fire in 2006. The estimated cost of destruction amounted to K488,000. I noted that this loss was not provided for in the accounts. As a result, the net assets of the Institute were overstated by K488,000.

QUALIFIED AUDIT OPINION

In my opinion, except for the effects of the matter referred to in the qualification paragraph above:

- (a) the financial statements were based on proper accounts and records; and
- (b) the financial statements were in agreement with those accounts and records, and showed fairly the state of affairs of the Institute as at 31 December, 2008 and the results of its financial operations for the year then ended."

19.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Institute for the years ended 31 December, 2009 and 2008 were issued on 28 June, 2010 and 8 September, 2009 respectively. The reports when combined contained the following matters:

1.0 Certificates of Occupancy

Titles from Lands Department for about 10 portions of land that were under the possession of the Institute or in which the Institute had interest for research and development purposes were still outstanding. I brought this issue again to the attention of Management and it responded as follows:

"Your continued pointing out on the issue of 10 land portions is acknowledged. This has remained to be a difficult area inspite of our sincere efforts in the past. Now that the Physical Facilities Planner has returned from his studies, he will be able to pursue with the Lands Department and also the respective Provincial Lands Offices. We hope that we should be able to formalise the land titles to National Agricultural Research Institute sooner than later."

2.0 Tender Procedures

I noted that the Council endorsed a proposal to build staff houses and after a tender process, the contract was awarded to a local contractor. From my examination, tenders were called but proper evaluations with strict guidelines were not followed. As a result, the contractor was unable to complete its project within the contract period and the costs exceeded the budgeted amount.

I recommended that the Institute carry out a proper tender evaluation in future taking into consideration of all factors in addition to the cost of the contract.

Management concurred with my comments and responded that; *"The Institute has this as a first ever experience and has taken note that optional estimation and proper evaluation are always needed. This will be kept in view in all future capital works and contracts"*.

20. NATIONAL AIDS COUNCIL

20.1 INTRODUCTION

20.1.1 Legislation

The National Aids Council was established under the *National Aids Council Act of 1997*. This Act was certified on 19th January, 1998 and became operational on the same date.

20.1.2 The Objectives of the Council

The objectives of the Council are to take multi sectoral approaches with a view to prevent, control and to eliminate HIV/AIDS transmission in PNG; to organise measures to minimise the personal, social and economic impact of HIV/AIDS; and safeguard personal privacy, dignity and integrity in the face of the HIV/AIDS epidemic in PNG.

20.1.3 Functions of the Council

The functions of the Council include formulation, implementation, review and revision of national policy in accordance with its objects for the prevention, control and management of HIV/AIDS:

- (a) to make recommendations and provide guidelines on the related issues to the NEC, PGs and LLGs;
- (b) to foster, co-ordinate and monitor HIV/AIDS prevention, control and management strategies and programme;
- (c) to accept, administer and account for the funds and other resources allocated to it;
- (d) to consult and co-ordinate with the appropriate State Agencies and other persons and organisations on matters related to its activities;
- (e) to initiate, encourage, facilitate and monitor preparation and dissemination of information, counselling, care and legal services, research on or in relation to HIV/AIDS; and
- (f) to perform such other functions given to it under Section 5 of this Act or any other Law.

20.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Council for the years ended 31 December, 2004 to 2007 were completed. However, Management had not responded to the matters raised in my management letters to date in order for me to finalise and issue my reports under *Section 8(4) and 8(2) of the Audit Act, 1989 (as amended)*.

The financial statements for the years ended 31 December, 2008 and 2009 had not been submitted by the Council for my inspection and audit despite repeated reminders.

21. NATIONAL AIRPORTS CORPORATION LIMITED

21.1 INTRODUCTION

National Airports Corporation was incorporated under the *Companies Act, 1997*. The Company had begun its operations in October, 2009 after its incorporation on 06 October, 2009. The establishment of the Company has been in accordance with *Section 132* of the *Civil Aviation Act, 2000* which envisaged the establishment of a subsidiary Company. The Corporation has a subsidiary company, PNG Air Services Limited. A comment in relation to the Company is incorporated in paragraph 21A of this Report.

National Airports Corporation Limited is regulated by the *Civil Aviation Authority Act, 2000* as an independent Company holding its own Operating Certificates and except for the governance requirements specified in the *Civil Aviation Act, 2000*; it operates independently from the Civil Aviation Authority incorporate a company under the *Companies Act, 1997* that is, or is to become, owner, operator or manager of an aerodrome or airport and may subscribe for, hold, acquire and dispose of any equity securities or debt securities issued by any such company (in this Act called “as airport company”).

21.1.2 Functions of National Airports Corporation

The functions of the National Airports Corporation Limited are derived from *Section 132* of the *Civil Aviation Act, 2000*.

21.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Company for the years ended 31 December, 2008 and 2009 had not been submitted for my inspection and audit.

21A. PNG AIR SERVICES LIMITED

21A.1 INTRODUCTION

21A.1 Legislation

PNG Air Services Limited was incorporated under the *Companies Act, 1997*. It is a wholly owned subsidiary of National Airports Corporation Limited. The Company began its operations in January, 2008 after its incorporation on 30 April, 2007. The establishment of the Company has been in accordance with *Section 143* of the *Civil Aviation Act, 2000* which envisaged the establishment of a subsidiary Company to deliver “*air traffic services, aeronautical navigation services and aeronautical communication services and all related services in Papua New Guinea and the airspace for which it is responsible*”.

Papua New Guinea Air Services Limited as an *Aviation Safety Regulator* is an independent Company holding its own Operating Certificates, and except for the governance requirements specified in the *Civil Aviation Act, 2000*, it operates independently from the Civil Aviation Authority.

21A.1.2 Functions of PNG Air Services Limited

Papua New Guinea Air Services Limited was established with a purpose of delivering safe air navigation services to the airline industries and the travelling public. It ensures a provision of quality aeronautical navigation services to both domestic and international customers at a reasonable cost, hence, to be a leader in providing world standard air navigation services. Papua New Guinea Air Services Limited makes sure that the radio coverage in Papua New Guinea both VHF and HF are improved and that efficient and effective air traffic services are maintained.

21A.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

21A.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act, 1989 (as amended)*, on the Company’s financial statements for the year ended 31 December, 2008 was issued on 15 March, 2010. The report contained a Qualified Audit Opinion.

“Basis for Qualified Opinion – Transfer of Assets from Civil Aviation Authority

The financial statements and the Fixed Assets Register disclosed only assets purchased in 2008 totaling K1,696,000. Assets reportedly transferred from Civil Aviation Authority such as: Air Traffic Control Centre – (Control Tower Building), ISS Building and Associate Building, HF Receiver Station, HF Transceiver Station, James Hill – (DOVOR/DME), Rader Hill, Burns Peak (VHF), 14/32 ILS and PY NDB Sites were not included in the financial statements.

In addition, a Board Meeting No. 1/2008 had directed management to obtain actual valuations of all assets and sites and include in the Fixed Assets Register. I was not provided the necessary documentary evidence to confirm that such valuation was undertaken, nor was I provided evidence of actual transfers of assets from Civil Aviation Authority by way of a National Executive Council Decision or a Ministerial approval.

Consequently, I was unable to determine the ownership, completeness and valuation of the fixed assets as at 31 December, 2008.

In addition, the facilities/properties of Civil Aviation Authority were being used by the PNG Air Services Limited for its business operations. However, I have not been provided with any lease documents/transfers that supported the use of these facilities.

QUALIFIED AUDIT OPINION

In my opinion, except for the effects of the matter referred to in the qualification paragraph above:

- (a) the financial statements of PNG Air Services Limited for the year ended 31 December, 2008;
 - (i) give a true and fair view of the financial position and the results of its operations and cash flows for the year ended on that date; and
 - (ii) the financial statements have been presented in accordance with the *Companies Act, 1997*, International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea;
- (b) proper accounting records have been kept by the Company; and
- (c) I have obtained all the information and explanations required for the purposes of my audit.”

21A.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Company for the year ended 31 December, 2008 was not issued as there were no matters of concern that required the Ministers’ attention.

21A.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the field work associated with the inspection and audit of the accounts and records and the examination of the financial statements for the year ended 31 December, 2009 was completed and the results were being evaluated.

22. NATIONAL BROADCASTING CORPORATION

22.1 INTRODUCTION

22.1.1 Legislation

The National Broadcasting Commission was established under the *Broadcasting Commission Act (Chapter 149)*. This Act was amended in 1995 by the *National Broadcasting Commission (Change of Name and Corporate Structure) Act, 1995*.

In terms of Section 4 of the *Broadcasting Commission (Change of name and Corporate Structure) Act No.49 of 1995*, the name of the Commission was changed to Corporation.

The *Amendment Act No.49 of 1995* came into operation on 23 April, 1996 as per Gazettal Notification No.G.32.

22.1.2 Functions of the Corporation

The principal functions of the Corporation are to provide balanced, objective and impartial broadcasting services and in so doing, to take in the interests of the community, all such measures as in its opinion are conducive to the full development of suitable broadcasting programmes.

The Corporation's other functions are: to ensure that the services that it provides, when considered as a whole, reflect the drive for national unity and at the same time give adequate expression to the culture, characteristics, affairs, opinions and needs of the people of the various parts of the country and in particular of rural areas; to do all in its power to preserve and stimulate pride in the indigenous and traditional cultural heritage of Papua New Guinea; to take extreme care in broadcasting material that could inflame racial or sectional feelings; and to co-operate with the Government in broadcasting social, political, economic and educational programmes.

22.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

22.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4) of the Audit Act, 1989 (as amended)*, on the financial statements of the Corporation for the year ended 31 December, 2006 was issued on 22 September, 2009. The report contained a disclaimer of opinion.

“BASIS FOR A DISCLAIMER OF AUDIT OPINION

1. Limitation of Scope due to Disclaimer of Audit Opinion on the previous year's Financial Statements

I issued a disclaimer of opinion in my audit report for the year ended 31 December, 2005. The reason for such a disclaimer of opinion was the limitation of scope arising from my inability to obtain proper explanations for the differences that arose between the general ledger balances and the financial statements.

Consequently, I was unable to quantify the effects of any material misstatements in the opening balances that might have had a consequential effect on the financial statements of the Corporation for the year ended 31 December, 2006. As a result, I was unable to perform sufficient audit procedures to satisfy myself as to the completeness and accuracy of the opening balances or the comparatives presented.

2. Limitation of Scope on the General Ledgers

Material differences were noted between the general ledger balances generated by the accounting system used by the Corporation and the amounts stated in the financial statements. I was not provided with details of all journal entries passed in relation to the adjustments made for some of the differences. Due to the above, I was unable to place reliance on the accounts and records submitted for my audit verification to establish whether the National Broadcasting Corporation had fully complied with the statutory requirements for maintaining proper accounts and records.

3. Limitation of Scope Arising from Lack of Information/Records on Fixed Assets

The carrying value of the Corporation's fixed assets was K44,940,395 as at 31 December, 2006. This represents 98% of the total assets of the Corporation. I was neither able to establish nor confirm the ownership of the revalued land and buildings totaling K44,940,395. Further, the evidence of ownership of various fixed assets and details of their effective lives were not made available for my examination and verification. Also, no proper fixed assets register was maintained and the Corporation did not undertake a physical stock-take of its fixed assets during the year under review. As a result, I was unable to verify the physical existence, ownership, usefulness, charges, if any, and valuation including the adequacy or otherwise of the provision for depreciation of fixed assets.

4. Government Grants and Expenditures for Provincial Radio Stations

Expenses of National Broadcasting Corporation at the provincial radio stations were paid by Provincial Governments from annual appropriations to their respective radio stations for other operating commitments and expenses. However, the funds received in respect of the provincial radio stations and related expenses were not accounted for in the accounts. Consequently, the Corporation did not fully comply with *IAS 20 - "Accounting for Government Grants and disclosure of Government Assistance"*. Further, I was also unable to quantify the amount of funding received from the provincial governments due to the absence of accounting records and relevant documents.

5. Statement of Changes in Equity – Non compliance with International Accounting Standards

The Corporation had not prepared a statement of changes in equity and included it as part of the financial statements for the year ended 31 December, 2006 as required under *International Accounting Standards 1 (IAS 1)-Presentation of Financial Statements*. Accordingly, the requirements of this standard were not complied with.

6. Trade Payable and Accruals

The account balance at the year end was K3,873,956, however, this amount was understated by K3,237,145. The K3,237,145 comprised of amount payable to Internal Revenue Commission, POSF and other creditors. Further, I was not provided with any documentary evidence and/or independent confirmations of amounts owing to various Creditors. As a result, I was not able to validate the accuracy and the completeness of the account balance at the year end.

DISCLAIMER OF OPINION

In my opinion, because of the limitations on the scope of my work and other matters referred to in the above paragraphs, and the effects of such adjustments, if any, as might have been determined to be necessary had the limitations and other matters not existed, I was unable to and do not express an opinion on the financial statements of the National Broadcasting Corporation for the year ended 31 December, 2006.”

22.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Corporation for the year ended 31 December, 2006 was issued on 22 September, 2009. The report contained the following comments:

1. Bank Overdraft

The Corporation’s main bank account had a credit balance of K2,974,744 as at 31 December, 2006. The balance included un-presented cheques totalling K3,237,145 drawn in favour of Internal Revenue Commission, POSF and other creditors. However, the cheques were never released to the intended payees due to insufficient funds and were improperly included in the overdrawn bank balance and not disclosed as separate liabilities in the balance sheet.

I had since recommended the Corporation not to draw cheques when funds were insufficient and also to restate the un-presented cheques as separate liabilities in the balance sheet.

2. Insurance

The Corporation did not have any insurance cover for its fixed assets of K44,940,395. Considering that the fixed assets accounted for 98% of the total assets, it was essential for the Corporation to obtain some form of insurance cover to safe guard and minimize the risk of loss and damage to its fixed assets.

I had since recommended the Corporation to consider requesting additional budget allocation from the Department of Finance for the purpose of insuring its fixed assets.

3. Legislative Requirements

I noted that the Corporation did not prepare and furnish to the Minister for Finance the Performance and Management Report of its operations for the year ended 31 December, 2006 and thereby breached *Section 63(2) of the Public Finances (Management) Act, 1995*.

I also noted that the Corporation did not submit its financial statements for the year ended 31 December, 2006 in a timely manner to the Auditor-General's Office for audit and inspection and thereby breached *Section 63(4) of the Act*.

4. Trust Accounts

Due to non availability of relevant records and financial reports, I was unable to verify deposits and disbursements transacted through the trust accounts maintained by the Corporation which comprise the NBC Election Publicity Account, NBC HOS Account and nineteen (19) separate bank accounts for the Provincial radio stations.

22.3 STATUS OF FINANCIAL STATEMENTS

The Corporation had not submitted its financial statements for the years ended 31 December, 2007, 2008 and 2009 for my inspection and audit. I have communicated and held meetings with the management in respect of the non-submission of the financial statements.

23. NATIONAL CAPITAL DISTRICT COMMISSION

23.1 INTRODUCTION

23.1.1 Legislation

The *National Capital District Government (Preparatory Arrangements) Act, 1982*, established the National Capital District Interim Commission. The purpose of this Act was to establish an interim government for the National Capital District, and make preparatory arrangements for the establishment of a government for the National Capital District as required by Section 4(4) of the National Constitution. The *National Capital District Government (Preparatory Arrangements) [Amendment] Act, 1987*, came into operation in 1987.

The *National Capital District Commission Act, 1990*, which became operational on 5 November, 1990, established the National Capital District Commission.

The introduction of this Act resulted in the amalgamation of Motu-Koitabu Interim Assembly with National Capital District Commission. Consequently, the assets, liabilities and the obligations of the Interim Assembly were absorbed by the Commission on the commencement date.

Amendments through the *National Capital District Commission (Amendment) Act, 1992*, which came into effect on 30 November, 1992 resulted in the establishment of the Motu-Koitabu Council.

That was followed by the establishment of the system of government for the National Capital District through the *National Capital District Commission (Amendment) Act, 1995*, which came into operation on 19 July, 1995. The National Capital District comprises the National Capital District Commission, the Motu-Koitabu Council and Local-Level Governments in the National Capital District.

23.1.2 Functions of the National Capital District Commission

The functions of the National Capital District Commission are:

- (a) to control, manage and administer the National Capital District, to ensure its welfare and that of the persons in its jurisdiction; and
- (b) to ensure that an adequate level of assistance is given towards the successful operation of Tabudubu Limited - the Company established by the Motu-Koitabu Interim Assembly for the Motu-Koitabu people of the National Capital District.

23.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

23.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4) of the Audit Act, 1989 (as amended)*, on the financial statements of the Commission for the year ended 31 December, 2006 was issued on 07 October, 2009. The report contained a Disclaimer of Opinion.

“BASIS FOR A DISCLAIMER OF OPINION

Limitation of Scope Regarding Opening Balances

Because of the disclaimer of opinion issued in respect of the prior year ended 31 December, 2005, I was not able to satisfy myself as to the resolution of the issues which formed the basis for the disclaimer on the opening balances. Since these opening balances enter into the determination of the results of operations, financial position and cash flows of the Commission in the current year, I was unable to determine whether adjustments to the results of operations, financial position and cash flows might be necessary as at and for the year ended 31 December, 2006.

Deposits on Call

As set out in Note 7 to the financial statements, deposits on call totalled K17,628,115. As I did not receive any third party confirmation acknowledging the existence of this balance and due to the absence of other appropriate evidence, I was unable to ascertain the existence and rights over this balance.

Bookmakers’ Tax Receivable

At 31 December, 2006, Bookmakers’ tax receivables amounted to approximately K4.0 million, and represented amounts purported to be owed by the Government of PNG. As I did not receive any confirmation acknowledging this debt from the Department of Finance and due to the absence of other appropriate evidence, I was unable to ascertain the accuracy, completeness, existence and valuation of the amount recorded as receivable.

Staff and Other Debtors

Staff and other debtors, net of provision for doubtful debt, totalled K408,376 at balance date. Due to the absence of general ledger reconciliations and supporting documentation, I was unable to confirm the completeness, accuracy, existence and rights over the amounts recorded as receivable.

ST Input Credit

GST input credit totalled K1,637,788 at balance date. Due to the absence of general ledger reconciliations and supporting documentation, I was unable to confirm the completeness, accuracy, existence and rights over the amounts recorded as receivable.

Inventory

Inventory on hand at 31 December, 2006 was K486,821. I was unable to satisfy myself through physical inspection or alternative procedures that these inventories existed at that date. In addition, as the Commission did not have in place a stock control system to record issues, transfers, purchases and value of inventories, I was unable to obtain assurance as to whether inventory was appropriately recorded and valued at the lower of cost or net realisable value.

Property, Plant and Equipment

The Commission's property, plant and equipment were carried at K7,345,590. Not all fixed assets were included in the fixed assets register, particularly those assets which were received by way of donation. The Commission did not conduct extensive physical verification of all fixed assets including donated assets. I was therefore unable to satisfy myself with the completeness, accuracy and existence of fixed assets.

Capital Road Works

The Commission capitalised all road improvement costs in 2005 that were previously expensed. I was unable to satisfy myself with the existence, completeness and accuracy of the road improvement costs capitalised in 2005 due to the unavailability of appropriate supporting documentation. The carrying value of these assets at 31 December, 2006 was K130.1 million which primarily includes amounts capitalised in 2005. As a result, I was not able to satisfactorily substantiate these assets at year end.

Investments

As set out in Note 15 to the financial statements, the Commission has investments in various unquoted securities with a total carrying value of K0.8 million (before impairment provision of K0.6 million). No supporting documentation or valuations were provided to me to support the carrying values. Accordingly, I was unable to confirm whether the current valuation reflects the fair market value.

Payables

As set out in Note 12 to the financial statements, payables totalled approximately K15 million. Due to unavailability of supporting documentation, these balances could not be verified.

Employee Benefits Provisions

Employee benefits provisions comprising of long service leave, annual leave, gratuity and leave fares amounted to approximately K3.2 million. I was unable to substantiate these balances as I was not provided with appropriate supporting documentation. Consequently, I was unable to satisfy myself with the completeness and accuracy of these balances.

Contingent Liabilities

Note 21 to the financial statements outlined a significant number of pending legal cases. As I did not receive adequate information from the Commission or its legal advisors regarding the nature and likely outcome of these cases, I was unable to obtain comfort regarding whether or not the treatment of these claims as contingent liabilities was appropriate.

Operating Costs

Payments totalling K0.3 million could not be substantiated because the documents supporting the authorization of these payments were not provided. As a result, I was unable to satisfy myself over the completeness, accuracy and occurrence of these transactions underpinning these amounts.

Salaries and Wages

I noted a number of issues in relation to salaries and wages testing, primary among which were missing employees files, errors in calculation of tax applicable to benefits provided by the employer such as housing and motor vehicle, errors in calculation of taxable income, errors in calculation of salaries and wages tax and unsubstantiated deductions from and payments to employees. Consequently, I was unable to obtain comfort over the completeness, accuracy and occurrence of the transactions underpinning these amounts.

Related Party Disclosures

As stated in Note 14 to the financial statements, not all the disclosures required by IAS 24 – Related Party Disclosures were made. Some of these include the following related party transactions – grants to Motu-Koitabu Council, Tabudubu Limited and National Capital Botanical Enterprises Limited, stipends or sitting allowances to Commissioners and salaries and other employment benefits to key management personnel. This represents a departure from IAS 24 – Related Party Disclosures.

DISCLAIMER OF AUDIT OPINION

Because of the existence of the limitation of scope on my work and the departures from International Financial Reporting Standards, as described in the qualifications paragraphs, and the effects of such adjustments, if any, as might have been determined to be necessary had the limitations and departures not existed, I was unable to and do not express an opinion as to whether the financial statements of the National Capital District Commission have been properly drawn up so as to give a true and fair view of the financial position of the Commission as at 31 December, 2006 and of its financial performance and cash flows for the year ended on that date.

23.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Commission for the year ended 31 December, 2006 was issued on 07 October, 2009. The report contained the following observations:

1. Internal Controls

In addition to the specific issues I have identified in the course of my audit, my general observation was that the issues identified were symptomatic of a number of broader matters. In particular, it appeared that insufficient priority was being given to implement change in the internal control culture within the organization and improve the state of the finance function. It also appeared, based on my findings that the current people resources were inappropriately skilled to make the necessary changes required to address the matters identified. Accordingly, I recommended that the issues around internal controls, governance and appropriate resourcing be reviewed as a matter of priority.

Further, while I was not required to specifically look for fraud, my audit suggested that the inadequate internal control environment provided an ideal opportunity for fraud or other improper activities to occur. It had subsequently come to my attention that certain members of the finance division have allegedly been involved in misappropriation of the assets of the Commission and an investigation was being carried out. This indicated that thorough investigation into all the matters identified in my report was required as a matter of priority to ensure that fraudulent activities were uncovered and prompt actions were taken. My key concern was in relation to the weak controls around the “*purchase to pay*” process. Accordingly, I recommended that a forensic audit be conducted as a matter of priority, together with a review to strengthen the process and procedures from “*purchase to pay*”.

I raised my concerns with the Commission and it responded as follows:

“It is incorrect to say that the Commission is not seriously addressing the internal control issues. The Commission has been taking various measures to strengthen the internal control system, to name a few; upgrading our accounting system, introduction of purchasing workflows, job rotation in Finance, etc. We admit that organisations are vulnerable to frauds and at the end of the day our internal control has the ability to detect it. We have also indemnity arrangements with the bank to recoup all the money lost through such frauds; this is another control that we have to protect our finances.

The skill level of the staff in Finance is a major problem and we are addressing them through an organisation restructure program.

The business objectives of ours is to encourage small people to do contract with NCDC with the view of diverting them from indulging in criminal activities; they don't run sophisticated businesses to issue monthly statements. Obviously, NCDC cannot avoid "purchase to pay" process due to the core objective and requirements of commitment based accounting. We welcome all constructive suggestions as to how to mitigate the risks on "purchase to pay" process."

2. Trade and Other Debtors Reconciliations

Although reconciliations were provided for land rates and garbage rates debtors, these reconciliations did not agree with the general ledger balances. Although it was explained to me that these differences related to write off and discount journals, they were not adequately supported. I recommended the Commission to reconcile and maintain adequate supporting documents.

The Commission responded as follows:

"All the journals for write off, adjustments and rectification are adequately authorised (by Revenue Manager, Financial Controller, Chief Internal Auditor and the Principal Ledger Officer). They are kept in our Revenue Section by officers who handle the clients."

3. Missing Payment Authorization Form

Filing and safeguarding of payment authorisation forms and other supporting documents needed significant improvement. During the course of my audit a number of authorisation forms and the supporting documentation requested were not provided to me. These included supporting documentation for payments for expenses and some capital additions. I raised my concerns with the Commission and it responded as follows:

"This is a big concern for the Finance Section. The reasons for the missing documents were mainly due to officers(for reconciliation purposes) and internal auditors (for audit) getting them from Treasury and either keeping them themselves for further review or those who take them keep them in the files they manage. Treasury is exploring the possibility of creating electronic storage of payment documents."

4. Payroll

Controls over the payroll function and payroll transactions required significant improvement. For instance, I noted a number of instances in relation to missing employee files, application of incorrect tax on benefits provided by the employer, incorrect calculation of taxable income and salaries and wages tax, missing IRC salaries and wages tax declaration forms, and lack of payroll policy and procedures.

The Commission responded as follows:

“To address the above concerns, the management outsourced the payroll application to the professionals. We are now exploring the possibility of outsourcing the payroll processing as well. The administration of the payroll function is with an external firm and changes cannot be made to payroll transactions except with a signed pay variation instrument.”

5. Accounting Manual

The Commission’s accounting manual was outdated and had not been updated since 1994. I drew the Commission’s attention to this and its response was that it updated certain procedures as and when the need arose. However, the manuals would be formally updated in the future. Further, it has been developing “*purchasing work flow*”, which would supersede all the procurement manuals. Above all, a firm, Enabling QLD had been also contracted to develop Accpac and workflow manuals.

6. General Controls relating to Information Technology

General controls around information technology needed to be strengthened or improved. Some of the significant issues noted were:

- Lack of documentation surrounding IT risk assessment;
- Lack of information and communication on IT policies and procedures; and
- Lack of a disaster recovery plan.

I recommended the Commission to undertake the following:

- IT policies and procedures should be formally documented and communicated to staff;
- There should be a “*help desk*” log book in which staff can raise issues with the IT consultants;
- Management to ensure that environmental risks (i.e. fire, smoke, water, power, temperature, humidity, destruction of accounting records and supporting documentation etc.) to the computer locations were appropriately mitigated; and
- Management to ensure that disaster recovery plans were documented, tested and updated regularly as part of a business continuity plan and there should be records of when and how they were resolved.

The Commission responded as follows:

“The Management is working with Townsville City Council under the Hetura Project to find permanent solutions to all our IT related risks. Phase II of the Hetura Project will focus on the IT related issues and ensure that these will be adequately taken care of.

We have not completely developed IT policies, nevertheless we do have basic policies such as usage of IT equipments, standardization of IT equipments, procurements, end user agreements, rights and responsibilities of category users and internet and email usage policies.

Our IT has a help Desk with a logbook where staffs log in their complaints; those complains are not addressed timely due to lack of skilled staff.

The maintenance of data and administration of respective applications are the responsibility of the respective managers; as such due care will be taken by the manager. Currently the installation of software of any form is restricted to the users who have administrator access, which is mostly by the IT staffs.”

7. Payments to Blacklisted Companies

I noted that payments continue to be made to certain companies that were blacklisted by the NCDC board, although purchases or payments to those companies were strictly prohibited. I recommended the Commission that credible workshops like Ela Motors and Boroko Motors should be awarded the job of repairing NCDC’s vehicle fleet and business with the blacklisted companies be stopped.

8. Ownership of Land and Building

I was unable to sight the relevant legal title documents for some of the land and buildings owned by the Commission. This creates an uncertainty over the legal title of the assets owned by the Commission. I recommended that the Commission should secure appropriate legal title documents for these assets as soon as possible.

I raised my concerns with the Commission and it responded as follows:

“We do have titles on properties that are acquired on the open market. For those properties and reserves, the Commission lost significant amounts of them and in order to recover the lost reserves and properties, a recovery project has been initiated and the responsibility for the management of this project has been given to a professional land consultant and external law firms.”

9. Internal Audit

The Internal Audit Department was not operating as intended although details such as the audit scope and charter have been documented by the Department of Finance in its Finance Instructions 01/2005 of February, 2005. I recommended that the Commission should ensure that the scope and responsibilities of the internal audit department were adequately determined and sufficiently resourced.

The Commission responded as follows:

“The operations of Internal Audit (IAD) are now redefined by the audit committee. IAD have plans for the recent years. A new structure has also been approved by the audit committee with clear requirements. Currently, internal audit department also assists in the pre-audit of claims over K5,000.”

23.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, field work associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Commission for the year ended 31 December, 2007 was completed and the results were being evaluated.

The Commission had submitted its financial statements for the years ended 31 December, 2008 and 2009 and the audits will commence shortly.

**23A. NATIONAL CAPITAL DISTRICT BOTANICAL ENTERPRISES LIMITED
(A SUBSIDIARY OF NATIONAL CAPITAL DISTRICT COMMISSION)**

23A.1 INTRODUCTION

The National Capital District Botanical Enterprises Limited was incorporated under the *Companies Act, 1997* on 17 January, 2000.

The main object was to take control over the operations of the Botanical Gardens.

Port Moresby City Development Enterprises Limited, a 100% owned subsidiary of the National Capital District Commission, holds 94% of the shares and the National Capital District Commission holds the remaining 6% shares directly or indirectly through trust.

23A.1.1 Activities

The Company's activities include sale of flowers and conducting research relating to orchids and horticulture.

23A.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December, 2003 to 31 December, 2006 were still in progress due to the failure of the Company to provide the necessary information to enable the audits to be finalised.

The Company had submitted its financial statements for the years ended 31 December, 2007 and 2008 for my inspection and audit and arrangements were being made to commence the audits without any delay.

The financial statements for the year ended 31 December, 2009 was not provided for my inspection and audit.

**23B. PORT MORESBY CITY DEVELOPMENT ENTERPRISES LIMITED
(A SUBSIDIARY OF NATIONAL CAPITAL DISTRICT COMMISSION)**

23B.1 INTRODUCTION

The National Capital District Commission acquired 100% shares of Vatar No. 16 Pty Limited in 1994 with the intention to utilise the land called „Duran Farm“ for the construction of houses for its staff on the Home Ownership Scheme. The Company changed its name in November, 1996 to Port Moresby City Development Enterprises Limited. This Company is a fully owned subsidiary of National Capital District Commission.

23B.1.1 Activities

The Company’s activities include business promotions in NCD and the management of Taurama Leisure Centre’s Gymnasium.

23B.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December, 2002 to 31 December, 2005 were still in progress due to the failure of the Company to provide the necessary information to enable the audits to be finalised.

The Company had not submitted its financial statements for the years ended 31 December, 2006 to 31 December, 2009 for my inspection and audit despite numerous reminders.

24. NATIONAL CULTURAL COMMISSION

24.1 INTRODUCTION

24.1.1 Legislation

The National Cultural Commission was established under the *National Cultural Commission Act, 1994*. This Act came into operation on 15 November, 1994 thereby repealing the *National Cultural Committee (Interim Arrangements) Act, 1993*.

Under the Act, all assets held by, and obligations and liabilities imposed on the former National Cultural Committee immediately before the operationalisation of the Act were, on that date, transferred to the Commission.

24.1.2 Functions of the Commission

The main functions of the Commission are to perform the cultural functions of the former National Cultural Committee and in this connection: to assist and facilitate, preserve, protect, develop and promote the traditional cultures of the indigenous people of Papua New Guinea; to encourage the development, promotion and protection of the contemporary cultures of Papua New Guinea; to facilitate the marketing of selected and approved aspects of the cultures of Papua New Guinea; to co-ordinate with related Government and Non-Government Agencies on cultural matters; to co-ordinate cultural activities with Provincial Cultural Bodies; to liaise with Non-Government Organisations on cultural matters; and to liaise with International Cultural Organisations.

24.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Commission for the years ended 31 December, 2008 and 2009 had not been submitted for my inspection and audit. I have communicated with the Commission to submit these financial statements.

25. NATIONAL ECONOMIC AND FISCAL COMMISSION

25.1 INTRODUCTION

25.1.1 Legislation

The National Economic and Fiscal Commission was established in April 1996 under *the National Economic and Fiscal Commission Act, 1996* and *Section 117 of the Organic Law on Provincial and Local Level Governments*.

25.1.2 Functions of the Commission

The main functions of the Commission are to:

- (a) provide assessment and views on national macro and micro economic issues and their relevance on the overall development of the rural and urban communities;
- (b) consider and co-ordinate requests by Provincial Governments and Local-level Governments for foreign grants, loans and other financial assistance for development purposes;
- (c) ensure that Provincial Governments and Local-level Governments obtain a fair share of national wealth and make recommendations to the National Executive Council on the allocation of grants to Provincial Governments and Local Level Governments;
- (d) recommend suitable economic development strategies and sound fiscal management policies to the Minister responsible for financial matters;
- (e) carry out cost and benefit analysis on the development of all natural resources and the impact of such development on the national development and make such analysis available to the National Executive Council;
- (f) review public accounting and related practices;
- (g) make yearly reports and recommendations to the National Executive Council through the Minister responsible for financial matters;
- (h) assist the Provincial and Local-level Service Monitoring Authority with assessment and views on the planning and implementation systems of the Provincial Governments and Local-level Governments;
- (i) establish and maintain a gradation system for the purpose of classifying provinces and districts according to the stages of development of each;

- (j) assist the Provincial and Local-level Service Monitoring Authority in carrying out its other functions; and
- (k) provide advice to the Minister responsible for Provincial Government and Local-level Government (now Inter Government Relations) matters as and when required.

25.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements for the years ended 31 December, 2007, 2008 and 2009 were not submitted for my inspection and audit, despite numerous reminders from my Office.

In my correspondences to the Commission I requested it to comply with the provisions of the *Public Finances (Management) Act, 1995* especially its responsibilities under *Section 63* where amongst other things, it is required to furnish its financial statements around March of the subsequent year for my inspection and audit and for that report to be tabled in Parliament.

The Commission did not comply with these requirements.

26. NATIONAL FISHERIES AUTHORITY

26.1 INTRODUCTION

26.1.1 Legislation

The National Fisheries Authority was established under the *Fisheries Management Act, 1998*. This Act came into operation on 11 February, 1999 and replaced the *Fisheries Act, 1994*. Under this Act, all assets including monies held in trust accounts which were held or occupied by the National Fisheries Authority established under the *Fisheries Act, 1994*, were transferred to and became assets of the Authority.

26.1.2 Functions and Powers of the Authority

The primary functions and powers of the Authority are described as follows:

- (1) The Authority shall:-
 - (a) manage the fisheries within the fisheries waters in accordance with this Act, taking into account the international obligations of Papua New Guinea in relation to tuna and other highly migratory fish stocks;
 - (b) make recommendations to the Board on the granting of licences and implement any licensing scheme in accordance with this Act;
 - (c) liaise with other agencies and persons, including regional and international organisations and consultants, whether local or foreign, on matters concerning fisheries;
 - (d) operate research facilities aimed at the assessment of fish stocks and their commercial potential for marketing;
 - (e) subject to the *Pure Foods Act*, the *Commerce (Trade Descriptions) Act*, the *Customs Act*, the *Customs Tariff Act*, and the *Exports (Control and Valuation) Act*, control and regulate the storing, processing and export of fish and fish products;
 - (f) appraise, develop, implement and manage projects, including trial fishing projects;
 - (g) prepare and implement appropriate public investment programmes;
 - (h) collect data relevant to aquatic resources;
 - (i) act on behalf of the government in relation to any domestic or international agreement relating to fishing or related activities or other related matters to which the Independent State of Papua New Guinea is or may become a party;
 - (j) make recommendations on policy regarding fishing and related activities;

- (k) establish any procedures necessary for the implementation of this Act, including tender procedures; and
 - (l) implement any monitoring, control, and surveillance scheme, including co-operation, agreements or arrangements with other States or relevant international, regional or sub-regional organisations, in accordance with this Act.
- (2) The Authority has, in addition to the powers otherwise conferred on it by this Act and any other law, full powers to do all things that are necessary or convenient to be done for or in connection with the performance of its functions and the achievement of its objectives.

26.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

26.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4) of the Audit Act, 1989 (as amended)*, on the Authority's financial statements for the year ended 31 December, 2007 was issued on 11 February, 2010. The report contained a qualified audit opinion.

“BASIS FOR QUALIFIED AUDIT OPINION

1. Non-Compliance with IAS 16 “Property, Plant and Equipment”

The Authority adopts the revaluation model for the measurement of property, plant and equipment. The last revaluation of property, plant and equipment was undertaken in 2001. This, in my opinion, is not in accordance with *International Accounting Standard 16 "Property, Plant and Equipment" (IAS 16)*. Where the revaluation model is being adopted, *International Accounting Standard 16 (IAS 16)* paragraph 31 requires that the revaluations should be made with sufficient regularity to ensure that the carrying amounts of property, plant and equipment do not materially differ from the fair values determined through revaluation. As a result of non compliance with IAS 16 paragraph 31, I was unable to satisfy myself as to the carrying value of property, plant and equipment, and whether fair value had been measured reliably at the balance date.

2. Limitation of Scope - Land and Buildings – K20,185,753

The Authority had not been compiling documentation for all their land and buildings and ensuring that appropriate titles deeds were in place. The available documentation was inadequate to allow me to perform audit procedures and satisfy myself that the Authority holds appropriate titles to its recorded land and buildings. As a result, I was unable to verify the Authority's ownership of land and buildings and therefore the account balance at the year end.

3. Limitation of Scope – Long Term Loan Transfer to Equity – K19,139,858

The statement of changes in Government Reserve reflects that a long term loan of K19,139,858 was transferred to equity during the year ended 31 December, 2006. I understand that the Independent State of Papua New Guinea (the “State”) negotiated with the Asian Development Bank (“ADB”) and then signed a subsidiary loan agreement with the Authority. The loan was completely drawn down in 2003 and was forgiven by the State hence the write back to equity. I was not provided with the subsidiary loan agreement or documentation to support the fact that the loan was forgiven and is now the responsibility of the State. In the absence of such documentation, I was unable to satisfy myself as to the validity and completeness of this account balance at the year end.

4. Limitation of Scope – Asian Development Bank Loan – K12,056,556

The Independent State of Papua New Guinea (the “State”) negotiated a loan amounting to K12,056,556 (4,284,000 Special Drawing Rights (SDR)) with the Asian Development Bank for the Coastal Development and Fisheries Management and Development Project. As in 3 above, the State signed a subsidiary agreement with the Authority. I was not provided with independent confirmation of the loan amount and the terms from the State and accordingly, I was unable to satisfy myself as to the validity and completeness of the loan amount of K12,056,556 at the year end.

5. Income from US Treaty – K7,282,519

The income from US Treaty of K7,282,519 stems from the Treaty signed between United States of America and 16 Pacific Island Nations (PIN). The Administrator of the fund is the Forum Fisheries Association (FFA) and the distribution of the funds was based on the catch by US fishing companies. During the year, the Authority received K7,282,519 as US Treaty income, which registered a decrease of 8.2 % compared to the prior year balance of K7,884,562. I was also unable to independently verify the balance. Consequently, I was unable to state whether the income from US Treaty had been fairly stated in the financial statements.

QUALIFIED AUDIT OPINION

In my opinion, except for the effect on the financial statements of the matters referred to in the Basis for Qualified Audit Opinion paragraphs:

- a) the financial statements were based on proper accounts and records;
- b) the financial statements were in agreement with those accounts and records, and show fairly the state of affairs of the National Fisheries Authority as at 31 December, 2007 and the results of its financial operations, its cash flows and the changes in equity for the year then ended.”

26.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records for the year ended 31 December, 2007 was issued on 11 February, 2010. The report contained the following comments:

Information Technology/System Manual

Information Technology (IT) and Information System (IS) were integral parts of the Authority's operations and its Strategies and Goals are outlined under the organization Corporate Plan (2002 to 2007). However, I noted that there was no IT/IS manual or policy for the Authority. It was noted that no forms or registers were completed and authorized prior to changes being made to master files. Further, there was no external computer back up facility for National Fisheries Authority (NFA) and National Fisheries College (NFC) apart from the daily backups on tapes kept in the office.

I recommended the Authority to have an IT/IS system procedural manual for its operations. Master files changes be reviewed and approved before implementation. I further recommended the Authority that an outside computer back up facility be identified and the Authority should consider hiring an IT expert or additional IT Staff to assist the current Computer Services Officer.

Management commented that there was lack of manpower, however an additional IT staff position had been advertised and will be in place as soon as interviews were completed. Management also agreed to produce an IT manual during 2009/2010. Registers to record changes in IT system would be created and implemented.

26.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December, 2008 was substantially completed and the results were being evaluated.

The financial statements of the Authority for the year ended 31 December, 2009 was not submitted for my inspection and audit.

I draw the Authority's attention to Section 63(4) of the *Public Finances (Management) Act, 1995* regarding the non-submission of the financial statements.

27. NATIONAL GAMING CONTROL BOARD

27.1 INTRODUCTION

27.1.1 Legislation

The National Gaming Control Board was established in September, 1993 by the enactment of the *Gaming Machine Act, 1993*.

27.1.2 Functions of the Board

The principal functions of the Board are to consider applications for, and where appropriate, grant permits and licences under this Act and to control the operations of gaming machines as specified in this Act, and any other law.

27.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

27.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act, 1989 (as amended)*, on the Board's financial statements for the years ended 31 December, 2005 and 2006 were issued on 26 February, 2010. These reports were Disclaimers of Opinion and similar, hence, only the 2006 report is reproduced as follows:

“BASIS FOR DISCLAIMER OF OPINION

1. Opening Balances

The opening balances could not be confirmed as correct due to errors and material limitation of scope expressed in previous audit reports.

2. Fixed Assets

The Board had not maintained a comprehensive fixed assets register to record details of assets including depreciation, movements of assets during the year and net asset values at year end. In addition, I was not provided with any supporting documentation relating to the Leasehold Improvements of K89,974.

Furthermore, the International Accounting Standard, *16 – Property, Plant and Equipment*, requires that an asset item, after its initial recognition shall be carried at a revalued amount. Revaluations should be undertaken with sufficient regularity, to ensure that the carrying amount of assets does not materially differ from their fair value at the end of the reporting period. Fixed Assets as disclosed in Note 10 to the accounts have not been revalued.

Consequently, I was unable to determine the ownership, existence and valuation of the fixed assets balance of K870,319 disclosed as at 31 December, 2006.

3. Current Liabilities

The financial statements disclose creditors and provisions of K382,071 and K407,600 respectively. Included in the provision balance are the amounts of K50,000 for Group Tax Exposure and K50,000 for Rentals in Dispute. I was not able to determine the accuracy of the provision made due to lack of supporting documentation. In addition, the uncertainties surrounding the measurement of expenses incurred during the year as discussed under paragraph 6 of this report place material limitation of scope on the current liabilities balance. As a result, I was unable to ascertain the accuracy and completeness of the current liabilities balance stated in the financial statements for the year ended 31 December, 2006.

4. Current Assets

The financial statements disclosed receivables of K145,133. Included in this account balance is an understatement of rental bonds of K23,437, an overstatement of staff debtors of K9,985 and a prepaid portion of the insurance premium amount of K9,905 not taken up in the above receivables account balance. Therefore, I was unable to determine the accuracy and completeness of the receivables balance as disclosed in the financial statements.

5. Presentation of the Income and Expenditure Statement

The Income and Expenditure Statement was not presented in accordance with the International Accounting Standard, *IAS 1 – Presentation of Financial Statement*. During the year, the Board expensed K5,185,768, however this component was not presented in the statement.

6. Expenses

I was unable to verify the accuracy and validity of expenses and subsequently the accuracy of the net deficit of K53,696 as at 31 December, 2006 due to:

- Proper procedures were not being followed as required by the provisions of the *Public Finances (Management) Act, 1995* for almost all services received and paid for including consultancy, legal and security procured by the Board during the year;
- A security company was engaged by the Board to provide monitoring services of the gaming machines operated in PNG. However, no formal contract was in place to validate the correctness of K825,700 paid as fees during the year;

- A total of K191,748 was paid as legal fees to various legal firms during the year, but the validity of these payments could not be established, due to the absence of proper documents;
- The Board incurred security expenses amounting to K106,973 during the year. I was not provided a copy of the formal agreements to determine the terms and conditions of the agreements; and
- The Board incurred expenses totalling K175,784 in relation to the operation of removing all illegal and unauthorised machines. The Board used the services of the Police and paid allowances, overtime, repair and maintenance of their vehicles. Further, I noted instances where cash allowances were paid to employees and non-employees of the Board. Other costs incurred were in the nature of security, entertainment and legal expenses. I was not able to ascertain the genuineness of these payments due to lack of adequate supporting documentation.

DISCLAIMER OF AUDIT OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion, I have not been able to obtain sufficient appropriate audit evidence and accordingly I was unable to express an opinion on the financial statements of the National Gaming Control Board for the year ended 31 December, 2006.

OTHER MATTERS

- The National Gaming Control Board has not prepared and submitted their financial statements to the Minister and the Auditor-General prior to 30 June for the year ending 31 December preceding, resulting in breaches of *Section 63(2)* and *Section 63(4)* of the *Public Finances (Management) Act, 1995*; and
- The Chairman of the Board was performing responsibilities as Executive Working chairman on full time since his appointment to the Board and was paid an annual stipend. The fulltime appointment of an Executive Chairman was a breach of the *Gaming Machine Act, 1993*.”

27.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Board for the year ended 31 December, 2007 was still in progress.

The Board had not submitted its financial statements for the years ended 31 December, 2008 and 2009 for my inspection and audit despite numerous reminders.

28. NATIONAL HOUSING CORPORATION

28.1 INTRODUCTION

28.1.1 Legislation

The *National Housing Commission Act (Chapter 79)* was repealed by the *National Housing Corporation Act, 1990*. The assets and liabilities of the former National Housing Commission were transferred to the National Housing Corporation in March 1990.

28.1.2 Functions of the Corporation

The principal functions of the Corporation are: to improve housing conditions; to provide adequate and suitable housing or letting to eligible persons; to sell houses to eligible persons; to make advances to eligible persons and approved applicants to enable them to become the owners of houses occupied by them; to develop residential land by way of providing adequate services for human settlements; to carry out and promote research or investigations into matters connected with urban development and human settlements; and to maintain dwellings and associated buildings vested in the Corporation.

28.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

28.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act, 1989 (as amended)*, on the Corporation's financial statements for the years ended 31 December, 2007, 2006, 2005 and 2004 were issued on 30 June, 2010. These reports contained similar Disclaimer of Opinions, hence only the 2007 report is reproduced as follows:

“BASIS FOR DISCLAIMER OF OPINION

1. Opening Balances

The opening balances could not be confirmed as correct due to errors and material limitation of scope expressed in previous audit reports.

2. Fixed Assets

The carrying value of all fixed assets as at 31 December, 2007 was K14,307,605 as reported in the financial statements. There was no physical stock take performed at the end of the year neither was there any form of communication of the existence of fixed assets by the Corporation. Consequently, I was unable to verify the existence, valuation and completeness of all the fixed assets reported in the financial statements.

3. Accruals, Provisions and Other Liabilities

Accruals, Provisions and Other Liabilities balances as at 31 December, 2007 was K126,426 as stated in the financial statements. These accounts consist of Accrued expenses of (K380,934), GST Provision (K537,369), Group Tax Provision K736,819, Employee Benefits K144,393 and Payroll liabilities (K89,335). However, acceptable records were not maintained to enable me to verify the completeness, existence and accuracy of the balance as disclosed in the financial statements. As a result, I was not able to determine the accuracy and completeness of the Trade Payables, Accruals and Provisions balances at year end.

4. Advance from PNG Government

The financial statements disclosed Advance from PNG Government at K7,779,200 as at 31 December, 2007. However, acceptable records were not maintained to enable me to verify the completeness, existence and accuracy of the balance as disclosed in the financial statements. As a result, I was not able to determine the accuracy and completeness of the Advance from PNG Government balance at year end.

5. Government Equity

The financial statements disclosed Government Equity as K27,668,800 as at 31 December, 2007. However, I was unable to obtain direct confirmation from the Department of Finance that these amounts relate to equity contributions rather than advances. As a result, I was not able to determine the existence, completeness and valuation of the balance and its classification and recognition as Equity at year end.

6. Cash and Bank Balances

The financial statements disclosed Cash and Bank balances at K1,306,664 as at 31 December, 2007. However, Independent Bank Confirmations received from the banks revealed the existence of seven (7) bank accounts maintained in the name of the Corporation totaling K1,237,625 resulting in an unexplained variance of K69,039. Furthermore, bank reconciliations were not done for all the accounts in operation. As a result, I was not able to determine the existence, valuation and completeness of the Cash and Bank balances at year end.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion, I had not been able to obtain sufficient appropriate audit evidence and accordingly I was unable to express an opinion on the financial statements of National Housing Corporation for the year ended 31 December, 2007.”

28.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Corporation for the years ended 31 December, 2007, 2006, 2005 and 2004 were issued on 30 June, 2010. These reports contained similar comments, hence only the 2007 report is reproduced as follows:

1.0 Internal Control Environment

The accounting system and internal control environment at National Housing Corporation continued to be severely deficient. The ineffective management information system, inexperienced and/or incompetent staff and inadequate financial reporting structure had contributed to the undue delay in preparation of the financial statements and timely information for management decision making. There was no evidence of management's review of the financial statements and related records. The reports that were produced by the system were inaccurate and management was unable to substantiate most of the balances included in the general ledger as it was unavailable. This effectively meant that the management could not place reasonable reliance on the accounting system for ensuring completeness and accuracy of the books of accounts maintained.

The management advised that *"it acknowledges the weaknesses in the operational procedures within the Corporation. The weaknesses can be directly attributed to the absence of direct supervision of subordinates by the supervisors. However, the management has highlighted this situation for corrective measures to be taken."*

2.0 Tenancy Variation Advices

I observed that significant inadequacies still persist in the system of internal control over the completeness and processing of "Tenancy Variation Advices" (TVAs). The major weakness appeared to be lack of control over the production and input of the TVAs. I was unable to gain assurance that TVAs had been raised in all instances as required and that TVAs raised had been processed on a timely basis.

The implications were that inadequate TVAs may result in the following:

- *understatement of interest and rental revenue;*
- *understatement of rental and loan debtors;*
- *overstatement of creditors balances (for cash received not processed to debtors but processed to suspense);*
- *overstatement of assets (properties sold not posted);*
- *overstatement of rental and interest revenue;*
- *loss of revenue and possible misappropriation of rents; and*
- *inaccurate debtors information being used for follow up and collection of outstanding debts and determining the provision for doubtful debts.*

I recommended a system to ensure that all TVAs are raised and processed on a timely basis to be introduced as a matter of priority. The processing of TVAs is central to the activities of the National Housing Corporation and this issue should be addressed at the highest level of management.

3.0 Unmatched Cash Receipts

I noted that not all payments received from Tenants and Borrowers had been matched against a debtor's balance and the unmatched receipts had been posted to clearing accounts.

The suspense accounts were not being reconciled on a regular basis.

The implications of the above weaknesses were that:

- *debtors balances and sundry creditors balances were overstated;*
- *errors in the processing of rental and purchase agreements were not detected on a timely basis; and*
- *accurate aged debtors information was not available. This information was needed for the follow up and collection of outstanding debts and for determining the Provision for Doubtful Debts.*

I advised that all clearing accounts should be reconciled on a monthly basis and items should be cleared to the correct account. The reconciliations should be regularly reviewed by the Financial Accountant.

The management's response to my advice was that "*the unmatched cash receipts were dealt with only when the client enquired about their payments, but acknowledged that a programme should be installed to ensure that as and when transactions were entered they would offset the unmatched receipts in order to reduce the suspense accounts.*"

4.0 Debtors - Sub Ledger

I noted that accurate debtors sub-ledgers were not being produced on a regular basis and a number of debtors sub-ledgers as at 31 December, 2007 could not be located.

The implication was that information required for the follow-up and collection of outstanding debts and for determining the Provision for Doubtful Debts was not readily available.

I advised that an aged debtors trial balance should be produced on a monthly basis. This sub-ledger should be reconciled to the general ledger and the reconciliation should be reviewed by the Financial Accountant.

The management advised that *“this ledger was reconciled previously by the Accounts Section to up-date the General Ledger-Sub-Ledger and should be continued in order to up-date our Housing Debtor General Ledger Accounts. The Accounts section no longer exists due to restructure.”*

4.1 Sundry Debtors

I observed that there were a number of Sundry Debtors balances that were not supported by adequate documentation and had not been reconciled correctly.

The absence of relevant reconciliations for Sundry Debtors may result in:

- *misstatement in the financial statements;*
- *errors carried forward to future accounting periods; and*
- *follow-up of balances is virtually impossible.*

I recommended all accounts to be reconciled on a monthly basis and the reconciliations reviewed by the Financial Accountant. Items in the accounts were to be identified and recovered or written-off as appropriate.

The management had previously informed that the balances were mainly brought forward from prior years which were not properly identified, therefore, they should be written-off as recommended. However, no tangible action has been taken and no provisions for bad debts were provided.

5.0 Bank

I noted that relevant bank account reconciliations were not prepared during 2007.

The absence of adequate bank reconciliations during the year as well as at year end may result in:

- *misstatement of the bank balance in the financial statements;*
- *frauds, errors and misstatements not identified promptly;*
- *inadequate information for managing cash flow; and*
- *potential for fraud exists.*

I advised that bank reconciliations should be prepared on a monthly basis immediately after month-end and should be checked by the Accountant on a regular basis.

6.0 Creditors

6.1 Creditors Sub-Ledger

I noted that creditors' sub-ledgers were being inadequately maintained and not being reconciled on a regular basis to the general ledger.

Also, suppliers' statements were not being reconciled to the general ledger on a systematic basis.

The absence of Creditors Reconciliations between supplier's statements and general ledger may result in:

- *misstatement of creditors in the financial statements; and*
- *possible overpayment or double payment of creditors.*

I advised a creditor's ledger to be produced on a monthly basis and reconciled to the general ledger.

All major supplier's statements were to be reconciled to the creditors sub-ledger and the reconciliations reviewed by the Financial Accountant.

6.2 Sundry Creditors

I observed that there were a number of sundry creditors balances that were not supported by adequate documentation and were not reconciled correctly. Some balances were outstanding for a considerable period of time.

The absence of adequate documentation may result in:

- *Misstatement in the financial statements; and*
- *Errors carried forward to future accounting periods.*

I recommended all accounts to be reconciled on a monthly basis and the reconciliations reviewed by the Financial Accountant.

The management agreed to undertake monthly reconciliation to clear items in the account.

7.0 Fixed Assets Register

There was no proper Fixed Assets Register maintained by the Corporation. The maintenance of complete Fixed Assets Register for property and other assets is an integral part of the Corporations operations. Without an accurate record of the assets owned, a lack of control over the assets and their related income will exist. Also without an Assets Register, there will be difficulties in performing accurate calculations of depreciation expense and profit and loss on disposal of assets.

The management responded that *„in conjunction with the survey, the Corporation will be able to review, update and correct the Fixed Assets Register thoroughly to account for additions and disposals and values of assets to date. In addition, the assets will be appropriately categorised as recommended.”*

28.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Corporation had not submitted its financial statements for the years ended 31 December, 2008 and 2009 for my inspection and audit.

29. NATIONAL MARITIME SAFETY AUTHORITY

29.1 INTRODUCTION

29.1.1 Legislation

The National Maritime Safety Authority was established by the *National Maritime Safety Authority Act, 2003*.

29.1.2 Functions of the Authority

(1) The functions of the Authority are:

- (a) to perform the functions and exercise the powers as are conferred upon it by this Act or under any other law; and
- (b) to co-ordinate search and rescue operations for vessels in distress or lost at sea pursuant to the terms and conditions of a search and rescue plan prepared by the Minister, from time to time, and approved by the Authority; and
- (c) to co-ordinate with other agencies and persons, including regional and international organizations and consultants, whether local or foreign, on matters concerning maritime safety, marine pollution prevention or search and rescue operations at sea; and
- (d) to collect data relevant to maritime safety, marine pollution prevention and search and rescue operations at sea; and
- (e) to act on behalf of the State in relation to any domestic or international agreement relating to maritime safety, marine pollution prevention or search and rescue operations at sea to which the State is or may become a party; and
- (f) to make recommendations on policy to the Minister regarding maritime safety, marine pollution prevention and search and rescue operations at sea; and
- (g) to provide consulting services, training and management services relating to any of its functions whether in Papua New Guinea or overseas; and
- (h) where appropriate to consult with:
 - (i) other agencies of National Government; or
 - (ii) Provincial Governments; or
 - (iii) Local Governments; or
 - (iv) commercial, industrial and other relevant bodies and organizations, in relation to matters affecting them in the performance of its functions; and

- (i) generally to do such supplementary, incidental or consequential acts and things as are necessary or convenient for carrying out its functions.

29.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

29.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4) of the Audit Act, 1989 (as amended)*, on the Authority's financial statements for the year ended 31 December, 2008 was issued on 23 April, 2010. The report contained a qualified audit opinion as follows.

“BASIS FOR QUALIFIED OPINION

Fees and Levies

Operating revenue was stated as K22,535,656 in the 2008 financial statements. Included in this account balance was revenue earned from fees and levies of K18,866,687. In my review of the billing and collection of the various fees and levies collected, I noted that there was no proper and accurate system or database to capture all the foreign vessels that trade in PNG waters. Further, the Authority did not keep a proper, accurate and a complete database for those ships operating in the waters of PNG including important information such as name of the vessels, owner, length of vessels, and the place of registration. I noted that billing and collection of these fees and levies were based on information provided by the shipping agents which was considered unreliable.

In the absence of a proper database and a comprehensive revenue collection system, I was unable to state whether the revenue billing and collection by the Authority is accurate and complete.

QUALIFIED AUDIT OPINION

In my opinion, except for the effects of the matters referred to in the qualification paragraph:

- (a) the financial statements of National Maritime Safety Authority comply with generally accepted accounting practice and give a true and fair view of the financial position of the Authority as at 31 December, 2008 and the results of its operations and its cash flows for the year ended on that date; and
- (b) proper accounting records have been kept by the Authority as far as appears from my examination of those records.”

29.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the audit and inspection of the accounts and records of the Authority for the year ended 31 December, 2008 was issued on 29 April, 2010. The report contained the following observations:

1. Internal Control Weaknesses

I wish to draw your attention to the following internal control weaknesses revealed during the course of the audit:

- a) there was no segregation of duties in invoicing, receipting, recording, banking of cash, preparation of fortnightly payroll and postings to the general ledger; and
- b) there was no proper system or procedures in place to ensure adequate collection of fees and levies from vessels operating in Papua New Guinea waters, leading to a possible loss of revenue to the Authority.

I recommended management to put in place proper internal control measures to rectify the above weaknesses. The management advised that it had taken note of my recommendations.

2. Reports under *Public Finances (Management) Act, 1995*

The Board is required to submit an annual report on performance and management and a quarterly report on all investment decisions, a detailed report on investments, performance and returns for each year and a five year investment plan (up-dated each year) setting out investment policies, strategies and administrative systems to be pursued and providing forecasts of investment flows and returns. However, I noted that the management did not submit its relevant reports as required under *Section 63 (2) of the Public Finances (Management) Act, 1995* to the Minister for the year ended 31 December, 2008.

3. Board Meeting Minutes

Section 12(1) of the National Maritime Safety Authority Act, 2003, requires the Authority to meet not less frequently than once in every three (3) months or four (4) times in each year and to ensure that the minutes of its meetings are recorded and kept.

I noted that the Authority's Board was able to meet twice during the year, however I was only provided the minutes of one (1) meeting that was held during the year for my review. Consequently, I was unable to determine whether matters discussed were implemented in the year and the succeeding year and whether the Authority was governed properly. The management advised that, "*among other reasons there was a lack of quorum and the vacancies in the appointment of the Board members.*"

29.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the field work associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December, 2009 was completed and the results were being evaluated.

30. NATIONAL MUSEUM AND ART GALLERY

30.1 INTRODUCTION

30.1.1 Legislation

The National Museum and Art Gallery was established under the provisions of the *National Museum and Art Gallery Act, 1992*. This *Act* came into operation on 15 April, 1992.

30.1.2 Functions of the Museum

The main functions of the Museum are: to protect and conserve the cultural and natural heritage of Papua New Guinea; to research and document the prehistory of Papua New Guinea and manage the national archaeological collections, and monitor archaeological research in Papua New Guinea; maintain the national register of traditional and archaeological sites; identify, maintain a register of national cultural property and monitor the collection and export of artifacts; and issue permits and perform other duties as required by the *National Cultural Property (Preservation) Act (Chapter 156)*.

30.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Museum for the years ended 31 December, 2007 and 2008 were completed. However Management had not responded to the matters raised in my management letters to allow me to finalise and issue my reports under *Section 8(4)* and *Section 8(2)* of the *Audit Act, 1989 (as amended)*. However, these reports will be issued shortly.

The Museum had not submitted its financial statements for the year ended 31 December, 2009 for my inspection and audit.

31. NATIONAL NARCOTICS BUREAU

31.1 INTRODUCTION

31.1.1 Legislation

The National Narcotics Bureau was established in April, 1992 by the enactment of the *National Narcotics Control Board Act, 1992*.

31.1.2 Functions of the Bureau

The principal functions of the Bureau are to make recommendations to the Board on policies, plans, matters or projects relating to abuse of drugs; coordinate and monitor the Government and Non-Government drug education, awareness and re-habilitation program, and conduct surveys and gather and evaluate information, on the consumption, cultivation, trafficking and manufacture of drugs.

31.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Bureau for the years ended 31 December, 1998 to 2002 had been completed. My management letters for these years were sent on 23 February, 2010 and at the time of preparing this report my letters were not responded to by the Management of National Narcotics Bureau. The Bureau was also requested to resubmit the financial statements for the years ended 31 December, 2003 to 2007 on 20 October, 2008, 6 July, 2009 and 16 February, 2010 as these financial statements were incomplete. Those requests and reminders were not responded and adhered to respectively.

As the Bureau had not submitted its financial statements for the years ended 31 December, 2008 and 2009 for my inspection and audit, I have conducted internal controls and corporate governance review and the results of this review will be reported in my next report to Parliament.

32. NATIONAL RESEARCH INSTITUTE

32.1 INTRODUCTION

32.1.1 Legislation

The National Research Institute (NRI) was established under the *Institute of Applied Social and Economic Research Act (Chapter 165)*. The name of the Institute was changed from „*Papua New Guinea Institute of Applied Social & Economic Research*” to „*National Research Institute*” following the approval of the National Executive Council through its Decision No. 42/90 of 7 March, 1990.

The *Institute of Applied Social and Economic Research (Amendment) Act, 1987*, came into operation on 1 January, 1988, and on this date, the promotion and cultural functions of the former Institute of Papua New Guinea Studies; and functions to do with Educational Research for National and Provincial Departments of Education carried out by the former Educational Research Unit (UPNG), formed part of the National Research Institute.

32.1.2 Functions of the Institute

The functions of the Institute include the promotion of research into Papua New Guinea society and economy; the undertaking of research into social, political and economic problems of Papua New Guinea in order to formulate practical solutions to such problems; where practicable, the provision, by agreement with the body concerned, of consultancy services to the Government and to Government institutions; the promotion of the functions and objects of the Institute of Papua New Guinea Studies; and research into all aspects of education for National and Provincial Departments of Education.

32.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

32.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act, 1989 (as amended)* on the financial statements for the year ended 31 December, 2008 was issued on 25 March, 2010. The report did not contain any qualification.

32.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act, 1989 (as amended)* on the inspection and audit of the accounts and records of the Institute for the year ended 31 December, 2008 was issued on 25 March, 2010. My report contained the following comment:

1. Title Deeds to Leasehold Land

The Institute did not have titles for three (3) properties located at Section 484 allotment 35. These three properties were registered under Mimino & Associates and not under the Institute’s name. I drew the Institute’s attention to this and it responded as follows:

“The property titles are still under Mimino & Associates. However, we made some good progress with our lawyers, Kassman Lawyers, who have applied with the Lands Department to have the titles transferred. Our lawyers have advised that this will take some time.”

32.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements for the year ended 31 December, 2009 had been submitted and arrangements were being made to commence the audit shortly.

33. NATIONAL ROAD SAFETY COUNCIL

33.1 INTRODUCTION

33.1.1 Legislation

The National Road Safety Council was established under the *National Road Safety Council Act, 1997*. This Act came into operation on 1 May, 1998. The Council commenced its operational activities from May 1998.

33.1.2 Functions of the Council

The principal functions of the Council are:

- (a) to determine the goals and objectives in the promotion of road safety in Papua New Guinea;
- (b) to advise the National Government on all matters relating to road safety which the Council may from time to time consider desirable or which the National Government may refer to the Council;
- (c) to recommend to appropriate authorities the adoption of precautionary measures of all kinds calculated to prevent accidents involving the use of motor vehicles;
- (d) to foster, promote and conduct educational campaigns designed to stimulate compliance with acceptable and proven principles of road safety;
- (e) to enlist the aid of all agencies and individuals who in the opinion of the Council are able to promote any acceptable and proven principles of road safety;
- (f) to procure sufficient personnel and finance for purposes of the Council and to co-ordinate and control their use;
- (g) to foster and promote road safety research;
- (h) to determine measures which will lead to the improvement of road safety and implementation of such measures;
- (i) to monitor and evaluate the effectiveness of programs and strategies of organizations involved in the promotion of road safety;
- (j) to formulate, monitor and update an appropriate long term national programme for the improvement of road safety in Papua New Guinea and to supervise its implementation;
- (k) to consider and implement any other aspects of road safety as may be referred to it from time to time;
- (l) to perform such other functions as are given to it under this Act or any other law;

- (m) to advise the Minister and the National Executive Council on all or any of its functions specified in this section; and
- (n) generally to do all such things as may be incidental or consequential upon the exercise of its powers and the performance of its functions.

33.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

33.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4) of the Audit Act, 1989 (as amended)*, on the Council's financial statements for the year ended 31 December, 2008 was issued on 31 March, 2010. The report did not contain any qualifications.

33.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the audit and inspection of the accounts and records of the Council for the year ended 31 December, 2008 was issued on 31 March, 2010. The report contained the following observations:

1. Accounting System

I observed that the Council's accounts and records were kept and prepared manually using spreadsheets. Although necessary records were kept by the Council, a proper accounting system needs to be established as records kept in spreadsheets are vulnerable to manipulation, errors and no audit trails are normally found in a Spread-sheet Package.

Management responded to my observation as follows:

"The current Finance and Administration management is looking for various accounting packages that may suit National Road Safety Council".

2. Operational Matter

My review of the *National Road Safety Council Act, 1997*, revealed that the setting up of road blocks and collecting fines from motorists for traffic infringements was not covered by the Act.

When I raised this concern with the Council, management responded as follows:

"The National Road Safety Council Act, 1997 is a broad one and the Council plays roles covered by other authoritative entities or stakeholders. In this case, there is an understanding between the Transport Department whereby the National Road Safety Council was given the authority by the Superintendent of Motor Traffic and gazetted by the Minister for Transport to carry out enforcement roles in NCD/Central and Morobe Provinces".

3. Receipts – Motor Traffic Laws Enforcement (MTLE)

Receipts from Traffic Infringement Fines were not currently accounted for. The receipt books, schedules and summary reports for some fines were not properly kept. Further, I noted that fines collected were not immediately banked resulting in misreporting and collections may be used for other purposes. This was reported to the Management and it responded as follows:

"We are working on improving the recording system and accountability mechanisms and fines collected are banked the next working day".

4. Other Weaknesses

Other weaknesses noted during the course of the audit were;

- Improper maintenance of fixed assets register;
- Personnel files not maintained properly and updated;
- Procurement procedures need to be revisited and adhered to; and
- Internal control weaknesses on receipts and payments.

I drew Management's attention to these weaknesses and I was advised that corrective measures will be taken to address these issues.

33.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Council for the year ended 31 December, 2009 had not been submitted for my inspection and audit.

34. NATIONAL ROADS AUTHORITY

34.1 INTRODUCTION

34.1.1 Legislation

The National Roads Authority which was established by the *National Roads Authority Act, 2003*, and came into operation in 2004.

34.1.2 Objectives of the Authority

The objectives of the Authority are:

- (a) to raise funds for the maintenance of public roads;
- (b) to ensure the efficient preparation of effective annual road maintenance programmes; and
- (c) to ensure that all routine, specific and emergency maintenance of roads and road rehabilitation and reconstruction funded by the Authority are executed in a transparent, effective and efficient manner, in order to optimise the contribution of roads assets to the economic and social development of Papua New Guinea.

34.1.3 Functions of the Authority

The functions of the Authority are:

- (a) to establish and operate a Road Fund from road user charges, budget and other sources;
- (b) to establish resources and an organization to enable the Authority to perform its functions;
- (c) to maintain and manage updated data on asset conditions using the Road Asset Management System, Bridge Inventory and Bridge Maintenance and other approved systems;
- (d) to formulate and determine prioritised annual road maintenance plans and programmes using the Road Asset Maintenance System, Bridge Inventory and Bridge Maintenance and other approved systems to be supported by the road sector cost recovery revenues;
- (e) to establish annual road maintenance funding requirements in accordance with the future annual road maintenance plans;
- (f) to determine and implement road user charges in accordance with the financial resource requirements of the annual road maintenance plans;

- (g) to deliver the required routine, specific and emergency road maintenance in accordance with the maintenance service levels established for each class or type of road, through the contracting of independent contractors, and to monitor and supervise the contracts as they are executed;
- (h) to deliver road improvement, and road restoration when required, by undertaking the design studies necessary for the programmed road improvement or rehabilitation projects:
 - (i) by preparing corresponding construction plans, specifications, cost estimates, and the other documents required for the proper tendering of the programmed works;
 - (ii) by monitoring and supervising the works as are executed, by such qualified consultants and/or contractors as are engaged; and
 - (iii) by ensuring safety audits on design, construction, maintenance and safety aspects of road;
- (i) to establish and sustain contract management capacity to ensure the validity of contracts and the effective management of contracts awarded for the execution of agreed road maintenance works and rehabilitation and reconstruction projects;
- (j) to ensure that all contracts are tendered through a transparent and competitive procedure to ascertain economic efficiency and sustainability in delivery of road maintenance and rehabilitation works;
- (k) to keep adequate records and to maintain a management information system which provides the Board and staff with accurate and timely information on commitments, expenditures and revenue for the purchase of consultancy and contracting services and other purchases and outlays;
- (l) to report publicly and transparently on collection of user charges, revenues, and in detail on the use of the revenues on the road maintenance programmes in accordance with internationally accepted accounting principles;
- (m) to establish environmental management capacity;
- (n) to provide a continuing programme of professional staff development and required skills training for non-professional staff; and
- (o) to construct, erect or affix signs or marks on road transport infrastructure in accordance with the *Motor Traffic Act (Chapter 243)*.

34.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the field work associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December, 2008 and 2009 had been completed and the results were being evaluated.

35. NATIONAL TRAINING COUNCIL

35.1 INTRODUCTION

35.1.1 Legislation

The National Training Council was established under the *National Training Council Act, 1991*. Although the Act came into operation on 5 December, 1991 the Council formally began operating in April 1992 following its inauguration.

35.1.2 The Objectives of the Council

The objectives of the Council are to foster the comprehensive development of training with regard to the needs and the resources of the country; to foster the co-ordination of training institutions so that the most effective use can be made of resources available for training which ensures increased productivity and capacity building in the workforce; to make the benefits of training as widely as possible; to plan and encourage the development of a system of training fitted to the requirements of the country and its people; to establish, preserve and improve standards of training throughout the country; to make the most effective use of the resources available for training related purposes in so far as this can be done by legislative and administrative measures; and to generally augment and support the role and functions of the Commission for Higher Education as specified in the *Higher Education Act (Chapter 397)*.

35.1.3 Functions of the Council

The principal functions of the Council are to be responsible for supervising and managing the implementation of the National Training Policy and for monitoring, reviewing and revising the National Training Policy when necessary; to provide guidelines to the National Executive Council, Provincial Government, and the In-service Training Institution's Governing Councils on any issues related to training; and to formulate and publish guidelines on human resource requirements, localisation and indigenisation issues and related matters.

35.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Council had submitted the financial statements for the years ended 31 December, 2002 to 2009 for my inspection and audit and arrangements were being made to commence the field work associated with the inspection and audit of the accounts and records of the Council.

36. NATIONAL VOLUNTEER SERVICE

36.1 INTRODUCTION

36.1.1 Legislation

The National Volunteer Service was established on 12 April, 1990 under the *National Volunteer Service Act, 1990*.

36.1.2 Functions of the Service

The principal functions of the National Volunteer Service are to promote a spirit of sacrifice and service to the people of Papua New Guinea; to provide labour, skills, education and training to the community for development projects; to cooperate and assist National and Provincial Government agencies as well as other organisations whose goals include the development of the people of Papua New Guinea, in achieving their plans and purposes; and to encourage and participate generally in the advancement of the development of Papua New Guinea.

36.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Service had not submitted its financial statements for the years ended 31 December, 2007, 2008 and 2009 for my inspection and audit despite my repeated reminders to submit these financial statements.

37. NATIONAL YOUTH COMMISSION

37.1 INTRODUCTION

37.1.1 Legislation

The National Youth Commission was established under the *National Youth Service Act, 1991*. This Act came into operation on 3 July, 1991.

37.1.2 Functions of the Commission

The functions of the National Youth Commission are: to train youths in vocational and related livelihood skills and in self discipline; to provide opportunities to enable youths to participate meaningfully in community activities; to promote self-reliance among youths and to discourage dependability on outside assistance; to provide the means to enable youths to contribute actively towards the maintenance of law and order, and establish better relationship between law enforcing agencies and the community; to assist and encourage youths to improve their education, and attain competency in numerical and communication skills; to provide the means for tertiary students to enter into the Service; to promote and maintain amongst youths acceptable social norms and values; and generally to do such supplementary, incidental or consequential acts and things as are necessary or convenient for carrying out its functions.

37.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

37.2.1 Comments on the Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act, 1989 (as amended)*, on the financial statements for the years ended 31 December, 2006, 2007 and 2008 were issued on 8 February, 5 March and 30 May, 2010 respectively. These reports contained similar qualified audit opinions, hence only the 2008 report is reproduced as follows:

“BASIS FOR QUALIFIED AUDIT OPINION

Internal Control Environment

During the course of my audit, I identified significant weaknesses in the Commission's overall control environment during the period under audit. The Commission employed staff on a casual basis and these staff lacked necessary skills and experience to perform their tasks. As a result, the Commission continued to suffer from lack of qualified and competent staff to undertake its operation. Further, the Commission did not have an Interim Council during the year and the submission of financial statements were unduly delayed to enable me to conduct the audit on a timely basis and consequently the Commission breached *Section 63(2)* of the *Public Finances (Management) Act, 1995*.

Limitation of Scope - Lack of Supporting Documents

I was not provided with necessary supporting documentation to substantiate the following account balances;

- Gratuity payments - K 33,963
- Travel & Subsistence - K255,610

As such, I was unable to verify the account balances as stated in the financial statements.

AUDIT OPINION

In my opinion, except for the effects of the matters referred to in the basis for qualified audit opinion paragraphs above:

- (a) the financial statements of the Commission were based on proper accounts and records; and
- (b) the financial statements were in agreement with those accounts and records, and show fairly the state of affairs of the Commission as at 31 December, 2008 and the results of its financial operations of the year then ended.”

37.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records for the years ended 31 December, 2006, 2007 and 2008 were issued on 8 February, 5 March and 30 May, 2010 respectively.

These reports contained similar observations and as such, only the comments in the 2008 report are reproduced as follows:

1. Corporate Governance

During the review of Corporate Governance of the Commission, I noted the following weaknesses:

- The Commission did not employ qualified and skilled staff to perform its daily tasks.
- Employment of related parties without due process being followed. Although the monetary value paid to these employees were small, the Commission did not follow the proper procedures in employing these staff.
- Some staff members had been acting on the positions for more than six (6) months and these acting positions have not been confirmed.

- Lack of staff supervision and monitoring was noted. Further, due to lack of co-ordination between various levels of management, the Commission found it difficult to co-ordinate its activities to achieve its objectives.

2. Statutory Compliance

My review of Statutory Compliance revealed that the Commission did not:

- Convene any Meeting during the year 2008 in accordance with Section 15(1) of the *Commission Act*;
- Have members elected to the Commission's Council in compliance with Section 8(1) of the *National Youth Council Act*;
- Convene Annual General Meeting during the year in accordance with Section 17 of the *National Youth Commission Act*; and
- Have the National Youth Convention held in respect of Section 18 of the *National Youth Commission Act*.

3. Segregation of Duties

I noted that segregation of duties were not properly implemented by the Commission for procurement of goods and services. Further, it was noted that authorization, approval, data entries and postings of transactions were performed by the same officers who were also signatories to the operating bank account.

4. Staff

The Commission lacked skilled and capable staff to take charge of payroll and accounting work. I noted that only one staff member performed both the salary and personnel officers' responsibilities. As a result, personnel and payroll records were not properly maintained. In respect of the accounts, the transaction data entry into spreadsheet, bank reconciliation and raising of cheques were being done by only one officer in the accounts section. In most cases the supervisors did not check the completed tasks. Further, I noted that there were funding problems faced by the Commission to recruit skilled and capable staff to fill vacant positions.

5. Cash Management

Controls surrounding cash was weak in respect of encashment of cheques on occasions for sums exceeding K10,000 for allowances and other expenses. The cheques should normally be paid in the name of a supplier or if paid by cash, a detailed list of recipients of cash be maintained at all times. However, these processes were not adhered to. Further, undistributed cash of the cashed cheques were kept in the desk drawers by either the Finance Officer or the Administrative Assistant.

6. Gratuity – K33,963

I noted that the gratuity payments made during the year were from the operating account and not from the Department of Finance Payroll. The tax on the gratuities were calculated, however, were not remitted to Internal Revenue Commission as at balance date. Further, payments in respect of gratuities were made in installments extending from one period to the next without proper maintenance of register/schedules to keep track of movements. Therefore, I was unable to ascertain the accuracy and validity of contract gratuity payments made to contract officers at the year end.

7. Payments without Three (3) Quotes

I was not able to sight three (3) quotes from suppliers for the purchase of a Toyota Land Cruiser costing K125,328 and two other payments totaling K10,822.

8. Income -Donor Funding – K2,684,600

The submission documentation for the Youth Policy Implementation Grant of K2,670,000 was not made available for my verification. As such, I was not able to comment on the project timeframe and the expected expenditure or specific areas in which the grant was utilized.

9. Response to Management Letter

The Commission had not responded to my Management Letter to enable me to incorporate their comments as part of this report.

37.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Commission had been submitted for the year ended 31 December, 2009 and arrangements were being made to commence the audit shortly.

38. OIL PALM INDUSTRY CORPORATION

38.1 INTRODUCTION

38.1.1 Legislation

The Oil Palm Industry Corporation was established by the *Oil Palm Industry Corporation Act, 1992*, which came into operation on 1 June, 1992. Under the Act, all assets (other than land held by the State) and liabilities previously held or occupied by the Division of the Department of Agriculture and Livestock responsible for the provision of extension services to oil palm industry, were transferred to the Corporation at commencement date.

38.1.2 Functions of the Corporation

The main functions of the Corporation are: to promote the development of the oil palm industry; to encourage the increase in productivity by efficient provision of extension services to smallholders; to provide advice and disseminate information and educate smallholders regarding oil palm production methods; and to consult, liaise and collaborate with the State and other agencies involved in the oil palm industry.

38.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

38.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4) of the Audit Act, 1989 (as amended)*, on the Corporation's financial statements for the year ended 31 December, 2007 was issued on 11 May, 2010. The report did not contain any qualification.

38.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Corporation for the year ended 31 December, 2007 was issued on 11 May, 2010. The report contained the following comments:

1. OPIC operating without fully constituted Board

During the year the Corporation operated without a fully constituted Board which could direct, guide and exercise its power. I brought this matter to the management and it responded to my concerns as follows:

"The activities at the project level are controlled by the Local Planning Committee (LPC) who are regarded as Board members of the Projects they represent. All activities of the projects are monitored by the committee and once approved it is normally sent to the National OPIC Board for endorsement. Since most of the activities were decentralized Local Planning Committee members are directly involved in project activities. The management do not see this as an issue since LPC control their own finance and spend what they wish to spend as they are the ones contributing towards operation of OPIC."

2. Budget Overspending

It was noted that Project expenditure exceeded the budgeted amounts on several occasions. Approvals from the Local Planning Committee for the over expenditures were not sighted. I recommended management to regularly review expenditures and to obtain ratification from Local Planning Committee on over expenditures incurred.

3. Internal Audit Unit

The Corporation had no Internal Audit and an Audit Committee as stipulated in Section 9 of the *Public Finances (Management)(Amendment) Act (2004)*.

I recommended an Internal Audit Department and an Audit Committee to be established in the Corporation to ensure that:

- a) *the Corporation complies with established internal control procedures, policies and other regulations and legislation applicable to the Organisation;*
- b) *the operations are efficiently and effectively performed; and*
- c) *the assets of the Corporation are properly safeguarded from fraud, loss or misappropriation.*

The management has since advised me as follows:

“The management has agreed with World Bank under SADP project to recruit an internal Auditor to work for Oil Palm Industry Corporation. This person will be recruited in 2010.”

4. Asset Register

The Corporation has not up-dated its fixed assets register despite my previous recommendations. I again recommended the Corporation to have a complete stock-take of its assets since most of the fixed assets were purchased a long time ago and their existence may be in doubt.

The management responded to this observation as follows:

“This area has been overlooked for far too long and the management will seriously address this properly. We will carry out the full stock count of the assets and have the report presented to LPC for approval for write off obsolete and un-useable assets.”

5. Other Internal Control Weaknesses

Other weaknesses noted during the audit were:

- No maintenance of travel advance register and lack of supporting documentation.
- Some Projects meeting minutes were not provided and/or kept.
- No proper tools to correctly measure the fuel stock on hand.

- No proper control system in place for spare parts inventory.

I drew management's attention to these weaknesses and I was advised that corrective measures were being taken to address them.

38.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Corporation had not submitted the financial statements for the years ended 31 December, 2008 and 2009 for my inspection and audit.

39. OMBUDSMAN COMMISSION OF PAPUA NEW GUINEA

39.1 INTRODUCTION

39.1.1 Legislation

The Ombudsman Commission was established under the provisions of the Constitution of the Independent State of Papua New Guinea. The principal objectives of the Commission are: to ensure that all governmental bodies are responsive to the needs and aspirations of the people; to help in the improvement of the work of governmental bodies and the elimination of unfairness and discrimination by them; to help in the elimination of unfair or otherwise defective legislation and practices affecting or administered by governmental bodies; and to supervise the enforcement of the Leadership Code.

39.1.2 Functions of the Commission

The functions of the Commission are:

- (a) to investigate on its own initiative or on complaint by a person affected, any conduct on the part of any State or provincial or local governmental, or other governmental body or a member or officer or employee of any such body, any member of the personal staff of the Governor-General, Minister or the Leader or Deputy Leader of the Opposition, or any other body or person as may be declared by an Organic Law or an Act of Parliament, to which the Leadership Code applies;
- (b) to investigate any defects in any law or administrative practice appearing from any such investigation;
- (c) to investigate any case of an alleged or suspected discriminatory practice within the meaning of a law prohibiting such practices; and
- (d) any functions conferred upon it by Part III Division 2 (Leadership Code) of the National Constitution.

39.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

39.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4) of the Audit Act, 1989 (as amended)*, on the Commission's financial statements for the year ended 31 December, 2009 was issued on 30 June, 2010. The report contained an Emphasis of Matter.

“AUDIT OPINION

In my opinion, the accompanying statement give a true and fair view of the total receipts and payments made by the Commission during the year ended 31 December, 2009 in accordance with the cash receipts and disbursements basis as described in the Commission’s Accounting Policies disclosed in the Notes accompanying the financial statements.

EMPHASIS OF MATTER

Without qualifying my opinion, I wish to draw attention to *Note 2.0* to the receipts and payments statement on *Grants and Other Assistance (Payments by External Third Parties)*. The Commission received a total of K495,067 from the Australian Development Assistance (AusAid) for the year in respect of the Law and Justice Sector Project and spent K1,067,444 within the set guidelines of the Annual Program Plan (APP) which is outside the Commission’s normal business operations and is not subject to audit by me. The Commission is under an obligation to ensure full accountability of the funds expended and the Program is subject to annual audit by the Program auditors.”

39.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Commission for the year ended 31 December, 2009 was issued on 30 June, 2010. The report contained the following matter.

Meeting Minutes

I was not provided the meeting minutes of the Commission for the year ended 31 December, 2009. In the absence of the meeting minutes I was unable to review and ascertain the validity and the authenticity of the executive and management decisions and actions that were under taken in relation to the resolutions that were passed in those meetings. Further, I was informed by the Commission that it was an oversight on its part not to furnish the Commission Meeting Minutes which I consider was not appropriate.

40. PAPUA NEW GUINEA RADIO COMMUNICATIONS AND TELECOMMUNICATIONS TECHNICAL AUTHORITY (PANGTEL)

40.1 INTRODUCTION

40.1.1 Legislation and Objectives of Pangtel

The Papua New Guinea Radio Communications and Telecommunication Technical Authority (PANGTEL) was established on 1 January, 1997 by the *Telecommunications Act, 1996*. Its creation was part of the Government's policy to corporatise Post and Telecommunication Corporation (PTC) and to have it divided into three (3) different organisations namely Telikom PNG Limited, Post PNG Limited, and Pangtel. Pangtel, which is a 100% Government-owned statutory authority, was established to regulate the telecommunication industry in Papua New Guinea.

Under the *Post and Telecommunication Corporation (Corporatisation) Act, 1996*, assets, rights and liabilities as well as employees of the Corporation were transferred to Pangtel as per allocation statement approved by the then Minister for Communications, at the net book value recorded in the books of the Corporation as at 31 December, 1996.

40.1.2 Functions of Pangtel

The main functions include:

- Granting of Licences to carriers and suppliers of telecommunication services and equipment;
- Monitoring of practices of Licences;
- Regulation of telecommunications industry to ensure competitiveness;
- Protection of fairness and efficiency in the industry;
- Providing arbitration to conflicting parties in the industry;
- Administration of rural telecommunication projects; and
- Monitoring of pricing of telecommunication services.

40.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

40.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act, 1989 (as amended)*, on the financial statements of the Authority for the years ended 31 December, 2007 and 2008 were issued on 29 April, 2010 and 15 July, 2010 respectively. These reports contained Disclaimers of Opinion, hence, only the 2008 report is reproduced below:

“BASIS FOR DISCLAIMER OF OPINION

1.0 Opening Balances

The opening balances could not be confirmed as correct due to errors and material limitation of scope expressed in previous audit reports.

2.0 Fixed Assets

The fixed assets register balance of K4,157,849 did not agree with the general ledger account and balance sheet balance of K8,488,993 as neither records have been properly reconciled. There was also no evidence of periodic checks conducted to verify the existence, movement, possession, depreciation or condition of the assets listed on the fixed assets register. Accordingly, I was unable to verify the value of fixed assets as recorded in the financial statements.

3.0 Fixed Assets Revaluation Reserve

I was not provided with any supporting documents to support the Fixed Assets Revaluation Reserve balance of K3,504,350 reflected in the financial statements. I was therefore unable to verify this balance.

4.0 Cash and Bank Balances

There was no proper reconciliation of bank accounts resulting in the misstatement of bank balances recorded in the financial statements. A balance of undeposited funds totaling K15,084,359 could not be reconciled to the bank overdraft balance of K12,163,523 due to lack of adequate supporting documentation and records.

5.0 Term Deposits

I was unable to obtain confirmation of balances of term deposits (included in cash at bank and on hand) at year end 31 December, 2008. Due to the unavailability of relevant supporting documentation and records, I was unable to state whether the balances included in the financial statements are free of material misstatements.

6.0 Trade and Other Creditors

I was not able to verify the balance of Trade and Other Creditors reported as K4,157,849 in the financial statements due to the lack of proper documentation and irregular reconciliation of the creditors ledger resulting in the misstatement of balances recorded in the financial statements.

7.0 Prepayments, Trade and Other Debtors

I was not able to verify the balance of Prepayments, Trade and Other Debtors reported as K4,942,863 in the financial statements due to the lack of proper debtors' subsidiary system. The debtors' subsidiary system used for recording trade debtors such as licensing fees was maintained manually resulting in the listing of Trade debtors produced by the system not reconciling with the general ledger and the subsidiary ledger. No supporting documentation and reconciliation was provided for other debtors and prepayments.

8.0 Provision for Long Service Leave, Gratuities and Leave Fares

I was unable to substantiate the balances pertaining to the Provision for Long Service Leave (K602,165), Gratuities (K251,391) and Leave Fares (K153,222) due to inadequate information and records provided. The leave liability reports produced by the Payroll system were not properly maintained, resulting in significant variances compared to the general ledger.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion, I have not been able to obtain sufficient appropriate audit evidence and accordingly, I was unable to express an opinion on the financial statements of Papua New Guinea Radio Communications and Telecommunications Authority for the year ended 31 December, 2008."

OTHER MATTERS

In accordance with the *Audit Act, 1989 (as amended)* I have duty to report on significant matters arising out of the financial statements, to which the report relates. I draw attention to the following issue;

Legal Confirmations

The Authority could not provide confirmation by its solicitors in relation to any outstanding matters for the period under review. My review of the minutes of the Board Meetings held during the year revealed on-going legal cases against the Authority which may materially affect the financial statements, accordingly, I was unable to verify if all liabilities emanating from these legal cases have been recorded in the financial statements.

40.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Authority for the years ended 31 December, 2007 and 2008 were issued on 29 April, 2010 and 15 July, 2010 respectively.

These reports contained the similar observations, hence, only the 2008 report is reproduced below:

OTHER MATTERS

1.0 Internal Controls, Accounting Provisions and Procedures

During the course of the audit, I have identified significant weaknesses in the Authority's financial processes, procedures and internal controls in all facets of the accounting system and the overall internal control environment operating during the period under review. I noted that there was a lack of control to capture and record all transactions and produce accounts that were reliable, complete and accurate. The internal controls were not effective and could not be relied upon to protect and safeguard the assets of the entity. As a result, I was unable to place any reliance on the financial and other records.

2.0 Travel Advances and Acquittals

I was unable to verify the acquittals, if any, of overseas and local travel and accommodation expenses totalling K1,014,284 due to lack of supporting documentation.

The management responded that *"acquittal process involves travelling officer submitting duly acquitted form to the chief accountant accompanied by receipts for accommodation, airline ticket butt and boarding pass. Upon receipt of submission, a review is conducted to ensure submission complies with travel policy. Travelling officer is notified of the outcome and file closed if policy is complied with. Most acquittals are submitted in full compliance with the policy. There have been late submissions but persistent follow up from accounts has resulted in submission and closure of files for the trip undertaken."*

40.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December, 2009 was in progress.

41. PARLIAMENTARY MEMBERS' RETIREMENT BENEFITS FUND

41.1 INTRODUCTION

41.1.1 Legislation

The Parliamentary Members' Retirement Benefits Fund was established under the *Parliamentary Members' Retirement Benefits Fund Act, 1997*, which came into operation on 16 July, 1997.

41.1.2 Objectives of the Fund

The objective of the Fund was to provide pensions and retirement benefits for Members and former Members of Parliament and the former House of Assembly, and to provide benefits to dependant spouses and juvenile dependants. This Act repealed the *Parliamentary Members' Retirement Benefits Act*, which came into operation in 1982.

41.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

41.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act, 1989 (as amended)*, on the financial statements of the Fund for the years ended 31 December, 2008 and 2007 were issued on 08 January, 2010 and 23 October, 2009 respectively. The reports did not contain any qualification.

41.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Fund for the years ended 31 December, 2008 and 2007 were issued on 08 January, 2010 and 23 October, 2009 respectively. The reports contained similar observations. However, the 2007 report which contained two (2) additional comments is reproduced as follows:

1. Meetings

I noted that the Fund's Board did not meet quarterly to discuss the issues concerning the Fund. I recommended that regular meetings be held for the benefit of the members.

2. Compliance with the Superannuation Act

The Fund had not complied with the provisions of the *Superannuation General Provisions Act, 2000*, by not registering with the Bank of Papua New Guinea as a Superannuation Fund. The Fund is required to be registered under the said Act.

I drew management's attention to the provisions of the *Superannuation General Provisions Act, 2000*, and received this response.

"The Board maintains its position on this matter and it is the view of the Board that the fund is not a superannuation fund, the Fund does not propose to communicate further with the Central Bank."

3. Members and Pensioners Loans

The Fund commenced providing loans to its members and pensioners from 2005 at a subsidized interest rate of 10%. Although, the intention to provide loans to assist the members was commendable, the Fund also must ensure that it does not sustain any loss due to non repayment of loans.

Further, I noted that provision of loan to members and pensioners was decided at a meeting of the members and approved by two of the four members present, one of whom was the Chairman. It was an internal decision by the Board Members and no amendment to the Act was effected through Gazettal notification. I noted that five (5) members whose total contribution balance as at 31 December, 2007 was K475,186 had an outstanding loan balance of K659,196. This implied that K184,010 was not covered by any form of security. I recommended that as a prudence measure, the Fund should not encourage funding in excess of total contributions made by each member.

The Fund responded to my concern as follows:

"The concern expressed is appreciated and has resulted in a recent decision to cancel the loan facility in mid 2009."

4. Overpayment on Investment

The Fund was overpaid by K500,000 during 2005 by Capital Stock Brokers with whom the Fund placed funds to invest in Treasury Bills. Despite my earlier recommendations to refund this overpayment to the Company concerned, I noted that the Committee met and decided to treat this as a windfall profit and was distributed as interest to the members. In relation to this, I advised the Fund to continue to treat the above payment as other payables and again recommended that the excess amount which did not belong to the Fund be repaid to the Company concerned. Further, I commented that the Committee may have erred in its decision to distribute the funds which does not support the good Corporate Governance of the Fund and its ethical values.

The Fund since responded to my observation as follows:

"The Board received advice that these monies represented windfall profits thus the Board agreed to retain them in the funds account. Auditor-General's view on the ethics of the Fund's decision to distribute the amount is noted and appreciated, however, the current Board appointed after the 2007 general elections did not propose to revisit this issue."

41.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements for the year ended 31 December, 2009 for the Fund was not submitted for my inspection and audit.

42. PAPUA NEW GUINEA FOREST AUTHORITY

42.1 INTRODUCTION

42.1.1 Legislation

The Papua New Guinea Forest Authority was established under the *Forestry Act, 1991*, which came into operation on 25 June, 1992.

The prime objective of the Authority is to provide for and to give effect to the National goals and the directive principles regarding:

- the management, development and protection of the Nation's forest resources and environment in such a way as to conserve and renew them as an asset for succeeding generations;
- the maximization of Papua New Guinea's participation in the wise use and development of the forest resources as a renewable asset;
- the utilization of the Nation's forest resources to achieve economic growth, employment creation and increased "downstream" processing of the forest resources;
- the encouragement of scientific study and research into forest resources so as to contribute towards a sound ecological balance, consistent with the national development objectives;
- the increased acquisition and dissemination of skills, knowledge and information in forestry through education and training; and
- the pursuit of effective strategies, including improved administrative and legal machinery, for managing forest resources and the management of National, Provincial and Local interests.

The Authority was formed by the amalgamation of the Department of Forests, the Forest Industries Council, the Provincial Divisions of Forestry, the Forestry College in Bulolo, the Timber Industry Training College and the Research Institute in Lae.

With the establishment of the Authority the following Acts were repealed: the *Forest Industries Council Act (Chapter 215)*; the *Forestry Act (Chapter 216)*; and the *Forestry (Private Dealings) Act (Chapter 217)*.

42.1.2 Functions of the Authority

The principal functions of the Authority are:

- to provide advice to the Minister on forest policies and legislation pertaining to forestry matters;

- to prepare and review the National Forest Plan and recommend it to the National Executive Council for approval;
- through the Managing Director, to direct and supervise the National Forest Service;
- to negotiate Forest Management Agreements;
- to select operators and negotiate conditions on which timber permits, timber authorities and licences may be granted in accordance with the provisions of the *Forestry Act*;
- to appoint and supervise the State Marketing Agency;
- subject to the *Customs Act*, *Customs Tariff Act* and *Exports (Control and Valuation) Act* to control and regulate the export of forest produce;
- to oversee the administration and enforcement of the *Forestry Act* and any other legislation pertaining to forestry matters, and of such forestry policy as is approved by the National Executive Council;
- to undertake the evaluation and registration of persons desiring to participate in any aspect of the forestry industry;
- to act as agent for the State, as required, in relation to any international agreement relating to forestry matters; and
- to carry out such other functions necessary to achieve its objectives or given to it under the Act or other relevant law.

42.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

42.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act, 1989 (as amended)*, on the Authority's financial statements for the year ended 31 December, 2006 was issued on 26 February, 2010. The report contained a disclaimed opinion.

“BASIS FOR DISCLAIMER OF OPINION

1. Limitation of Scope regarding Opening Balances

My report on the financial statements of Papua New Guinea Forest Authority for the year ended 31 December, 2005 was a disclaimer of opinion in respect of limitation of scope with regard to fixed assets, statement of Government equity adjustments, suspense account and project liability. I was unable to perform sufficient audit procedures to satisfy myself as to the completeness and accuracy of the opening balances.

Any adjustments that might have been found to be necessary on such opening balances would have a consequential effect on the financial statements for the year ended 31 December, 2006. As a result, I was unable to quantify the effects of any material misstatements in the opening balances that might have had a bearing on the balances reported in the financial statements for the year ended 31 December, 2006.

2. Limitation on the Scope of Audit

The Authority did not maintain proper accounting records and relevant documents in support of the account balances in the financial statements. Further, the Authority did not prepare regular reconciliations particularly in respect of bank accounts maintained at its Provincial Offices and of its huge investments in Interest Bearing Deposits. As a result, I was unable to execute the necessary audit procedures nor was I able to verify the completeness and accuracy of the account balances by alternate means.

3. Fixed Assets – K33,621,740

Fixed assets were disclosed in the financial statements at a carrying value of K33,621,740 as at 31 December, 2006. Due to the state of the records of the Authority, I was unable to verify if assets such as land and buildings with carrying value of K25,458,576 were not materially impaired and were carried at recoverable amounts. I was also unable to verify the existence, validity and valuation of the fixed assets as the Authority did not maintain a comprehensive fixed assets register in terms of having value, quantity, age, condition and locations of each asset. Accordingly, I was unable to ascertain the existence and validity of the fixed assets at year end.

4. Suspense Account Balance K7,458,716 and Debit Adjustments of K544,109

As disclosed in Notes 13 and 14 of the financial statements, the Authority changed its accounting software from Accpac to Attache in 2001. However, lack of proper migration of accounts from the old system to the new system resulted in a difference of K6,914,607 of which K544,109 was charged against accumulated Government Equity and K7,458,716 remained as a balancing figure in the balance sheet. I was not provided with supporting documentation or records of the data transferred to enable me to ascertain the correctness of data transferred from the old system to the new system. Consequently, I was unable to verify the completeness and validity of the charge to the Government Equity and the Suspense Account balances.

5. GST Suspense Account Balance of K892,259

The GST suspense account was currently under dispute as Internal Revenue Commission (IRC) is unable to refund the amount. The Commission was of the view that as a Statutory body, the Authority was not entitled to any GST claim. I was not provided with any sufficient audit evidence to ascertain the validity of the balance and to assess whether it is recoverable from the Commission and the balance represents a valid receivable at the year end.

6. Product Development Levy (PDL) Receipts of K3.9 million

Included in other liabilities balance of K12,443,081 was an amount of K6,853,490 relating to PDL receipts. Of the total of the K6.85 million, an amount of K3.9 million relates to surplus interest bearing deposits the Authority allocated to PDL receipts. However, I was not provided with sufficient audit evidence such as reconciliations and schedules to ascertain that the allocation is correct and valid. Accordingly, I was unable to ascertain the completeness and validity of the balance at the year end.

7. Royalty Trust Fund of K9,499,073 and Reforestation Levy Trust of K11,991,621

I had carried out an extensive review of the landowners Royalty Trust Funds and Reforestation Levy Trust Fund and noted significant inherent risk, control deficiencies and accounting issues during my examination. My extended review noted that royalty assessed for years from 2001 to August 2008 should be more by K8.6 million based on harvest data and assessed royalty figures as maintained by the Field Office. This was further substantiated by surplus IBDs of K3.9 million that were allocated to PDL receipts in 2006 and K5.2 million IBD funds allocated as PNGFA internal funds in 2007. As a result, I was unable to ascertain the completeness, validity and recording of Royalty Trust Fund and Reforestation Levy Trust Fund account balances.

8. Other PNGFA Plantation Royalty K3,100,000 and PNGFA Plantation Fund of K1,688,035

Included in the other PNGFA plantation royalty funds of K7,377,785 were extra IBD funds of K3,100,000 and K1,688,035 which upon fully reconciling with the trust funds had been re-allocated as the Authority's other funds and the Authority Plantation funds, respectively. However, I was not provided with sufficient audit evidence and proper reconciliations and schedules to substantiate the balances at year end.

9. Other Income – K3,563,719

Included in the total income of K8,436,838 is an amount of K3,563,719 for the Authority. I was not provided with any sufficient audit evidence to confirm the balance and accordingly, I was unable to ascertain the completeness and validity of these balances.

Disclaimer of Opinion

Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion paragraphs, I had not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I was unable to and did not express an opinion as to whether the financial statements comply with generally accepted accounting practice, or give a true and fair view of the state of the Authority's affairs as at 31 December, 2006, and the results of its operations and cash flows for the year then ended."

I was unable to satisfy myself as to the completeness and accuracy of the accounting records kept.

42.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Authority for the year ended 31 December, 2006 was issued on 26 February, 2010. The report contained the following observations:

1. Extended Review of Landowner Royalty Trust Account

Due to a lot of public concern surrounding the Management of the landowner royalty and deforestation trust accounts, I extended the scope of my audit to carry out a detailed review on the following areas of the Authority.

- Trust Deed instrument of Trust Account.
- Review of Royalty Collection Procedures.
- Review of Trust Account reconciliation for the period from 1 January, 2003 to 31 August, 2008.
- Review of harvest data and assessed data on trust funds maintained by various field officers.
- Trust funds payment testing for the period from 1 January, 2003 to 31 August, 2008.

My review identified a number of issues in the specific areas of the operation of the Authority which are summarised below:

a) Trust Deed Instrument

It was noted that the Authority had not complied with the Trust Deed Instrument relating to furnishing of monthly statements and summaries of accounts to Department of Finance within seven (7) days of the end of each month. During my review, I noted that no such reports were furnished to Department of Finance and I was not provided with any evidence to indicate compliance with the requirement.

The Authority responded to my observation as follows:

"The PNG Forest Authority had for many years provided summaries of trust accounts as part of the Quarterly Budget Review process and to the National Forest Service Board. A more detailed monthly report was provided during 2003 and 2004, but no feedback was received. A meeting was held with Finance and Treasury officials in early 2008 and it was agreed that the quarterly summaries of accounts were sufficient reporting."

b) Non-Compliance with Royalty Collection Procedures

During the review for each period, I did not sight any evidence of monthly returns submitted from each province indicating the monthly accounts maintained at each provincial centre were cross-checked to ensure records were correct and accurate.

c) Reforestation Levies directly paid to the Authority's Bank Account

The reforestation levies collections were not properly monitored thus resulting in direct deposits made by the logging companies into the Authority's accounts. There was no advice to the Headquarter to notify them of the deposits. PNG Forest Authority headquarter often face difficulty trying to identify the direct deposits which contribute to lack of timely reconciliation of accounts.

The Authority responded to the above issue as follows:

"PNG Forest Authority accepts this finding and have implemented control processes and procedures to avoid difficulties in the future. It should be stated that Revenue Staff have worked closely with both the bank and regional staff to identify and reallocate direct deposits and receipts."

d) Funds placed in Interest Bearing Deposits without properly identifying the sources

During my review, I noted that the Authority was placing funds in Interest Bearing Deposits without identifying the sources from which the funds had been generated. This caused difficulty during the trust fund reconciliation stage, where there were IBDs which PNGFA had to allocate between Product Development Levy (PDL) and PNGFA funds for which there were no breakup or schedules produced to prove the allocation made by the Authority was correct.

e) "X" Mark signature - Royalty Payments, Reforestation Levies and Disputed Royalties

My review of royalty payment receipts revealed that some of the landowners had "X" marks as evidence of receipt of payments. I also noted instances of "X" marks as signatures during the 2002 and 2006 acquittal review of reforestation levy payment by contractors.

I further noted that after the Court Settlement of disputed royalties, the disputed amounts were approved for payout to the landowners. Some landowners had "X" mark signatures as collection of the monies. As a result, I was unable to satisfy myself whether the monies were received by the valid and rightful recipients. The Authority made the following comment in relation to the above observation.

"PNG Forest Authority has an inherent problem dealing with the illiterate landowners who cannot read or write. PNGFA has a policy to encourage bank accounts in preference to cash payments. Both the banks and landowners have not fully cooperated."

In an attempt to minimize risks the payment is verified by a supervising officer, the ILG Chairman and an independent person (usually a police officer). The success of this approach is evidenced by the absence of disputed court proceedings to claim outstanding royalties. Most landowners do sign properly."

f) Volume of actual logs harvested

I was unable to review the actual log scaling sheets as they were maintained at the provincial sites by the Provincial Forest Officers due to time constraints. As a result, I was unable to confirm the royalty that should have been collected based on the actual logs harvested.

2. Suspense Account

The financial statements since 2001 had suspense account balance shown in the balance sheet for each year which continued to accumulate from 2001 to 2004. The PNGFA Board decided to leave the balance as it is from 2005 to 2007 until the Board decided on the treatment of the balance.

The difference in suspense account balance had been carried forward for years due to change in accounting system of the Authority in which the migration of the accounts from the old system (Accpac) to the new system (Attache) was not done properly due to lack of proper supervision and monitoring by officers concerned during the whole process of migration in 2001.

The Attache System was not interfaced resulting in the year end accounts being manually rolled forward and absence of proper reconciliation had contributed to the difference in the trust account balance.

3. Trial Balance

I received four different versions of trial balances at the early stage of my audit and this had an impact on my audit progress as I needed to update my records with all the changes. The final trial balance provided also had significant variances exceeding K3million which was subsequently cleared.

I recommended management to ensure that only one and final trial balance was forwarded for audit in the future. *Management agreed to ensure that all transactions were completed prior to commencement of the audit.*

4. Bank Reconciliation and Cash

The bank reconciliations for the year ended 31 December, 2006 was provided to me during my audit in June 2008. I noted that bank reconciliations were not prepared for 14 (dormant) bank accounts which represent 6% of the total cash amount at the year end. Further, I noted that a bank account namely Revenue No.2 was closed in 2003 as per the bank confirmations.

This was discovered during 2006 accounts preparation and its balance of K356,780 was transferred to PDL receipts, a liability account which had no reconciliations or supporting documents.

I recommended the accounts department to continue maintaining the bank reconciliations for the main accounts and prepare bank reconciliations for all bank accounts regardless of each account's status including cash journals and petty cash.

The Authority commented that the Finance Branch is committed to undertaking monthly bank reconciliations and has implemented new procedures and processes to support monthly bank reconciliations. Further, a Bank Account Register has been prepared and will be used to monitor and report on progress each month.

5. Term Deposits

This account constitutes about 46% of the total assets and it comprises 18 interest bearing deposit bank accounts and only one bank account had been reconciled. The others were supported by a schedule and some term deposit confirmations and emails. Not all term deposit confirmations were provided for my verification, thus I was unable to confirm the interest receivable balance. I also noted that the term deposit balance was understated by K146,994 and 90% of that amount was classified as interest receivable.

I recommended management to ensure that bank reconciliations for each term deposit bank account be reconciled on a monthly basis and filed properly for ease of reference and to provide adequate audit trail for future references. *Management agreed to institute appropriate action to address the issues.*

6. Fixed Assets

6.1 Maintenance of Fixed Assets

I noted that two sets of fixed asset registers (FAR) were maintained separately by the services department and the accounts department of the Authority. The FAR maintained by the accounts department was for depreciation and accounting purposes while the register maintained by the services department was for monitoring and control purposes. I noted that the FAR maintained by the services department did not capture all the assets and had it reconciled by assets quantity to the FAR maintained by the accounts department.

Further, I was not provided with the updated FAR maintained by the services department. The accounts department was only able to provide me with a depreciation schedule. As such, I noted the following deficiencies:

- There were instances where no proper codes have been allocated to each fixed asset;
- Locations for many of the assets as given in the FAR were vague and not sufficient to identify assets by location; and

- Some assets had no indication of their existence and the FAR did not provide sufficient details on the custody of them to track usage and safe keeping.

I recommended the Authority:

- To ensure that there was adequate communication and information flows between the accounts department and the services department in respect of the Fixed Asset Register;
- To carry out a 100% physical verification exercise to ascertain the existence and ownership of all its assets and to update the FAR to reflect the correct assets owned by PNGFA; and
- To adopt a policy to ascertain the value, limits and parameters in which an asset should qualify for capitalization and when to be fully expensed.

The Authority responded to my observation as follows:

"PNGFA is committed to improvements in this area. The Managing Director has approved the use of the Attaché Asset module as the single asset register with both Finance and Services working to ensure its accuracy and integrity. As part of the asset management reform PNGFA will be implementing physical verifications at all locations. The working party will also be engaging an independent valuer to assist with stocktaking and perform a formal valuation."

42.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and the audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December, 2007 was completed. However, the Authority did not submit its financial statements for the years ended 31 December, 2008 and 2009 for my inspection and audit.

43. PAPUA NEW GUINEA INSTITUTE OF MEDICAL RESEARCH

43.1 INTRODUCTION

43.1.1 Legislation

The Papua New Guinea Institute of Medical Research was established by the *Institute of Medical Research Act (Chapter 166)* on 1 January, 1980.

43.1.2 Functions of the Institute

The primary functions of the Institute are to conduct and foster research into any branch of medical science or biology, anthropological and sociological aspects of health, and matters relating to public health generally, that are of relevance to Papua New Guinea.

43.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Institute for the years ended 31 December, 2007 and 2008 had been completed and the results were being evaluated.

The financial statements for the year ended 31 December, 2009 had not been submitted by the Institute for my inspection and audit.

44. PAPUA NEW GUINEA INSTITUTE OF PUBLIC ADMINISTRATION

44.1 INTRODUCTION

44.1.1 Legislation

The Papua New Guinea Institute of Public Administration was established in 1993 under the *Papua New Guinea Institute of Public Administration Act, 1993*.

44.1.2 Functions of the Institute

The functions of the Institute are to plan, organize, conduct and assess a wide range of practices and relevant training programmes and, if applicable, in the South Pacific Region and to undertake relevant research and consultancies on issues and problems of management and administration and to act as a centre for collection, storage, retrieval and dissemination of information.

44.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

44.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act, 1989 (as amended)*, on the financial statements of the Institute for the years ended 31 December, 2009 and 2008 were issued on 1 May, 2010 and 15 September, 2009 respectively. The reports did not contain any qualification.

44.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Institute for the years ended 31 December, 2009 and 2008 were issued on 1 May, 2010 and 15 September, 2009 respectively. The reports contained similar comments hence, only the 2009 comments are reproduced as follows:

Control over Assets

The physical stock-take conducted by the Institute during the year did not include the Land and Buildings. I recommended management to include the Land and Buildings in the physical stock-take of Assets and management responded that this exercise would be done this year 2010.

45. PAPUA NEW GUINEA MARITIME COLLEGE

45.1 INTRODUCTION

45.1.1 Legislation

The Papua New Guinea Maritime College was established under the *Papua New Guinea Maritime College Act (Chapter 355)*. It was previously known as the Nautical Training Institute. However, by virtue of the *Nautical Training Institute (Change of Name) Act, 1985*, which became effective on 25 July, 1985, the names of Nautical Training Institute and Nautical Training Institute Act were changed to Papua New Guinea Maritime College and *Papua New Guinea Maritime College Act*, respectively.

45.1.2 Functions of the College

The principal functions of the College are to provide training and other instructional facilities for the theoretical and practical training of persons in maritime skills and any other objects incidental or ancillary thereto.

45.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing the Report, the inspection and audit of the accounts and records and examination of the financial statements of the College for the years ended 31 December, 2007 and 2008 were substantially completed and the results were being evaluated.

The College did not submit its financial statements for the year ended 31 December, 2009 for my inspection and audit.

46. PAPUA NEW GUINEA NATIONAL INSTITUTE OF STANDARDS AND INDUSTRIAL TECHNOLOGY

46.1 INTRODUCTION

46.1.1 Legislation and Objectives of the Institute

The Papua New Guinea National Institute of Standards and Industrial Technology was established by the *National Institute of Standards and Industrial Technology Act, 1993* and this came into operation on 3 January, 1994. The objectives of the Institute are: to carry out scientific and technological research and to develop a National Standards system; to co-operate with international organisations of measurement and technical standards; to promote and undertake industrial integrated standardisation and quality assurance; and to enter into any agreement both within and outside Papua New Guinea to further the objectives and functions of the Institute.

The *National Standards Act (Chapter 378)* and the *National Technical Standards Act (Chapter 379)* were repealed, and all funds standing to the credit of and on accounts operated under the authority of the repealed Acts, and all assets and liabilities owned or held by the bodies established under the repealed Acts were transferred to and became the assets and liabilities of the Institute on the commencement of the new Act.

46.1.2 Functions of the Institute

The main functions of the Institute are: to safeguard Papua New Guinea against the dumping and supply of unsafe, unhealthy and inferior or substandard products; to establish and co-ordinate the National Standardisation system; to provide education, training and industrial extension and consultative services to assist industries; to promote public and industrial welfare, health and safety; to recognise as testing authorities, bodies and institutions; to establish a National Certification System of conformity; to assist industries overcome technical barriers on its products and services to international trade; and to assist industries to produce quality products and services.

46.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

46.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act, 1989 (as amended)*, on the Institute's financial statements for the years ended 31 December, 2007 and 2008 were issued on 23 October, 2009 and 28 May, 2010 respectively. These reports did not contain any qualifications.

46.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Institute for the years ended 31 December, 2007 and 2008 were issued on 23 October, 2009 and 28 May, 2010 respectively. These reports contained the similar observations, hence, only the 2008 report is reproduced below:

1. NISIT Council

Section 7 of the National Institute of Standards and Industrial Technology Act, 1993 requires the Council of the Institute to carry out the functions and objectives and manage the affairs and exercise the powers of the Institute. There was no Council in place to perform the responsibilities conferred by the Act.

2. NISIT Director-General

The Institute had been without a Director General since the appointee passed away in July, 2008. An officer in charge of the Institute had been overseeing the operations of the Institute although his appointment period had lapsed. The Institute responded that, *the Minister was aware of the situation as they have been constantly following up and reminding the Minister's Office on these matters.*

3. Approval for Reinvestment of K500,000

An additional amount of K500,000 was reinvested by the Institute in First Investment Finance Limited (FIFL) in December, 2008 without the approval of the Minister as required under *Section 57(e) of the Public Finances (Management) Act, 1995*. The Institute responded that, *the investment of K500,000 was made in accordance with the practice in the past that all unused monies from revenues generated be invested in Interest Bearing Deposit (IBD) Account.*

4. Segregation of Duties

There were no segregation of duties in the preparation and reviewing of the bank reconciliation statements as evident on the statements provided for my review. The Institute responded that, *the bank reconciliations were prepared on the attache accounting system, however they would manually write down who prepared and checked the bank reconciliations in future.*

5. Missing Invoice Copies

Receipts totaling K37,659 could not be verified for completeness and propriety as the relevant copies of invoices issued were not available for verification. The Institute responded that, *the Institute had noted this recommendation and was working closely with the technical division to address this issue. Where registrations are issued to clients for training purposes, the registration form becomes an invoice upon payment of the stated fees.*

46.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Institute had submitted its financial statements for the year ended 31 December, 2009 and the audit will commence shortly.

47. PAPUA NEW GUINEA SPORTS COMMISSION

47.1 INTRODUCTION

47.1.1 Legislation

The Papua New Guinea Sports Commission was established by the *Papua New Guinea Sports Commission Act, 1992*.

47.1.2 Objectives of the Commission

The principal objectives of the Commission are: to encourage the private sector to contribute to the funding of sports to supplement assistance by the Government of Papua New Guinea; to provide leadership in the development of Papua New Guinea's performance in sports; and to encourage increased participation and „Sport for All“ by Papua New Guineans in sports.

47.1.3 The Functions of the Commission

The principal functions of the Commission are to: advise the Minister in relation to the development of sports; raise money through the Commission for the purposes of the Commission; administer and expend money appropriated by the Parliament, or raised by the Commission for the purposes of the Commission; co-ordinate activities in Papua New Guinea for the development of sports; consult and co-operate with appropriate authorities and sports organisations in Papua New Guinea and with other organisations, associations and persons on matters related to its activities; maintain and manage the Sir John Guise Sports Complex in Port Moresby, the Sir Ignatius Kilage Sports Complex in Lae, and such other sports complexes as the Commission agrees to maintain and manage; initiate, encourage and facilitate research and development in relation to sports; and to collect and distribute information, and provide advice on matters relating to its activities.

47.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

47.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4) of the Audit Act, 1989 (as amended)*, on the financial statements of the Commission for the year ended 31 December, 2002 was issued on 25 May, 2010. The report contained a Disclaimer of Opinion on the following basis:

“BASIS FOR DISCLAIMER AUDIT OPINION

1. Presentation of Financial Statements

The Commission's financial statements were not presented in accordance with the *International Accounting Standards - IAS 1- Presentation of financial statements*. Further, the Commission had not prepared the mandatory statements of Changes in Equity and Cash flows.

2. Cash at Bank

Note (7) to the financial statements discloses the composition of cash at bank of K28,977 as follows:

		(K)
Port Moresby Main Operating Account	-	14,900
Port Moresby Main Trust Account	-	(30)
Lae Sports Centre General Account	-	-
Bank Project Account	-	11,225
Sports Center Trust Account	-	<u>2,882</u>
		<u>28,977</u>

Monthly bank reconciliations for all the bank accounts were not done to ensure the correctness of the balances nor were the independent bank confirmations received from the banks to confirm the balances at year end. As a result, I was unable to ascertain the accuracy of the total bank balance of K28,977 disclosed in the financial statements.

3. Trade and Other Debtors

The financial statements disclosed total debtors as K350,985. Included in this amount are trade debtors of K308,234 (net of provision), staff debts of K31,301 and others K8,596. I was not able to ascertain the accuracy and completeness of the debtors due to lack of appropriate supporting documentation. As a result, I was unable to conclude on the accuracy and completeness of the debtors balance at year end.

4. Provision for Doubtful Debts

The Commission made an additional provision of K22,794 for doubtful debts as at year end, however this provision was incorrectly classified as bad debts and charged to expense instead of a provision against debtors in the balance sheet. Further, I was not provided with any supporting documentation in support of this provision.

5. Fixed Assets

As explained in Note (2) to the financial statements, the assets and liabilities of the then South Pacific Games (1991) Foundation were transferred to the Papua New Guinea Sports Commission as per the *National Executive Council Decision No. 100/95*. Included in the assets transferred to the Commission were Land, Buildings and Stadia, the valuation of which were not included in the Balance Sheet. At the time of preparing this report, title deeds establishing the legal ownership of these properties and formal valuation were not produced for my verification. I was therefore, unable to satisfy myself as to the ownership and valuation of these properties omitted from the Balance Sheet and the impact of depreciation on the profit or loss for the year.

6. Creditors

The financial statements disclosed various components of creditors totaling K122,576. Amongst them were Trade Creditors totaling K52,642, Bonds and Securities totaling K5,691 and Sundry Creditors of K64,243. I was not able to ascertain the accuracy and completeness of these balances due to the unavailability of relevant supporting documents. I further noted that an amount of K24,700 representing hire purchase installments was not reflected in the accounts. As a result, I was unable to ascertain the accuracy and completeness of the creditors balance of K122,576 at year end.

7. Revenue

The Commission reported revenue, other than Government grants as K680,909. The revenue comprises of Hire of Facilities income of K134,907, Rental income of K415,791, Bar Sales (net) income of K9,995 and Other income of K120,216. Detailed schedules and documents were not made available for my verification and testing, as such I was unable to determine the validity, completeness and existence of these balances at year end.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion, I have not been able to obtain sufficient appropriate audit evidence and accordingly, I am unable to express an opinion on the financial statements of the Commission for the year ended 31 December, 2002.”

47.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the audit and inspection of the accounts and records of the Commission for the year ended 31 December, 2002 was issued on 25 May, 2010. The report contained the following observations:

1. Fixed Assets Register

The Commission disclosed fixed assets valuing K441,252 as at year end. I was not provided with the fixed assets register to enable me to perform tests to determine the correctness of this balance. As a result, I was unable to determine the valuation, existence and completeness of this balance.

The management advised that *“The file containing 2002 fixed assets register has been misplaced during the time of office relocations which we experienced several times. Another factor was the staff movement in the finance section. Our financial report is based on computer reports.”*

2. Salaries and Wages

I noted that a payment of K61,986 was paid as casuals wages during the year. However, I was not provided with the relevant records and documents to enable me to perform tests to verify the correctness of these payments. As a result, I was unable to determine the correctness, propriety and validity of these payments.

3. Cancelled Cheques

Cheques valued at K10,994 were stated as cancelled or lost. However, the cheque butts or originals of the cancelled cheques were not provided for me to confirm the cancellations.

Management advised that *“Cheque butts have been misplaced during the time of office relocations. The bank statements for 2002 and 2003 will show evidence that none of these cheques had been presented.”*

4. Supporting Documents and Records

Supporting documents for numerous payments made were either lost or misplaced and were not made available for my review and examination. There were no proper control and safeguarding of the accounting records and documents. I was therefore unable to verify these payments in the absence of supporting documents and records.

Management advised that *„They will make these documents available for my verification.”* However, that was not done.

5. Security Payments

A total of K123,698 was paid to a security firm for the provision of security services to the Commission. However, the contract of service to engage the firm was not provided for my inspection and verification. I was therefore unable to determine the propriety of the engagement and the related payments made for the services provided.

The management advised that *“The contractual document for engaging the security firm were kept in the Executive Director’s office and the Southern Region office and would make the document available for my inspection and audit.”* That was not done.

6. Transfers to Other Department

An amount of K10,000 was transferred from the operating account to the project account as school fees. However no supporting documents and records were provided for me to verify the purpose of the transfer.

The management responded that “*The K10,000 was transferred from operating account to project account purposely to preserve it and pay school fees later for the Director of the National Sports Institute’s first born son as stated in his employment contract.*”

47.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements for the years ended 31 December, 2003 to 2009 had not been submitted for my inspection and audit in spite of numerous reminders from my Office and meetings with Management. I also wish to reiterate that the Commission had failed to comply with the provisions of *Section 63(4) of the Public Finances (Management) Act, 1995* by not submitting its financial statements on time for audit despite undertakings made by the management of the Commission to my Office. The fact that 2003 financial statements were yet to be submitted in 2010 should be a matter of great concern.

I also conducted an Internal Control Review on the Commission and the results of my findings were reported to the Management. However, the Management had not responded to my findings at the time of preparing this report. As a result, this report when concluded will be included in my next report.

48. PAPUA NEW GUINEA UNIVERSITY OF TECHNOLOGY AND ITS SUBSIDIARY

48.1 INTRODUCTION

48.1.1 Legislation and Objectives of the University

The Papua New Guinea University of Technology was established under the *University of Technology Act (Chapter 170)*.

The University's aims are to provide tertiary educational facilities and to produce qualified men and women to play an important part in the development of Papua New Guinea.

48.1.2 Functions of the University

The University's principal functions are to encourage and provide facilities for study, education and training of technological subjects and branches of learning at tertiary level, and to assist in research and the practical application of technological branches of learning.

48.1.3 Subsidiary

The University has a wholly owned subsidiary Company, Unitech Development and Consultancy Company Limited, which was incorporated under the *Companies Act*.

Comments in relation to the subsidiary are contained in paragraph 48A of this Report.

48.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the University for the year ended 31 December, 2007 was completed and the results were being evaluated. The fieldwork associated with the inspection and audit of the accounts and records and the examination of financial statements of the University for the year ended 31 December, 2008 was in progress.

The financial statements of the University for the year ended 31 December, 2009 had not been submitted for my inspection and audit.

**48A. UNITECH DEVELOPMENT AND CONSULTANCY COMPANY LIMITED
– (A SUBSIDIARY OF PNG UNIVERSITY OF TECHNOLOGY)**

48A.1 INTRODUCTION

Unitech Development and Consultancy Company Limited is a Company incorporated under the *Companies Act, 1997*.

48A.1.1 Functions of the Company

The primary function of the Company is to carry on the business and activities of consultants, and to render management, industrial, commercial, financial, secretarial, public relations, industrial relations and other related services to any person, firm or corporation engaged in any business, trade or activity. The Company also carries on a business of insect farming.

48A.2 AUDIT OBSERATIONS AND RECOMMENDATIONS

48A.2.1 Comments on Financial Statements

In accordance with the provisions of the *Companies Act, 1997* my report to the members of the Company on the financial statements for the year ended 31 December, 2006 was issued on 12 February, 2010. The report contained a disclaimer of opinion.

“BASIS FOR DISCLAIMER OF OPINION

Limitations on the Scope of my Audit

1. Overprovision - Group Tax

The Company has overprovided its Group Tax by K205,835 at the year end. The statement received from Internal Revenue Commission (IRC) confirmed the liability as K3,075 as opposed to K208,910 provided for by the Company. As such, I was unable to confirm the accuracy of the Other Creditors and Accrual balance as at the year end.

2. Unverified prior year Adjustments

The Company has effected various adjustment entries as prior year adjustments to the following accounts;

• Retained Earnings	K252,143 Cr
• Accounts Payable & Income Tax	K 39,305 Dr
• Stock	K 97,834 Dr
• Retained Earnings	K153,970 Dr

In relation to these accounts, the Company had passed unexplained adjustment entries to arrive at the opening balances of 2006 accounts. As such, I was unable to form an opinion as to whether all these prior year adjustments taken up in these accounts were valid and correct adjustment entries.

3. Unrecorded Liability for GST - K83,900

The Company failed to account for GST on all its sales in 2006. Certain sales may be exempted but the Company did not provide adequate documentation to support this. As a result, I was unable to ascertain the amount of understatement of the GST liability as at 31 December, 2006.

4. Completeness of Income

My audit examination of the overall sales and its documentation revealed the following deficiencies;

- There were some breaks in the sequence of sales invoices being generated by the system that were not accounted for;
- Some invoices were not posted into the system; and
- Some manual invoice books used were not found in the manual invoice book registers.

As a result, I am unable to form an opinion as to the completeness and accuracy of the income balance of K3,386,597 as stated in the accounts as at 31 December, 2006.

5. Converting of Loan to Equity

The Company obtained a loan of K1,936,229 from the University of Technology in prior years with the intention to convert this loan into equity. The documentation to convert this loan to equity was completed in September 2007. As such, the Company had prematurely taken up the loan as equity in 2006 accounts resulting in understatement of liabilities by the same amount.

6. Non-calculation of Deferred Tax Provision

The Company failed to provide for deferred taxes on its provision for bad debts and provision for employee benefits. I was unable to quantify the resulting amount of the understatement on these provision accounts at 31 December, 2006.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, I had not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

- (a) Accordingly, I was unable to and did not express an opinion as to whether the financial statements of Unitech Development & Consultancy Limited were drawn up as required by the *Companies Act, 1997*, and presented in accordance with *International Financial Reporting Standards and Statements of Accounting Standards* of the *Certified Practising Accountants of Papua New Guinea* and other statutory requirements so as to give a true and fair view of the Company's financial position as at 31 December, 2006 and of the results of its operations, changes in equity and its cash flows for the year then ended; and
- (b) I had not been given all the information and explanations and assistance necessary for the conduct of my audit.

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

48A.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of accounts and records for the year ended 31 December, 2006 was issued on 11 February, 2010. The report contained the following observations:

1. Internal Controls

My review of the internal controls revealed that there was no control over who should issue credit notes. Also invoices generated by the systems in few departments were deleted from the system rather than being properly cancelled or credited to leave an audit trail in respect of the transaction.

2. Ownership of the Company

I noted that although action was now taken to transfer the ownership of the Company, trust deeds in favour of the University were not prepared.

3. Payments made from Overdrawn Trust Accounts

I noted that payments totaling K19,000 were made to Consultants whose individual trust accounts had nil balances. Even though the Consultants may be covered by anticipated revenue on the jobs still in progress during the year, there was no guarantee that money would be recovered.

48A.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December, 2007 was in progress.

The Company did not submit its financial statements for the years ended 31 December, 2008 and 2009 for my inspection and audit.

49. PNG WATERBOARD

49.1 INTRODUCTION

49.1.1 Legislation

PNG Waterboard was established by the *National Water Supply and Sewerage Act, 1986*, which came into operation on 1 January, 1987. The 1986 Act repealed the *National Water Supply and Sewerage Act, (Chapter 393)*, and thereby abolished the National Water Supply and Sewerage Board.

49.1.2 Functions of the Waterboard

PNG Waterboard is entrusted with co-ordinating, planning, designing, construction, management, and charging for water supply and sewerage services throughout the country.

49.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

49.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act, 1989 (as amended)*, on the Company's financial statements for the years ended 31 December, 2006 and 2007 were issued on 12 November, 2009 and 11 May, 2010 respectively. These reports contained similar Emphasis of Matter paragraphs, hence only the 2007 report is reproduced as follows:

“AUDIT OPINION

In my opinion, the financial statements of PNG Waterboard for the year 31 December, 2007:

- a) Give a true and fair view of the financial position and the results of its financial operations; and
- b) The financial statements have been prepared in accordance with the generally accepted accounting practice.

Emphasis of Matter – Revaluation of Land and Building

Without qualifying my opinion, I draw attention to *Note 7* to the financial statements. PNG Waterboard's fixed assets net book value of K192,394,080 in the balance sheet includes land and buildings with a net book value of K8,624,701 which have not been revalued in the last five (5) years as required under *IAS 16 paragraph 34*. In the absence of regular revaluations, I cannot determine that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.”

49.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Board for the years ended 31 December, 2006 and 2007 were issued on 12 November, 2009 and 11 May, 2010 respectively. The inspection and audit revealed generally satisfactory results.

49.3 STATUS OF FINANCIAL STATEMENTS

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

The financial statements of the Board for the year ended 31 December, 2009 had not been submitted for my inspection and audit.

50. PUBLIC CURATOR OF PAPUA NEW GUINEA

50.1 INTRODUCTION

50.1.1 Legislation

The Office of the Public Curator of Papua New Guinea was established under the *Public Curator Act (Chapter 81)*.

50.1.2 Functions

The main functions of the Public Curator are to act as:

- (a) an administrator of estates;
- (b) an executor appointed under a will by a member of the public; and/or
- (c) an official trustee.

50.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

50.2.1 Comments on the Financial Statements

My reports to the Ministers under *Section 8(4) of the Audit Act, 1989 (as amended)*, on the financial statements of the Public Curator's Office for the years ended 31 December, 2004 to 31 December, 2009 were not issued since the financial statements for these years were not submitted to my office by the Public Curator to enable me to conduct the audit.

50.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records for the years ended 31 December, 2004 to 31 December, 2009 was issued on 18 February, 2010. Regardless of paragraph 49.2.1 above, an Internal Control Review was carried out and the following observations were made:

1. Preparation of Financial Statements

As mentioned in my prior year's report, the financial statements submitted for audit for years up to 2003 were poorly prepared and had no proper supporting documentation and reconciliations. For the period under review, (2004 to 2008) no financial statements were prepared. The receipts and payments reported in the tracker system did not agree with the actual cash book balance.

I recommended the Public Curator to put in place a proper accounting system to systematically prepare the financial statements on time for reporting to management and audit. I also recommended that financial statements for 2004 to 2008 should be submitted for audit without further delay.

This matter was brought to the attention of the Acting Public Curator and his response was as follows:

“The financial statement could not be prepared for the years under review mainly due to under-resourcing of our office. We had no qualified accounting staff to construct the accounts and further lacked funding to outsource the accounting services to professional accounting firms in the absence of professional accounting staff. We have now commenced the process of accounts preparation by collating the accounting information. It’s a tedious task gathering financial information from all our offices and consolidating them into the main accounts. With the limited manpower and funding we will try to produce the financial statements and submit to your office in March as directed by the Public Accounts Committee on 21 December, 2009.”

2. No Proper Accounting System and Lack of Audit Trail

The Public Curator’s Office had no proper management accounting system in place. The financial statements earlier on were prepared by relying on a manual cashbook and bank statements without general ledgers, general journals and trial balance.

The Estate tracker programme set up by management had not been integrated to an accounting program system. In addition, financial information from other regions like Lae, Rabaul & Mt. Hagen had not been updated since 1991.

Other concerns noted were inadequate management accounting for investments and lack of reconciliation of the estate records to bank balances.

As a result of these limitations, I was unable to extend the audit procedures sufficiently to satisfy myself as to the correctness and accuracy of the account balances disclosed in the Tracker system and the cashbook.

This matter was brought to the attention of the Acting Public Curator and his response was as follows:

“We concur with you that the financial statements for the years 2003 and back were prepared by relying on manual cashbooks and bank statements. This is owing to the fact that we did not have an accounting system in place at that time to cater for full reporting capabilities, that is, producing general ledgers, journals and trial balances.

There has been no accounting system in place by which the Estate Tracker Programme could be integrated, attributable to lack of expertise in the Office to run the system. The

Office over the years was unable to attract qualified manpower with relevant skills and experience to run the accounting system mainly due to the low Public Service pay structures.

We also concur with you that financial information from regional offices has not been properly updated since 1991. This has resulted from either staff having limited accounting knowledge or high staff turnover over the years due to staff terminations.

As a remedial measure we are embarking on an installation of a computerized accounting system at the head office this year. We will ensure accounting systems are set up in the regional offices as well. The system will be set up in such a way that estate tracker and regional systems are integrated into the main accounting system at the head office.

The issue of inadequate management and accounting for investments has been addressed. We have in place a proper investment register for minors "investments. Interests resulting from the investments have been properly accounted for and allocated to minors" accounts. Excess funds in the Minors Trust Account will be invested in treasury bills with Bank of PNG in February as anticipated by management.

Further the issue of lack of reconciliation of the estate records to bank balances will be addressed forthwith starting this year. We will ensure reconciliations are regularly done and reviewed to ensure accuracy of balances reported."

3. Real Estates and Personal Properties

A list of unrealized real and personal properties in relation to Estates that were in possession and administered by the Public Curator was made available for my audit and inspection. These properties numbering to about 692 were not valued and reported in the financial statements and the Property register of estates submitted for audit. They were not updated and maintained in terms of their file references and values of the properties for the individual estates.

I recommended the Public Curator to value these properties, maintain and update the property register for Individual Estates.

This matter was brought to the attention of Acting Public Curator and his response was as follows:

"The properties referred hereto realistically cannot be all valued because it is a very expensive exercise when our Office is under funded and also it is prudent not to deplete deceased estate funds in payment of valuation fees. Payments made out from Estates Trust Account may create a lot of miseries for the beneficiaries when most of them are minors who are in direct need of money for school fees, medical expenses, air fares, etc.

Therefore, we only value the properties in the event of a sale to ensure that the property sold is at fair or market value.

In regards to the property register, management will ensure that it is updated on a regular basis to ensure that information contained therein is accurate, complete and reliable.”

4. Staff Expertise

As mentioned in my previous year’s reports, the Public Curator’s Office had a total of 26 staff including staff from other Centers. They consist of sixteen (16) permanent and ten (10) casual staff.

Audit noted that casual staff had been utilised by the Public Curator’s Office since 1999. Without the benefit of job security, employees had no determination or commitment to work. The Office has no competent and qualified Accountant to control its financial affairs including preparation of financial reports. The office did not have the necessary number of staff to operate effectively and the staff that are currently with the office do not have the necessary skills or experience. This matter was brought to the attention of the Acting Public Curator and his response was as follows:

“This observation made is accurate but this incapacity is attributable to lack of funding. However, we are currently working on an organizational restructure to sort out our staff problems provided that it is adequately funded. Under the proposed restructure our staff strength will be boosted to forty (40) plus employees.”

5. Unallocated Receipts

As mentioned in my previous report, total unallocated receipts since 2000 was K2,492,644 that were not allocated to the respective estates accounts as per audit review from the schedule provided.

As per Section 18 (1b) of the *Public Curator’s Act, 1976* all sums of money lying to the credits of an Estate under the control of the Public Curator for more than six (6) years were to be paid in January of each year to the Consolidated Revenue Fund. The Public Curator failed to follow this regulation. This matter was brought to the attention of the Acting Public Curator and his response was as follows:

“We noted the observation and will institute corrective action as per recommendation made as soon as a decision is reached by top management involving the Secretary of Department of Justice and Attorney General. This is necessary to comply with Section 18 (1b) of the Public Curator’s Act, 1976.

To explain the nature of allocated receipts, they refer to receipts credited to the Estate Trust Account from deceased persons" entitlements but the beneficiaries have not either been identified or laid claims against the entitlements yet."

6. Other Weaknesses Noted:

- The bank reconciliation statements for 2009 were not done on monthly basis;
- Poor maintenance of file management system resulting in records of Estate's being tampered with or removed without trace; and
- The Financial system has no daily back up.

I drew management's attention to these weaknesses and I was advised that corrective measures were being taken to address them.

50.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Public Curator had not submitted the financial statements for the years ended 31 December, 2004 to 31 December, 2009 for my inspection and audit, in spite of repeated reminders and meetings between my officers and the Public Curator regarding timely submission of these statements in accordance with *Section 63(4) of the Public Finances (Management) Act, 1995*.

51. SMALL BUSINESS DEVELOPMENT CORPORATION

51.1 INTRODUCTION

51.1.1 Legislation

The Small Business Development Corporation was established under the *Small Business Development Corporation Act, 1990*, which came into operation on 19 June, 1990.

51.1.2 Functions of the Corporation

The functions of the Corporation are: to formulate and recommend to the Minister the policies on the promotion of small business, incentive schemes and financial support; to provide advisory, management and administrative services; to arrange and co-ordinate training and skills development programmes; to provide advice on financial assistance; to promote and co-ordinate business practice and provide venture capital; and to carry out research and disseminate information to small businesses for their development and expansion needs.

51.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

51.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act, 1989 (as amended)*, on the Corporation's financial statements for the year ended 31 December, 2008 was issued on 08 October, 2009. The report contained a qualified audit opinion:

“BASIS FOR QUALIFIED OPINION

1. Government Equity - K3,749,680

I was unable to verify the accuracy, correctness and validation of the Government Equity of K3,749,680 disclosed in the financial statements due to the absence of adequate documentation and relevant information.

2. Divisional Accounts

I noted that the trading results, assets and liabilities of Small Industries Centre (SIC), a division of SBDC, were not incorporated in the Corporation's financial statements at year end. Consequently, I was unable to quantify the effects of any material misstatement due to the absence of divisional reports.

QUALIFIED AUDIT OPINION

In my opinion, except for the effects on the financial statements of the matters referred to above:

- (a) the financial statements of the Corporation are based on proper accounts and records; and
- (b) the financial statements are in agreement with those accounts and records and show fairly the state of affairs of the Corporation as at 31 December, 2008 and the results of its financial operations and its cash flows for the year then ended.”

51.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Corporation for the year ended 31 December, 2008 was issued on 08 October, 2009. The report contained the following comments:

1. Staff Debtors

Outstanding advances to staff at year end was K69,249. This relates to loans given out to SBDC staff. It was also noted that some staff had left the office already but their loans were still outstanding. There were no policy and control procedures in place in granting advances. I recommended that a full provision be made for the amount due from ex-staff and eventually be written off with Board’s approval and the management responded as follows:

“We agree with the recommendation to take action to continue recovery from the staff concerned through fortnightly payroll deductions. Further provisions will be made for the amounts outstanding from the former employees and subsequently written off with Board approval.”

2. Cash Payments

It was noted that there were no proper systems and control procedures in place over payments. Some cheque payments were paid to individuals through open cheques rather than to the service providers. For instance, leave fares were paid to the individual officers rather than to the airline companies, rentals to officers rather than to landlords and cash cheques for various payments. In addition, the cheques issued were not labelled “not negotiable” which is very risky for theft and fraudulent activities. I recommended management that proper systems and control procedures be put in place to ensure that cheques are made payable directly to suppliers. *The management advised that my recommendations would be implemented.*

3. Travel Advances

A sample check of travel advances revealed that a number of advances collected by officers for travelling were not acquitted. I drew management's attention to this and I was advised that "*all staff had been instructed to comply with the requirements.*"

4. Other Weaknesses Noted:

- The bank reconciliation statements for 2008 were not done on a timely manner; and
- Staff ledgers and employees' history cards were not maintained.

I drew management's attention to these weaknesses and I was advised that *corrective measures were being taken to address them.*

51.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Corporation had not submitted its financial statements for the year ended 31 December, 2009 for my inspection and audit.

52. SECURITY INDUSTRIES AUTHORITY

52.1 INTRODUCTION

52.1.1 Legislation

The Security Industries Authority was established under the *Security (Protection) Industry Act, 2004*. This Act came into operation on 1 March, 2005. The Authority commenced its operations from April 2005.

52.1.2 Functions of the Authority

The principal functions of the Authority are to:

- (a) grant licenses and permits under the Act;
- (b) fix minimum standards of training applicable to holders of licenses and permits, respectively;
- (c) establish, provide or approve training institutions and facilities or permit such training institutions or facilities as it may approve to conduct training or to be used for training for the purpose of training of persons who intend to perform security officers duties or security guard duties;
- (d) approve any equipment other than firearms used by a holder of a license or permit or required by a customer to be installed on his premises or property;
- (e) ensure that the holder of a license or permit operates or carries out his duties or performs his functions in accordance with the terms and conditions of the license or permit and subject to the provisions of this Act;
- (f) formulate a Code of Conduct governing the disciplinary matters and work ethics within the Industry; and
- (g) undertake such other functions and exercise such powers as may be conferred on it by this Act or any other law.

52.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

52.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act, 1989 (as amended)*, on the Authority's financial statements for the year ended 31 December, 2009 was issued on 26 March, 2010. The report did not contain any qualification.

52.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Authority for the year ended 31 December, 2009 was issued on 26 March, 2010. The report contained the following observations.

1. Fixed Assets Register

There was no fixed assets register maintained and no physical stock take of assets were done over the years to determine obsolescence and efficiency of the assets.

I recommended that a periodic stock take of all fixed assets be taken in order to ascertain their existence, the Assets Register to be properly updated and maintained with serial numbers, all obsolete items be written off with Council's approval and all assets be kept in the official location for official use.

I drew management's attention to this and I was advised that corrective measures were being taken to address them.

2. Board Members Stipends and Sitting Allowance

As stated in my prior year's report, stipends and sitting allowances paid to Council members were higher than the rates prescribed by the Salaries Conditions & Monitoring Committee (SCMC).

I brought this to the attention of management and I have since been advised as follows:
"We noted your observations and recommendations and thank you for bringing this matter up again."

We have tried our best to inform the Council Members of your audit findings and the relevant rules but without any success. The Council Members defend their actions per Section 9 (2) (d) of Security (Protection) Industry Act 2004 which gives the Council full powers to set their own rates.

We have also written to the SCMC for their clearance but have not heard from them. A copy of our letter to the SCMC is attached for your information.

As mentioned during our discussions, we will invite you or one of your delegates to be present at our next Council Meeting to inform them of your audit findings. In this way the Council Members may listen and realize their mistakes."

3. Three (3) percent CPI Increment in Salary

There was an annual increase of three (3) percent for CPI to staff's base salary for 2007, 2008 and 2009 which have not been approved by the Department of Personnel Management. I recommended that the management should seek approval from DPM to validate the CPI increment approved by the Board.

I brought this to the attention of management and I have since been advised as follows:

"We assume that 3% CPI increment is mandatory every year due to increasing costs. As requested, we will write to the Department of Personnel Management for clarifications."

53. TOURISM PROMOTION AUTHORITY

53.1 INTRODUCTION

53.1.1 Legislation

The Tourism Promotion Authority was established under the *Tourism Promotion Authority Act, 1993*. This Act came into operation on 3 June, 1993 thereby repealing the *Tourism Development Corporation Act, 1990*. The Authority commenced its operational activities from 1 April, 1993.

Under the *Tourism Promotion Authority Act, 1993*, all assets held by, and obligations and liabilities imposed on the Tourism Development Corporation which related to the functions of the Authority, were transferred to it (the Authority), and the rest of the assets and liabilities were transferred to the National Cultural Committee on 3 June, 1993.

53.1.2 Functions of the Authority

The principal functions of the Authority are: to foster the development of tourism in Papua New Guinea; to formulate a tourism policy for consideration by the National Executive Council and to implement the tourism policy approved by the National Executive Council; to promote Papua New Guinea overseas as a tourist destination; to co-ordinate the overseas promotional efforts of the Papua New Guinea tourism industry; to encourage the provision, development and expansion of tourism infrastructure, facilities and products in Papua New Guinea; and to enhance awareness within Papua New Guinea of the tourism industry and tourism opportunities.

53.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

53.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act, 1989 (as amended)*, on the Authority's financial statements for the year ended 31 December, 2009 was issued on 14 May, 2010. The report did not contain any qualification.

53.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Authority for the year ended 31 December, 2009 was issued on 14 May, 2010. The report revealed generally satisfactory results.

54. UNIVERSITY OF PAPUA NEW GUINEA AND ITS SUBSIDIARIES

54.1 INTRODUCTION

54.1.1 Legislation

The University of Papua New Guinea was established under the *University of Papua New Guinea Act (Chapter 169)*.

54.1.2 Objectives of the University

The objectives of the University include the provision of facilities for study and education; the giving of instruction and training in all such branches of learning as are provided for by the Statutes; aiding by research and other means the advancement of knowledge and its practical application; the conferring, after examination, of the degrees of Bachelor, Master and Doctor and such other degrees, diplomas, certificates and other academic honours as are authorised by the Statutes; the provision of facilities for university education throughout the country by the affiliation of educational institutions, and by the establishment of tutorial classes, correspondence classes, university extension classes, and vacation classes, and by such other means as the Council thinks appropriate; and liaison, collaboration and reciprocation with other universities and institutions of learning, within or outside the country, in the provision of facilities, the recognition of degrees and other status, and the interchange of staff, students and information, and in any other way not inconsistent with its status as the University.

54.1.3 Subsidiary of the University

The University has two subsidiaries, Unisearch PNG Limited and Univenture Limited, which were incorporated under the *Companies Act, 1997*.

Comments in relation to these subsidiaries are contained in paragraph 54A and 54B of this Report (Part IV).

54.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the University for the years ended 31 December, 2007 and 2008 had been submitted. The field work associated with the inspection and audit of the accounts and records and the examination of the financial statements of the University for the above years will commence shortly.

The University had not submitted the financial statements for the year ended 31 December, 2009 for my inspection and audit.

54A. UNISEARCH PNG LIMITED (A SUBSIDIARY OF UNIVERSITY OF PAPUA NEW GUINEA)

54A.1 INTRODUCTION

Unisearch PNG Limited was incorporated under the *Companies Act, 1997*. It is a wholly owned subsidiary of the University of Papua New Guinea.

The Company was established as a vehicle for the University of Papua New Guinea to undertake, through the use of the University Staff, consultancy work to government, government owned institutions, non-governmental organisations and any other persons, and to provide non-credit fee paying courses, secondments and externally funded research programmes.

54A.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

54A.2.1 Comments on Financial Statements

My reports to the Ministers under the *Companies Act, 1997*, on Unisearch PNG Limited's financial statements for the period ended 30 November, 2006 and the years ended 31 December, 2005 and 2004 were issued on 30 November, 2009. These reports did not contain any qualifications.

54A.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records and the examination of the financial statements of Unisearch PNG Limited for the period ended 30 November, 2006 and the years ended 31 December, 2005 and 2004 were issued on 30 November, 2009. These reports did not contain any comments.

54A.3 STATUS OF FINANCIAL STATEMENTS

The Company was deregistered in November, 2006. That being the case, this will be my last report to Parliament on the Company.

54B. UNIVENTURES LIMITED (A SUBSIDIARY OF UNIVERSITY OF PAPUA NEW GUINEA)

54B.1 INTRODUCTION

Univentures Limited was incorporated under the *Companies Act, 1997* on 2 August, 2007. The Company has a total issued capital of one (1) ordinary share of K1.00 and is wholly owned by the University of Papua New Guinea. The activities of the Company are to sell and print books in the Bookshop and the Printery respectively, as a business arm of the University of Papua New Guinea.

54B.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the field work associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the period ended 31 December, 2007 was completed and the results were being evaluated.

The Company had submitted its financial statements for the year ended 31 December, 2008 for my inspection and audit and arrangements were being made to commence the audit shortly.

The Company did not submit its financial statements for the year ended 31 December, 2009 for my inspection and audit.

55. UNIVERSITY OF GOROKA

55.1 INTRODUCTION

55.1.1 Legislation

The University of Goroka was established under the *University of Goroka Act, 1997*. This Act came into operation on 1 January, 1997.

Under this Act, the Goroka Campus of the University of Papua New Guinea was transferred to the University of Goroka together with all staff and students, buildings and grounds, equipment, teaching and research facilities, and other assets and liabilities both within and outside the College Campus.

55.1.2 Objectives of the University

The objectives of the University are dedicated to the pursuit, advancement and dissemination of knowledge, understanding and wisdom; the paying of particular attention to the human resource development and other development needs of Papua New Guinea; and endeavouring to achieve academic and professional excellence to meet those needs through teaching, research and community service.

55.1.3 Powers of the University

The University shall have the power:

- (a) to grant such degrees as are authorised by the Statutes and such diplomas, certificates or other academic awards as it determines;
- (b) to provide instruction and facilities for study, education and research to persons registered as preparing for degrees, diplomas, certificates or other awards of the University;
- (c) to provide facilities for extramural study and continuing education to persons, whether members of the University or not, in such fields and in such manner as the University may from time to time determine;
- (d) to co-operate in pursuance of any of the objectives of the University with any other bodies or persons to enter into agreements authorised by Statute with institutions for their affiliation with or incorporation into the University;
- (e) subject to the *Salaries and Conditions Monitoring Committee Act, 1988*, to appoint academic, administrative and other staff on such terms and conditions of service as the University may determine;
- (f) to provide for promoting the health and general welfare of the students of the University, including the establishment and supervision of residence;

- (g) to regulate and enforce discipline among the employees and students of the University by such measures as the University may determine;
- (h) to cancel, annul or revoke any act done in the exercise of these powers; and
- (i) to do all such other acts or things as may be done under the provisions of this Act or these powers or as may be conducive to the exercise of the attainment of any of the objectives of the University.

55.1.4 Subsidiary of the University

The University has a subsidiary company, Unigor Limited. Comments in relation to this Company are contained in paragraph 55A of this report (Part IV).

55.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

55.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4) of the Audit Act, 1989 (as amended)*, on the University's financial statements for the year ended 31 December, 2006 was issued on 28 August, 2009. The report contained a Disclaimer of Opinion.

“BASIS OF DISCLAIMER OF OPINION

1.0 General Ledgers/MYOB Accounting System

The General Ledger maintained on the MYOB Accounting System had not been segregated to each individual accounts officer in respect of each module of the accounting system such as Payroll, Fixed Assets, Accounts Payable and Receivable Modules. The MYOB Accounting System used by the University to maintain its General Ledger Accounts was not configured to obtain the detailed General Ledger Summary of the items of income and expenses. I noted that the balance sheet items were net of the debits and credits; hence these balances were not supported by a detailed explanation to enable me to verify the accounts transaction balance.

Further, adjustments totaling K9,429,986 at the year end were not effected and deferred to subsequent year. As a result, I was not able to ascertain the accuracy and the completeness of the General Ledger Account Balances at the year end.

2.0 Fixed Assets - K42,063,876

The University did not have a proper and complete fixed assets register to record the details and movement of assets under its custody and control. Further, the general ledger records of the assets were not properly maintained. A substantial amount of adjustments were made during the year to Library and Auditorium costs.

I was also unable to physically inspect certain assets against the records maintained by the University. As a result, I was unable to satisfy myself as to the accuracy, existence and completeness of the fixed assets of K42,063,876 at the year end.

3.0 Staff Entitlements - K2,832,110

The University did not adequately maintain records for payroll provisions. As a result, I was unable to verify the adjusting entries of K920,845 for gratuity, K724,201 for annual leave, K90,493 furlough leave and K6,295 for study leave at the balance date. The basis of calculating these entries were not properly done. In the absence of information and records, I was not able to confirm the validity, correctness and the completeness of the account balance at the year end.

4.0 Income/Receipts

The financial statements disclose income as K17,496,125 at the year end. Of these amount tuition fees and other receipts were stated as K4,937,015. Due to poor record maintenance, I was unable to satisfy myself as to the accuracy and completeness of K4,937,015 stated as tuition fees and other receipts.

5.0 Bank Accounts

Cash at Bank is disclosed as K4,577,429 in the financial statement at 31 December, 2006. However, the University's four (4) bank accounts were neither properly kept nor bank reconciliations prepared on a regular basis and reviewed by an independent person. As a result, I was unable to confirm the accuracy and completeness of cash at Bank of K4,577,429 at year end.

DISCLAIMER OF OPINION

In my opinion, because of the existence of the limitation of scope on my work as described in the qualification paragraphs, and the effects of such adjustments, if any, that might have been determined to be necessary had the limitations not existed, I was unable to and do not express an opinion on the financial statements of the University for the year ended 31 December, 2006.”

55.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the University for the year ended 31 December, 2006 was issued on 28 August, 2009. The report contained the following observations:

1.0 Employee Personal Files and History Cards

My review of the employee personal files revealed that the personal salary history cards were not properly maintained. I noted that staff leave entitlements were not properly recorded which resulted in variances between the schedules and year end accruals. As a result, I was unable to verify the accuracy and completeness of employees personal files submitted for audit verification.

I recommended Management to ensure that these files were properly maintained.

2.0 Accounting, Administration and Procedural Manual

The University did not maintain an Accounting, Administration and Procedural Manual. In the absence of this manual, the University was unable to establish the standard procedures applied in the Accounting, administration and other operational areas that were undertaken.

I recommended the University to develop this manual.

3.0 Insurance Cover

The financial statements disclosed fixed assets amounting of K42,063,876 at the year end. I noted that the University did not insure its property, plant & equipment and other related items to guard against any unforeseen events.

I recommended the University to secure additional funds to insure its assets.

4.0 Salaries and Wages – Payroll Processing

The University's payroll staff spent substantial amount of time in reviewing payroll processed by National Computer Centre to agree to the calculations performed by the University.

According to the Management, pay variations were not properly processed on a timely basis by the National Computer Centre, which required input from University staff to rectify the errors made during fortnightly payroll run performed by the National Computer Centre's Government Alesco Payroll System.

I recommended the University's Management to maintain dialog with the Department of Finance to address the above issue with a possibility of having its own payroll system. The Management concurred with my view and agreed to resolve the matter with the National Computer Centre.

5.0 Revaluation of Fixed Assets

In 2003, the University conducted a revaluation exercise and determined the market value of its fixed assets as K53,918,605. I was advised that the revaluation figures were initially taken up in the books of the University but were later rejected and excluded from the financial statements of the year then ended, as certain alterations were made without the Council's approval. The revaluation figures have also been excluded from the 2004 financial statements and I was unable to determine whether appropriate action had been taken to rectify the alterations and to have the figures incorporated in the financial statements.

I recommended Management to carry out a revaluation exercise again for its assets to determine the current market value.

6.0 UNIGOR Limited

I drew the attention of management that the financial statements of the Company for the years ended 31 December, 2004 to 2008 had not been submitted for my audit and examination. The Management concurred with my observation and advised that it would submit the financial statements for the said years for my inspection and audit.

55.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the University for the years ended 31 December, 2007 and 2008 had been completed and the results were being evaluated.

The University had not submitted its financial statements for the year ended 31 December, 2009 for my inspection and audit.

55A. UNIGOR CONSULTANCY LIMITED (SUBSIDIARY OF THE UNIVERSITY OF GOROKA)

55A.1 INTRODUCTION

Unigor Consultancy Limited is 100% owned by the University of Goroka. It was incorporated in 2000 as a consultancy company under the *Company's Act, 1997*.

55A.1.1 Objectives of the Company

The Company's objectives are to:

- a) Advance, promote, assist and encourage the educational purposes of the University through;
 - (i) Short term programs for and on behalf of the University tailored to the needs of clients; and
 - (ii) Research, consultancy, and publication of all educational materials for commercial purposes;
- b) Conduct or undertake any other business activity both within and outside of Papua New Guinea; and
- c) Expand and diversity business activities to maximise profits and to promote the interest of the Shareholder from time to time.

55A.1.2 Functions of the Company

The core function of the Company is to provide services in four (4) key areas:

- (a) Professional consultancy services, teaching and dissemination of knowledge;
- (b) Merchandising of text books, educational supplies and stationary;
- (c) Printing and publication of educational materials, textbooks, business documents and all other forms of print material; and
- (d) Catering and cafeteria services.

55A.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements for the years ended 31 December, 2005 to 2009 had not been submitted for my inspection and audit.

I have informed the Shareholder and the Management of the Company of their statutory obligations in relation to the preparation and submission of the respective financial statements and to date they have not complied.

56. THE UNIVERSITY OF VUDAL

56.1 INTRODUCTION

56.1.1 Legislation

The University of Vudal was established under the *University of Vudal Act, 1997*. This Act came into operation on 1 January, 1997.

Under this Act, the Vudal University College Campus of the Papua New Guinea University of Technology was transferred to the University of Vudal with all staff and students, buildings and land, equipment, teaching and research facilities, and other assets and liabilities both within and outside the College Campus.

Although the new entity was created by the Act in 1997, the finance and accounting function was transferred to the University of Vudal only on 1 January, 1998.

56.1.2 Objectives of the University

The Act states the objectives of the University as: dedication to the pursuit, advancement and dissemination of knowledge, understanding and wisdom; the paying of particular attention to the human resource development and other development needs of Papua New Guinea; and endeavouring to achieve academic and professional excellence to meet those needs through teaching, research and community service.

56.1.3 Powers of the University

Section 6 of the Act enshrines the University as having the power:

- to grant such degrees as are authorised by the Statutes and such diplomas, certificates or other academic awards as it determines;
- to provide instruction and facilities for study, education and research to persons registered as preparing for degrees, diplomas, certificates or other awards of the University;
- to provide facilities for extramural study and continuing education to persons, whether members of the University or not, in such fields and in such manner as the University may from time to time determine;
- to co-operate in pursuance of any of the objectives of the University with any other bodies or persons to enter into agreements authorised by Statute with institutions for their affiliation with or incorporation into the University;
- subject to the *Salaries and Conditions Monitoring Committee Act, 1988*, to appoint academic, administrative and other staff on such terms and conditions of service as the University may determine;

- to provide for promoting the health and general welfare of the students of the University, including the establishment and supervision of residences;
- to regulate and enforce discipline among the employees and students of the University by such measures as the University may determine;
- to cancel, annul or revoke any act done in the exercise of these powers; and
- to do all such other acts or things as may be done under the provisions of this Act or these powers or as may be conducive to the exercise of the attainment of any of the objectives of the University.

56.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

56.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4) of the Audit Act, 1989 (as amended)*, on the University's financial statements for the years ended 31 December, 2006 and 2007 were issued on 10 November, 2009 and 13 November, 2009 respectively. These reports contained similar disclaimer of opinions, hence only the 2007 report is reproduced as follows:

“BASIS OF DISCLAIMER OPINION

Fixed Assets

The value of fixed assets disclosed in the financial statements of K9,065,043 at the year end was only for the assets located at the main campus. These assets excluded the properties located at the Oro Campus and the value of the Livestock and other animals that were not incorporated into the 2007 financial statements. Consequently, the fixed assets balance at the year end did not include the value of all assets under the custody and control of the University. The University did not maintain a proper and up to date fixed assets register to account for its assets. Further, title deeds for the properties were not submitted for my audit verification. As a result, I was unable to comment on the existence, accuracy and completeness of the fixed assets balance at the year end.

Valuation of Farm Livestock

The Vudal Campus Farms had several herds of livestock, however, the valuation of livestock were not disclosed in the financial statements. Further, I noted that the farm accounting procedures were not adopted in the accounting for the Vudal Farms Operations. In the absence of the disclosure and appropriate method of accounting, I was not able to comment on whether, the University's accounting for the Farm Operations and the valuation of livestock were properly maintained by the University.

Recurrent and Non Re-Current Bank Accounts

The University did not undertake a review of the unpresented cheques and as a result, stale cheques outstanding for more than a year in substantial amounts were not cleared and adjusted in the bank and other related accounts. Consequently, I was unable to satisfy myself as to the accuracy and completeness of the non re-current bank balance as at 31 December, 2007.

Miscellaneous Income

The University's total income amounted to K1,172,053 during the year, of which K1,168,748 related to miscellaneous income. The accounts and records of the miscellaneous income were not provided for my audit verification. As a result, I was not able to perform the necessary audit procedures to ascertain the accuracy and completeness of the miscellaneous income during the year.

University of Vudal Contract Staff Superannuation Scheme

The University did not maintain any separate financial and accounting records for staff superannuation scheme to account for its transaction. Further, the University did not maintain a separate bank account for the Scheme's operations instead the University's bank cheque account was used as its operating account. As a result, I was unable to carry out the necessary audit procedures to satisfy myself as to the total contribution made by the staff to the superannuation scheme. Further, the University did not obtain a license from Bank of Papua New Guinea to operate the Superannuation Scheme.

Disclaimer of Opinion

In my opinion, because of the non-disclosure and limitations on the scope of my work as described in the preceding paragraphs and the effects of such adjustments, if any, that might be determined to be necessary, had the non-disclosure and limitations not existed, I was unable to and do not express an opinion on the financial statements of the University of Vudal for the year then ended 31 December, 2007."

56.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records for the years ended 31 December, 2006 and 2007 were issued on 10 November, 2009 and 13 November, 2009 respectively.

These reports contained similar observations and as such, only the comments in the 2007 report are reproduced as follows:

1. Bank Reconciliation Statements and Limitation of Scope

I noted that the bank reconciliation statements for the nine (9) bank accounts of the University were not checked and verified by a competent person. Further, the bank statements and the reconciliation statements for the recurrent account and the Master Management account were not provided for audit examination.

I brought this matter to the attention of the management and the University advised that it is currently undertaking measures to correct the weaknesses.

2. Employee Personal Files and History Cards

The University did not maintain proper employee personal files and personal salary history cards (including leave taken and leave credit accrued over the years) to enable me to verify the leave accrued balance at the year end.

I recommended Salary History Cards including leave accrued and leave taken be properly and accurately maintained for all the staff of the University.

3. Employee Entitlements

I noted that the Human Resource section of the University did not maintain proper records, registers or schedules of employee entitlements pertaining to annual leave, long service leave, gratuities paid and accrued during the year. In the absence of such records, miscalculations, duplicate payouts and improper accounting for due entitlements may occur. As a result of limitation of scope, I was unable to satisfactorily complete audit procedures in respect of the employee entitlements at the year end.

I recommended the University to take appropriate action to address the weakness.

4. Internal Control Environment

There were weaknesses in the University's accounting systems and the overall internal control environment operating during the period under audit review. I noted that there were serious break downs in the Internal Control Systems of the University in the areas of accounting function, asset management and staff entitlements.

I recommended the University to institute effective and efficient internal controls over key areas and the management agreed to take remedial action.

5. Insurance Cover

The University did not take up insurance to cover all of its fixed assets during the year. In the absence of an insurance cover, the University was exposed to loss in times of perils of fire, natural disaster such as earthquakes, landslides, flooding and storms. I also pointed this out in my earlier reports.

The University responded to my concern as follows: "*We had requested Treasury that funding be made available for insurance purposes every year, however up to now Treasury is not responding as per the budget submission, but as per their own funding allocation criteria making it very difficult to pay for insurance cover. The University would keep trying to secure funding through the normal budget process to put insurance cover for all assets carried by the University.*"

6. Advances Register

The University did not maintain a proper advance Register for cash advances made during the year. The advances were not recouped or monitored to properly ascertain and trace to the holders and perused for acquittal purposes.

I recommended management to maintain proper control over the advances made to staff. The management concurred with my recommendation and advised me that it would implement the recommendation.

56.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the University for the year ended 31 December, 2008 had been completed and the results were being evaluated.

The financial statements for the year ended 31 December, 2009 had not been submitted by the University for my inspection and audit.

SECTION B

NATIONAL GOVERNMENT OWNED COMPANIES

57. FOREWORD

This Section of my Report deals with Companies in which the Government of Papua New Guinea holds more than 50% of the Issued Share Capital. On 26 January, 1983, the National Executive Council's Decision No. 12/93 expanded my responsibilities to include the audit of National Government Owned Companies and subsidiaries thereof. The audit of Government Owned Companies is also conferred on to me through Section 3 of the *Audit Act (Amendment) Act, 1995*.

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

Section 200 of the Act requires the auditor's report on the financial statements to include:

- (a) The work done by the auditor;
- (b) The scope and limitations of the audit;
- (c) The existence of any relationship the auditor has with the Company;
- (d) Whether all information and explanations required have been obtained;
- (e) Whether in the auditor's opinion, proper accounting records have been kept;
- (f) Whether in the auditor's opinion, the financial statements comply with generally accepted accounting practice and, where they do not, the respects in which they fail to comply; and
- (g) Whether in the auditor's opinion, the financial statements give a true and fair view of the matters to which they relate and, if not, the respects in which they fail to give such a view.

My audit of Government Owned Companies is conducted in accordance with the requirements of the *Companies Act*. Under, *Section 8(2) of the Audit Act*, I am also expected to report to the Minister for Finance and Treasury, the matters of significance to do with the accounts and records, the financial transactions and the assets and liabilities. The members of the Company are also informed of the same.

58. AIR NIUGINI LIMITED

58.1 INTRODUCTION

58.1.1 Legislation

Air Niugini Limited was incorporated under the *Companies Act*. It was formed to be the successor company of National Airline Commission, following the National Executive Council (NEC) decision of 20 June, 1996 to corporatise the National Airline Commission in accordance with *Section 45* of the *National Airline Commission Act*.

As a result of the NEC decision, all assets, liabilities, staff and operations of the National Airline Commission were to be transferred at the written down book value (as at 31 August, 1996) to Air Niugini Limited. Air Niugini Limited is a 100% State Owned Company.

58.1.2 Objectives of the Company

The principal objectives of the company are:

- to carry on the business of airline operators, general carriers, freight forwarders and forwarding agents, warehouse operators, shippers and general agents, ship owners charterers, hospitality and general traders, stevedores, cool store operators, flight contractors, carriers by land, air and water, insurers and insurance brokers and carried on other business which may be usefully carried on in connection with such business;
- to provide transport service, carrier freight transport, courier, taxi truck, light or heavy haulage and delivery services which involves the use of aircraft, railways, ship, road vehicle or any other means of conveyance by land, road, railway, sea, river, canal, water or air to carry and convey passengers, mails, containers, packages, parcels, bulk commodities, goods, merchandise, livestock and produce and property of every description;
- to carry, collect, receive, load, unload, store, consign, distribute, transfer and deliver property of every description by any mode of transportation; and
- to carry passengers by air, road, rail, land, sea or water and to operate any taxi service and to obtain any necessary licences for such purposes.

58.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

58.2.1 Comments on Financial Statements

In accordance with the provisions of the *Companies Act, 1997*, my report on the financial statements of Air Niugini Limited for the year ended 31 December, 2008 was issued on 5 May, 2010. The report contained a qualified audit opinion.

“BASIS FOR QUALIFIED OPINION

Departures from International Financial Reporting Standards

1.0 Impairment of Assets

The Company reported an operating loss of K52.1m for the year ended 31 December, 2008. This is a prima facie indication that an impairment of assets may exist as at that date. As the Company has not carried out an impairment assessment, I am unable to determine whether an impairment exists in relation to the Company’s non financial assets such as rotables, building, plant and equipment and deferred expenditure.

In my opinion, this is a departure from *International Accounting Standards (IAS) 36 “Impairment of Assets”* which requires that an entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the assets to ensure that the assets are not carried in the financial statements at a value in excess of their recoverable amounts.

2.0 Related Party Transactions

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

QUALIFIED AUDIT OPINION

In my opinion, except for the effects on the financial statements of the matters referred to in the preceding paragraphs:

- (a) the financial statements give a true and fair view of the financial position of Air Niugini Limited as at 31 December, 2008 and of its financial performance and its cash flows for the year then ended in accordance with *International Financial Reporting Standards* and the *Companies Act, 1997*;
- (b) proper accounting records have been kept by the Company; and
- (c) I have obtained all the information and explanations that I required.”

58.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records for the year ended 31 December, 2008 was issued on 5 May, 2010. The report contained the following observations.

1. Internal Control Environment

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

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

2. Income Tax Penalties

Income tax returns for the year ended 31 December, 2007 were not lodged. In addition, the Company has outstanding income tax liability of K19,819,000 for the years 2004 to 2007. As a result, the Company has become liable for potential penalties of K5,236,000. This has been provided for in full in the 31 December, 2008 financial statements.

I recommended Management to take immediate action to lodge the 2007 income tax returns and settle the outstanding tax liability in order to avoid any further penalties.

3. Accounts Payable and Accrual

During the course of the audit, I noted several control issues in relation to accounting for trade liabilities, accruals and other liabilities of the Company. These issues indicate that a significant deficiency in the controls over accounting for trade creditors and expense accrual procedures. As a result, some invoices were not accounted for, account balances have been incorrectly over or understated, tax liabilities had been incorrectly calculated and charged to incorrect accounts and inaccuracies noted in accounting for IATA accruals.

4. Trade Receivables Reconciliation

The Company's Trade Debtors account was not reconciled for 11 months of the 2008 financial year. This also contributed to the substantial delay in reconciling the December 2008 debtors balance.

While an external accounting firm was appointed during the last quarter of 2008 to address this weakness, this still resulted in lengthy delays in receiving the final reconciliation and an overall difference of K295,000 was noted between the debtors list and the general ledger.

Trade debtors reconciliation is a very important process of the Company to ensure not only that sales and receivables are correctly recorded, but to manage the cash collection and cash flows of the Company.

I recommended Management to ensure that trade debtors accounts are reconciled on a monthly basis without exception.

5. Data Backup

I noted that data backups were performed by Information Technology personnel on a daily basis. However, formal back up policies were inadequately documented. It was also noted that frequent backup failures on critical financial applications were reported by Veritas Backup Executive. Without a policy and procedure, Information Technology staff may not be aware of their responsibilities relating to backups. If backups are not done at regular intervals, Air Niugini Limited is at risk of losing critical data and not being able to recover it.

I recommended that backup errors are resolved on a timely manner and backups are appropriately addressed when errors are identified. It is also important to formalize backup policies and procedures.

58.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December, 2009 was in progress.

59. LIVESTOCK DEVELOPMENT CORPORATION LIMITED

59.1 INTRODUCTION

59.1.1 Legislation

The Livestock Development Corporation Limited was incorporated under the *Companies Act, 1997*. The share capital is wholly owned by the National Government.

59.1.2 Activities of the Corporation

The main activities of the Company are breeding and slaughtering cattle and pigs, purchasing and exporting insects, growing vegetables and fruits, and raising poultry.

59.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

59.2.1 Comments on Financial Statements

My report in accordance with the provision of the *Companies Act, 1997* on the financial statements of the Corporation for the year ended 31 December, 2006 was issued on 11 August, 2009. The report contained a Disclaimer of Opinion.

“BASIS OF DISCLAIMER OPINION

1. Limitation of Audit Scope

The Corporation had serious deficiencies in accounting and record keeping. It did not maintain adequate and proper records and registers to facilitate the preparation of the financial statements. I further noted that the general ledgers were not properly reconciled to the supporting documentation before compiling the financial statements. The financial statements were prepared only from cheque butts and bank statements. As a result, I was unable to carry out all the necessary audit procedures to verify the account balances stated in the financial statements.

2. Subscription Monies Received

As disclosed in Note 4 to the financial statements, the State paid K600,000 to acquire 600,000 shares of K1.00 each in accordance with NEC decision No.17/88. However, to date the State has not advised the Corporation of its nominated shareholders and as such, the amount is still held by the Corporation under capital and reserves pending advice from the State.

3. Account with State of PNG

Note 5 to the financial statements disclosed an amount of K5,332,383 as representing the total value of the assets transferred to Livestock Development Corporation Limited from the then Department of Primary Industry on 01 April, 1983, in accordance with NEC decision No. 75/82 dated 15 December, 1982.

Out of the total transferred, K4,390,950 worth of assets were to have been converted into shares and the shares were to be allotted to the nominated nominees upon advice from the State. However, to-date, no such advice has been received from the State for the conversion to be effected. As a result, I was not able to satisfy myself as to the appropriateness of the recognition and inclusion of the amount under Capital and Reserves since no advice has been received from the State on its nominees and no shares have been issued to date.

4. Cash at Bank (Overdrawn)

Cash at bank was reported in the financial statements at 31 December, 2006 as K12,137. This account reflects only the main operating account as per the bank reconciliation print out. Other bank accounts such as Special Project Account K3,368 and various Imprest Accounts totaled K1,061 were not reported in the financial statements. As a result, I was unable to satisfy myself as to the accuracy and completeness of the Cash at bank balance reported at the year end.

5. Fixed Assets – K1,943,966

The Corporation did not maintain a proper fixed assets register to record details and movements of its assets. Also, the Corporation did not undertake an independent valuation to establish the proper value of its fixed assets. As a result, I was unable to satisfy myself as to the accuracy, existence and the completeness of the fixed assets balance of K1,943,966.

6. Various Accounts

The financial statements disclosed the following accounts as at 31 December, 2006:

	<u>K</u>
Trade Debtors	- 101,740
Staff & Other Debtors	- 6,616
Development Expenditure	- 1,065,783
Trade Creditors	- 116,686
Unused Grants	- 602,162
Employees Provisions	- 354,123
Secured Loan	- 867,246
Fees and Income	- 2,401,823
Staff Costs	- 739,029

I was not provided with the schedules, age listing, registers, general ledgers, reconciliation statements and other supporting/source documentation of these accounts for my review and verification. As a result, I was unable to extend my audit procedures on a test basis to ascertain and satisfy myself as to the accuracy and completeness of the account balances at the year end.

7. Group Tax Payable

As disclosed in the financial statements, statutory liabilities in respect of Group taxes and GST payable to the Internal Revenue Commission (IRC) totaled K1,474,020 at the year end. I was not able to confirm the accuracy, existence and completeness of the amount due to lack of supporting documentation. Further, if these amounts were the actual liabilities, the Corporation would be in breach of its statutory requirements under *Section 299 of the IRC Act* which attracts 20% penalty of the outstanding amount.

8. Cash Flow Statement

I noted that an adjustment of K512,998 was made against the opening balance in the cash flow statement. I was not provided with the supporting evidence and explanation to this adjustment. As a result, I was not able to satisfy myself as to the correctness and accuracy of the cash flow statement.

DISCLAIMER OF AUDIT OPINION

In my opinion, because of the significance of the matters discussed in the preceding qualification paragraphs, I am unable to and do not express an opinion on the financial statements of the Company for the year ended 31 December, 2006.”

59.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Corporation for the year ended 31 December, 2006 was issued on 11 August, 2009. This report contained the following matters:

1. Preparation of the Financial Statements

The Corporation had serious weaknesses and deficiencies in accounting systems and overall internal control environment during the period under review. No proper and adequate accounting records were maintained by the Corporation in respect to its assets, liabilities, capital & reserves, income and expense for the year ended 31 December, 2006. The Corporation’s financial report was done merely from cheque butts and bank statements. The general ledgers were not reconciled to the supporting documentation before compiling the financial statements. In addition, financial records and supporting documents were poorly kept to facilitate proper audit examination.

I recommended management to take necessary steps to address this problem and it responded to my observation as follows:

“The current management acknowledges the weaknesses and are taking steps to correct these issues. We have further engaged a contract accountant in 2009 to oversee the updating and maintenance of accounting transactions on MYOB. In addition, the contract accountant will also ensure that LDC staff received the proper training and coaching to maintain proper records.”

2. Bank Reconciliations

It was noted that bank reconciliations were not done on a regular basis. Further, the bank reconciliations were not checked and verified by a senior officer of the Corporation. In addition, there was no segregation of duty in the data entry and in preparing the bank reconciliation. The management responded to my concern as follows:

“We acknowledge the poor state of the bank reconciliation for the period under review. We further confirm that now with the engagement of the contract accountant, reconciliations will be prepared by our staff on a monthly basis and they will be reviewed by the contract accountant to ensure that reconciling items are cleared on a monthly basis. Transactions will also be posted on a daily basis to ensure that bank balances at any one time are properly stated.”

3. Employees Personal Files and History Cards

During my review, it was revealed that that employee’s personal records and files including salary history cards were not properly kept and maintained. The leaves (furlough, recreational, annual, maternity, sick, compassionate, etc) taken and credits accrued were not kept. I recommended management that Staff salary cards and leave accruals be properly kept and maintained.

The management since responded to my observation as follows:

“We confirm that management has made available personal files and history cards for those staff that are still employed by LDC to date. However, management acknowledges that records may not have been complete and kept up to date for the period under review. New management has since taken initiatives to maintain proper records and history cards for all LDC staff. The new contract accountant will ensure that all LDC staff has personal files that are kept up-to-date.”

4. Advances Register

The Corporation did not maintain advances register for the advances that were made during the year under review. I noted that advances made during 2006 were not recorded and traced to the employees and perused for acquittal purposes. I recommended management to ensure that an Advances Register is maintained.

5. Asset Management

My review of the fixed assets noted the following weaknesses:

- Fixed Assets register has not been properly maintained;
- Eleven (11) properties totalling K860,000 did not have title deeds;
- Stock-take of serviceability and non-serviceability were not carried out; and
- Revaluation of properties owned by the Corporation were not carried out for some time.

The management responded to my observation as follows:

“We acknowledge the weakness noted in the maintenance of the fixed assets register which included the physical verification and existence of these assets. Due to frequent change in management, no attempts have been made to ensure that, properties have been valued, maintained and to ensure that they are owned by Livestock Development Corporation.”

59.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the audit of the accounts and records and the examination of the financial statements of the Corporation for the year ended 31 December, 2007 was completed and the result were being evaluated.

The Corporation had submitted its financial statements for the years ended 31 December, 2008 and 2009 for my inspection and audit and arrangements were being made to commence the audits shortly.

60. MINERAL RESOURCES DEVELOPMENT COMPANY LIMITED

60.1 INTRODUCTION

60.1.1 Legislation

The Mineral Resources Development Company Limited (MRDC) was incorporated under the *Companies Act*. The Company is wholly owned by the National Government. The authorised capital of the Company was increased from 10,000 Ordinary Shares to 10,000,000 Ordinary Shares of K1 each, in June, 1992. An additional 4,906,015 shares were issued to the Independent State of Papua New Guinea in June 1992, converting the Government grant and the shareholders loan to equity. The Company also acquired the Government's 20% interest in Misima Mines Limited.

60.1.1 Objectives of the Company

The principal activity of the Company is to hold the Government's equity in mineral and petroleum development ventures within PNG.

60.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

60.2.1 Comments on Financial Statements

In accordance with the provisions of the *Companies Act, 1997*, my report on the financial statements of the Company for the year ended 31 December, 2008 was issued on 05 February, 2010. The report did not contain any qualification but contained other matters which are reproduced as follows:

- The financial statements disclosed Trade Creditor at K3 million as at 31 December, 2008. However, acceptable records were not maintained to enable me to verify the completeness, existence and accuracy of the trade creditors' balance as disclosed in the financial statements. As a result, I was not able to determine whether any adjustments might be necessary to the amounts and disclosures made in the financial statements;
- The Company did not lodge its tax returns for the years 2005, 2006 and 2007. The assessments for the tax returns for the years 2000 to 2004 are yet to be received from the Internal Revenue Commission (IRC). The assessments for the years 1996 to 1999 show significant increases in tax liabilities. The Company had lodged objections with the IRC that are yet to be resolved. The tax position of the Company will only be known when the final assessments are received from the IRC;
- As part of salaries and wages, the Company provides housing, motor vehicles, school fees and other allowances to its employees.

I was not provided with sufficient and appropriate documentation to verify that the appropriate tax on these benefits had been deducted and remitted to IRC. As a result, I was unable to determine the extent of the unpaid tax and any penalties thereon that might be levied by the Internal Revenue Commission; and

- The financial statements include investments in Highlands Pacific Limited (HPL) at K1,849,220 (2007: K4,751,089). The Government of Papua New Guinea by National Gazette Number G125 dated 2 August, 2002, issued a Vesting Notice which effectively transferred MRDC's shareholding in HPL to the Independent Public Business Corporation (IPBC). Subsequently, a Gazette Notice Number G105 dated 8 August, 2003, was issued reversing the transfer made in Gazette Number 125. The notice required alterations to the effective from 20 June, 2002. Although, MRDC maintains that it is the legal owner, I was unable to satisfactorily confirm MRDC's ownership of HPL shares.

60.2.2 Audit Observations Reported to the Ministers

My report to the Ministers in accordance with *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Company for the year ended 31 December, 2008 was issued on 05 February, 2010. The report contained the following significant matters:

1. Funds in Escrow with Gadens Lawyers

Under a Share Sale Agreement dated 12 May, 1999 between MRDC and Orogen Minerals Limited (OML), MRDC sold its 5% participating interest in the Porgera Joint Venture (PJV) to OML.

Immediately prior to the sale, the State's and landowners' participating interest which accumulated to 10% was held by Mineral Resources Porgera Limited (MRP). Fifty one (51%) of MRP was owned by MRDC and Morea Vele and 49% by Enga Provincial Government and Kapiane Yuu Anduane Company Limited in equal shares.

Five (5%) of the participating interest belonging to the Enga Provincial Government and Porgera landowners was transferred from MRP to a new Company including half of the non-joint venture assets and liabilities. This new Company was owned equally between Enga Provincial Government and Kapiane Yuu Anduane Company Limited. This new Company is now called Mineral Resources Enga Limited (MRE).

MRDC also assumed half of the liabilities and assets of MRP except for joint venture assets and liabilities. What remained in MRP was MRDC's 5% participation interest in the Porgera Joint Venture (PJV).

Orogen Minerals Limited (OML) then purchased from MRDC the shares of MRP. Subsequently, in 2002 MRP was sold to OSL and later in 2003 was sold to Durban Roodepoort Deep Limited (DRD). DRD then sold it to Barrick Gold.

Under the Share Sale Agreement of the total proceeds, MRDC and OML agreed to set aside in escrow K7.7 million of the proceeds to be available to meet certain adjustments and liabilities at and subsequent to the completion of the Share Sale Agreement.

Pursuant to an Escrow Agreement dated 26 May, 1999 Gadens Lawyers were made the Escrow Agents. The Escrow Agreement expanded the Escrow provisions of the Share Sale Agreement and prescribes the application of the funds in Escrow.

The appointed accountants Deloitte Touche Tohmatsu were tasked to review the liabilities of MRP and establish a list of liabilities at completion of the Share Sale Agreement. Therefore, there would have been a list of liabilities including contingent liabilities with maturity periods assessed by Deloitte Touche Tohmatsu.

I was not aware of the existence of such a list. My reviews and queries so far led me to conclude that there was no list of liabilities. The Escrow provisions of the Share sale agreement require half yearly review of the liabilities of MRP. Such an exercise has never been done.

Following the review, any liability that did not materialise must be paid to MRDC.

The agreements state that once all the liabilities were dealt with, the difference must be paid to MRDC. Therefore, these funds and the interest accruing to it belong to MRDC. With interest accumulating over the years, the amount in Escrow with Gadens Lawyers was K11.6 million as at 31 December, 2008.

The following are worthy of note:

- The directors of MRE strongly feel that MRE should be entitled to a part of the funds in Escrow. This could be a substantial portion of the funds; and
- No meaningful progress had been made by MRDC in getting hold of these funds. It is likely that the process of transfer of these funds may take longer where the escrow agent will need clearance by OML, OSL, DRD and possibly the Internal Revenue Commission (IRC).

The delay in the transferring of these funds may lead to a situation where there will be misunderstanding as to the ownership of the funds. Prolonging of the transfer process will not be in the best interest of MRDC.

With participation in the Ramu Nickel project and financing of the LNG Project requiring funding, MRDC would be at a loss if these funds were not available. I recommended to the management to liaise with all interested parties and immediately commence the process of transferring the funds to MRDC after determining the liabilities payable.

The management responded as follows:

“A sum of K7 million was put in escrow at the time of the sale of MRDC’s 5% participating interest in the Porgera JV to Orogen Minerals to cover any future liabilities in 1999. This K7 million was deducted from the purchase price of the 5% interest due to tax returns not being lodged for a couple of years and this was to cover any liabilities after the tax assessments were completed.

After the tax returns were assessed IRC found that there was a tax refund of about K5.2 million. This should have been rightfully paid back to MRDC and MRE in equal shares. However, this tax refund has never been refunded to date and since the Orogen Merger with Oil Search, IRC has maintained that this refund belongs to Oil Search.

However, MRE and MRDC think otherwise. Looking at the clauses of the Share Sale Agreement, the refund is an asset of MRP therefore, should have been paid back to MRDC and MRE in equal shares. However, IRC and Oil Search do not agree with this view. Oil Search has claimed the refund was paid into the Escrow Account, however, MRDC disputed it and showed evidence in Court that the funds in Escrow comprised of the K7 million which has grown to about K11 million from interest. Oil Search also claims the tax refund is not an asset.

MRDC asked for the release of the Escrow funds in 2007 and negotiated a Deed of Release with Oil Search. However, after MRDC deleted the clause on “the tax refund being paid into the Escrow Account” Oil Search refused to sign. Meanwhile MRE sued MRDC for 50% of the tax refund and MRDC in its defence claimed that it never received the refund and instead filed a cross claim against Oil Search in 2008 to claim 50% of the tax refund and to seek a release of the Escrow funds.

A second Deed of Release was sent to Oil Search on or about March, 2009 however was never signed as Oil Search maintained the tax refund was part of the Escrow funds. The matter is ongoing in Court pending an appeal by OSL against a decision in MRDC’s favour on the summary judgement on the cross claim.”

2. Cairns Property Investment

In November 2008 MRDC and its managed entities, Petroleum Resource Kutubu Limited (PRK), Petroleum Resource Gobe Limited (PRG) and Petroleum Resource Moran Limited (PRM) finalized the purchase of three properties located in the central business district of the city of Cairns in Queensland, Australia.

These properties were acquired at a total cost of AUD\$7.4 million which was shared equally between MRDC, PRK, PRG and PRM. The properties were purchased through a tender process.

I noted the following issues:

- I had not been provided evidence of MRDC Board deliberation and approval of the purchase of these properties;
- The market values of the properties were not known at the time of participating in the tender; and
- The Queensland Natural Resource and Water Department has registered the titles of all three properties in the name of MRDC. MRDC was inferred to hold in trust the interest of the managed entities. However, there was no signed agreement between MRDC and the managed entities in relation to the ownership and operations of these properties.

I note the following implications:

- MRDC management would be viewed as remiss of its duties where management failed to inform and seek approval from its Board and where no valuation was obtained prior to the entry into the tender process; and
- It would appear that the vehicle for the investment and the tax consequences were not ascertained and established prior to the entry into the investment. This would have implications on tax and transfer of funds to PNG.

I recommend the following:

- Prior to any further arrangements, MRDC should seek expert tax advice from Australia in respect of the structuring of the investment, rules of funds transfer back into PNG in the eventual winding up of the investments;
- The advice should consider the ownership of the properties; and
- MRDC and the managed entities should engage a professional valuer to value the properties to ascertain the values of the properties.

The management responded as follows:

“Market Value

There may be several ways including valuation to determine the value of a property. The two (2) commonly used and proven methods, Rent Capitalization (RC) and Discounted Cash-flow (DCF) Analysis methodologies were applied here to confirm the final bid of A\$7.0 million including the returns that determine within which our bid had been lodged.

The annual return projections received from the agent are as summarized in the table below:

(Amounts in Australian Dollars)

Allotments	Address	Annual Inflows	Annual Outflows	Net Annual Inflows
6	42-44 Spence Street	237,650	25,012	212,638
7	46-50 Spence Street	297,680	59,378	238,302
8	53 Grafton Street	113,002	16,185	96,817
	Totals	648,332	100,575	547,757

*The outflows represent about **16.0%** the total rental inflows generated each year.

RC Method

The Rent Capitalization (Schedule 2) method that simply involves multiplication of approved rental rates by total rentable area available to get annual rental inflows and then divide by the capitalization rate chosen indicated that the value of Coleman Properties would range from A\$5.0-A\$7.0 million.

DCF Method

The DCF Analysis method has proven to be more relevant and has been applied by major property developer like POSF for many years both for acquisition, development and divestment purposes.

All outgoings were deliberately increased from the current rate of 16% to 20% of annual rental inflows to accommodate any unforeseen expenses including management fees. The results of the analysis undertaken based on these assumptions are summarized below;

- Internal Rate of Return (IRR) - 6.37%
- Return of Investment (ROI) - 8.49%
- Payback Period - 11.6 years
- Net Present Value (NPV) - (A\$1,453,607)

The rate of returns obtained and in particular, the IRR that determines the viability of an investment is at 6.37 % which is equivalent to over 12% in Kina terms compared the desired rate of return (hurdle rate) of 10%. Comparatively, IRR for commercial properties in PNG was between 6-8%.

Ownership

Upon professional advice from our Tax Agent, DDG Chartered Accountants and our Solicitor, David Greenwood, who are both based in Cairns, MRDC was registered in Australia with ASIC as a foreign entity to undertake business and investments in Australia.

The Contract was executed by MRDC as Trustee for the named entities. According to our Solicitor, this Contract and the source of funds, is sufficient to evidence the Trust.

Since the acquisition and based on expert advice from our Tax Agent and Solicitor in Cairns, MRDC has incorporated a company, Petroleum Resources Properties (Australia) Pty Ltd, as a vehicle to undertake all future investments in properties.

Valuation of Property

MRDC management engages professional and qualified valuers, both within and in Cairns, to undertake valuation of all its properties at the end of every 12 calendar month. This is a normal practice to determine a fair market value of the properties we own and the capital growth of these assets.”

3. Purchase of Pacific Balance Fund

On 10 July 2008, MRDC entered into a unit transfer agreement with Pacific Equities and Investments Limited (PEIL), the Fund Managers of Pacific Balanced Fund (PBF), for the purchase of 200,000 units in PBF at K5.00 per unit for a total cost of K1,000,000. PEIL sold the units in its own capacity as a unit holder.

I noted the following issues surrounding PBF at the time of the purchase:

- An unresolved dispute existed between PEIL and Melanesian Trustee Services Limited (MTSL), the Trustees of PBF over the proposed write-off of K37 million in the 2002 accounts of PBF;
- The financial statements of PBF for the financial years 2002 to 2007 had not been audited;
- There were court cases regarding allegation of breaches of duties against MTSL and PEIL;
- A Commission of Inquiry was appointed by the government into PBF in August 2006. The report of the inquiry was tabled in Parliament in June 2007; and
- The reliability of the unit register of PBF queried by the Commission of Inquiry remains a worry even as of today. PEIL maintains the units register.

It appears that neither the full Board of MRDC deliberated on this investment nor an independent valuation of the units was obtained by MRDC.

Given the concerns over the integrity of the unit register, it should have concerned MRDC from purchasing units from PEIL who maintains the register.

I recommended the Board and management to seek independent valuation of the units in PBF. The management should always seek prior approval of Board for all significant investments.

The management responded as follows:

Valuation of Units

According to the last Operational Report from PEIL dated March 2008, the 2004 financial accounts have been audited and signed by Directors. They qualify that 2005, 2006 and 2007 accounts were prepared without proper source documents as the Trustee had not provided the source documents to accurately draw up accounts.

Due to this fact, units could not be valued. Therefore, value of units was carried at cost. Deloitte has been engaged to undertake valuation of units using the last audited accounts.

Board Approvals

All investments are undertaken in line with approved Investment Policies of the respective companies.

As part of our efforts to regain effective control over the management of Pacific Property Trust, this investment was a strategic decision to position MRDC Group unit holders to align with another major unit holder in PBF, removes the Fund Manager and subsequently the Trustee. Management will seek independent valuation of PBF units.

4. Management Agreements

I noted the following in relation to management agreements between MRDC and its managed entities:

- Management Agreement with Petroleum Resources Kutubu (PRK) was executed on September 2005 and expired on September 2008. MRDC was in the process of renewing the agreement as at 31 December, 2008;
- Management Agreement with Petroleum Resources Gobe (PRG) was executed on 1 January, 2003 and expired on 1 January, 2006. I did not sight the renewed agreement;
- Management Agreement with Mineral Resources Enga (MRE) was signed in March, 2004 and expired in March 2007. I did not sight any renewed agreement;

- Management Agreement with Mineral Resources Star Mountains (MRSM) was signed in December, 2005 and expired in October 2008. I did not sight any renewed agreement; and
- Management Agreement with Mineral Resources OK Tedi (MROT) was prepared in January, 2006 to expire in January, 2009. However, this Agreement had not been signed by the representatives of both MRDC and MROT.

The management agreements underpin the services to be provided by MRDC to the managed entities and the related fees. MRDC leaves itself exposed without a signed management agreement to dictate the terms of its relationship with these entities.

I recommended MRDC to review the respective management agreements and have these signed by the relevant parties as a matter of urgency.

The management responded as follows:

“PRG Management Agreement has been signed and copy will be provided.

MRE Management Agreement was up for review therefore it has not been signed to date. We will review and sign for the relevant period.

MROT Management Agreement is to be signed for the relevant period.

PRK and MRSM Agreements are to be renewed and signed as soon as possible.

Once signed copies will be given to the auditors. Management will ensure all agreements are signed.”

5. Board Minutes

I noted that Board meetings minutes of the year were not signed.

Proper procedures requires the minutes of the previous Board meeting to be ratified at the next Board meeting and signed by the Chairman of the Board to indicate that the records of the minute reflect correctly the events of the previous Board meeting. Where ratified minutes are left unsigned they are susceptible to unauthorized modification, as the minutes communicate the policies and decisions of the Board in managing the affairs of the company.

I recommended that the Chairman or his delegate must sign every meeting's minutes after ratification to authenticate the minutes.

The management had since responded that *“all minutes were signed except for 1st Quarter 2008 which needed to be signed and copy given to the auditors.*

There was a Special Board Meeting in February, 2008 in which the individual who was the Chairman was removed from the office and replaced, therefore this minute remained unsigned due to the changes.”

6. Budgeting Controls

I observed that MRDC usually prepares its budget in the last quarter of the previous year and obtains approval by the Board either towards the end of the quarter or early in the current year. Significant variances were noted between budget and the actual results for 2008 but no review or adjustments to the budget were noted.

Budgets represent an important control tool over management of the funds and affairs of an entity. A budget communicates the parameters of expenditure and targets which the Board and management of the entity aim to attain. Without close monitoring of the budget against actual, management can deviate leading to losses.

I recommended MRDC to place emphasis on the preparation of a realistic budget to reflect the situation in which the company operates. Further, the Budget must be adjusted when assumptions and given circumstances change.

The management responded as follows:

“The operating budget is prepared and reviewed annually, which the management and the Board does not see it necessary to do regular review because of the nature of our operations.”

7. Housing Allowances

In my review of payroll expenses, it was noted that certain staff packaged their salaries to have rental paid. From the sample of employees reviewed I found no evidence of completed IRC Housing Variation forms and the related IRC approval.

Where staff have packaged their salaries to have rental paid, IRC requires approval of the amount paid and the prescribed value for inclusion in salaries and wages tax. Where no approval has been given the full amount allocated to rental must be taxed at the respective staff’s marginal tax rate.

The failure can result in substantial penalties including fees. The IRC can also deem the rental payment as net of tax thereby forcing MRDC to pay the tax. This additional tax can be substantial.

I recommend that housing allowance variations should be completed and lodged with the IRC. The salaries and wages tax computation must include the prescribed amounts.

Independent tax advice should be sought as to whether a retrospective effect was likely.

The management advised as follows:

“Management takes note of the concern raised. Employees receiving housing allowances have been lodging the housing variations with IRC. However, we have never received any responses from IRC.

Currently there are no issues with IRC regarding this matter.

All payments are paid directly to the landlords. All payment evidence is available for your verification.”

8. Managing Director’s Contract

I noted that a “Professional Services Agreement” was signed on the 15th of May, 2008 between MRDC and the Managing Director as the “Incumbent Professional” of SMA Investment Limited “the company.”

Section 4 of the contract states that MRDC will pay the Managing Director and SMA Investments Limited a monthly fee of K62,500 (K750,000 annually, GST excl.) based on an invoice provided by SMA Investment Limited.

However, the Managing Director had written to the payroll division of MRDC advising that his package be structured into two components; where K150,000 was to be paid as salary to him through the MRDC payroll and K600,000 was to be paid to SMA Investments Ltd at K50,000 per month. The K50,000 monthly payment to SMA was divided into Housing (K20,000), Vehicle (K20,000) and other allowances (K10,000).

A managing director or director of a company is always a natural person. The Managing Director of MRDC is an employee of MRDC. All benefits of any employees are classed as salary and wages and must be taxed according to the tax rules applicable. The current arrangement of the Managing Director can be viewed as a measure to reduce or evade tax.

Should MRDC continue to allow this, the IRC can deem the payments as net of tax and demand MRDC to pay the tax. There are penalties for both the employer and employee pursuant to Section 361 of the *Income Tax Act, 1959*. Such a scenario can lead to undesirable consequences for both parties.

I recommended to the management to seek independent tax advice from reputable accounting firms immediately on the consequence of this arrangement and assessment of the underpayment of tax.

The management should withhold making the monthly payments to SMA until the tax advice has been sought.

Tax packaging of the Managing Director's salary and wages should then be done following this advice.

The Management responded that *"the salary packaging by the Managing Director of his package from K62,500 (initially) to K50,000 (current) being monthly payment was basically to cater for his current needs (i.e., Salary = K150, 000; Housing = K20, 000; Vehicle = K20, 000 & other allowances = K10, 000) as opposed the view that this was done to evade tax.*

Due to the fact that the Managing Director's housing loan with ANZ Bank, Port Moresby, was obtained under SMA he arranged it to be channeled to SMA who then pays the loan with ANZ Bank which amounts to K23,000 per month. For the motor vehicle allowance, the Managing Director had obtained a loan from Bogasi Investments via SMA to purchase a Toyota VX Land Cruiser. Hence, his MV allowance was paid to SMA who in turn pays Bogasi Investments. The other allowance was applied to his utilities, security personnel and assistance.

The above arrangement is an acceptable practice. It was applied with previous Managing Directors and there were no issues raised in either the previous audits or the tax office to-date.

Management will, however seek independent tax advice to confirm the above arrangement."

9. Dividend Withholding Tax Recoverable

I noted that MRDC had tax credits available for dividend withholding tax paid to the IRC in relation to dividends paid to the PNG Government over the years 1994 to 1999. PNG Government is tax exempted under *Section 24 of the Income Tax Act, 1959 (ITA)*. Under *Section 311 (J) of the Income Tax Act, 1959*, it allows for MRDC to claim credits of 17% of total dividend paid to the Government.

MRDC's Tax Agents, Deloitte Touche Tohmatsu have confirmed that there are tax credits of K3.4 million available, and can be used to offset against the group tax liability.

Carried forward tax credit may not be properly utilized given the profitability and tax position of the Company.

I recommend that MRDC concentrate on following up with IRC to obtain the benefits of the available DWT credits.

The management have advised me that *"they will concentrate on following up with IRC to utilize DWT credits."*

10. Related Party Accounts

There was an ongoing level of transactions between MRDC and its management entities. I noted that monthly reconciliation of the related party balances between the accounts of the managed entities and MRDC were not performed.

The failure to perform monthly reconciliation and settlement of the related party balances could result in the following:

- The benefit of time was lost and can result in loss of underlying information where reconciliations are not performed and questionable transactions not queried;
- It would be time consuming and difficult to assess a claim by the counter party resulting in paying the wrong amount;
- The related party balances recorded in the accounts would be inaccurate; and
- Disputes are likely to arise where monthly reconciliations between entities are not performed.

I recommended monthly reconciliations of related party balances should be performed and that the records must be compared to that of the related party. Any differences should be investigated and adjusted in a timely manner.

The management agreed to “*ensure that intercompany accounts are reconciled and audit confirmations are issued at the year end.*”

11. General Ledger Integrity – Reconciliation of General Ledger

I identified significant material adjustments in total K488m on the trial balance provided by management. These adjustments resulted from a number of reasons including:

- None or no proper senior accountant had reviewed accounting entries prior to posting;
- Lack of understanding of accounting issues;
- None or no timely reconciliation of the general ledger;
- Shortage of suitable staff;
- Turn over of staff; and
- Human error.

The magnitude of the accounting adjustments indicate that the management accounts as brought before the Board contained material errors. The Board is required to produce accurate financial statements prepared on a timely basis and in accordance with generally accepted accounting practice.

The failure to perform key control reconciliations represents a significant failing of MRDC's control systems and increase the risk that financial statements are materially misstated.

I recommended that an assessment of the accounting function should be carried out to assess the reliability of the systems and process currently used and the capacity of the current staff. In my view, the Board should recruit an additional qualified accountant.

I further recommended the following should be done to ensure the integrity of the general ledger:

- All journal entries to be authorized by the appropriate senior accounts staff;
- All journals to be supported by adequate information of the transaction;
- Monthly reconciliation of all general ledger balances to be performed; and
- Appropriate senior accounts staff to review the reconciliations and a file of these should be maintained.

Management has since advised as follows:

"Management does perform general ledger reconciliations on specific accounts of material importance. All journal entries can only be approved and posted by Manager Corporate Service and Manager Treasury as imbedded in our accounting system."

12. Credit Card Usage

Funds expended through credit cards in 2008 was K236,226. I noted that the cards were used on a number of business meetings and industry related seminars held during the year which required a lot of negotiations and travelling abroad.

I noted the users of the credit cards did not provide the acquittals in time to the accounts staff responsible for classifying those credit card expenses.

I also noted that the officer responsible for reconciling credit cards usage did not perform the reconciliations on a monthly basis.

- Without a proper acquittal system the use of credit cards is open to abuse resulting in loss of company funds; and
- Expenses and staff advances arising from the use of credit cards are not recorded and reported in a timely manner.

I advised management to ensure that:

- Acquittals were mandatory and were to be overseen by an appropriate senior person; and

- The officer responsible for performing the reconciliation of credit cards must ensure that the reconciliations are done on a monthly basis.

Management has since advised as follows:

Management takes note of the concern raised and will ensure that the acquittals are done on a timely basis.

13. Trade Creditors

I noted the following in respect of the accounting for trade creditors:

- No monthly reconciliations of trade creditors were done;
- The differences between general ledger and creditors' subsidiary ledger were not investigated and reconciled. As at 31 December, 2008 the difference was K180,771;
- According to the subsidiary ledger more than 54% of the creditors were over 90 days old; and
- There was no evidence of supplier statement reconciliations been done for payment of creditors.

A creditors' subsidiary ledger is a useful tool for recording and managing the company's liabilities. Without proper maintenance of a creditors' subsidiary ledger the completeness, existence and accuracy of trade creditors' balance will be questionable.

The current environment provides a situation which could lead to incorrect payments being made.

I recommended to the management that the creditors' subsidiary ledger must be accurately maintained. The subsidiary ledger must at all times agree to the general ledger total. Payments should be based on reconciliation of creditor's statement for creditors where statements are supplied.

The management has since advised that, *"it concurs with the reconciling differences and will ensure that this is cleared in 2009."*

60.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the audit of the accounts and records and the examination of the financial statements for the year ended 31 December, 2009 was in progress.

61. MOTOR VEHICLES INSURANCE LIMITED

61.1 INTRODUCTION

61.1.1 Legislation

The Motor Vehicles Insurance (PNG) Trust Limited was incorporated under the *Companies Act, 1997* following the NEC Decision No. 4/98 of January 1998. It was formed to change the status of the then existing Motor Vehicles Insurance (PNG) Trust to conform to the intentions of the National Executive Council (NEC) for the then Papua New Guinea Banking Corporation Holding Company No. 1 Limited to acquire the business of the Trust as part of the reform of the financial services sector.

The Trust was incorporated under the *Companies Act* as Motor Vehicles Insurance (PNG) Trust Limited. The shares of this entity which were held by the Independent State of Papua New Guinea were subsequently sold to then Papua New Guinea Banking Corporation, an entity also owned and controlled by the State.

On 31 December, 1998, as part of the corporatisation and restructuring programme of the then Papua New Guinea Banking Corporation Group, PNGBC Limited, PNGBC Holding Co. No. 1 Limited and Motor Vehicles Insurance (PNG) Trust Limited were amalgamated under the provisions of the *Companies Act* to form an amalgamated company, PNGBC Limited. The ultimate parent company of the amalgamated company, PNGBC Limited, was Finance Pacific Limited, a company wholly owned and controlled by the Independent State of Papua New Guinea.

With effect from 1 January, 1999, Motor Vehicles Insurance Limited was incorporated under the *Companies Act* to underwrite the third party insurance under the Act in succession to the Trust and MVITL.

The assets of MVITL immediately before the amalgamation with then PNGBC Limited were transferred to MVIL when it took over the responsibility for providing third party insurance.

61.2 STATUS OF FINANCIAL STATEMENTS

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

The Company had not submitted its financial statements for the year ended 31 December, 2009 for my inspection and audit.

62. NCD WATER AND SEWERAGE LIMITED (TRADING AS „EDA RANU“)

62.1 INTRODUCTION

62.1.1 Legislation and Objectives of the Company

The NCD Water and Sewerage Limited was incorporated under the *Companies Act*. The *National Capital District Commission (Transfer of Assets, etc) Act, 1996*, provided for the vesting in the company, of the assets required for the supply of treated water and the treatment of sewerage from the National Capital District Commission.

62.1.2 Functions of the Company

The principal functions of the Company are to provide the supply of treated water, and the treatment and disposal of sewerage within the National Capital District.

62.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

62.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act, 1997*, on the Company's financial statements for the year ended 31 December, 2008 was issued on 25 May, 2010. The report contained a qualified audit opinion.

BASIS FOR QUALIFIED AUDIT OPINION

1. Fixed Assets – K29.7 million

The Company's total fixed assets amounted to K29.7million. However, there were no proper fixed assets register maintained by the Company to record the movements of assets capitalized and/or disposed off during the year. I noted that most of the assets were transferred from National Capital District Commission and I was unable to determine if any valuation had been carried out to ascertain their current market values. Further, I was also not able to carry out any physical verification of these assets. Consequently, I was unable to satisfy myself as to the accuracy, measurement, existence and completeness of the carrying value of fixed assets stated at the year end.

2. Capital Work in Progress – K4.95 million

The Company did not maintain proper records in respect of capital works in progress of K4,953,431. This balance was carried at cost over many years without being transferred to fixed assets and depreciated accordingly. Due to inadequate accounting records being maintained to substantiate the existence of Capital Work in Progress, I was unable to determine the completeness, existence, accuracy and valuation of the Capital Work in Progress as disclosed in the financial statements at the year end.

3. Stock – K2.4 million

The Company did not maintain adequate stock records for me to verify the stock balance of K2,431,606. Therefore, I was not able to verify the stock balance of K2,431,606 at the year end.

4. Internal Control Environment

During the course of my audit, I identified weaknesses in accounting for accrual of liabilities, bank and lease reconciliations which were not being performed on a timely basis. This impacted greatly on the financial statements preparation and the conduct of audit.

QUALIFIED AUDIT OPINION

In my opinion, except for the effects on the Company's financial statements of the matters referred to in the Basis for Qualified Opinion paragraphs:

- (a) the financial statements of Eda Ranu are properly drawn up in accordance with the provisions of the *Companies Act, 1997*, and comply with generally accepted accounting practice and give a true and fair view of the financial position of the Company as at 31 December, 2008 and the result of the Company for the year then ended.
- (b) proper accounting records have been kept by the Company as far as appears from my examination of those records.
- (c) I obtained all the information and explanations I required for the purposes of my audit.

62.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Company for the year ended 31 December, 2008 was issued on 25 May, 2010. The report contained the following significant matters:

1. Employee Advances

The other debtors balance of K788,068 included advances made to staff members of Eda Ranu for educational, accommodation, motor vehicles and purchase of white goods. My examination revealed that the Company did not have any guidelines or policies on staff advances and as a result, advances may be granted for improper purpose and may be subject to abuse.

Further, an increase of 13.4 percent in advances (K92,943) was noted compared to the prior year. I recommended management to prepare proper policy guidelines on staff advances for implementation and also to take immediate steps to recover the outstanding amounts through payroll deductions.

Management responded to my observation as follows:

"There is an existing policy on housing (Staff Home Ownership Scheme). A schedule of staff on suspensory loan is maintained where periodic amounts are amortized each month. Issues on other advances are being addressed now as part of the normal accounting systems and procedures are being currently implemented".

2. Business Development Consultant (BDC) Contract Payments

Eda Ranu engaged a Business Development Consultant (BDC) on a consultancy fee of K540,000 plus GST per annum until 2008 when the contract was terminated. Upon termination the consultant was paid his contractual entitlements even though the prior services provided were considered improper, deficient or inadequate and the payment to be excessive in nature. Further, the awarding of the contract did not comply with the *Public Finances (Management) Act, 1995*.

I recommended management that the Board should review all contracts and award contracts genuinely based on cost/benefit analyses. If the terms of the contracts were not met, appropriate action be taken to notify the contractor. In such circumstances the Company's Lawyer should carefully monitor this process to ensure that the Company's interests were protected at all times.

The Company has since advised me as follows:

"Management has realized the deficiencies and weaknesses surrounding the engagement of the former Business Development Consultant that breached the Company's established procedures. The Company will not dwell on the issue but will use this as a lesson to ensure that future engagements of consultants follow due process".

3. Tendering Procedures

The Company had no tendering policy guidelines or procedures to adopt. All tenders were processed on an adhoc basis through the Tender Committee chaired by the General Manager. My examination revealed that the Company paid 10% debt collection commission of K1.026 million of the arrears of K10.26 million owed by three government agencies to Shanley Enterprises Limited. This contract was awarded without proper tendering procedures as required by the *Public Finances (Management) Act, 1995*.

I recommended management that a tendering procedures document be drafted and approved by the Board for adoption.

Management had since responded to the above observation as follows:

"A tender procedure guideline has already been done and will be forwarded to the Board for approval before implementation".

62.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December, 2009 was in progress.

63. NIUGINI INSURANCE CORPORATION LIMITED

63.1 INTRODUCTION

63.1.1 Legislation

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

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

63.1.2 Functions of Niugini Insurance Corporation Limited

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

63.1.3 Cessation of Trading

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

63.2 STATUS OF THE FINANCIAL STATEMENTS

At the time of preparing this Report, the Corporation did not submit its financial statements for the year ended 31 December, 2009 for my inspection and audit.

64. NORTH FLY HIGHWAY DEVELOPMENT COMPANY LIMITED

64.1 INTRODUCTION

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

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

64.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Company had not submitted its financial statements for the years ended 31 December, 2001 to 2009 for my audit and inspection despite numerous reminders from my Office.

65. PAPUA NEW GUINEA PORTS CORPORATION LIMITED (FORMERLY PAPUA NEW GUINEA HARBOURS LIMITED)

65.1 INTRODUCTION

65.1.1 Legislation

The PNG Harbours Limited was incorporated under the *Companies Act, 1997* on 19 June, 2002. This initiative was in accordance with the privatisation policy approved by the National Executive Council (NEC) in 1999. The Company changed its name to PNG Ports Corporation Limited on 7 March, 2006.

65.1.2 Functions of PNG Ports Corporation Limited

The general functions of the Papua New Guinea Ports Corporation Limited include the regulation, management, control and operation of declared ports; the movement of shipping therein; and the maintenance of light ships, buoys, beacons, moorings, wharves, docks, piers, jetties, landing stages, slips, landing ramps, and platforms.

65.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Corporation for the year ended 31 December, 2008 was in progress. The management had prolonged responses to my audit observations highlighted in the management letter.

The Corporation had not submitted its financial statements for the year ended 31 December, 2009 for my inspection and audit.

66. PNG POWER LIMITED

66.1 INTRODUCTION

66.1.1 Legislation

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

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

- a) All of ELCOM's right, title and interest to any and all assets, other than those transferred to PNG Dams pursuant to item 1(a) and (c), including, without limitation, the electricity generation assets located in the areas of Sirinumu Dam and Yonki Dam;
- b) All of ELCOM's liabilities other than those transferred to PNG Dams pursuant to item 2(b); and
- c) All water use permits held by ELCOM and referred to in *Section 7(1)* of the *Act*.

2. Employees

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

3. PNG Power to be specified entity

Declared PNG Power Limited as a "Specified entity" for the purposes of *Section 8* of the *Act*.

4. Shares in PNG Power

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

5. Consideration

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

66.1.2 Functions of the Company

The functions of the Company are mainly to plan and co-ordinate the supply of electricity throughout the country; to generate, transmit, distribute, reticulate and sell electricity; and to provide to the public bodies and the State, services related to sale, consumption and use of electricity.

66.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December, 2008 was completed, however, my reports under *the Companies Act, 1997* and the *Audit Act, 1989 (as amended)* are delayed due to the Company's non submission of the signed financial statements.

The fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December, 2009 was in progress.

67. POST PNG LIMITED

67.1 INTRODUCTION

67.1.1 Legislation

Post PNG Limited was incorporated on 24 December, 1996 under the *Companies Act*. This Company was formed following the National Executive Council Decision No. 18/96 of 17 April, 1996 to corporatise the Post and Telecommunications Corporation (PTC) and separate it into three entities - namely: Telikom PNG, Post PNG and Papua New Guinea Telecommunication Authority (PANGTEL).

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

67.1.2 Objectives of the Company

The primary objectives of the Company are:

- to provide domestic and international postal services to meet the reasonable needs of the people, Government, non-governmental organisations and business enterprises of PNG;
- to manufacture and market postage stamps, philatelic products and other products for use in connection with services provided by Post PNG;
- to provide money transfer services within the Independent State of Papua New Guinea (PNG) and between PNG and other places;
- to engage in research relating to postal products and activities;
- to provide packet and parcel carrying services;
- to provide courier and freight services;
- to provide mail house, documents exchange and contract mail management services;
- to carry on any business or activity that is related, incidental, ancillary or complementary to the provision of domestic and international postal services;
- to provide fund transfer services, act as agent on behalf of other entities, bodies and organisations in relation to banking arrangements and in the collection of premium rates, licence fees, other like services and operate a savings bank; and

- to perform functions relating to the provision of postal services in a manner consistent with PNG's obligations under any convention.

67.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

67.2.1 Comments on Financial Statements

In accordance with the provisions of the *Companies Act, 1997*, my report for the year ended 31 December, 2009 was issued on 4 June, 2010. The report did not contain any qualification.

67.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act, 1989, (as amended)*, on the Company's financial statements for the year ended 31 December, 2009 was issued on 30 June, 2010. The report contained the following matters.

1. Adherence to SCMC Act 1998

The requirements of the *Salaries and Conditions Monitoring Committee (SCMC) Act, 1998* have not been complied with by Post PNG in regard to salaries and conditions of employment of its employees.

The Act stipulates that:

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

Management responded to my observation as follows:

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

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

Further, Post PNG in 2006, via the Integrated Policy Reform and Develop Plan, Identified to the IPBC a need for the establishment of a Postal Sector Policy and subsequent alignment of its Constitution and/or Post Services Act as appropriate. In March 2008 NEC approved the establishment of a task force to establish a Postal Sector Policy.

We will now seek advice from our Stakeholder on this matter in order to determine whether the law is applicable to Post PNG. If the law is determined by our Shareholder to be applicable we will adhere to the requirements as advised by our shareholder to the extent of its applicability to Post PNG as opposed to our shareholder, IPBC.”

2. Access Rights to Information Technology (IT) System for Employees Leaving the Company

I noted that there was no formal procedure in place to communicate employee movements to IT division. This leads to the fact that employees leaving the company are not removed from the systems. Non de-activation of system access in a timely manner creates the risk of unauthorized access to the company’s information. The integrity and consistency of data may not be guaranteed.

I recommended the implementation of a formal procedure for each divisional head immediately notifying the IT Division regarding employees leaving the company and IT division to perform periodic checks of all systems to ensure the guarantee of access security.

Management responded as follows:

“Management recognizes that we have communication gaps between departments when an employee leaves Post PNG which may lead to the risk of the employee not being removed from the IT Systems or indeed to other systems, for example, access to Post PNG Buildings. Management will undertake a complete review to ensure that this risk exposure is mitigated.”

3. Journal Entries

Journal entries prepared by the Financial Reporting Manager were not subjected to a secondary review by an authorized officer. The preparation and posting of journal entries is a crucial area that ensures the accuracy of the account values based on transactions that transpire during the period. The lack of review of such entries creates the risk of the inability to verify the correctness of respective account balances. I recommended all journal entries to be reviewed and signed by the authorized officer on a timely basis.

Management responded to my observation as follows:

“Management accepts the issue. Though all journal entries are subject to secondary review we recognize that it is not always documented. We have reviewed and amended the process to ensure that all journals are reviewed and documented by way of initials and date.”

4. Non-compliance with Statutory Requirement

Annual Returns for the financial year 2008 were not lodged until March 2010, even though AGM was held on 19th June 2009.

The late submission resulted in non-compliance with Section 215 of the *PNG Companies Act, 1997*, which requires every company to submit a return within 14 days after the annual meeting. This section also states that where the board of a company fails to comply with this section, every director of the company commits an offence and is liable on conviction to the penalty.

I recommended the Annual Returns to be filed within 14 days after the annual meeting.

The management responded as follows:

“Management accepts this issue. Whilst fundamentally we are in compliance with the statutory requirements, occasionally there is a performance gap. We will ensure that all Statutory Requirements are complied with going forward.”

68. TELIKOM (PNG) LIMITED AND ITS SUBSIDIARIES

68.1 INTRODUCTION

68.1.1 Legislation

Telikom (PNG) Limited was incorporated under the *Companies Act, 1997*. This Company was formed following the National Executive Council Decision No. 18/96 of 17 April, 1996 to corporatise the Post and Telecommunications Corporation (PTC) and to separate it into three (3) entities namely, Telikom (PNG) Limited, Post PNG Limited and Papua New Guinea Telecommunication Authority (PANGTEL).

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

68.1.2 Objectives of the Company

The primary objectives of the Company are:

- to be the successor Company to the Telikom Divisions of Post and Telecommunication Corporation within the meaning of and for the purposes of the *Telikom (PNG) Limited Act*;
- to supply telecommunication services within Papua New Guinea and between Papua New Guinea and other places;
- to carry on any business or activity relating to telecommunications either inside or outside Papua New Guinea;
- to publish telecommunications directories, and to supply directory information service;
- to supply, install and maintain customer equipment and customer lines;
- to develop, manufacture, market and supply facilities and software;
- to supply value added services;
- to utilise its network, installations and facilities for purposes other than telecommunications, to the extent that such network installations and facilities are not fully utilised in the supply of telecommunications;
- to carry on any business incidental to telecommunication;

- unless otherwise advised to the contrary by the Minister acting in accordance with a directive of the National Executive Council:
 - (i) To act as an adviser to the Government of Papua New Guinea on matters relating to telecommunication activities in Papua New Guinea;
 - (ii) To represent Papua New Guinea as a member of, and actively participate, in international bodies concerned with the administration of telecommunication services;
 - (iii) To enter into international agreement relating to telecommunication activities;
 - (iv) To perform functions relating to the provision of telecommunication services in a way consistent with PNG's obligations under any convention; and
- to exercise such powers to negotiate, prepare, execute and perform any contracts or management arrangements of the State as may be delegated to it or conferred on it.

68.1.3 Subsidiaries

The subsidiaries of Telikom (PNG) Limited are Kalang Advertising Limited and PNG Directories Limited. Comments in relation to these subsidiaries are contained in paragraphs 68A and 68B of this Report.

68.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

68.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act, 1997* on the financial statements of the Company for the year ended 31 December, 2008 was issued on 01 December, 2009. The report contained a qualified opinion.

“BASIS OF QUALIFIED OPINION

Non-compliance with International Financial Reporting Standards

The Company had not prepared consolidated financial statements for the year ended 31 December, 2008 as required under *International Accounting Standards 27 Consolidated and Separate Financial Statements* (“IAS 27”) and the *Companies Act, 1997* due to the lack of internal resources to perform the task. This, in my opinion, is not in accordance with IAS 27.

In my opinion, the presentation of a consolidated financial report was fundamental to a proper appreciation of Telikom (PNG) Limited's financial position, its financial performance and its cash flows. Had a consolidated financial report been presented, it would disclose a different financial position, financial performance and cash flows of Telikom (PNG) Limited.

The entity was unable to provide me with financial information necessary for me to quantify the effect of the lack of disclosure on the financial statements.

QUALIFIED AUDIT OPINION

In my opinion, except for the effect on the financial statements of the matters referred to in the basis of qualified opinion paragraphs:

- (a) the financial statements give a true and fair view of the financial position of Telikom (PNG) Limited as at 31 December, 2008 and of its financial performance and its cash flows for the year then ended in accordance with *International Financial Reporting Standards* and comply with the *Companies Act, 1997*.
- (b) proper accounting records have been kept by the Company.”

68.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Company for the year ended 31 December, 2008 was issued on 01 December, 2009. This report contained the following observations:

1. Long Outstanding Debts

I noted during my testing of trade receivables, debtors amounting to K13 million has been outstanding for more than 91 days. I recommended management to ensure close monitoring of the aged debtors balance and consistently follow up all overdue debtors to reduce the outstanding debts.

Management responded to the above observation as follows:

“It is acknowledged that a significant portion of Telikom PNG Debtors is sitting in the over 90 days balance. As such, a Working Committee of both Heads of Finance and Retail Division together with the Regional Accountants have been set up with specific work plans to address this portion of debts outstanding. Debtors over 90 days account worth K13.3 million have been identified and analysed with given deadlines for appropriate actions to be taken, effective in October 2009.”

2. Unbilled Revenue

I noted that no record was kept for the portion of unbilled revenue that was generated by the system (IT script). Once the figures are generated on the system, they are emailed to the billing department. The figure is overwritten when the script is run again in the next month. When this same script (with the same parameters) is run at a different time, the figures generated may be different due to customer movements from the billing cycles.

I recommended that records (supporting documents) should be kept for all data generated and management responded to my observation as follows.

“This was the case during the audit period, but it has since been taken up in the MIS project for proper reports to be run each month end. The MIS report will resolve this problem.”

3. Information Security – SAP Application Access and Security Monitoring

I noted during testing of the General Computer Controls (“GCC”) that formal SAP Security Standards had not been established and implemented at TPNG.

As a result, I identified a number of significant deficiencies relating to user administration procedures, user access rights and SAP BASIS settings. In addition, a large number of dialog users were identified with privileged access rights for which management could not determine whether or not these were appropriate.

To improve the SAP control environment, I recommended Telikom (PNG) Limited to:

- define a SAP security strategy with accompanying security standards, procedures and baselines;
- redesign the SAP security administration process (including roles redesign where necessary) to ensure that user access is appropriately managed;
- implement a process to review inactive user accounts to ensure that they are locked/expired when deemed necessary; and
- remove developer key access for production system.

Management responded to the above observations as follows:

- *“SAP Security Strategy will be formulated by the end of October, 2009; and*
- *A review of all user access together with the Business Areas to be completed by end of July, 2009.”*

4. Change Management Process

During my testing of GCC, I noted that a formal change management process that incorporates all disciplines applicable to managing changes to critical systems (guiding the acquisition and development as well as maintenance of systems, databases, network and communication software, systems software and hardware) had not been established. In addition, there was no test environment to test changes in CPDI prior to migrating to production; and

In AvaBill the following issues were noted:

- the vendor (IIL) has the ability to remotely connect into both the test and production environments and has “Administrator” type access to both environments; and

- the AvaBill teams are unaware of any systems logging in the AvaBill system through which monitoring of changes can be performed.

I recommend that TPNG should establish:

- a formal change Management Policy which incorporates „good practices“ and the establishment of a Change Management committee which oversees and approves all changes;
- a mechanism, such as a change management tool or log, to record and track all change requests;
- a method to assess changes for associated risk to the IT environment;
- a process to approve changes depending on the significance and risk associated with that change;
- guidance on authorization and approval procedures to migrate changes to production;
- procedures for emergency changes or hot fixes; and
- the requirement to document back-out procedures for incorrectly implemented changes.

Telikom management in its response stated that the New Information Office would manage implementation of these recommendations during November, 2009.

5. Board of Directors Meeting Minutes for 2008

The Board minutes were not provided by the Company for my review during the audit. As a result, I was unable to examine the vital decisions and issues discussed at these meetings and the proposed action expected to be taken by Telikom (PNG) Limited. To date, I was not provided with the copies of the minutes for my review as part of the audit procedures.

68.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December, 2009 was in progress.

68A. KALANG ADVERTISING LIMITED (A SUBSIDIARY OF TELIKOM (PNG) LIMITED)

68A.1 INTRODUCTION

68A.1.1 Legislation

Kalang Advertising Limited was incorporated under the *Companies Act, 1997*. The Company is wholly owned by Telikom (PNG) Limited.

The ownership of the Company changed following the National Court Order of 9 September, 1997, which allowed Telikom (PNG) Limited to convert the debt due from Kalang Advertising Limited into shareholding. Subsequently, Kalang issued 535,424 ordinary shares to Telikom (PNG) Limited on 31 October, 1997.

68A.1.2 Functions of the Company

Kalang Advertising Limited was set up primarily to take over the activity of commercial radio broadcasting previously under the National Broadcasting Commission.

The Company carries on the business of producers, consultants and promoters of Broadcast Television, Community Television, Video, Audio, Film, Visual, Cassettes Recordings, Productions and Recordings.

68A.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

68A.2.1 Comments on Financial Statements

In accordance with the provisions of the *Companies Act, 1997*, my report on the Company's financial statements for the year ended 31 December, 2006 was issued on 5 January, 2010. The report contained a disclaimer of opinion.

“BASIS FOR DISCLAIMER OF OPINION

Limitations on the scope of my audit

Opening balances and comparative information

Due to the disclaimer of opinion issued in respect of the year ended 31 December, 2005, and because of the other limitations as noted below, I was unable to satisfy myself as to the opening balances. I was also unable to quantify the effects of misstatements, if any, which might have a bearing on the results of operations and cash flows of the Company for the year ended 31 December, 2006. Further, I was unable to perform alternative and reasonable audit procedures to satisfy myself as to the measurement, accuracy and completeness of the opening balances.

Related Parties

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

Statutory Records and Board Minutes

I was not provided with the statutory records including minutes of board meetings, if any, of the Company for the year ended 31 December, 2006. Accordingly, I was unable to determine whether all the requirements of the *Companies Act, 1997*, had been complied with and whether all statutory returns had been lodged with the concerned authorities.

Accounting and Related Records

Due to the state of the records maintained by the Company, I was not able to perform all my planned audit procedures. As a result, I was unable to form an opinion as to the existence, measurement and completeness of the following account balances as at 31 December, 2006:

- Inventory K 64,491;
- Trade and Other Receivables K1,139,891;
- Employee Leave Provision K 107,557;
- Fixed Assets K 424,433;
- Provision for Income Tax K 160,910; and
- Other Receivables and Prepayments K 65,961.

Revenue and Expenses

I had not been able to obtain sufficient and appropriate evidence in support of the total revenue and expenses of K1,923,253 and K1,910,134 respectively. Accordingly, I was unable to satisfy myself as to the occurrence, measurement, completeness and accuracy of revenue and expenses for the year.

DISCLAIMER OF OPINION

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

- (a) I was unable to and did not express an opinion as to whether the financial statements of Kalang Advertising Limited were drawn up as required by the *Companies Act, 1997*, and presented in accordance with *International Financial Reporting Standards and Statements of Accounting Standards* of the *Certified Practising Accountants of Papua New Guinea* and other statutory requirements so as to give a true and fair view of the Company's financial position as at 31 December, 2006 and of the results of its operations, changes in equity and its cash flows for the year then ended; and
- (b) I had not been given all the information and explanations and assistance necessary for the conduct of my audit.

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

Inherent Uncertainty Regarding Continuation as a Going Concern

In addition to the opinion expressed above, I drew attention to Note 1(a) of the financial statements which disclose significant uncertainty as to whether the Company would be able to continue as a going concern and whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements."

68A.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records for the year ended 31 December, 2006 was issued together with *Section 8(4)* of the *Audit Act, 1989 (as amended)* on 5 January, 2010.

68A.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December, 2007 was in progress.

The financial statements for the years ended 31 December, 2008 and 2009 had not been submitted for my inspection and audit.

**68B. PNG DIRECTORIES LIMITED (FORMERLY E. H. O'BRIEN LIMITED
- A SUBSIDIARY OF TELIKOM (PNG) LIMITED)**

68B.1 INTRODUCTION

Edward H. O'Brien Limited is a company incorporated under the *Companies Act*. The Company is jointly owned by Telikom (PNG) Limited (54%) and Edward H.O'Brien Enterprise of Sydney, Australia (46%). During the year 2002, the Company changed its name to PNG Directories Limited.

68B.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

68B.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act, 1997* to the members of the Company on the financial statements for the year ended 31 December, 2008 was issued on 31 March, 2010. The report did not contain any qualification.

68B.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records for the year ended 31 December, 2008 was issued on 31 March, 2010. The results of the inspection and audit were generally satisfactory.

68B.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December, 2009 was in progress.

SECTION C

NATIONAL GOVERNMENT SHAREHOLDINGS IN OTHER COMPANIES

69. FOREWORD

This Section of my Report deals with Companies in which the Government owns 50% or less of the issued share capital of a Company.

The auditing and reporting requirements of these companies are stipulated under the *Companies Act, 1997*, and these have been elaborated in Paragraph 57 of this Report.

As the Government of Papua New Guinea does not hold majority interest in these companies, the accounts of these companies are audited by private auditors.

However, because public monies are invested in these companies, my responsibilities require the inclusion of the summaries of their accounts and the comments of the private auditors' reports in this section of my Report.

70. BOUGAINVILLE COPPER LIMITED

70.1 INTRODUCTION

Bougainville Copper Limited, formerly Bougainville Copper Pty. Limited, was incorporated under the *Companies Act*. The main objectives of the Company are to prospect, explore, quarry, develop, excavate, dredge for, open, work, purchase or otherwise obtain copper and other various metals and minerals.

From 1972 until 1989, the company operated a large open pit mine and processing facility at Panguna on the island of Bougainville in the North Solomons Province of Papua New Guinea. It produced concentrate containing copper, gold and silver, which was sold primarily under long term contracts to smelters in Asia and Europe. On 15 May, 1989 production was brought to a halt by militant activity, and has not recommenced since.

At 31 December, 2009 the issued capital of the Company was 401,062,500 ordinary shares of K1 each, fully paid. Of these, the Government of Papua New Guinea held 76,430,809 ordinary shares of K1 each, or 19.06% of the total shares.

70.2 REPORT OF THE COMPANY'S AUDITORS

A private firm of auditors have conducted the audit of the Company's financial statements including the accounts and records for the year ended 31 December, 2009 and the audit report was issued on 05 March, 2009. This report contained a Disclaimer of Opinion.

"BASIS OF DISCLAIMER OF AUDITOR'S OPINION

The financial report of Bougainville Copper Limited for the year ended 31 December, 2009 has been prepared with the inclusion of the Company's mine assets at their 1 January, 1991 book value, with a separate general impairment loss provision of K350 million having been made in 1991 for the value of the indeterminate level of deterioration, damage and pilferage of assets which has occurred in the period since the withdrawal of company personnel from Bougainville in 1990. As explained in Note 1(b) to the accounts, there continues to be considerable uncertainty surrounding the future of the Panguna mine, and the extent of deterioration, damage and pilferage of the Company's assets on Bougainville. While the directors have made this impairment provision in good faith based on the limited information available to them, it must be recognised that the actual extent of the necessary write-downs can only be established when access to the mine site by appropriate company representatives is again possible or when a reliable market price for the Panguna assets can be determined.

In our opinion, providing for the probable impairment loss from deterioration, damage or pilferage is the appropriate accounting treatment for the actual impairment which will have occurred in the period to 31 December, 2009.

However, as the actual extent of such impairment can only be established after the Company regains access to the mine site or a reliable market price can be determined, we recognise that, at present, the recoverable amount of the company's assets on Bougainville is not capable of reliable measurement or estimation. Accordingly, the impairment provision made by directors in 1991 may eventually prove to be above or below the sum which is necessary to reflect this impairment. In the absence of all the necessary information and explanations we require, and for the reasons set out above, we are unable to form an opinion as to whether or not the impairment provision against the carrying amount of mine assets of K350 million is adequate or not. Accordingly, we are unable to form an opinion as to whether or not the carrying value of the mine assets, as disclosed in these accounts, is properly stated.

The Directors have established a provision of K22.1 million for compensation, rehabilitation and stabilisation for which the company may be liable. The Company's actual liability for these costs is subject to significant uncertainty, and we are unable to form an opinion as to whether the provision is fairly stated.

The mine assets, which represent 49% of the book value of total assets and 54% of the book value of net tangible assets, and the liability for compensation, rehabilitation and stabilisation, are of fundamental importance to the presentation of the accounts. In view of these matters over the carrying amount of the mine assets and the liability for compensation, rehabilitation and stabilisation as set out above, we are unable to form an opinion as to whether or not the financial report gives a true and fair view of the financial position of the Company as at 31 December, 2009 and its performance for the year ended on that date.

DISCLAIMER OF AUDIT OPINION

Because of the existence of the limitation in the scope of our work and significance of the matters described in the paragraphs above:

- (a) We have not obtained all the information and explanations that we have required; and
- (b) We are unable to, and do not express, an opinion as to whether the financial report of Bougainville Copper Limited;
 - (i) gives a true and fair view of the financial position of Bougainville Copper Limited as at 31 December, 2009 and its performance for the year then ended; and
 - (ii) is presented in accordance with the *Companies Act, 1997*, International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea.

Report on other Legal and Regulatory Requirements

The *Papua New Guinea Companies Act, 1997* requires that in carrying out our audit we consider and report to you on the following matters. We confirm that;

- (i) in our opinion proper accounting records have been kept by the company, so far as appears from our examination of those records;
- (ii) with the exception of the matters described above we have obtained all the information and explanations we have required; and
- (iii) in conducting our audit we followed applicable independence requirements of Certified Practising Accountants of Papua New Guinea.”

71. GOGOL REFORESTATION COMPANY LIMITED

71.1 INTRODUCTION

Gogol Reforestation Company Limited was incorporated under the *Companies Act, 1997*. The objective of the Company is to be involved in reforestation.

At 31 December, 2008, the issued and fully paid up Capital of the Company comprised 102,001 „A“ class ordinary shares of K1.00 each and 98,001 „B“ class ordinary shares of K1.00 each. Of these, the Government of Papua New Guinea held 98,001 „B“ class ordinary shares of K1.00 each, representing 49% of the issued capital at a cost of K98,001.

71.2 REPORT OF THE COMPANY’S AUDITORS

A private firm of auditors have conducted the audit of the Company’s financial statements including the accounts and records for the year ended 31 December, 2009 and the report was issued on 14 June, 2010. I sighted the audit report and it did not contain any qualification.

72. OK TEDI MINING LIMITED

72.1 INTRODUCTION

OK Tedi Mining Limited, formerly Mt. Fubilan Development Company Limited, was incorporated under the *Companies Act, 1997*. The main function of the Company is mining.

At 31 December, 2009, the issued and fully paid up capital of the Company was K237,929,000 (235,000,000 Ordinary Shares with no par value). Of these, the Government of Papua New Guinea held fully paid 47,000,000 Ordinary Shares valued at K47,000,000 representing 20% of the Ordinary Share capital.

72.2 REPORT OF THE COMPANY'S AUDITORS

A private firm of auditors reported on the accounts of the Company and the Group for the year ended 31 December, 2009 and the report was issued on 26 February, 2010. I sighted the audit report and it did not contain any qualification.

73. PACIFIC FORUM LINE LIMITED

73.1 INTRODUCTION

Pacific Forum Line Limited was incorporated in Western Samoa. The main function of the Company is to provide shipping services within the South Pacific Region. The Company has a subsidiary, Pacific Forum Line (NZ) Limited, which is the operating arm of the Company located in Auckland, New Zealand.

At 31 December, 2007 the issued and fully paid up Capital of the Company comprised 120,000 „A“ Class ordinary shares of NZ\$0.64 (New Zealand Dollar) each and 20,789,582 „B“ Class ordinary shares of NZ\$0.64 each. Of these, the Government of Papua New Guinea held 10,000 „A“ Class ordinary shares and 6,037,524 „B“ Class ordinary shares of NZ\$.64 each, representing 8.33% of „A“ Class and 29.04% of „B“ Class ordinary shareholding.

73.2 REPORT OF THE COMPANY’S AUDITORS FOR 2008

A private firm of auditors have conducted the audit of the Company’s financial statements for the year ended 31 December, 2008 and the report was issued on 29 July, 2009. I sighted the audit report and it did not contain any qualification.

73.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the audited financial statements of the Company for the year ended 31 December, 2009 had not been submitted for my verification.

74. CTP (PNG) LIMITED (FORMERLY PACIFIC RIM PLANTATIONS LIMITED)

74.1 INTRODUCTION

Higaturu Oil Palms Limited was incorporated under the *Companies Act, 1997*. The Company was established to develop and operate oil palm estates and oil palm mills, on land leased from the Papua New Guinea Government at Popondetta. Its name was changed to Pacific Rim Plantations Limited on 21 June, 1995. The name Pacific Rim Plantations was further changed to CTP (PNG) Limited on 25 May, 2005.

At 31 May, 2009, the authorised share capital of the Company was K100 million, and K73.3 million had been issued, comprising 14,661,915 „A“ Ordinary Shares of K1 each, 55,466,785 „B“ Ordinary Shares of K1 each and 3,184,201 „C“ Ordinary Shares of K1 each. Of these, the Independent Public Business Corporation held 14,661,915 „A“ Ordinary Shares of K1 each representing a 20% shareholding.

74.2 REPORT OF THE COMPANY’S AUDITORS

A private firm of auditors reported on the Company’s financial statements for the year ended 31 May, 2009 on 18 September, 2009. I have examined the report and it did not contain any qualification.

75. PNG SUSTAINABLE DEVELOPMENT PROGRAM LIMITED

75.1 INTRODUCTION

75.1.1 Legislation

The PNG Sustainable Development Program Limited was incorporated in Singapore under the *Singapore Companies Act, (Cop. 50)* on 20 October, 2001.

As a Company limited by guarantee „PNG Sustainable Development Program Limited“ has no share capital, debentures, share options and unissued shares.

The principal activity of the Company is to promote sustainable development within, and advance the general welfare of the people of Papua New Guinea, particularly those of the Western Province of Papua New Guinea through supporting programs and projects in the areas of capacity building, health, education, economic development, infrastructure, community self-reliance, local community leadership and institutional capacity and other social and environmental purposes for the benefit of those people.

75.1.2 Objectives of the PNG Sustainable Development Program Limited

The objective of the Company is to promote and improve the quality of life of current and future generations of the people of Papua New Guinea, especially of Western Province by:

- Investing and managing wisely the income and resources of the Company;
- Undertaking investments and supporting development programs and projects that are sustainable-providing significant benefits in the short and long term to the people, local communities, provinces and the nation;
- Meeting the best international standards - financial, physical, cultural, social and environmental in our activities; and
- Working together with the people of Papua New Guinea in partnership with the government, churches and other non-government and business partners.

75.1.3 Functions of the PNG Sustainable Development Program Limited

The Primary functions of the program are:

- to promote sustainable development in Western Province and Papua New Guinea more generally; and
- to manage the Long Term Fund to support a high level of development expenditure in Western Province in particular and Papua New Guinea in general for at least 40 years after the closure of the Ok Tedi Mine.

75.2 REPORT OF THE COMPANY'S AUDITORS

A private firm of auditors conducted the audit of the Company and of the Group's financial statements for the year ended 31 December, 2009 including the accounts and records and the report was issued on 06 April, 2010. This report did not contain any qualification.

SECTION D

PROBLEM AUDITS

76. FOREWORD

This section of my Report deals with problem audits. Problem audits denote audit of entities in respect of which I have not been able to carry out audits for circumstances detailed in the respective paragraphs. The two classifications of audits that fall within this category are audits in respect of dormant entities and those that have been in arrears.

76.1 DORMANT ENTITIES

Dormant entities are those that have ceased operations for a number of years. In essence, most of these entities do not physically exist, and neither are any officers around to provide information regarding the financial statements.

76.2 EXCLUSION OF ENTITIES FROM FUTURE REPORTS

In my prior years' Reports to Parliament, I have indicated that if the status of some Dormant Companies remained unchanged, I would exclude them from my future Reports. However, no Companies were classified under this category during the audit cycle. During 2009/2010 audit cycle, audit of the following Companies were transferred to Provincial Government Audit Branch and as such these entities would be excluded in my future Part IV Reports to Parliament would be reported in my Part III Report.

- Motu Koitabu Council and its Subsidiaries
- Tabudubu Limited (Subsidiary of Motu Koitabu Council)

77. AUDITS IN ARREARS

77.1 GENERAL

Audits in arrears are those in respect of which financial statements have not been submitted on time for audit to be undertaken, thus placing my Office in a position where audits are not able to be conducted on a current year basis consistent with the requirements of the *Companies Act* and the *Public Finances (Management) Act, 1995*. Two serious consequences develop from this. Firstly, it results in a build up of audits in arrears, and these are all audits other than the current year (2009) audits. The other serious consequence is that audit certificates issued more than a year or two in arrears serve only to meet the administrative or legislative requirements, but their validity from a decision making stand-point may be lost due to the time lag.

77.2 RESPONSIBILITY FOR PREPARATION OF FINANCIAL STATEMENTS

The responsibility for the preparation and presentation of financial statements is that of the management of the auditee organisation. That being the case, the audit of the financial statements by the Auditor-General does not in any way relieve management of its responsibility to have financial statements prepared on time.

This responsibility also requires management to ensure that an adequate and effective internal control system is maintained so as to ensure, inter-alia, that complete and accurate financial statements are produced on a timely basis. To assist management in producing financial statements that meet the qualitative characteristics, the management's responsibility also extends to ensuring that professionally qualified and experienced accounting personnel are engaged.

It is generally true that irrespective of their completeness, accuracy or reliability, financial statements that are unduly delayed, lose their relevance. Although there is no consensus regarding the length of time that ought to be allowed to elapse between the predetermined reporting date and the date when the financial statements lose their relevance, there is a need to weigh the relative merits of preparing them on a timely basis, let alone the legislative requirements.

Relevant and reliable information therefore is useful for decision making when these are timely prepared and made available to concerned parties. Relevance here is relative to the value and usefulness of the audited financial information to management and the parties concerned for decision making. Current information is of more relevance in the fight against corrupt practices than information that is out of date.

77.3 LEGISLATIVE REQUIREMENTS

To ensure the timely preparation of financial statements, Section 63 (1) of the *Public Finances (Management) Act, 1995*, makes it mandatory for Public Bodies to prepare and furnish audited financial statements, to the Minister responsible, before 30 June each year (Section 63 (2)). The fact that audit of 23 entities as depicted in Schedule B had been in arrears due to non-submission of financial statements is a direct contravention of the requirements of Section 63 (1) referred to above.

Strict adherence of this requirement, despite its mandatory nature, has not been enforced by the respective entities' managements and the authorities concerned. My strong contention is that, enforcement of the above requirements by the authorities concerned and the Minister responsible may have been lacking in the past. There may therefore be a need, whilst ensuring timely accountability of public resources, to take certain Public Bodies to task for non-compliance with mandatory statutory requirements. It is in this connection, that my Office welcomes the introduction of Section 63(6) of the *Public Finances (Management) Act, 1995*. This Section imposes penalties on Public Bodies for non submission of annual reports to the Minister responsible for financial management.

By virtue of Section 63(5) of the *Public Finances (Management) Act, 1995*, the Ministers responsible are required to table the reports of the respective Public Bodies in Parliament after they are received. The following arrears situation implies that a lot of Public Bodies reports may not have been tabled in Parliament as required, and thus, the accountability to Parliament in these respects has been far short of the desired.

77.4 CURRENT YEAR AUDITS (2009 AUDITS)

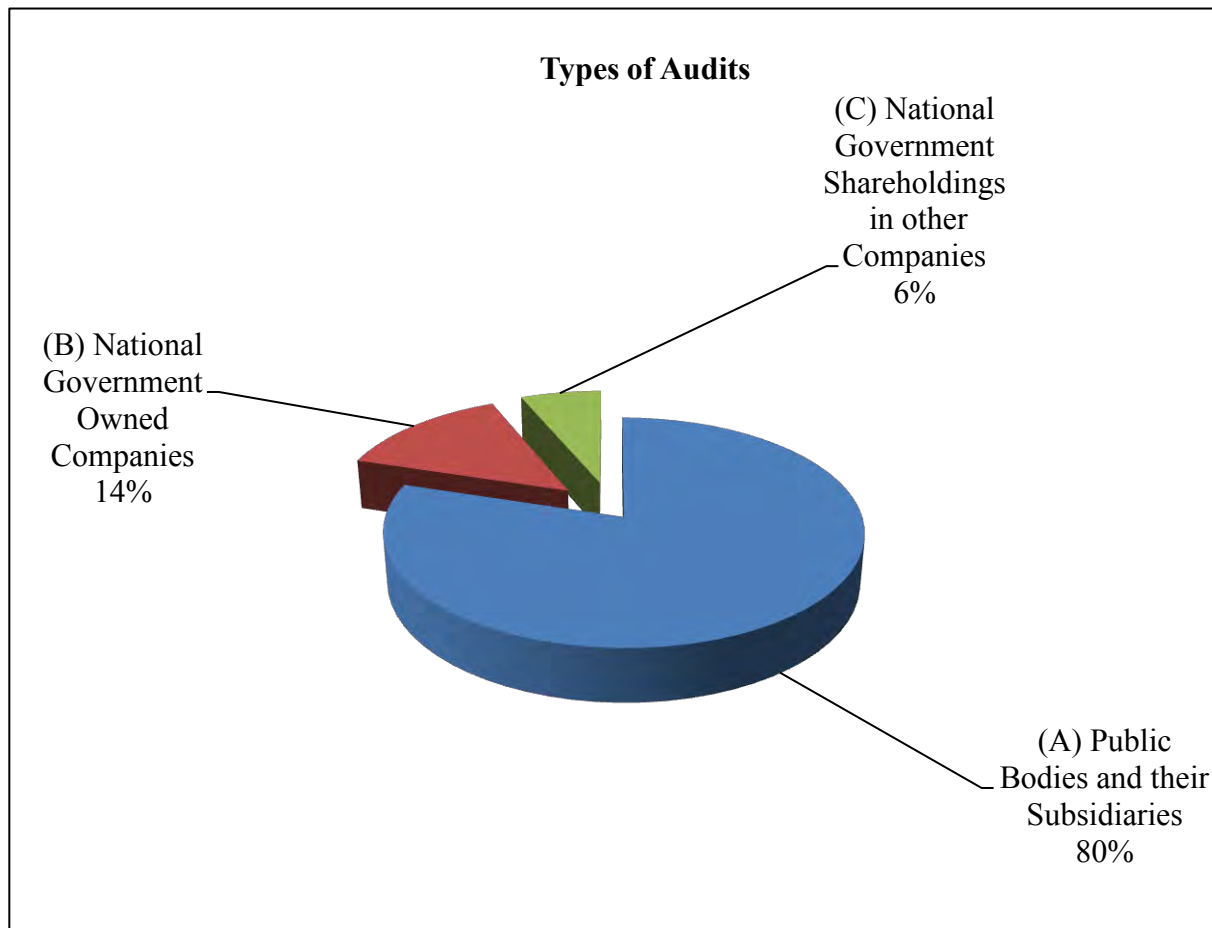
Entities totalling 88 subject to audit by the Auditor-General comprise 75 Public Bodies and their subsidiaries, 13 National Government owned companies. The remaining 6 companies in which the National Government has share holdings were audited by private accounting firms appointed by the respective companies (referred to as Section „C“ Companies). **Table 1** and **Chart 1** below provide details of these.

TYPES OF AUDIT

TABLE 1

Section	Types of Audits	Number of Entities	
		2009/2010	2008/2009
(A)	Public Bodies and their Subsidiaries	75	71
(B)	National Government Owned Companies	13	17
(C)	National Government Shareholdings in other Companies	6	8
		94	96

CHART 1



77.5 STATUS OF CURRENT YEAR AUDITS

Each of the 84 entities, excluding the Ceased Entities, Section „C“ Companies and audit portfolios transferred to Provincial Government Branch are subject to audit and required under Section 63 (4) of the *Public Finances (Management) Act, 1995*, to submit annual financial statements for audit. Information available in my Office shows that only 36 entities (Sections A & B) submitted their financial statements for 2009 for audit up to the time of preparing this report. A total of 48 entities, excluding the ceased entities and Section „C“ Companies, have not submitted their 2008 financial statements for audit in 2010. It could therefore be logically concluded that, about 51% of the public bodies might not have submitted their annual reports and financial statements for 2009 together with my reports on them, to the respective Ministers for tabling in the National Parliament on or before June 2010.

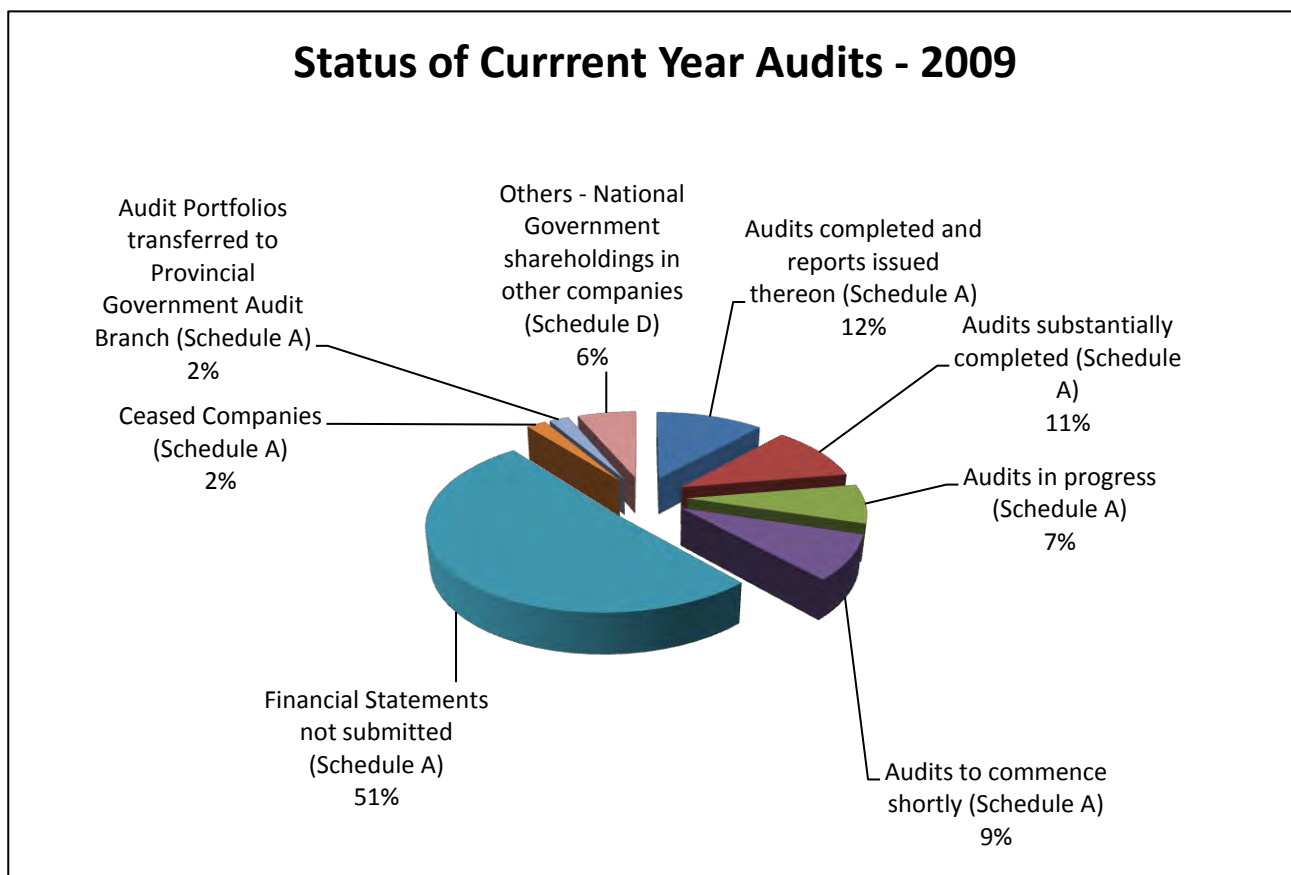
Table 2 and **Chart 2** shown below, and **Schedule A** attached show the status and the details of the current year audits planned for in 2009.

STATUS OF CURRENT YEAR AUDITS 2009

TABLE 2

No.	Status of Current Year Audits	Number of Entities	
		2009	2008
(1)	Audits completed and reports issued thereon (Schedule A)	11	9
(2)	Audits substantially completed (Schedule A)	10	6
(3)	Audits in progress (Schedule A)	7	12
(4)	Audits to commence shortly (Schedule A)	8	9
(5)	Financial Statements not submitted (Schedule A)	48	46
(6)	Ceased Companies (Schedule A)	2	6
(7)	Audit Portfolios transferred to Provincial Government Audit Branch (Schedule A)	2	0
(8)	Others - National Government shareholdings in other companies (Schedule D)	6	8
		94	96

CHART 2



77.6 AUDITS IN ARREARS (2008 AND PRIOR YEARS)

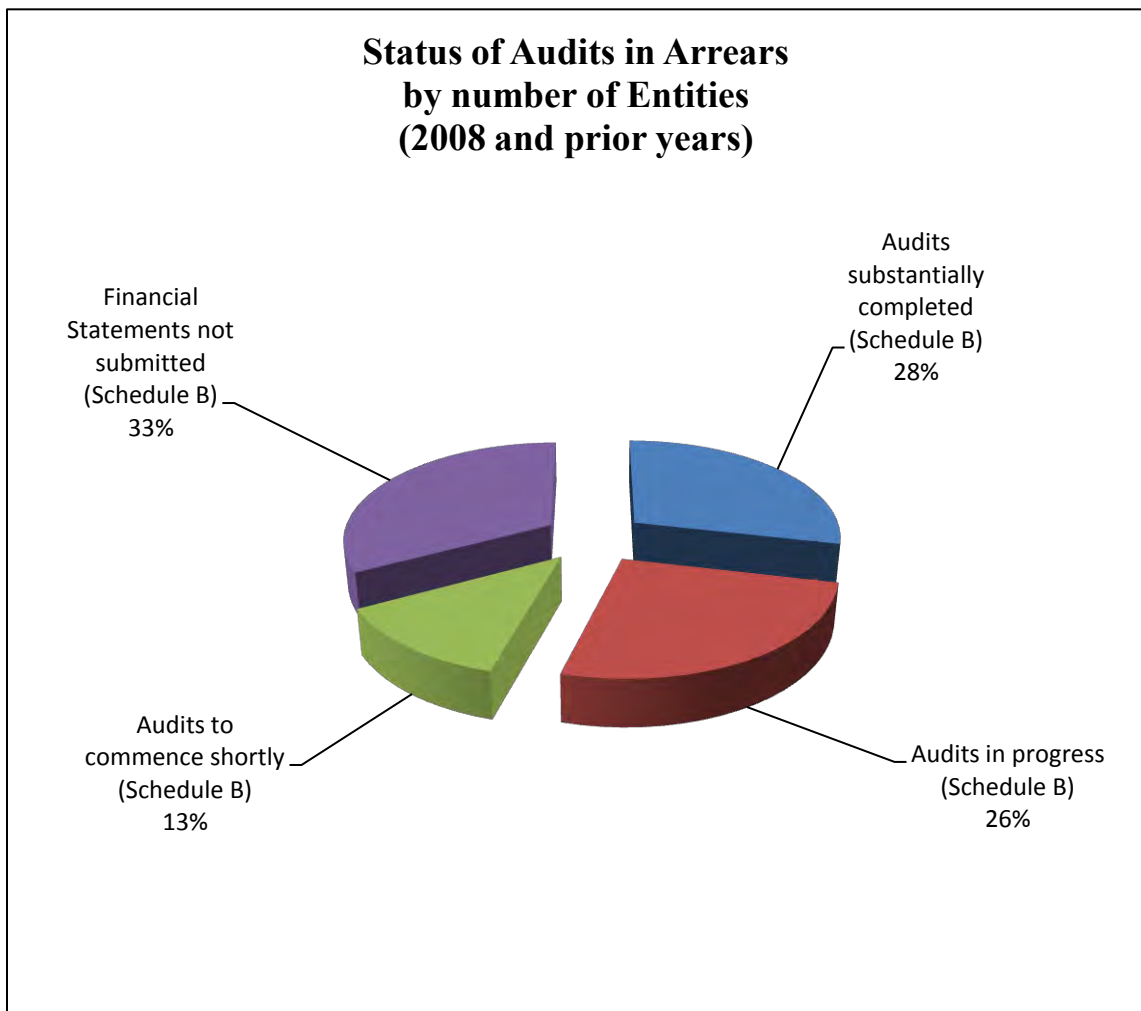
As stated earlier in paragraph 77.5, records available in my Office show that a total of 70 entities (137 audits) were in the audit in arrears category due to non-submission of financial statements. **Table 3** and **Chart 3** shown below, and **Schedule B** attached provide more details of these.

**STATUS OF AUDITS IN ARREARS BY
NUMBER OF ENTITIES
(2008 AND PRIOR YEARS)**

TABLE 3A

	Status of Audits in Arrears (2008 and Prior Years)	Number of Entities
(1)	Audits substantially completed (Schedule B)	20
(2)	Audits in progress (Schedule B)	18
(3)	Audits to commence shortly (Schedule B)	9
(4)	Financial Statements not submitted (Schedule B)	23
		70

CHART 3A

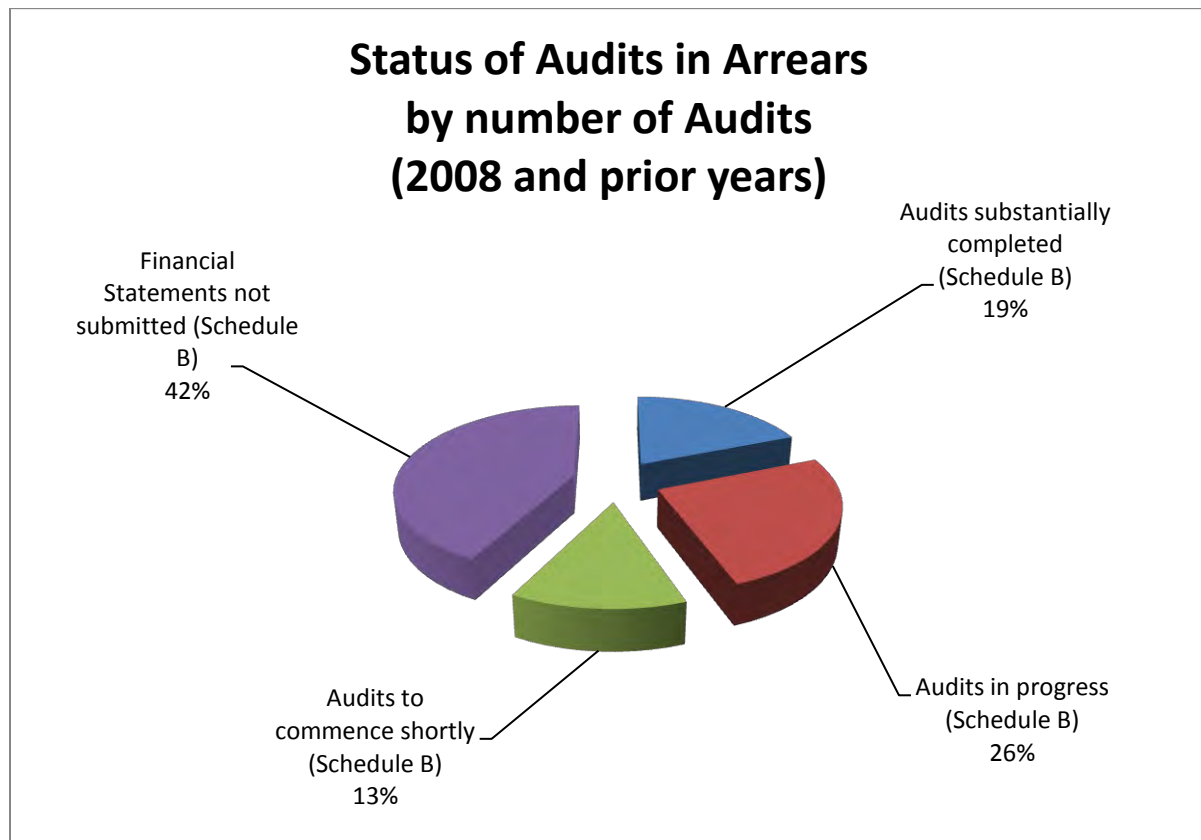


**STATUS OF AUDITS IN ARREARS
BY NUMBER OF AUDITS
(2008 AND PRIOR YEARS)**

TABLE 3B

	Status of Audits in Arrears (2008 & prior years)	No. of Audits
(1)	Audits substantially completed (Schedule B)	26
(2)	Audits in progress (Schedule B)	35
(3)	Audits to commence shortly (Schedule B)	18
(4)	Financial Statements not submitted (Schedule B)	58
		137

CHART 3B



77.7 LONG OUTSTANDING FINANCIAL STATEMENTS

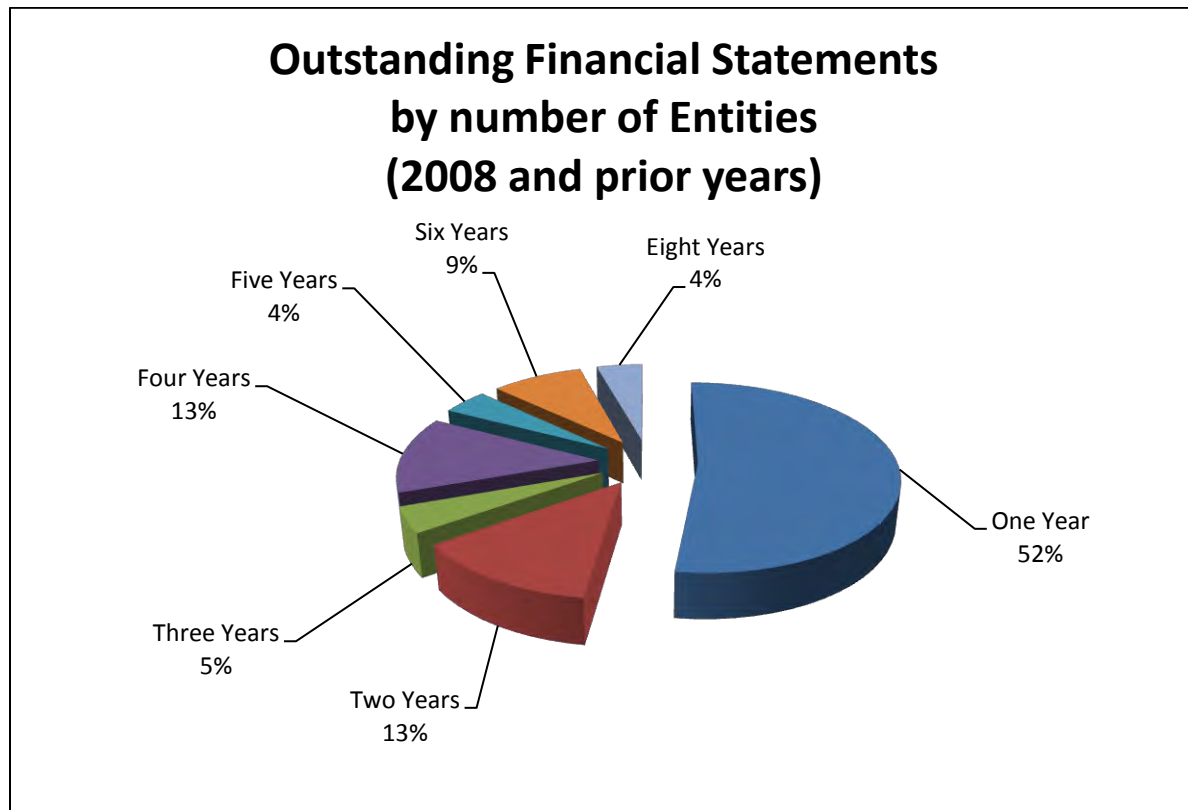
There were no movements noted in the number of audit entities (23) which are in the arrears category between previous year (2008) and current year (2009). Of these 23 entities, 58 financial statements for period ranging from one year to eight years have still not been submitted. In other words, they still have financial statements outstanding for the years from 1998 to 2008. Details of these are shown below in **Table 4, Chart 4** and also in **Schedule C** attached.

**LONG OUTSTANDING FINANCIAL STATEMENTS
BY NUMBER OF ENTITIES
(2008 AND PRIOR YEARS)**

TABLE 4A

	Years Outstanding	Number of Entities
(1)	One Year	12
(2)	Two Years	3
(3)	Three Years	1
(4)	Four Years	3
(5)	Five Years	1
(6)	Six Years	2
(7)	Eight Years	1
		23

CHART 4A

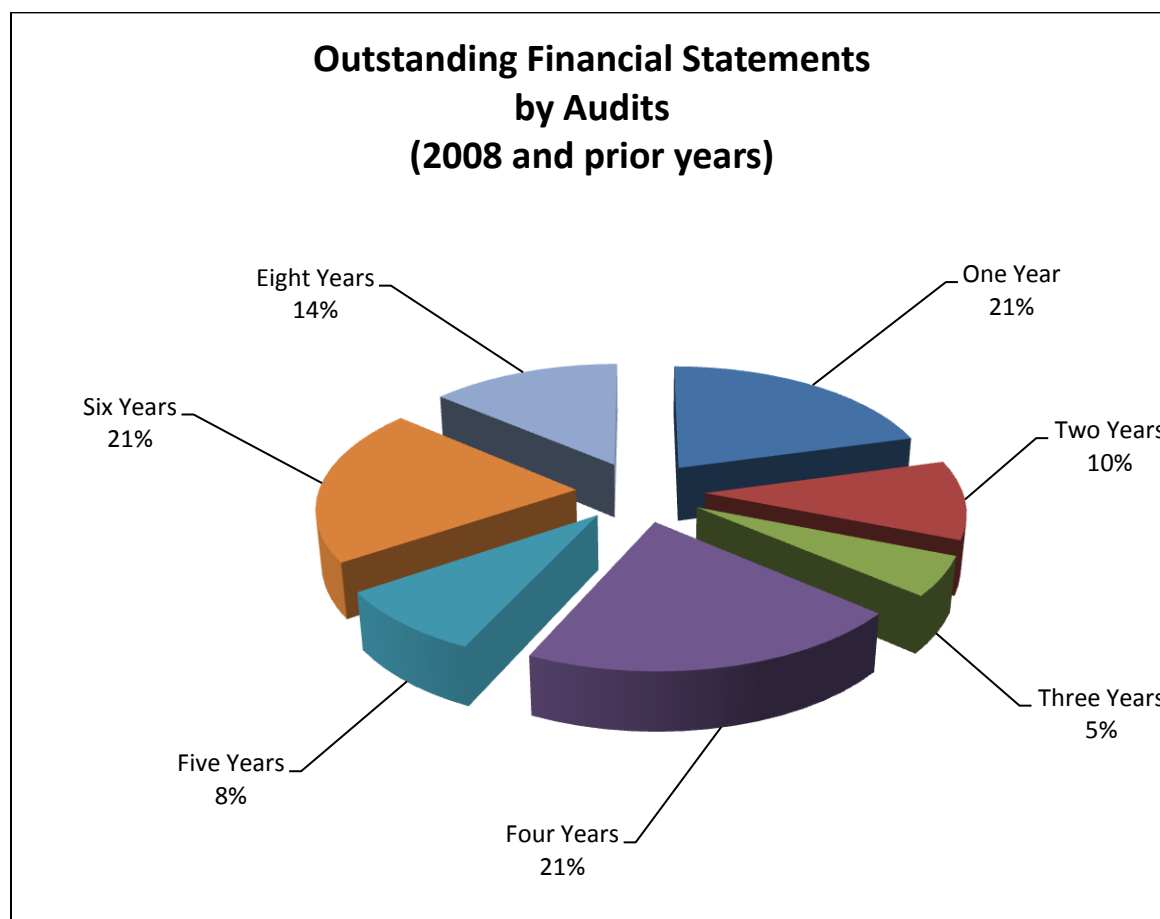


**LONG OUTSTANDING FINANCIAL
BY NUMBER OF AUDITS
(2008 AND PRIOR YEARS)**

TABLE 4B

No.	Years Outstanding	Number of Audits
(1)	One Year	12
(2)	Two Years	6
(3)	Three Years	3
(4)	Four Years	12
(5)	Five Years	5
(6)	Six Years	12
(7)	Eight Years	8
		58

CHART 4B

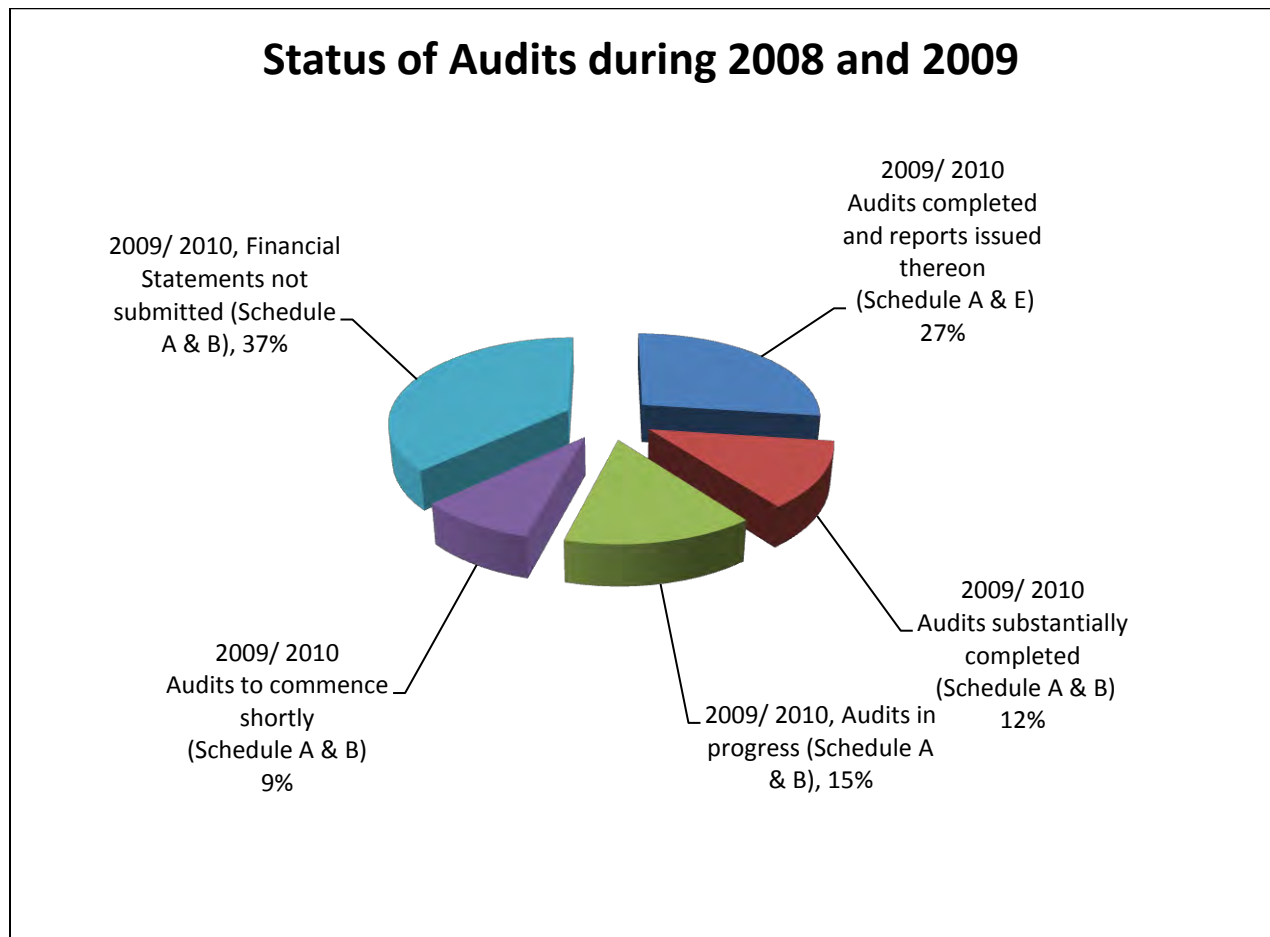


STATUS OF AUDITS DURING 2009 AND 2008

TABLE 5

	Status of Audits	Number of Audits	
		2009/ 2010	2008/ 2009
(1)	Audits completed and reports issued thereon (Schedule A & E)	78	60
(2)	Audits substantially completed (Schedule A & B)	36	40
(3)	Audits in progress (Schedule A & B)	42	36
(4)	Audits to commence shortly (Schedule A & B)	26	25
(5)	Financial Statements not submitted (Schedule A & B)	106	101
		288	262

CHART 5



ACKNOWLEDGEMENTS

My audit staff worked conscientiously and successfully completed audits entrusted to them. Their devotion to duty, their integrity and loyalty are highly appreciated.

I extend my appreciation and gratitude to the Moore Printing staff, for their efforts in completing the printing of this Report within the limited time frame available. I also acknowledge the co-operation and the assistance of all Heads of Public Bodies and National Government Owned Companies, and Registered Company Auditors and their staff who assisted as my Authorised Auditors.

I would also like to thank the Chairman and the members of the Permanent Parliamentary Committee on Public Accounts of Papua New Guinea and the Secretary for the continuous interest shown in my work.

**SIGNED AT WAIGANI THIS 10TH DAY OF OCTOBER
TWO THOUSAND AND TEN**



GEORGE W. SULLIMANN

Auditor-General of Papua New Guinea

Schedule 'A'

STATUS OF CURRENT YEAR AUDITS (2009)

(i) AUDITS COMPLETED AND REPORTS ISSUED THEREON

No.	Section	Para. No.	Entity
1	A	2	Bank of Papua New Guinea
2	A	9	Independence Fellowship Trust
3	A	10	Independent Consumer & Competition Commission
4	A	11A	General Business Trust
5	A	11F	Kroton No. 2 Limited
6	A	19	National Agricultural Research Institute
7	A	39	Ombudsman Commission of Papua New Guinea
8	A	44	PNG Institute of Public Administration
9	A	52	Security Industries Authority
10	A	53	Tourism Promotion Authority
11	B	67	Post PNG Limited

(ii) AUDITS SUBSTANTIALLY COMPLETED

No.	Section	Para. No.	Entity
1	A	7	Coffee Industry Corporation
2	A	7A	Patana No. 61 Limited
3	A	7B	Coffee Industry Fund
4	A	11	Independent public Business Corporation
5	A	13	Investment Promotion Authority
6	A	15	Legal Training Institute
7	A	18	National Agriculture Quarantine and Inspection Authority
8	A	21A	PNG Air Services Limited
9	A	29	National Maritime Safety Authority
10	A	34	National Roads Authority

(iii) AUDITS IN PROGRESS

No.	Section	Para. No.	Entity
1	A	40	PNG Radio Communication and Telecommunications Technical Authority
2	B	60	Mineral Resources Development Company Limited
3	B	58	Air Niugini Limited
4	B	62	NCD Water and Sewerage Limited (Eda Ranu)
5	B	66	PNG Power Limited
6	B	68	Telikom (PNG) Limited
7	B	68B	PNG Directories Limited

(iv) AUDITS TO COMMENCE SHORTLY

No.	Section	Para. No.	Entity
1	A	6	Cocoa Coconut Institute Limited of Papua New guinea
2	A	11E	PNG Dams Limited
3	A	23	National Capital District Commission
4	A	32	National Research Institute
5	A	35	National Training Council
6	A	37	National Youth Commission
7	A	46	PNG National Institute of Standards & Industrial Technology
8	B	59	Livestock Development Corporation Limited

(v) FINANCIAL STATEMENTS NOT SUBMITTED

No.	Section	Para. No.	Entity	Last Report Issued For	Date Report Issued
1	A	3	Border Development Authority	2008	29.01.10
2	A	4	Civil Aviation Safety Authority of Papua New Guinea	2006	26.10.10
3	A	5	Cocoa Board of Papua New Guinea	2006	18.06.10
4	A	5A	Cocoa Stabilisation Fund	2005	30.09.10
5	A	8	Government Printing Office	2007	07.01.10
6	A	11B	Aquarius No. 21 Limited	No report issued	-
7	A	11C	Port Moresby Private Hospital Limited	No report issued	-
8	A	12	Industrial Centres Development Corporation	2007	04.05.10
9	A	14	Kokonas Indastri Koperesen	2007	25.11.09
10	A	14A	PNG Coconut Extension Fund	2007	25.11.09
11	A	14B	PNG Coconut Industry Fund	2007	25.11.09
12	A	14C	PNG Coconut Research Fund	2007	25.11.09
13	A	16	Mineral Resources Authority	2007	05.01.09
14	A	20	National Aids Council	2003	26.02.09
15	A	21	National Airports Corporation Limited	New Company	-
16	A	22	National Broadcasting Corporation	2006	22.09.09
17	A	23A	National Capital District Botanical Enterprises Limited	No report issued	-
18	A	23B	Port Moresby City Development Enterprises Limited	No report issued	-
19	A	24	National Cultural Commission	2007	18.05.09
20	A	25	National Economic and Fiscal Commission	2006	01.07.09
21	A	26	National Fisheries Authority	2007	11.02.10
22	A	27	National Gaming Control Board	2006	26.02.10
23	A	28	National Housing Corporation	2007	30.06.10
24	A	30	National Museum and Art Gallery	2006	01.07.09
25	A	31	National Narcotics Bureau	No report issued	-
26	A	33	National Road Safety Council	2008	31.03.10

No.	Section	Para. No.	Entity	Last Report Issued For	Date Report Issued
27	A	36	National Volunteer Service	2006	01.10.08
28	A	38	Oil Palm Industry Corporation	2007	11.05.10
29	A	41	Parliamentary Members' Retirement Benefits Fund	2008	08.01.10
30	A	42	PNG Forest Authority	2006	26.02.10
31	A	43	PNG Institute of Medical Research	2006	20.04.09
32	A	45	PNG Maritime College	2006	03.03.09
33	A	47	Papua New Guinea Sports Commission	2002	25.05.10
34	A	48	PNG University of Technology & Its Subsidiary	2006	21.05.09
35	A	48A	Unitech Development and Consultancy Company Limited	2006	12.02.10
36	A	49	PNG Waterboard	2007	11.05.10
37	A	50	Public Curator of Papua New Guinea	No report issued	-
38	A	51	Small Business Development Corporation	2008	08.10.09
39	A	54	University of Papua New Guinea and Its Subsidiaries	2006	14.10.08
40	A	54B	Univentures Limited	No report issued	
41	A	55	University of Goroka	2006	28.08.09
42	A	55A	Unigor Consultancy Limited	No report issued	-
43	A	56	University of Vudal	2007	13.11.09
44	B	61	Motor Vehicles Insurance Limited	2007	31.07.09
45	B	63	Niugini Insurance Corporation Limited	2008	25.03.09
46	B	64	North Fly Highway Development Company Limited	No report issued	-
47	B	65	PNG Ports Corporation Limited	2007	16.06.09
48	B	68A	Kalang Advertising Limited	2006	05.01.10

(vi) NON OPERATIONAL ENTITES/ CEASED COMPANIES

No.	Section	Para. No.	Entity	Last Report Issued For	Date Report Issued
1	A	11D	Privatisation (Gardens Hills) Limited	No report issued	-
2	A	54A	Unisearch PNG Limited	2006	30.11.09

(vii) AUDIT PORTFOLIOS TRANSFERRED TO PROVINCIAL GOVERNMENT AUDIT BRANCH

No.	Section	Para. No.	Entity	Last Report Issued For	Date Report Issued
1	A	17	Motu - Koitabu Council & Its Subsidiary	No report issued	
2	A	17A	Tabudubu Limited	No report issued	

Schedule 'B'

STATUS OF AUDITS IN ARREARS (2008 AND PRIOR YEARS)

(i) AUDITS SUBSTANTIALLY COMPLETED

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	5	Cocoa Board of Papua New Guinea	2007 & 2008	2
2	A	5A	Cocoa Stabilisation Fund	2006 - 2008	3
3	A	6	Cocoa Coconut Institute Limited of Papua New Guinea	2007	1
4	A	12	Industrial Centres Development Corporation	2008	1
5	A	14	Kokonas Indastri Koperesen	2008	1
6	A	14A	PNG Coconut Extension Fund	2008	1
7	A	14B	PNG Coconut Industry Fund	2008	1
8	A	14C	PNG Coconut Research Fund	2008	1
9	A	16	Mineral Resources Authority	2008	1
10	A	23	National Capital District Commission and Its Subsidiaries	2007	1
11	A	26	National Fisheries Authority	2008	1
12	A	34	National Roads Authority	2008	1
13	A	42	PNG Forest Authority	2007	1
14	A	43	PNG Institute of Medical Research	2007 & 2008	2
15	A	45	PNG Maritime College	2007 & 2008	2
16	A	48	PNG University of Technology & Its Subsidiary	2007	1
17	A	54B	Univentures Limited	2007	1
18	A	55	University of Goroka	2007 & 2008	2
19	A	56	University of Vudal	2008	1
20	B	59	Livestock Development Corporation	2007	1
					26

(ii) AUDITS IN PROGRESS

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	4	Civil Aviation Safety Authority of Papua New Guinea	2007	1
2	A	11B	Aquarius No. 21 Limited	2007	1
3	A	11C	Port Moresby Private Hospital Limited	2007	1
4	A	11D	Privatisation (Gardens Hills) Limited	2007	1
5	A	11E	PNG Dams Limited	2004 - 2006	3
6	A	17	Moitu - Koitabu Council and Its Subsidiary	2003 & 2004	2
7	A	20	National Aids Council	2004 - 2007	4
8	A	23A	National Capital District Botanical Enterprises Limited	2003 - 2006	4

No.	Section	Para. No.	Entity	Year	No. of Audits
9	A	23B	Port Moresby City Development Enterprises Limited	2002 - 2005	4
10	A	27	National Gaming Control Board	2007	1
11	A	30	National Museum and Art Gallery	2007 & 2008	2
12	A	31	National Narcotics Bureau	1998 - 2002	5
13	A	48	PNG University of Technology & Its Subsidiary	2008	1
14	A	48A	Unitech Development and Consultancy Company Limited	2007	1
15	A	49	PNG Waterboard	2008	1
16	B	61	Motor Vehicles Insurance Limited	2008	1
17	B	65	PNG Ports Corporation Limited	2008	1
18	B	68A	Kalang Advertising Limited	2007	1
					35

(iii) AUDITS TO COMMENCE SHORTLY

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	4	Civil Aviation Safety Authority of Papua New Guinea	2008	1
2	A	6	Cocoa Coconut Institute of Papua New Guinea	2008	1
3	A	17	Moitu - Koitabu Council and Its Subsidiary	2005 & 2006	2
	A	23	National Capital District Commission and Its Subsidiaries	2008	1
4	A	23A	National Capital District Botanical Enterprises Limited	2007 & 2008	2
6	A	35	National Training Council	2002 - 2008	7
7	A	54	University of Papua New Guinea and Its Subsidiaries	2007 & 2008	2
8	A	54B	Univentures Limited	2008	1
9	B	59	Livestock Development Corporation Limited	2008	1
					18

(iv) FINANCIAL STATEMENTS NOT SUBMITTED

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	8	Government Printing Office	2008	1
2	A	11B	Aquarius No. 21 Limited	2008	1
3	A	11C	Port Moresby Private Hospital Limited	2008	1
4	A	11E	PNG Dams Limited	2002-2003, 2007 & 2008	4
5	A	17A	Tabudubu Limited	2003 - 2006	4
6	A	20	National Aids Council	2008	1
7	A	21	National Airports Corporation Limited	2008	1

No.	Section	Para. No.	Entity	Year	No. of Audits
8	A	22	National Broadcasting Corporation	2007 & 2008	2
9	A	23B	Port Moresby City Development Enterprises Limited	2006 - 2008	3
10	A	24	National Cultural Commission	2008	1
11	A	25	National Economic and Fiscal Commission	2007 & 2008	2
12	A	27	National Gaming Control Board	2008	1
13	A	28	National Housing Corporation	2008	1
14	A	31	National Narcotics Bureau	2003 - 2008	6
15	A	36	National Volunteer Service	2007 & 2008	2
16	A	38	Oil Palm Industry Corporation	2008	1
17	A	42	PNG Forest Authority	2008	1
18	A	47	Papua New Guinea Sports Commission	2003 - 2008	6
19	A	48A	Unitech Development and Consultancy Company Limited	2008	1
20	A	50	Public Curator of Papua New Guinea	2004 - 2008	5
21	A	55A	Unigor Consultancy Limited	2005 - 2008	4
22	B	64	North Fly Highway Development Company Limited	2001 - 2008	8
23	B	68A	Kalang Advertising Limited	2008	1
					58

Schedule 'C'

LONG OUTSTANDING FINANCIAL STATEMENTS (2008 & PRIOR YEARS)

(i) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN ONE (1) YEAR

No.	Section	Para. No.	Entity	No. of Audits
1	A	8	Government Printing Office	1
2	A	11B	Aquarius No. 21 Limited	1
3	A	11C	Port Moresby Private Hospital Limited	1
4	A	20	National Aids Council	1
5	A	21	National Airports Corporation Limited	1
6	A	24	National Cultural Commission	1
7	A	27	National Gaming Control Board	1
8	A	28	National Housing Corporation	1
9	A	38	Oil Palm Industry Corporation	1
10	A	42	PNG Forest Authority	1
11	A	48A	Unitech Development and Consultancy Company Limited	1
12	B	68A	Kalang Advertising Limited	1
				12

(ii) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN TWO (2) YEARS

No.	Section	Para. No.	Entity	No. of Audits
1	A	22	National Broadcasting Corporation	2
2	A	25	National Economic and Fiscal Commission	2
3	A	36	National Volunteer Service	2
				6

(iii) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN THREE (3) YEARS

No.	Section	Para. No.	Entity	No. of Audits
1	A	23B	Port Moresby City Development Enterprises Limited	3
				3

(iv) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN FOUR (4) YEARS

No.	Section	Para. No.	Entity	No. of Audits
1	A	11E	PNG Dams Limited	4
2	A	17A	Tabudubu Limited	4
3	A	55A	Unigor Consultancy Limited	4
				12

(v) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN FIVE (5) YEARS

No.	Section	Para. No.	Entity	No. of Audits
1	A	50	Public Curator of Papua New Guinea	5
				<u>5</u>

(vi) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN SIX (6) YEARS

No.	Section	Para. No.	Entity	No. of Audits
1	A	31	National Narcotics Bureau	6
2	A	47	Papua New Guinea Sports Commission	6
				<u>12</u>

(vii) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN EIGHT (8) YEARS

No.	Section	Para. No.	Entity	No. of Audits
1	B	64	North Fly Highway Development Company Limited	8
				<u>8</u>

Schedule 'D'

NON OPERATIONAL ENTITIES AND OTHERS

(A) WINDING UP/ CEASED OPERATIONS

No.	Section	Para. No.	Entity	Last Year of Audit
1	A	11D	Privatisation (Gardens Hills) Limited	2007
2	A	54A	Unisearch PNG Limited	2006

(B) AUDIT PORTFOLIOS TRANSFERRED FOR AUDITING TO PROVINCIAL GOVERNMENT AUDIT BRANCH

No.	Section	Para. No.	Entity	Last Year of Audit
1	A	17	Motu Koitabu Council & Its Subsidiary	2006
2	A	17A	Tabudubu Limited	2006

(C) OTHERS - NATIONAL GOVERNMENT SHAREHOLDERS IN OTHER COMPANIES

No.	Section	Para. No.	Entity	Remarks
1	C	70	Bougainville Copper Limited	2009 Completed
2	C	71	Gogol Reforestation Company Limited	2009 Completed
3	C	72	Ok Tedi Mining Limited	2009 Completed
4	C	73	Pacific Forum Line Limited	Audited financial statements not submitted
5	C	74	Pacific Rim Plantations Limited	2009 Completed
6	C	75	PNG Sustainable Development Program Limited	2009 Completed

Schedule 'E'

2008 AUDITS - COMPLETED DURING 2009/2010 AUDIT CYCLE

No.	Section	Para. No.	Entity
1	A	3	Border Development Authority
2	A	10	Independent Consumer & Competition Commission
3	A	11	Independent public Business Corporation
4	A	11A	General Business Trust
5	A	11F	Kroton No. 2 Limited
6	A	13	Investment Promotion Authority
7	A	15	Legal Training Institute
8	A	18	National Agriculture Quarantine and Inspection Authority
9	A	19	National Agricultural Research Institute
10	A	21A	PNG Air Service Limited
11	A	29	National Maritime Safety Authority
12	A	32	National Research Institute
13	A	33	National Road Safety Council
14	A	37	National Youth Commission
15	A	39	Ombudsman Commission of Papua New Guinea
16	A	40	PNG Radio Communication and Telecommunications Technical Authority (PANGTEL)
17	A	41	Parliamentary Members' Retirement Benefits Fund
18	A	44	PNG Institute of Public Administration
19	A	46	PNG National Institute of Standards and Industrial Technology
20	A	51	Small Business Development Corporation
21	B	58	Air Niugini Limited
22	B	60	Mineral Resources Development Company Limited
23	B	62	NCD Water and Sewerage Limited (Eda Ranu)
24	B	68	Telikom (PNG) Limited
25	B	68B	PNG Directories Limited

2007 AUDITS - COMPLETED DURING 2009/2010 AUDIT CYCLE

No.	Section	Para. No.	Entity
1	A	8	Government Printing Office
2	A	11	Independent public Business Corporation
3	A	11A	General Business Trust
4	A	12	Industrial Centres Development Corporation
5	A	13	Investment Promotion Authority

No.	Section	Para. No.	Entity
6	A	14	Kokonasi Industri Koporesen and Its Subsidiaries
7	A	14A	PNG Coconut Extension Fund
8	A	14B	PNG Coconut Industry Fund
9	A	14C	PNG Coconut Research Fund
10	A	26	National Fisheries Authority
11	A	28	National Housing Corporation
12	A	37	National Youth Commission
13	A	38	Oil Palm Industry Corporation
14	A	40	PNG Radio Communication and Telecommunications Technical Authority (PANGTEL)
15	A	41	Parliamentary Members' Retirement Benefits Fund
16	A	46	PNG National Institute of Standards and Industrial Technology
17	A	49	PNG Waterboard
18	A	56	University of Vudal

2006 AUDITS - COMPLETED DURING 2009/2010 AUDIT CYCLE

No.	Section	Para. No.	Entity
1	A	4	Civil Aviation Safety Authority of Papua New Guinea
2	A	5	Cocoa Board of Papua New Guinea
3	A	6	Cocoa Coconut Institute Limited of Papua New Guinea
4	A	22	National Broadcasting Corporation
5	A	23	National Capital District Commission
6	A	27	National Gaming Control Board
7	A	28	National Housing Corporation
8	A	37	National Youth Commission
9	A	42	PNG Forest Authority
10	A	48A	Unitech Development and Consultancy Company Limited
11	A	49	PNG Waterboard
12	A	54A	Unisearch PNG Limited
13	A	55	University of Goroka
14	A	56	University of Vudal
15	B	59	Livestock Development Corporation Limited
16	B	68A	Kalang Advertising Limited

2005 AUDITS - COMPLETED DURING 2009/2010 AUDIT CYCLE

No.	Section	Para. No.	Entity
1	A	5	Cocoa Board of Papua New Guinea
2	A	5A	Cocoa Stabilisation Fund
3	A	27	National Gaming Control Board
4	A	28	National Housing Corporation
5	A	54A	Unisearch PNG Limited

2004 AUDITS - COMPLETED DURING 2009/2010 AUDIT CYCLE

No.	Section	Para. No.	Entity
1	A	28	National Housing Corporation
2	A	54A	Unisearch PNG Limited

2002 AUDITS - COMPLETED DURING 2009/2010 AUDIT CYCLE

No.	Section	Para. No.	Entity
1	A	47	Papua New Guinea Sports Commission

Schedule 'F'

STATUS OF AUDITS AS AT 30 JUNE 2010

Year	Audits Completed	Audits Substantially Completed	Audits in Progress	Audits to Commence Shortly	Financial Statements not Submitted	Total 2009/2010	Total 2008/2009
2009	11	10	7	8	48	84	82
2008	25	14	5	8	22	74	72
2007	18	11	9	3	10	51	41
2006	16	1	3	2	7	29	24
2005	5	-	4	2	6	17	16
2004	2	-	5	1	5	13	10
2003	-	-	3	1	5	9	7
2002	1	-	2	1	2	6	4
2001	-	-	1	-	1	2	3
2000	-	-	1	-	-	1	2
1999	-	-	1	-	-	1	1
1998	-	-	1	-	-	1	0
Total	78	36	42	26	106	288	262

Schedule ' G '
TYPES OF AUDIT OPINIONS ISSUED FROM JULY 2009 TO JUNE 2010
(2009/2010 AUDIT CYCLE)

(i) UNQUALIFIED OPINION

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	2	Bank of Papua New Guinea	2009	1
2	A	3	Border Development Authority	2008	1
3	A	10	Independent Consumer & Competition Commission	2008 & 2009	2
4	A	11A	General Business Trust	2009	1
5	A	11F	Kroton No. 2 Limited	2008 & 2009	2
6	A	14	Kokonas Indastri Koperesen & its Subsidiaries	2007	1
7	A	15	Legal Training Institute	2008	1
8	A	19	National Agricultural Research Institute	2009	1
9	A	32	National Research Institute	2008	1
10	A	33	National Road Safety Council	2008	1
11	A	38	Oil Palm Industry Corporation	2007	1
12	A	39	Ombudsman Commission of Papua New Guinea	2008 & 2009	2
13	A	41	Parliamentary Members' Retirement Benefits Fund	2007 & 2008	2
14	A	44	PNG Institute of Public Administration	2008 & 2009	2
15	A	46	PNG National Institute of Standards & Industrial Technology	2007 & 2008	2
16	A	49	PNG Waterboard	2007 & 2008	2
17	A	52	Security Industries Authority	2009	1
18	A	53	Tourism Promotion Authority	2009	1
19	A	54A	Unisearch PNG Limited	2004, 2005 & 2006	3
20	B	60	Mineral Resources Development Company Limited	2008	1
21	B	67	Post PNG Limited	2009	1
22	B	68B	PNG Directories Limited	2008	1
					31

**(ii) QUALIFIED
OPINION**

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	5	Cocoa Board of Papua New Guinea	2005 & 2006	2
2	A	11	Independent Public Business Corporation	2007 & 2008	2
3	A	11A	General Business Trust	2007 & 2008	2
4	A	12	Industrial Centres Development Corporation	2007	1
5	A	13	Investment Promotion Authority	2008	1
6	A	14A	PNG Coconut Extension Fund	2007	1
7	A	14C	PNG Coconut Research Fund	2007	1
8	A	18	National Agriculture Quarantine & Inspection Authority	2008	1
9	A	19	National Agricultural Research Institute	2008	1
10	A	21A	PNG Air Service Limited	2008	1

No.	Section	Para. No.	Entity	Year	No. of Audits
11	A	26	National Fisheries Authority	2007	1
12	A	29	National Maritime Safety Authority	2008	1
13	A	37	National Youth Commission	2006 - 2008	3
14	A	51	Small Business Development Corporation	2008	1
15	B	58	Air Niugini Limited	2008	1
16	B	62	NCD Water & Sewerage Limited (Eda Ranu)	2008	1
17	B	68	Telikom (PNG) Limited & Its Subsidiaries	2008	1
					22

(iii) DISCLAIMED OPINION

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	4	Civil Aviation Safety Authority of Papua New Guinea	2006	1
2	A	5A	Cocoa Stabilisation Fund	2005	1
3	A	6	Cocoa Coconut Institute Limited of Papua New Guinea	2006	1
4	A	8	Government Printing Office	2007	1
5	A	9	Independence Fellowship Trust	2009	1
6	A	13	Investment Promotion Authority	2007	1
7	A	14B	PNG Coconut Industry Fund	2007	1
8	A	22	National Broadcasting Corporation	2006	1
9	A	23	National capital District Commission & Its Subsidiaries	2006	1
10	A	27	National Gaming Control Board	2005 & 2006	2
11	A	28	National Housing Corporation	2004 - 2007	4
12	A	40	PNG Radio Communication & Telecommunications Technical Authority (PANGTEL)	2007 & 2008	2
13	A	42	PNG Forest Authority	2006	1
14	A	47	Papua New Guinea Sports Commission	2002	1
15	A	48A	Unitech Development and Consultancy Company Ltd	2006	1
16	A	55	University of Goroka	2006	1
17	A	56	University of Vudal	2006 & 2007	2
18	B	59	Livestock Development Corporation Limited	2006	1
19	B	68A	Kalang Advertising Limited	2006	1
					25