



Report of the Auditor-General 2015

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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29 July 2016

The Honourable Theodore Zurenuoc, 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 29th July 2016 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 Report contains information on the status of certain entities whose audits have been in arrears.

Yours sincerely,



PHILIP NAUGA
Auditor-General

2015 AUDITOR-GENERAL'S REPORT – PART IV

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GENERAL

A. FOREWORD

My Annual Report to the National Parliament for the 2015 financial year is presented in four Parts. Part I deals with the Public Accounts of Papua New Guinea (PNG). 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;
- Section C deals with the Companies in which the National Government has shareholdings; and
- Section D is an additional section which provides details of entities that have audits 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 Management of the respective entities and to the responsible Ministers.

A.1 Audit and Delivery of Government Program

I have carried out audits of Statutory Bodies and their Subsidiaries, Provincial Government and Local Level Government, Hospital Boards, Business Arms, Provincial Authorities and Other audits as mandated. These government entities are tasked to deliver government services to the people of Papua New Guinea.

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

- Welfare
- Health
- Economic Development and Growth
- Contribution to Nation Building
- Good Governance

- Rural Development
- Poverty Reduction
- Employment
- Strengthening Public Expenditure
- Management System including:
 - Fiscal Sustainability
 - Prioritisation of Resources, and
 - Cost effective implementation of programs.

In addition, my audit findings that have been repeatedly highlighted show a slow progress in making improvements to governance structures and public accountability mechanisms in relation to expending public finances. Without strong governance support, service delivery as envisaged by the National Government remains to be frustrated.

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

B. AUTHORITY TO AUDIT

B.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, in so far as they relate to, or consist of, or are derived from public moneys or property of Papua New Guinea.

B.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 *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.

B.3 Auditing and Reporting Requirements

In *Section 8, Sub-sections 2 and 4* of the *Audit 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 1997*.

B.4 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.

B.5 Audit Opinion on Financial Statements

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

- *Whether the financial statements are based on proper accounts and records;*
- *Whether the financial statements are in agreement with those accounts and records; and*
- *Whether they show fairly the financial operations for the period which they cover and the state of affairs at the end of that period.*

B.6 Public Finances (Management) Act (PFMA)

The submission of the financial statements of public bodies for audit is required under *Section 63(4)* of the *PFMA*. 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 31 December proceeding, 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.

B.7 Companies Act

I am required to audit National Government owned companies and subsidiary companies under the provisions of the *Companies Act*. Though these companies are registered under the *Companies Act*, my responsibility to audit them is by virtue of *Sections 48 and 63* of the *PFMA* and *Section 3* of the *Audit Act*.

C. AUDIT OF PUBLIC BODIES

C.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.

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.

C.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 **Section B** of this Report which covers the National Government owned companies.

C.3 Reporting Framework

My audits are conducted in accordance with the 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 the International Financial Reporting Standards (IFRS) and statutory requirements.

D. APPOINTMENT AND USE OF AUTHORISED AUDITORS

Section 8(5) of the *Audit Act* 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.

E. EXECUTIVE SUMMARY

E.1 Report Coverage

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 2015 to June 2016 (2015/2016 Audit Cycle). The Report covers the audits of these entities' financial statements for a number of years, not just 2015.

In **2015** there were **99 public entities** subject to audit by my Office, consisting of **77 Public Bodies and their Subsidiaries** and **22 National Government Owned Companies**.

I am also responsible for reporting on the audits of **4 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.

E.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 overall poor state of the financial management structure in most public entities whose statements are subject to my audit and inspection.

The overall purpose of financial statements is to provide information about the financial position and performance of an organisation. The information is useful to a wide range of stakeholders and the statements constitute a formal record of the financial and business activities of an organisation. As such, the statements are core component of an organisation's governance and accountability. Non-submission of the financial statements for audits in a timely manner greatly limits the ability of stakeholders to monitor performance and make informed decisions regarding the organisation.

Financial management in the public sector is the establishment and maintenance of policies, processes and procedures to achieve effective and efficient management of public funds in such a manner as to achieve the objectives of the organisation. It consists of planning, directing, monitoring, organising and controlling the monetary resources of an organisation. Unfortunately many organisations continue to indicate they are incapable of managing their financial affairs.

Weaknesses with financial management are contributing to significant wastage of financial resources and indicate a serious lack of transparency and accountability.

Ultimately these weaknesses adversely impact upon the delivery of services to the citizens of PNG.

E.3 Submission of current year Financial Statements

Section 63(4) of the PFMA 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*.

Despite these legislative requirements, **58 entities** had not submitted their **2015 financial statements** to be audited and overall some **58 financial statements for 2014** and prior years had not been submitted for audit (**Refer Table A**). However, I noted some improvements during the cycle due to strategies implemented by my Office by compelling entities to submit their financial statements.

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

Table A

STATUS OF AUDITS DURING THE YEAR 2015 (END OF 2015/2016 CYCLE)

Year	Audits Completed	Audits Substantially Completed	Audits in Progress	Audits to Commence Shortly	Financial Statements not Submitted	Total 2015/2016	Total 2014/2015
2015	16	5	18	2	58	99	-
2014	19	15	7	1	37	79	99
2013	23	10	11	3	13	60	86
2012	18	4	5	1	6	34	60
2011	8	3	2	-	1	14	42
2010	3	-	1	-	1	5	15
2009	1	-	1	-	-	2	6
2008	-	-	1	-	-	1	4
2007	-	-	1	-	-	1	5
2006	-	-	1	-	-	1	4
2005	-	-	1	-	-	1	4
2004	-	-	-	-	-	-	2
2003	-	-	-	-	-	-	2
Total	88	37	49	7	116	297	329

Table A also shows that **174 audits** were either completed, substantially completed or still in progress as at 30 June 2016.

The details are graphically depicted in **Attachment ‘C’**, which also included the arrears of prior years. **Table A** also shows that of the **88 audits completed**, only **16 were for the current year (2015)**, with **23 current year audits** substantially completed or were in progress. A further **2 audits** were to commence shortly. Graphical description of the status of current year 2015 audits (excluding arrears) is given in **Attachment ‘A’**. The list of entities is at **Schedule ‘A’ (i), (ii), (iii) & (iv)**.

E.4 Type of Audit Opinions Issued¹

In the period covered by the audit, **88 audit reports were issued**. Of the **88 audit reports issued**, **24 were unqualified**, **37 were qualified**, **26 were Disclaimer Opinions** and **one Adverse Opinion**.

Of the **24 unqualified opinions issued**, **12** related to prior years and only **12** were for 2015 as follows:

1. *Investment Promotion Authority;*
2. *Kokonas Indastri Koporesen;*
3. *PNG Coconut Extension Fund;*
4. *PNG Coconut Research Fund;*
5. *National Agricultural Research Institute;*
6. *National Research Institute;*
7. *Kumul Petroleum Holdings Limited;*
8. *Kumul Petroleum Development Limited;*
9. *Kumul Petroleum Investment Limited;*
10. *Kumul Petroleum (PNG LNG) Limited;*
11. *Kumul Petroleum Technical Institute and Consulting Limited; and*
12. *Post (PNG) Limited;*

Four of the qualified opinions related to 2015 and others were for prior years. The high numbers of Disclaimer Audit Opinions issued are a reflection of the poor state of accounting, record-keeping and financial management practices in a number of public bodies.

The list of entities and the type of audit opinions issued during the period July 2015 to June 2016 are provided in **Attachment ‘D’**.

¹ 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 transactions of the Company being audited. **Disclaimer Opinion** – When insufficient competent evidential matter exists to form an audit opinion due to scope limitation or uncertainties. **Adverse Opinion** – The Company’s financial statements do not present fairly the financial position, results of operations, or changes in financial position or are not in conformity with generally accepted accounting principles.

Types of Audit Opinions issued for each entity over the period of six years from 2010 to 2015 are detailed on **Attachment ‘E’**.

E.5 Key Findings

The key findings from the audits centered primarily on the non-submission of the financial statements, non-compliance with the Salaries and Conditions Monitoring Committee (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.

E.6 Non-Submission of Financial Statements

As stated earlier, *Section 63(4)* of the *PFMA* 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 all respective public entities’ management. 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 **99 public entities** only **41** entities have submitted their financial statements for 2015 (**Refer Schedule A (i), (ii), (iii) & (iv)** for my audit and inspection up to the time of preparing this Report. A total of **58** entities have failed to comply with these provisions (**Refer Schedule A (v)**). The public entities referred to above does not include **4 Companies** with minority Government shareholdings.

The non-compliance of the public entities mentioned above has resulted in:

- *My Office not being 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 Recommendation

There is vigorous enforcement of the provisions of Section 63 of the PFMA and a legislative requirement is established to make the renewal of contracts of Chief Executive Officers subject to submission of financial statements and implementation and maintenance of prudent financial management.

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

Details of audits that have gone into arrears due to non-submission of financial statements from 2014 or earlier are given below in **Table B** and **Schedule ‘C’**.

Table B
Financial Statements not Submitted

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	3	Border Development Authority	2014	1
2	A	3A	Papua New Guinea Maritime Transport Limited	2013 & 2014	2
3	A	5	Climate Change and Development Authority	2013 & 2014	2
4	A	7	Cocoa Coconut Institute Limited of PNG	2014	1
5	A	8	Coffee Industry Corporation Limited	2014	1
6	A	8A	Coffee Industry Fund	2014	1
7	A	8B	Patana No. 61 Limited	2014	1
8	A	9	Government Printing Office	2014	1
9	A	12	Industrial Centers Development Corporation	2014	1
10	A	17	Legal Training Institute	2014	1
11	A	23A	National Capital District Botanical Enterprises Limited	2013 & 2014	2
12	A	23B	Port Moresby City Development Enterprises Limited	2013 & 2014	2
13	A	23C	Port Moresby Nature Park Limited	2014	1
14	A	24	National Cultural Commission	2014	1
15	A	28	National Housing Corporation	2013 & 2014	2
16	A	31	National Museum and Art Gallery	2014	1
17	A	32	National Narcotics Bureau	2013 & 2014	2
18	A	38	National Youth Commission	2014	1
19	A	39	Oil Palm Industry Corporation	2012 - 2014	3
20	A	42	Papua New Guinea Accident Investigation Commission	2013 & 2014	2
21	A	43	Papua New Guinea Immigration and Citizenship Service Authority	2014	1
22	A	44	Papua New Guinea Forest Authority	2014	1
23	A	46	Papua New Guinea Institute of Public Administration	2014	1
24	A	47	Papua New Guinea Maritime College	2014	1
25	A	48	Papua New Guinea National Institute of Standards and Industrial Technology	2014	1
26	A	49	Papua New Guinea Sports Foundation	2014	1
27	A	50	Papua New Guinea University of Technology	2014	1
28	A	50A	National Analytical and Testing Services Limited.	2014	1
29	A	50B	Unitech Development and Consultancy Company Limited	2014	1

30	A	52	Public Curator of Papua New Guinea	2014	1
31	A	54	Small Business Development Corporation	2014	1
32	A	56A	Unigor Consultancy Limited	2014	1
33	A	58A	Unisave Limited	2012 - 2014	3
34	A	58B	Univentures Limited	2012 - 2014	3
35	B	63	Livestock Development Corporation Limited	2010 - 2014	5
36	B	66	National Airports Corporation Limited	2012 - 2014	3
37	B	66A	Airport City Development Limited	2012 - 2014	3
					58

Arrears Reduction Strategies

During the last Audit Cycle, I took 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:

- Forwarding reminder letters to entities on a regular basis until the submission of the financial statements;
- Copies of these reminder letters were forwarded to the Public Accounts Committee and to the Secretary for Finance for their necessary action;
- My officers visited various entities and held meetings with the Chief Executive Officers regarding non-submission of the financial statements and drew their attention to their responsibilities under the *PFMA* and the resultant breach of that Act; and
- Senior officers of the Division attended various audit committee meetings during the cycle and emphasised the importance of bringing the audits up to date. My officers attended the following audit committee meetings during the cycle:
 - *National Capital District Commission;*
 - *Civil Aviation Safety Authority of PNG;*
 - *University of PNG;*
 - *National Housing Corporation;*
 - *University of Goroka;*
 - *Internal Revenue Commission; and*
 - *PNG Customs.*

I have set a goal to significantly reduce the arrears situation and the entities listed under **Attachment 'F'** indicate the arrears cleared during the audit cycle. This reduction largely reflects the collective efforts of all my staff members to better manage the audits in arrears.

E.7 Non-Compliance of the Salaries and Conditions Monitoring Committee Act

The SCMC was established as the regulatory 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 *SCMC Act* which stipulates:

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

E.8 Non-Compliance with the Audit Act 1989

Some entities owned by the State have amended their enabling Acts to exclude my Office from performing the audit of those entities and appointed their own auditors contrary to the *Audit Act*. The following state owned entities have appointed their own Auditors:

- *Petromin Limited; and*
- *National Development Bank Limited.*

E.9 Lack of Basic Accounting Records and Inadequate Control Systems

As reported in previous years, during the course of audits I noted serious deficiencies in accounting and record keeping practices and the maintenance of internal controls. 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 asset 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 Commission (IRC) regulations on payment of taxes not being followed;
- Entities paying housing allowances and Board members allowances without tax;
- Accounting, administrative and procedural manuals not being available;
- Public servants serving on Statutory Boards 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 **Attachment ‘D’**.

E.10 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 the International Financial Reporting Standards. I also consider that a large number of Chief Executive Officers do not pay sufficient attention to financial management in their entities.

In my view, the concept of effective, prudent and efficient financial management is yet to be understood and practiced by many Chief Executive Officers.

E.11 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 must 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;*
- *Maintenance and provision of quality information;*
- *Effective implementation of internal control systems;*
- *Sound financial management implemented and adopted by qualified and experienced accountants; and*
- *Implementation of all my audit recommendations.*

E.12 Improvement Strategies

In my view, for improvement to occur:

- Chief Executive Officers must employ well trained and professionally qualified accounting staff to manage the financial affairs of the organisation;
- Chief Executive Officers must understand the value of and how to implement a strong governance framework and their performance should be regularly assessed against implementation of the framework; and
- Parliament must increase its reviews of the management of public entities and provide Chief Executive Officers with incentives to improve their management structures; and the Department of Finance must exercise its discretion to invoke *Section 63(8)* of the *PFMA* by withholding funds for those entities that have not submitted their financial statements until the financial statements are submitted and/or completion of the audit.

E.13 Structure of the Report

This Report is structured as follows:

Section A – Public Bodies and Their Subsidiaries;

Section B – National Government Owned Companies;

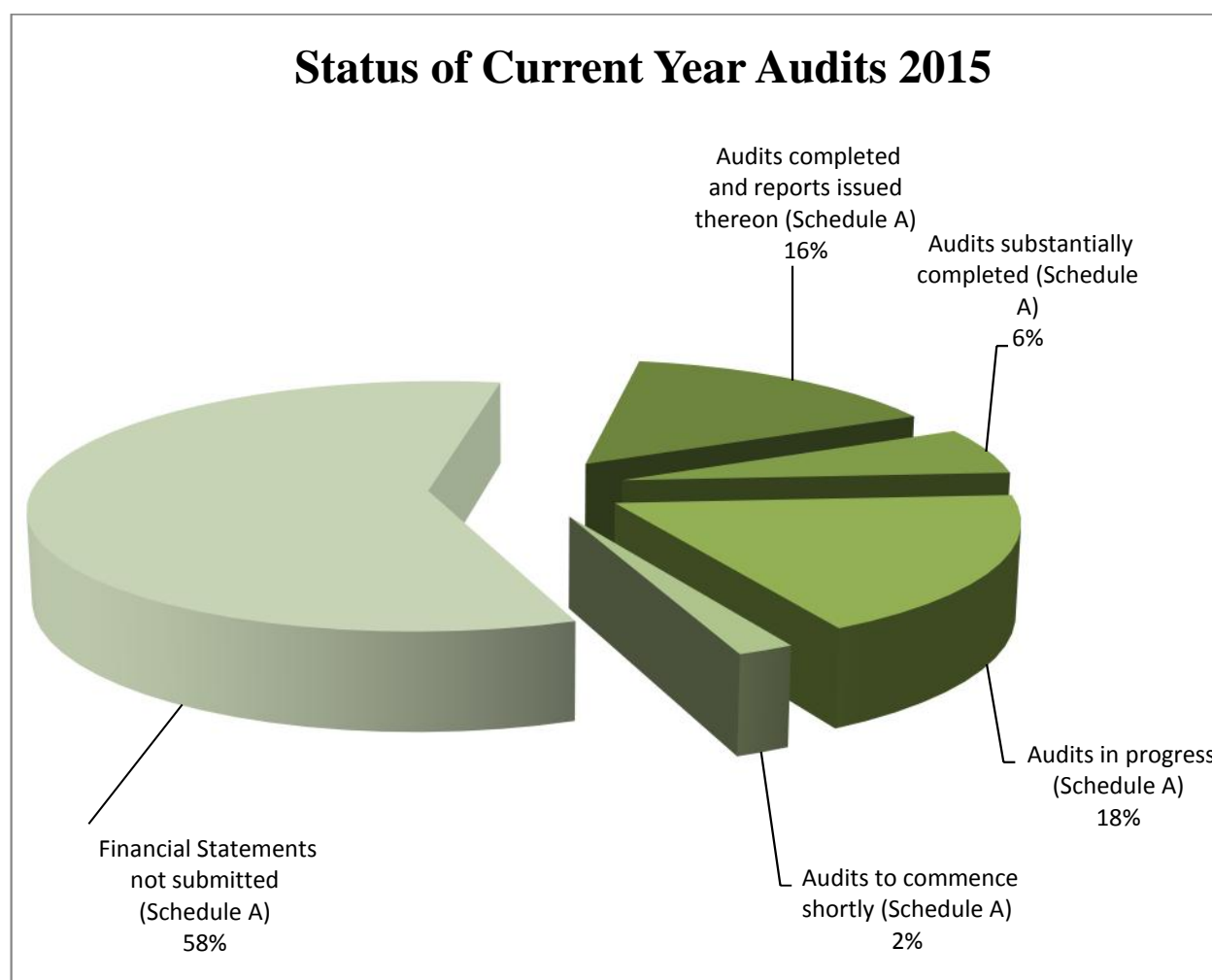
Section C – National Government Shareholdings in Other Companies; and

Section D – Problem Audits (Audits in Arrears).

ATTACHMENT 'A'

STATUS OF CURRENT YEAR AUDITS 2015

No.	Status of Current Year Audits	Number of Entities	
		2015/2016	2014/2015
1	Audits completed and reports issued thereon (<i>Schedule A</i>)	16	18
2	Audits substantially completed (<i>Schedule A</i>)	5	2
3	Audits in progress (<i>Schedule A</i>)	18	8
4	Audits to commence shortly (<i>Schedule A</i>)	2	5
5	Financial Statements not submitted (<i>Schedule A</i>)	58	66
		99	99



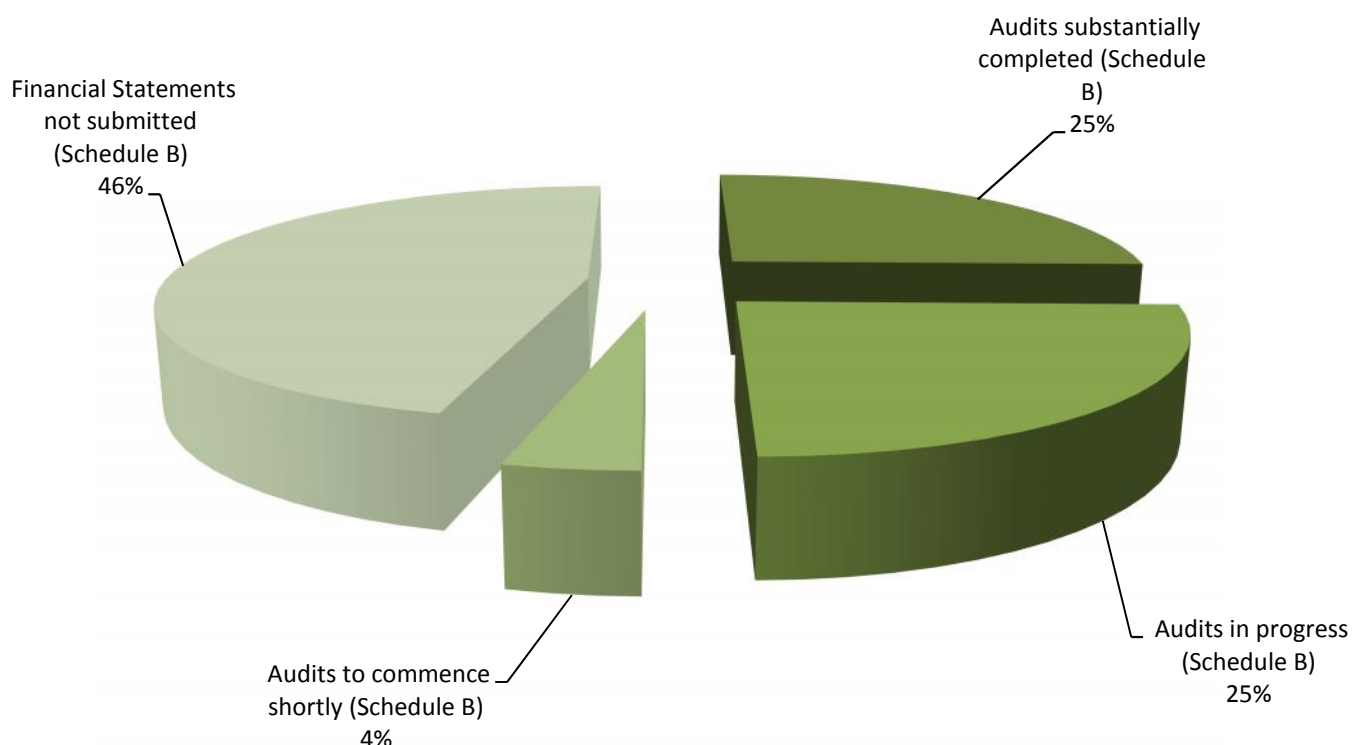
Please refer to details in Schedule 'A' on Pages 350 to 352.

ATTACHMENT 'B'

STATUS OF AUDITS IN ARREARS BY NUMBER OF AUDITS (2014 AND PRIOR YEARS)

No.	Status of Audits in Arrears by No. Of Audits (2014 & prior years)	Number of Audits	
		2015/2016	2014/2015
1	Audits substantially completed (<i>Schedule B</i>)	32	44
2	Audits in progress (<i>Schedule B</i>)	31	32
3	Audits to commence shortly (<i>Schedule B</i>)	5	17
4	Financial Statements not submitted (<i>Schedule B</i>)	58	41
		126	134

Status of Audits in Arrears by number of Audits (2014 and prior years)



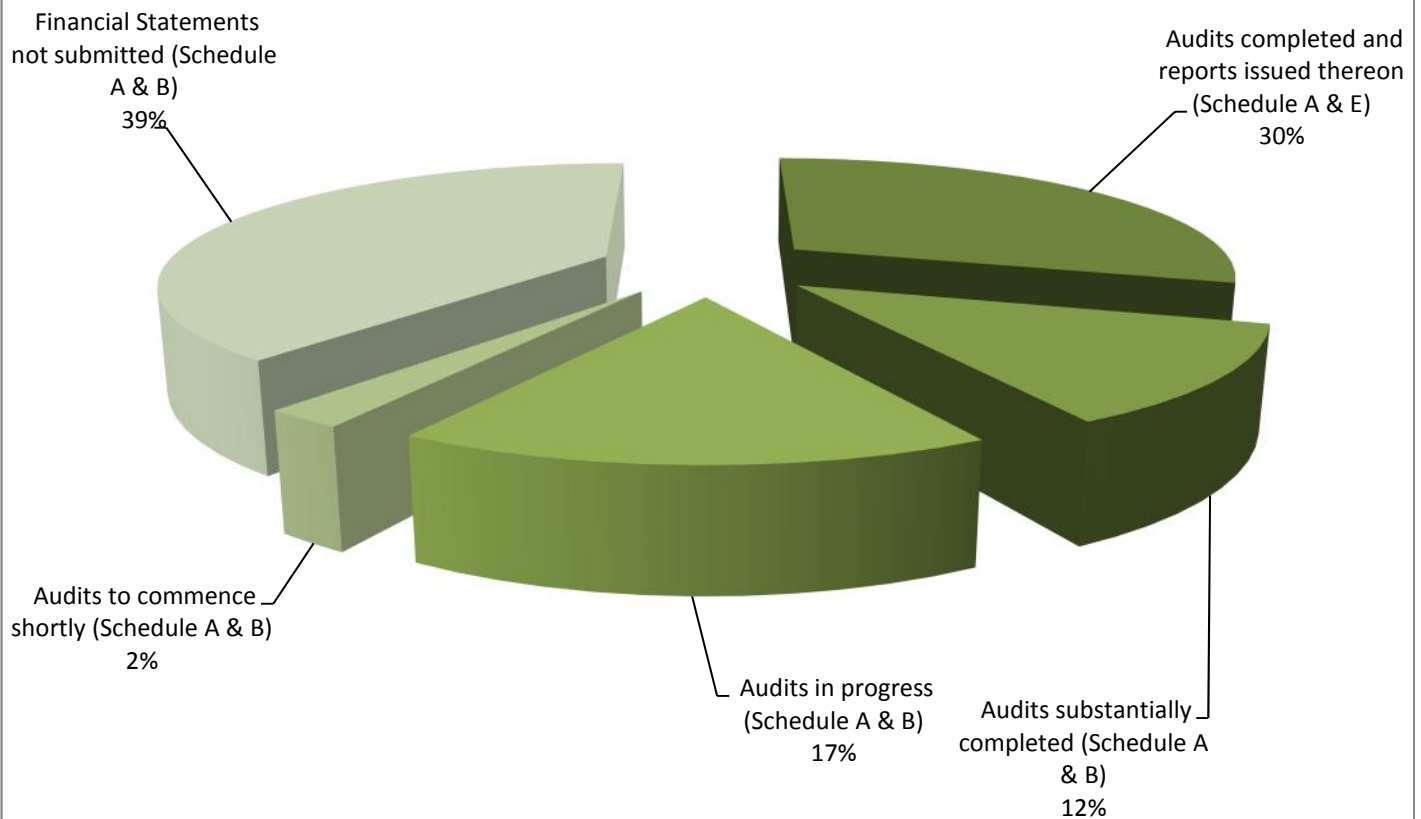
Please refer to details in Schedules 'B' on Pages 353 to 355.

ATTACHMENT 'C'

STATUS OF AUDITS AS AT 30 JUNE 2016

No.	Status of Audits	Number of Audits	
		2015/2016	2014/2015
1	Audits completed and reports issued thereon (<i>Schedule A & E</i>)	88	114
2	Audits substantially completed (<i>Schedule A & B</i>)	37	46
3	Audits in progress (<i>Schedule A & B</i>)	49	40
4	Audits to commence shortly (<i>Schedule A & B</i>)	7	22
5	Financial Statements not submitted (<i>Schedule A & B</i>)	116	107
		297	329

Status of Audits as at 30 June 2016



Please refer to details in Schedules 'A' and 'B' on Pages 350 to 355.

ATTACHMENT 'D'

TYPES OF AUDIT OPINIONS ISSUED

(i) UNQUALIFIED OPINION

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	6A	Cocoa Pod Borer Project Fund	2013 & 2014	2
2	A	6B	Cocoa Stabilisation Fund	2014	1
3	A	14	Investment Promotion Authority	2015	1
4	A	15	Kokonas Indastri Koporesen	2015	1
5	A	15A	Papua New Guinea Coconut Extension Fund	2015	1
6	A	15B	Papua New Guinea Coconut Research Fund	2015	1
7	A	16	Kumul Consolidated Holdings	2013 & 2014	2
8	A	20	National Agricultural Research Institute	2015	1
9	A	33	National Research Institute	2015	1
10	A	34	National Roads Safety Council	2014	1
11	A	51	Parliamentary Members' Retirement Benefits Fund	2014	1
12	A	55	Tourism Promotion Authority	2014	1
13	B	62	Kumul Petroleum Holdings Limited and its Subsidiaries	2015	1
14	B	62A	Kumul Petroleum Development Limited	2015	1
15	B	62B	Kumul Petroleum Investments Limited	2015	1
16	B	62C	Kumul Petroleum (PNG LNG) Limited	2015	1
17	B	62D	Kumul Petroleum Technical Institute and Consulting Limited	2015	1
18	B	72	Post (PNG) Limited	2015	1
19	B	73A	DATEC (PNG) Limited	2014	1
20	B	73B	Kalang Advertising Limited	2013	1
21	B	73C	PNG Directories Limited	2013 & 2014	2

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(ii) QUALIFIED OPINION

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	3	Border Development Authority	2012	1
2	A	3A	Papua New Guinea Maritime Transport Limited	2011 & 2012	2
3	A	4	Civil Aviation Safety Authority of Papua New Guinea	2013 – 2015	3
4	A	6	Coca Board of Papua New Guinea	2014	1
5	A	11	Independent Consumer and Competition Commission	2015	1
6	A	12	Industrial Centres Development Corporation	2012 & 2013	2
7	A	17	Legal Training Institute	2013	1
8	A	19	National Agriculture Quarantine and Inspection Authority	2014	1
9	A	23C	Port Moresby Nature Park Limited	2012 & 2013	2
10	A	25	National Economic and Fiscal Commission	2015	1

No.	Section	Para. No.	Entity	Year	No. of Audits
11	A	26	National Fisheries Authority	2012 & 2013	2
12	A	27	National Gaming Control Board	2014	1
13	A	27A	National Gaming Control Board Community Benefit Fund Trust	2014	1
14	A	35	National Roads Authority	2014	1
15	A	37	National Volunteer Service	2014 & 2015	2
16	A	41	Pacific Games (2015) Authority	2012 & 2013	2
17	A	43	Papua New Guinea Immigration and Citizenship Service Authority	2012 & 2013	2
18	A	48	Papua New Guinea National Institute of Standards and Industrial Technology	2011 - 2013	3
19	A	50A	National Analytical and Testing Service Authority	2011	1
20	A	54	Small Business Development Corporation	2012	1
21	A	65	Motor Vehicles Insurance Limited	2012 - 2014	3
22	B	67	NCD Water Sewerage Limited (Eda Ranu)	2014	1
23	B	68	PNG Ports Limited	2014	1
24	B	73	Telikom PNG Limited	2013	1

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(iii) DISCLAIMED OPINION

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	5	Climate Change and Development Authority	2011	1
2	A	9	Government Printing Office	2012	1
3	A	16A	General Business Trust	2013	1
4	A	22	National Broadcasting Corporation	2013	1
5	A	24	National Cultural Commission	2012	1
6	A	29	National Information and Communication Technology Authority (NICTA)	2012	1
7	A	31	National Museum and Art Gallery	2013	1
8	A	44	Papua New Guinea Forest Authority	2010-2012	3
9	A	47	Papua New Guinea Maritime College	2013	1
10	A	50	Papua New Guinea University of Technology	2011 & 2012	2
11	A	52	Public Curator Of PNG	2012	1
12	A	56	University of Goroka	2013	1
13	A	56A	Unigor Consultancy Limited	2010-2013	4
14	A	58	University of Papua New Guinea	2009-2012	4
15	A	59	Water PNG	2013	1
16	B	71	PNG Power Limited	2013-2014	2

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(iv) ADVERSE OPINION

No.	Section	Para . No.	Entity	Year	No. of Audits
1	A	50B	Unitech Development and Consultancy Company Ltd	2013	1

 1
GRAND TOTAL

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ATTACHMENT 'E'

COMPARATIVE AUDIT OPINIONS ISSUED (2010–2015)

No.	Section	Para. No.	Entity	Comparative Years					
				2015	2014	2013	2012	2011	2010
1	A	2	Bank of Papua New Guinea		Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
2	A	3	Border Development Authority				Qualified	Qualified	Qualified
3	A	3A	Papua New Guinea Maritime Transport Limited				Qualified	Qualified	
4	A	4	Civil Aviation Safety Authority of Papua New Guinea	Qualified	Qualified	Qualified	Qualified	Unqualified	Unqualified
5		5	Climate Change and Development Authority					Disclaimer	
6	A	6	Cocoa Board of Papua New Guinea		Qualified	Qualified	Qualified	Qualified	Qualified
8	A	6A	Cocoa Pod Borer Project Fund		Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
7	A	6B	Cocoa Stabilization Fund		Unqualified	Unqualified	Qualified	Qualified	Qualified
9	A	7	Cocoa Coconut Institute Limited of Papua New Guinea				Disclaimer	Disclaimer	Disclaimer
10	A	8	Coffee Industry Corporation Limited				Qualified	Qualified	Qualified
11	A	8A	Coffee Industry Fund				Qualified	Qualified	Qualified
12	A	8B	Patana No. 61 Limited				Qualified	Qualified	Qualified
13	A	9	Government Printing Office				Disclaimer	Disclaimer	Disclaimer
14	A	10	Independence Fellowship Trust		Qualified	Unqualified	Unqualified	Unqualified	Unqualified
15	A	11	Independent Consumer and Competition Commission	Qualified	Qualified	Unqualified	Qualified	Unqualified	Unqualified
16	A	12	Industrial Centers Development Corporation			Qualified	Qualified	Qualified	Qualified
17	A	13	Internal Revenue Commission	New Inclusion					
18	A	14	Investment Promotion Authority	Unqualified	Unqualified	Unqualified	Unqualified	Qualified	Qualified
19	A	15	Kokonas Indastri Koporesen	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
20	A	15A	Papua New Guinea Coconut Extension Fund	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
21	A	15B	Papua New Guinea Coconut Research Fund	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
22	A	16	Kumul Consolidated Holdings and its Subsidiaries		Unqualified	Unqualified	Qualified	Disclaimer	Qualified
23	A	16A	General Business Trust			Disclaimer	Qualified	Qualified	Unqualified
24	A	16B	PNG Dams Limited				Disclaimer	Disclaimer	Disclaimer
25	A	16C	Port Moresby Private Hospital Limited				Qualified	Qualified	Qualified
26	A	17	Legal Training Institute			Qualified	Qualified	Unqualified	Unqualified
27	A	18	Mineral Resources Authority					Disclaimer	Disclaimer
28	A	19	National Agriculture Quarantine and Inspection Authority		Qualified	Qualified	Qualified	Qualified	Qualified
29	A	20	National Agricultural Research Institute	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
30	A	21	National AIDS Council Secretariat				Disclaimer	Disclaimer	Disclaimer
31	A	22	National Broadcasting Corporation			Disclaimer	Disclaimer	Disclaimer	Disclaimer
32	A	23	National Capital District Commission				Disclaimer	Disclaimer	Disclaimer

33	A	23A	National Capital District Botanical Enterprises Limited				Disclaimer	Disclaimer	Disclaimer
34	A	23B	Port Moresby City Development Enterprises Limited				Disclaimer	Disclaimer	Disclaimer
35	A	23C	Port Moresby Nature Park Limited			Qualified	Qualified		
36	A	24	National Cultural Commission				Disclaimer	Qualified	Qualified
37	A	25	National Economic and Fiscal Commission	Qualified	Qualified	Qualified	Qualified	Qualified	Qualified
38	A	26	National Fisheries Authority			Qualified	Qualified	Qualified	Qualified
39	A	27	National Gaming Control Board		Qualified	Qualified	Qualified	Qualified	Qualified
40	A	27A	National Gaming Control Board Community Benefit Fund Trust		Qualified	Qualified			
41	A	28	National Housing Corporation						Disclaimer
42	A	29	National Information and Communication Technology Authority				Disclaimer	Disclaimer	Disclaimer
43	A	30	National Maritime Safety Authority		Qualified	Qualified	Qualified	Qualified	Qualified
44	A	31	National Museum and Art Gallery			Disclaimer	Disclaimer	Disclaimer	Disclaimer
45	A	32	National Narcotics Bureau				Disclaimer	Disclaimer	Disclaimer
46	A	33	National Research Institute	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
47	A	34	National Road Safety Council		Unqualified	Unqualified	Qualified	Qualified	Qualified
48	A	35	National Roads Authority		Qualified	Qualified	Qualified	Qualified	Qualified
49	A	36	National Training Council		Qualified	Qualified	Qualified	Qualified	Qualified
50	A	37	National Volunteer Service	Qualified	Qualified	Qualified	Qualified	Qualified	Disclaimer
51	A	38	National Youth Commission					Qualified	Qualified
52	A	39	Oil Palm Industry Corporation						Qualified
53	A	40	Ombudsman Commission of Papua New Guinea			Unqualified	Unqualified	Unqualified	Unqualified
54	A	41	Pacific Games (2015) Authority			Qualified	Qualified		
55	A	42	Papua New Guinea Accident Investigation Commission	New Inclusion					
56	A	43	Papua New Guinea Immigration and Citizenship Service Authority			Qualified	Qualified	Qualified	Unqualified
57	A	44	Papua New Guinea Forest Authority				Disclaimer	Disclaimer	Disclaimer
58	A	45	Papua New Guinea Institute of Medical Research			Disclaimer	Disclaimer	Qualified	Qualified
59	A	46	Papua New Guinea Institute of Public Administration					Qualified	Unqualified
60	A	47	Papua New Guinea Maritime College			Disclaimer	Qualified	Qualified	Qualified
61	A	48	Papua New Guinea National Institute of Standards and Industrial Technology			Qualified	Qualified	Qualified	Qualified
63	A	50	Papua New Guinea University of Technology				Disclaimer	Disclaimer	Disclaimer
64	A	50A	National Analytical and Testing Services Limited					Qualified	
65	A	50B	Unitech Development and Consultancy Company Limited			Adverse	Qualified	Qualified	Disclaimer
66	A	51	Parliamentary Members Retirement Benefits Fund		Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
67	A	52	Public Curator of PNG				Disclaimer	Disclaimer	Disclaimer

68	A	53	Security Industries Authority					Qualified	Qualified
69	A	54	Small Business Development Corporation				Qualified	Qualified	Qualified
70	A	55	Tourism Promotion Authority		Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
71	A	56	University of Goroka			Disclaimer	Disclaimer	Disclaimer	Disclaimer
72	A	56A	Unigor Consultancy Limited			Disclaimer	Disclaimer	Disclaimer	Disclaimer
73	A	57	University of Natural Resources and Environment			Qualified	Qualified	Qualified	Qualified
74	A	58	University of Papua New Guinea				Disclaimer	Disclaimer	Disclaimer
75	A	58A	Unisave Limited					Disclaimer	Disclaimer
76	A	58B	Univentures Limited					Disclaimer	Disclaimer
77	A	59	Water PNG			Disclaimer	Disclaimer	Disclaimer	Disclaimer
78	B	61	Air Niugini Limited			Qualified	Qualified	Qualified	Qualified
79	B	61A	Link-PNG Limited	New Inclusion					
80	B	62	Kumul Petroleum Holdings Limited and its Subsidiaries	Unqualified	Unqualified				
81	B	62A	Kumul Petroleum Development Limited	Unqualified	Unqualified				
82	B	62B	Kumul Petroleum Investments Limited	Unqualified	Unqualified				
83	B	62C	Kumul Petroleum (PNG LNG) Limited	Unqualified	Unqualified				
84	B	62D	Kumul Petroleum Technical Institute and Consulting Limited	Unqualified					
85	B	63	Livestock Development Corporation Limited						
86	B	64	Mineral Resources Development Company Limited		Qualified	Qualified	Qualified	Disclaimer	Qualified
87	B	65	Motor Vehicles Insurance Limited		Qualified	Qualified	Qualified	Qualified	Qualified
88	B	66	National Airports Corporation Limited						Qualified
89	B	66A	Airport City Development Limited						
90	B	67	NCD Water and Sewerage Limited (Eda Ranu)		Qualified	Qualified	Qualified	Qualified	Qualified
91	B	68	Papua New Guinea Ports Corporation Limited		Qualified	Qualified	Qualified	Qualified	Disclaimer
92	B	69	PNG Air Services Limited		Qualified	Qualified	Qualified	Qualified	Qualified
93	B	70	PNG DataCo Limited				Disclaimer	Disclaimer	Disclaimer
94	B	71	PNG Power Limited		Disclaimer	Disclaimer			
95	B	72	Post PNG Limited	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
96	B	73	Telikom PNG Limited			Qualified	Qualified	Qualified	Unqualified
97	B	73A	Datec (PNG) Limited		Unqualified				
98	B	73B	Kalang Advertising Limited			Unqualified	Qualified	Unqualified	Qualified
99	B	73C	PNG Directories Limited		Unqualified	Unqualified	Unqualified	Unqualified	Unqualified

ATTACHMENT 'F'

AUDITS IN ARREARS (2014 AND PRIOR YEARS) COMPLETED DURING
2015/2016 AUDIT CYCLE

No.	Section	Para. No.	Entity	Audits Completed and Reports Issued	Total Units	Audits Substantially Completed	Total Units
1	A	2	Bank of Papua New Guinea			2015	1
2	A	3	Border Development Authority	2012	1	2013	1
3	A	3A	Papua New Guinea Maritime Transport Limited	2011-2012	2		
4	A	4	Civil Aviation Safety Authority of Papua New Guinea	2013-2014	2		
5	A	5	Climate Change and Development Authority	2011	1	2012	1
6	A	6	Cocoa Board of Papua New Guinea	2014	1		
8	A	6A	Cocoa Pod Borer Project Fund	2013-2014	2		
7	A	6B	Cocoa Stabilization Fund	2014	1		
9	A	7	Cocoa Coconut Institute Limited of Papua New Guinea			2013	1
10	A	8	Coffee Industry Corporation Limited				
11	A	8A	Coffee Industry Fund				
12	A	8B	Patana No. 61 Limited				
13	A	9	Government Printing Office	2012	1	2013	1
14	A	10	Independence Fellowship Trust				
16	A	12	Industrial Centers Development Corporation	2012-2013	2		
17	A	13	Internal Revenue Commission			2014	1
22	A	16	Kumul Consolidated Holdings	2013 - 2014	2		
23	A	16A	General Business Trust	2013	1	2014	1
24	A	16B	PNG Dams Limited			2013 - 2014	2
25	A	16C	Port Moresby Private Hospital Limited			2014 - 2014	2
26	A	17	Legal Training Institute	2013	1		
27	A	18	Mineral Resources Authority			2012	1
28	A	19	National Agriculture Quarantine and Inspection Authority	2014	1		
30	A	21	National AIDS Council Secretariat			2013-2014	2
31	A	22	National Broadcasting Corporation	2013	1		
32	A	23	National Capital District Commission				
33	A	23A	National Capital District Botanical Enterprises Limited				
34	A	23B	Port Moresby City Development Enterprises Limited				
35	A	23C	Port Moresby Nature Park Limited	2012 - 2013	2		
36	A	24	National Cultural Commission	2012	1	2013	1
38	A	26	National Fisheries Authority	2012 - 2013	2		

No.	Section	Para. No.	Entity	Audits Completed and Reports Issued	Total Units	Audits Substantially Completed	Total Units
39	A	27	National Gaming Control Board	2014	1		
40	A	27A	National Gaming Control Board Community Benefit Fund Trust	2014	1		
41	A	28	National Housing Corporation			2011	1
42	A	29	National Information and Communication Technology Authority (NICTA)	2012	1	2013 - 2014	2
43	A	30	National Maritime Safety Authority				
44	A	31	National Museum and Art Gallery	2013	1		
45	A	32	National Narcotics Bureau				
47	A	34	National Road Safety Council	2014	1		
48	A	35	National Roads Authority	2014	1	2015	1
49	A	36	National Training Council				
50	A	37	National Volunteer Service	2014	1		
51	A	38	National Youth Commission				
52	A	39	Oil Palm Industry Corporation			2011	1
53	A	40	Ombudsman Commission of Papua New Guinea			2014	1
54	A	41	Pacific Games (2015) Authority	2012 - 2013	2	2014	1
55	A	42	Papua New Guinea Accident Investigation Commission				
56	A	43	Papua New Guinea Immigration and Citizenship Service Authority	2012 - 2013	2		
57	A	44	Papua New Guinea Forest Authority	2010 - 2012	3		
58	A	45	Papua New Guinea Institute of Medical Research			2014	1
59	A	46	Papua New Guinea Institute of Public Administration			2012 - 2013	2
60	A	47	Papua New Guinea Maritime College	2013	1		
61	A	48	Papua New Guinea National Institute of Standards and Industrial Technology	2011 - 2013	3		
62	A	49	Papua New Guinea Sports Foundation				
63	A	50	Papua New Guinea University of Technology	2011 - 2012	2		
64	A	50A	National Analytical and Testing Services Limited	2011	1		
65	A	50B	Unitech Development and Consultancy Company Limited	2013	1		
66	A	51	Parliamentary Members Retirement Benefits Fund	2014	1		
67	A	52	Public Curator of Papua New Guinea	2012	1		
68	A	53	Security Industries Authority			2012-2014	3
69	A	54	Small Business Development Corporation	2012	1		
70	A	55	Tourism Promotion Authority	2014	1	2015	1
71	A	56	University of Goroka	2013	1	2014	1

No.	Section	Para. No.	Entity	Audits Completed and Reports Issued	Total Units	Audits Substantially Completed	Total Units
72	A	56A	Unigor Consultancy Limited	2010-2013	4		
73	A	57	University of Natural Resources and Environment (Vudal)			2014	1
74	A	58	University of Papua New Guinea	2009 - 2012	4		
75	A	58A	Unisave Limited				
76	A	58B	Univentures Limited				
77	A	59	Water PNG	2013	1		
78	B	61	Air Niugini Limited			2014	1
79	B	61A	Link-PNG Limited				
85	B	63	Livestock Development Corporation Limited				
86	B	64	Mineral Resources Development Company Limited				
87	B	65	Motor Vehicles Insurance Limited	2012 - 2014	3	2015	1
88	B	66	National Airports Corporation Limited			2011	1
89	B	66A	Airport City Development Limited				
90	B	67	NCD Water and Sewerage Limited (Eda Ranu)	2014	1		
91	B	68	Papua New Guinea Ports Corporation Limited	2014	1		
92	B	69	PNG Air Services Limited			2015	1
93	B	70	PNG DataCo Limited			2014	1
94	B	71	PNG Power Limited	2013 - 2014	2		
96	B	73	Telikom PNG Limited	2013	1	2014	1
97	B	73A	Datec (PNG) Limited	2014	1		
98	B	73B	Kalang Advertising Limited	2013	1		
99	B	73C	PNG Directories Limited	2013 - 2014	2		

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SECTION A

PUBLIC BODIES AND THEIR SUBSIDIARIES

1. 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*. My findings in that regard are detailed in paragraphs 2 to 59 of this part of my Report.

2. BANK OF PAPUA NEW GUINEA

2.1 INTRODUCTION

2.1.1 Legislation

The Bank of Papua New Guinea (BPNG) 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*.

2.1.2 Objectives of the Bank

The main objectives of the Bank of PNG as stipulated in the new Act are:

- To formulate and implement the monetary policy with a view to achieving and maintaining price stability;
- To formulate financial regulation and prudential standards to ensure stability of the financial system in PNG;
- To promote an efficient national and international payments system; and
- Subject to the above, to promote macro-economic stability and economic growth in PNG.

2.1.3 Functions of the Bank

The primary functions of the Bank are to:

- Issue currency;
- Act as banker and agent of the Government;
- Regulate banking, credit and other financial services as empowered by the Act or by any other law of the Independent State of PNG;
- Manage the gold, foreign exchange and other international reserves of PNG;
- Perform any function conferred on it by or under international agreement to which PNG is a party;
- Perform any other functions conferred on it by or under any other law of PNG; and
- Advise the Minister as soon as practicable where the Bank considers that a body regulated by the Central Bank is in financial difficulty.

2.1.4 Structural Reforms at the Bank

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

1. *Banks and Financial Institutions Act 2000;*
2. *Superannuation Act 2000;* and
3. *Life Insurance Act 2000.*

Each of these Acts provides additional responsibilities to the Bank.

2.2 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 Bank for the year ended 31 December 2015 was completed and the results were being evaluated.

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 Objectives of the Authority

The objectives of the Authority are to manage and fund development activities in the Border Provinces of PNG 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:

- The co-ordination of the planning and implementation of capital works, infrastructure and socio-economic programs in respect to:
 - Education, health care, road networks, communications, transport system, electricity, water, sewerage and all activities relevant to the improvement of basic living standards in the border provinces;
 - Liaison with public bodies, non-government organisations and private enterprise in identifying and negotiating sources of funding for short to medium-term activities;
 - 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;
 - The supervision and monitoring of the implementation of all contracts relating to such capital and infrastructure works;
 - The transformation of border provinces into agro-financial sectors by developing their respective natural resources; and
 - The promotion of investors, both foreign and local, into the border provinces and to encourage and facilitate international cross-border and inter-border trade.
- The establishment of programs and regulatory framework for immigration including the monitoring of immigrants and immigrant activity along the border with respect to:

- 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, communications, transport, electricity, water, sewerage, staff accommodation, computers and all other facilities that would be relevant to the administration of border activities;
 - 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
 - The development of long-term activities for the establishment of infrastructure and other facilities.
- Such other functions as are likely to assist in the border administration activities.

3.1.4 Subsidiary of the Authority

The Subsidiary of the Authority is Papua New Guinea Maritime Transport Limited. Comments in relation to the Company are contained in paragraph 3A of this Report.

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* on the Authority's financial statements for the year ended 31 December 2012 was issued on 27 October 2015. The report contained a Qualified Opinion.

“BASIS FOR QUALIFIED OPINION

Interest Bearing Deposits (IBD) – K2,929,010

My review of the Interest Bearing Deposits revealed that the Authority did not properly maintain source documents relating to its investments. I was not provided with all investment certificates and Interest Bearing Deposit schedules to satisfy myself on the accuracy and existence of the investments balance disclosed in the financial statements totaling K2,929,010 at the year end. In addition, I was unable to confirm the total investment of K4,559,150 withdrawn during the year due to lack of supporting documentation. Consequently, I was unable to verify the IBD interest income of K470,767 as disclosed in the financial statements.

Fixed Assets – K23,648,566

The Authority disclosed K23,648,566 as its year-end balance for fixed assets. My examination of the Fixed Assets Register and its related records revealed that it was not properly maintained and timely updated. I noted that some expenses of capital nature incurred to maintain the ships were not assessed and capitalized. Further, I also noted that the ships were not valued by an independent marine valuer to determine their fair values against their written down values. This exercise is considered necessary because most of the ships were docked at slipway for various maintenance works for prolonged period. Since these ships were newly purchased, maintenance costs must be minimum. As such, I was unable to determine the completeness, accuracy and valuation of the fixed assets balance disclosed at year end.

Sundry Debtors and Prepayments – K7,687,299

Sundry Debtors and Prepayments included a balance of K3,963,872 receivable from its subsidiary Company PNG Maritime Transport Limited (PNGMTL). My review of the Receivables balance of K3,963,872 from the subsidiary company PNGMTL and its corresponding financial statements for the year ended 31 December 2012 revealed that the balance payable to Border Development Authority was K2,299,036 resulting in a difference of K1,664,836. As such, I was unable to conclude on the accuracy and existence of the above closing balance disclosed as at 31 December 2012.

QUALIFIED OPINION

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs:

- (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 2012 and the results of its financial operations for the year then ended.”

3.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Authority for the year ended 31 December 2012 was issued on 27 October 2015. The report contained the following comments:

1. Bank Reconciliation

My review of the Authority’s bank reconciliations revealed that reconciliations were not prepared and independently reviewed by a responsible officer of the Authority on a timely basis. This issue was highlighted in my previous audits and yet to be addressed by the Management.

I recommended Management to instil proper control measures by reviewing bank reconciliations on a monthly basis by an officer and to securely file all documentation for future reference.

2. Granting of Approval Limits

As reported in my previous report, I stated that the Minister for Finance and Treasury in 2008 had delegated to Border Development Authority Board the financial approval powers for transactions for acquisition of property and service over K500,000 to an upper limit of K10,000,000 superseding normal procurement procedures under the *Public Finances (Management) Act*. I emphasised that these higher approval limits up to K10 million was not consistent with the approval limits set by the *Public Finances (Management) Act 1995 (as amended)*.

Further, I noted that still the excessive delegated financial powers had not been revoked to date. In my view this excessive approval limit will prevent the Authority to follow the established procedures set out in the *Public Finances (Management) Act 1995* and may open avenues for malpractices.

3. Condition of Ships

I noted that at the end of 2010, the Authority had taken delivery of all the seven (7) ships built and bought from a ship builder in Indonesia. However, I noted with concern that the ships on most occasions were not operating as expected due to poor quality of materials used to build the ships. I observed that in most occasions the ships were docked for maintenance at various ports and as a result, the Authority was incurring huge port docking charges.

4. Payments Approved by Former Executive Chairman

The *General Orders 20.11* and *Public Services (Management) Act section 56(2)(a)* states that public officers who wish to contest in a national election should resign six (6) months prior to the issuance of writs. The writs of the last 2012 National Elections were issued in April 2012 and I noted that the former Executive Chairman resigned on 29 May 2012, a date after the writs had already been issued. Consequently, the above stated provisions were breached. Further, I noted that the former Executive Chairman had been improperly approving payments during these six months for material amounts totaling K1,034,729.34. As such, I was unable to determine whether the payments were made for the benefit of the Authority.

5. Staff Advances Register

My review of the advances made to staff during the year ended 31 December 2012 revealed that proper records were not maintained by the Authority. I was not provided with the staff advances register to verify the balance outstanding at year end. Consequently, I was unable to comment on the effectiveness of the internal controls surrounding the payment of staff advances by the Authority.

3.3 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 Authority for the year ended 31 December 2013 had been completed and the results were being evaluated.

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

3A. PAPUA NEW GUINEA MARITIME TRANSPORT LIMITED (Subsidiary of the Border Development Authority)

3A.1 INTRODUCTION

The Papua New Guinea Maritime Transport Limited was incorporated under the *Companies Act* on 3 September 2009. The Company is wholly owned by the Border Development Authority.

3A.1.1 Functions of the Company

The primary function of the Company is to take charge of the management and operations of seven vessels acquired and maintained by the Border Development Authority. The vessels are to serve the border provinces and other maritime provinces in the Country.

3A.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

3A.2.1 Comments on Financial Statements

My reports in accordance with the provisions of the *Companies Act* on the Company's financial statements for the years ended 31 December 2011 and 2012 were issued on 29 October 2015. The reports contained Qualified Opinions, hence only the 2012 report is reproduced as follows:

“BASIS FOR QUALIFIED OPINION

Revenue – K3,830,020

The Company disclosed its revenue as K3,830,020 during the year. During my examination, I noted that the general ledger and trial balance had a varying closing balance of K5,385,731 showing a difference of K1,555,711. I was not provided any explanation for the variance. In addition, I noted that posting made to the general ledgers were done from bank statements without proper reconciliations and deposit details. As a result, I was unable to satisfy myself as to accuracy and completeness of the amount disclosed at the year end.

Fixed Assets – K386,516

The Company disclosed its fixed assets as K386,516 at 31 December 2012. However, the amount disclosed was not supported by appropriate accounting records and supporting documents. Further, there were no stock-take carried out on fixed assets during the year to ascertain the actual existence and condition of assets owned by the Company. As a result, I was unable to extend my audit procedures to satisfy myself as to the valuation, accuracy and existence of the fixed assets balance as at 31 December 2012.

Ownership of Ships

There are seven (7) Ships registered and owned by Border Development Authority. Their value is recorded and accounted in the Fixed Assets Register of the Authority. However, the revenue generated from the operations of the Ships is recorded and reported in PNG Maritime Transport Limited. I noted that the Ships were frequently on Slipway for Maintenance. As such, I was unable to comment on whether the company will continue to derive income from shipping operations due to disruption of services resulting from maintenance work.

Payables to Holding Entity – K2,299,036

My review of Payables to Holding Entity revealed that the Company owed monies to Border Development Authority for payments made to service providers on behalf of the Company. Further, I noted that the balance was reduced from K3,177,041 to K2,299,036 by K878,005 which could not be substantiated due to lack of proper explanation and supporting documentation. In addition, I noted that the 2012 certified accounts of Border Development Authority disclosed receivable balance from its subsidiary (PNGMTL) as K3,963,872 showing a difference of K1,664,836. As such, I was unable to conclude on the accuracy and existence of the above balance disclosed as at 31 December 2012.

Trade Creditors and Other Accruals

The Company disclosed Trade Creditors and other Accruals as K871,054 at 31 December 2012. However, I was not provided with the necessary reconciliations, schedules and supporting documents for me to confirm and verify the aggregate closing balance of K871,054. Consequently, I was unable to confirm the accuracy, valuation and existence of the account balances. As such, I was unable to comment on whether trade creditors and other accruals have been fairly stated in the accounts at the year end.

Cash Flows Statement

My review of the financial statements of the Company for the year ended 31 December 2012 revealed that no cash flows statement was prepared and disclosed by the Company. *Section 177(C) of the Companies Act 1997* requires reporting companies to prepare and disclose a cash flows statement relating to the reporting period. The Company failed to submit the Cash flow Statement for my examination in accordance with the *Companies Act 1997*.

QUALIFIED OPINION

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

- (a) the financial statements of PNG Maritime Transport Limited for the year ended 31 December 2012:
 - (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.”

3A.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the audit and inspection of the accounts and records of the Company for the years ended 31 December 2011 and 2012 were issued on 29 October 2015.

The reports contained similar observations, hence only the 2012 report is reproduced as follows:

Company’s Board of Directors

During my audit and examination of the Company’s accounts and records, I noted that the Company Directors were the employees of the parent entity without any independent Directors. Further, I noted that there were no directors’ meetings held during the year as I was not provided with any Directors meeting minutes. As such, I was unable to determine whether the business operations and decisions of the company were made based on resolutions passed at the Company’s meetings.

Bank Reconciliations

My review of the bank reconciliations for the year revealed that monthly bank reconciliations were not prepared on a timely basis and checked by senior competent officers of the Company. As a result, outstanding cheques and deposits-in-transit totaling K494,132.90 and K521,524.73 respectively dating back to more than six (6) months were not properly reconciled at the balance date. Consequently, I was not able to place reliance on the controls surrounding the use and management of cash during the year.

Management acknowledged my findings and responded that the issue of outstanding balances was due to a problem in the accounting software (attaché) and could not be reconciled properly.

3A.3 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 2013, 2014 and 2015 for my inspection and audit, despite numerous reminders.

4. CIVIL AVIATION SAFETY AUTHORITY OF PNG

4.1 INTRODUCTION

4.1.1 Legislation

The Civil Aviation Safety Authority of PNG was established on 1 January 2010 after 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; and
- Ensure the provision of meteorological services and science.

4.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

4.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Authority for the years ended 31 December 2013, 2014 and 2015 were issued on 23 October 2015, 11 November 2015 and 30 June 2016 respectively. The reports contained Qualified Opinions, hence only the 2015 report is reproduced as follows:

“BASIS FOR QUALIFIED OPINION

Revenue and receivables from the National Airport Corporation (NAC) and the PNG Air Services Limited (PNGASL)

Section 147E of the *Civil Aviation Act 2000* stipulates for the NAC and the PNGASL to remit a percentage of airport facility charges, security levies and upper airspace aeronautical charges to CASA. Given the technical and logistical difficulties it has been difficult for CASA to have independent data to compute its share of the revenue. As a result, it is impossible for CASA to compute the amount of revenue receivable from the two entities. The current situation places CASA in a position where it was unable to accurately record and collect the income owed by NAC and PNGASL. The income and the related receivables from these two entities are material, which can potentially affect the financial statements and disclosures of CASA as at the reporting date.

Due to those limitations, I was not able to verify the completeness and accuracy of revenue and receivable balances reported in the financial statements for the year ended 31 December 2015.

Fixed Assets

In 2010, the functions of the Civil Aviation Authority (CAA) was restructured into three separate entities: namely; National Airport Corporation (NAC), PNG Air Service Limited (PNGASL) and Civil Aviation Safety Authority (CASA). There was no proper valuation and transfer of assets at the time of the separation. As a result, all the titles of the property assets continue to be in the name of CAA but used by the respective entities. The accounts of the three (3) entities including the CASA did not accurately and completely record all fixed assets used. Further, it is not possible for me to confirm whether all the property assets recorded on the current Fixed Assets Register are owned by the Authority. Therefore, I am not able to satisfy myself on the completeness, existence, accuracy and ownership of the fixed assets stated in the financial position of the Authority as at 31 December 2015 and the related depreciation charged to the comprehensive income for the year.

QUALIFIED OPINION

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs, the financial statements of Civil Aviation Safety Authority for the year ended 31 December 2015:

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

4.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Authority for the years ended 31 December 2013, 2014 and 2015 were issued on 23 October 2015, 11 November 2015 and 30 June 2016 respectively. The reports contained similar observations, hence only the 2015 observations are reproduced as follows:

Consultancy Agreements

There was no standard policy in place for the procurement of consultants. I was unable to verify whether proper procurement processes were followed, including compliance with *Public Finances (Management) Act 1995* in the engagement of numerous consultants during the year.

This engagement of consultants caused significant financial outlay including the risk of litigation. In addition, failure to follow proper processes including approval at the relevant levels compounded these risks including the engagement of consultants. I recommended the management that a policy be prepared on procurement of consultants taking into account the requirements of *Public Finances (Management) Act 1995* as the basis. The management concurred to my recommendations and advised that *“The Office of Director has issued a policy on engagement and control of Consultants.”*

Acquittals of Credit Card Transactions

The Chief Executive Officer, Chief Operating Officer, Executive Manager Corporate Service and Finance & Administration Manager are issued with credit cards. The credit card policy requires that all credit card users to provide monthly acquittals/reconciliations. The policy further states that the cards used by the executive management team are normally at their discretion. In 2015, acquittal of credit cards expenditures were not done on monthly basis and receipts for the acquittal were not complete. Failure to acquit use of funds and reconciliation of the credit statements leaves an environment open to misuse.

I recommended the management that as senior members of the management team, they should set the tone and example of CASA by ensuring that credit card statements are reconciled monthly and transactions acquitted on time. The Management responded that *“the senior finance officer is now responsible to reconcile all monthly transactions and Executive Manager Corporate Service signs off.”*

Group Tax payments

I noted that Group tax returns for 2015 were not lodged within the time set by Internal Revenue Commission (IRC).

Failure to lodge group tax returns and the accompanying payment in a timely manner to IRC will result in imposing significant penalties. As a result, K33,781 was charged as penalties by IRC. The penalties include a flat 20% charge on the amounts outstanding and a further 20% per annum on the amount outstanding from the date when it first was due.

I recommended the management that group tax be paid to IRC within the prescribe time of 7 days after month end to avoid penalties. The Management responded that *“their attempt to have a meeting with IRC failed and the penalty was paid in full. From 2016 the Group Tax Remittance was lodged within seven (7) days of the following month to avoid late payment penalties.”*

Payroll Records

I noted that the leave liability reports as generated from the standalone payroll system did not agree to the corresponding general ledger balances. I also noted that the records of staff leaves were maintained on excel out of the payroll system. It appears that the leave records in the accounts have not been updated to reflect the liability owed by CASA.

I recommended that the following to be considered:

- A specialised payroll package that fit the need of the Authority be installed to maintain a single record of transactions associated with the various leave entitlements;
- The amounts reflected by this subsidiary record must be reconciled to the accounts on a monthly basis to reflect the accurate position of leave liabilities and activities; and
- All leave entitlements must be evidenced on the leave request forms, and data be correctly entered into the specialized payroll system.

The Management accepted the recommendations and advised that *“the payroll system has now been upgraded and is able to generate and accumulate staff entitlement accurately.”*

General Journals

I noted that the system generated journal entries were prepared and posted before review by senior finance personnel.

I recommended the following:

- The name and signature of the officers preparing the journal, authorizing the journal and posting the journals should appear on all of the journal entries, indicating that the authenticity of the journals;
- All journal entries should be reviewed by proper authority before posting; and
- Responsibility for preparing monthly journal entries should be restricted to authorised personnel.

The Management concurred to my recommendation.

5. CLIMATE CHANGE AND DEVELOPMENT AUTHORITY (formerly Office of Climate Change and Development)

5.1 INTRODUCTION

5.1.1 Legislation

The Office of Climate Change and Development (OCC&D) was created on 22 March 2010 through *NEC Decision No. 54/2010*. On the same date, the NEC in its *Decision No. 53/2010* had noted and approved *NEC Decision No. 181/2009* on the abolishment of formerly the Office of Climate Change and Environmental Sustainability (OCC&ES).

The former OCC and ES was created in 2009 and was operating under the Department of Environment and Conservation.

On 10 November 2011, the NEC through its *Decision No. 96/2011* had approved to rescind and amend *NEC Decision No. 53/2010, 54/2010 and 55/2010* and approved for the creation and establishment of the *PNG Climate Change Authority (PNGCCA)*. However, SCMC in its meeting held on 22 May 2012 had withheld the submission of the organisational structure due to the certified governing Act not in place.

Then on 27 November 2012, the NEC approved to rescind whole of *NEC Decision No. 96/2011 of 10 November 2011*. As a result, establishment of the PNG Climate Change Authority was abandoned. However, on 28 July 2015, the National Parliament passed the *Climate Change (Management) Act 2015 (No. 19 of 2015)* and certified by the Acting Speaker of the National Parliament on 20 November 2015 and the Climate Change and Development Authority came into existence on that date.

5.1.2 Objectives of the Authority

The objectives of the Authority are to provide a coordination mechanism at the national level for research, analysis and development of the policy and legislative framework for the management of climate change within the *Government's National Strategy on Climate-Compatible Development (CCD)* as per *NEC Decision No. 55/2010*.

5.1.3 Functions of the Authority

Major functional responsibilities of the Authority are:

- Policy development:

- Adopt and incorporate national strategies and plans on climate change compatible development into the national development strategies and plans;
- Coordinate and facilitate the implementation of the National Strategy on Climate Compatible Development;
- Align national development policies and plans to ensure climate compatibility across different government departments;
- Commission research and development to support the development of a comprehensive greenhouse gas inventory and a more comprehensive understanding of the impacts of climate change in the country; and
- Formulate and refine the policy framework and legislation.
- Coordination of projects and programs:
 - Coordinate with relevant government departments, NGOs, Private Sectors and indigenous landowners (or local forest custodians) to implement and manage pilot projects, demonstration projects and programs.
- Stakeholder management and consultation:
 - Collaborate and coordinate with development partners to inform and improve upon the Government's preliminary policy initiatives;
 - Coordinate the development of a robust Measurement, Reporting and Verification (MRV) system and a fair and equitable benefit sharing mechanism to protect rights and interest of resource owners; and
 - Communicate to the people of PNG the benefits (economic, social and environmental) arising from the implementation of the National Strategy for Climate Compatible Development.
- Funding and international negotiations:
 - Implement a national financial strategy in collaboration with development partners to build capacity for Reducing Emissions from Deforestation and Forest Degradation Plus Conservation, Sustainable Forest Management and Carbon Stocks Enhancement (REDD+) and other aspects of climate compatible development; and
 - Support Government of PNG with the international climate change negotiations and climate change funding in order to provide consistent and reliable data and finances to improve and sustain forest governance and livelihoods of the forest communities.

5.2 AUDIT OBSERVATIONS

5.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Authority's financial statements for the year ended 31 December 2011 was issued on 4 April 2016. This report contained a Disclaimer of Opinion.

“BASIS FOR DISCLAIMER OF OPINION

Limitation on the Scope of my Audit

The Climate Change & Development Authority did not maintain proper, complete and accurate records of transactions for the year under review. There were serious deficiencies in accounting and record keeping. As a result, I could not complete my planned audit procedures nor was I able to satisfy myself with most of the account balances reported in the financial statements.

The Financial Statements

Note 2(a) to the financial statements reported that the financial statements were prepared in accordance with the cash receipt and disbursement method of accounting. In the contrary, I noted that the financial statements were prepared and presented on accrual basis. Further, most of the account balances reported in the financial statements could not be verified for their completeness and accuracy due to lack of proper records and relevant documentations.

Expenditure – K4,707,375

The Authority did not maintain proper records of payments totalled K4,165,870 which represented 88% of the total payments for the period under review. Also, travel allowances valued K1,570,915 were not acquitted during the year. This represented 73% of the total travel allowances of K2,137,721 as reported in the financial statements. Consequently, I was unable to complete my audit procedures to determine the validity, completeness and accuracy of the payments totalled K4,707,375 as reported in the financial statements.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion, I was not able to obtain sufficient appropriate audit evidence and accordingly, I am unable to and do not express an opinion on the financial statements of the Authority for the year then ended.

OTHER MATTER

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

Compliance with Public Finance (Management) Act 1995

The audit of the 2011 statutory financial statements commenced in July 2015 which was after the deadline of 30 June 2012. As such, the Directors did not meet the deadline set by *Section 63* of the *Public Finances (Management) Act 1995* for audited financial statements of public bodies to be furnished to the Minister before 30 June of the subsequent year.”

5.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Authority for the year ended 31 December 2011 was issued on 4 April 2016. The report contained the following observation:

Management Accounting System (MAS)

The Authority was using Mind Your Own Business (MYOB) accounting package during the year under review. However, the Authority did not utilize the Bank Reconciliation, Fixed Asset Register and all other inbuilt modules of the MYOB accounting package. As a result, monthly bank reconciliations were not prepared and proper fixed asset register was not maintained. Further, the Authority had no accounting procedure manuals for guidance during the year under review.

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 Authority for the year ended 31 December 2012 had been completed and the results were being evaluated.

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

6. COCOA BOARD OF PNG

6.1 INTRODUCTION

6.1.1 Legislation

The Cocoa Board of PNG was established under the provisions of the *Cocoa Act 1981*.

6.1.2 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 stockholding arrangements within the cocoa industry;
- To promote research and development programmes for the benefit of the cocoa industry; and
- To promote the consumption of PNG cocoa beans and cocoa products.

6.1.3 Subsidiary of the Board

The Cocoa Coconut Institute Limited of PNG (*formerly PNG Cocoa and Coconut Research Institute*) was amalgamated with PNG Cocoa and Coconut Extension Agency Limited in 2003. The Institute is owned equally by the Cocoa Board and the Kokonas Industri Koporesen (KIK) of PNG. Comments in relation to the Cocoa Coconut Institute Limited of PNG are contained in paragraph 7 of this Report.

6.1.4 Stabilisation Funds and Projects

The Board as a Trustee administers the *Cocoa Stabilisation Fund* as required under Part IV and VI of the *Cocoa Act 1981*. Further, the Board manages the Cocoa Pod Borer Project Fund as well. Comments in relation to the Funds are contained in paragraph 6A and 6B of this Report.

The Board also administers the operations of the *Productive Partnership in Agriculture Project*. Comments in relation to the project are contained in my **Special Project Audits Report to Parliament**.

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* on the financial statements of the Board for the year ended 30 September 2014 was issued on 31 May 2016. The report contained a Qualified Opinion.

“BASIS FOR QUALIFIED OPINION

Going Concern

I reported in my prior years’ reports that the National Court in its ruling of 19 March 2010 awarded Agmark Pacific Limited K4,885,260 plus 8% interest and costs allegedly for collections of Stabilization Bounty illegally without the Minister’s approval. Further, the Board’s current Net Liability stands at K5,443,089. Should the appeal made in 2010 fail, the Board will not be able to pay the K4,885,260 based on 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 insolvent and may be placed under receivership. I also noted that this contingent liability was not disclosed by way of notes to the financial statements for the year ended 30 September 2014. As a result, the Board did not comply with the requirements of *International Accounting Standards 37 (IAS 37)*.

Prior Year Adjustments – K850,554

During my review, I noted that the Board disclosed prior year adjustments as K850,554. I was not able to substantiate the balance at the time of the audit as no supporting documents and other relevant schedules were provided to me. As a result, I was not able to confirm the correctness, disclosure and fair presentation of the above balance.

Revaluation of Land and Buildings – K1,807,233

My review revealed that there was no proper valuation done on the Land and Buildings owned by the Board for a prolonged period to reflect the current market rates and values. As a result, the value of the fixed assets as at balance date was not fairly stated. Consequently, the Board did not comply with *IAS 16 (Measurement and Recognition)* which states that the valuation of property, plant and equipment should be done on a regular basis. As a result, the disclosed amount of K1,807,233 representing Land and Buildings was not fairly reflected in the financial statements as at 30 September 2014.

Limitation of Scope – Project Expenses

In 2014, the Government of PNG funded three (3) projects through Cocoa Board of PNG as the implementing agency totaling over K19 million to be utilized over specific periods. These projects are the Cocoa Quality Project, the Freight Subsidy Project and the Cocoa Nursery Project. A total of K9,173,811 was spent in aggregate as per the financial records of the Board during the financial period ended 30 September 2014. During my review of the payments relating to the projects, I was not able to verify payments/transactions totaling K2,593,283 due to scope limitation as the Board failed to provide detailed transaction listings and source documents for my testing. As a result, I was unable to comment and conclude whether the balance was fairly stated and disclosed in the financial statements for the year ended 30 September 2014.

AUDIT OPINION

In my opinion, except for the effects on the financial statements of the matters referred to in the Basis for Qualified Opinion paragraphs;

- a) the financial statements of the Board 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 Board as at 30 September 2014 and the results of its financial operations and cash flows for the year then ended.”

6.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Board for the year ended 30 September 2014 was issued on 31 May 2016. The report contained the following comments:

The Board

According to *Section 5* of the *Cocoa Act 1981* the Board comprising of the Chairman and seven other members representing the Cocoa Industry should be appointed by the National Executive Council (NEC) through the Minister. Further in *Section 8*, the Board should convene at least three times in a calendar year or to sit not less than every four months in any one year. My review revealed that there was no proper Board in place during the periods ended 30 September 2009, 2010, 2011, 2012, 2013 and 2014 consecutively. Consequently, there were no Board meetings held during the periods mentioned above. The non-existence of the Board was continuously brought to the attention of the Management in my prior years’ audits however, Management had yet to resolve the issue.

As a result, I was unable to comment and conclude on whether a legitimate body existed during the period and whether all major transactions and decisions made and transpired were in the best interest of the Cocoa Industry and the State.

Non-Compliance with the *Public Finances (Management) Act*

The Board had not submitted its financial statements for the year ended 30 September 2014 on a timely basis to enable me to conduct the audit and submit the audit report within the time frame prescribed by the *Public Finances (Management) Act 1995 (as amended)*. Consequently, the Board had breached *Section 63(2) and 63(4) of the Public Finances (Management) Act 1995*.

I brought this issue to the attention of the Management and was informed that the delay was caused by the external accountant's late preparation of the 2014 accounts. Management also noted my comments and breaches of the Public Finances (Management) Act and ensured to comply in the future.

Cash at Bank

My review and the examination of the cash at bank and bank reconciliations revealed that the bank reconciliations were not prepared, reviewed and verified by concerned officers of the Board in 2014 on a timely basis. I also noted that internal controls surrounding the management and function of petty cash were weak as no petty cash register and supporting documents were provided to me for verification at the time of my audit. As a result, I was not able place reliance on the effectiveness of the controls maintained by the Board over cash.

I brought this issue to the attention of the Management and was advised that a full-time officer had been assigned to oversee the timely preparation of the bank reconciliations. Further, Management of the Board advised me that effective control measures were put in place to address the issues identified in the petty cash management.

Fixed Assets

My review of the fixed assets of the Board revealed the following weaknesses:

- **Fixed Assets Register (FAR)**

The Fixed Assets Register (FAR) was incomplete as it was not properly updated and did not fully capture all the assets owned by the Board. Two portions of land located within the township of Rabaul (*Section 61 lot 31 and Section 37 lot 102*) were recorded without proper valuation. In addition, the vehicle list provided for audit verification had twenty-three (23) vehicles while the FAR shows only eighteen (18). I further noted that additions and disposals of motor vehicle used in other Centres were not properly registered in the FAR.

- **Stock-Take**

The Board had not conducted regular stock-take on its fixed assets for a number of years. Assets were not counted and tagged with asset numbers for verification and control. In the absence of regular fixed assets stock-take and numbering, assets that are idle, misplaced or stolen cannot be identified by the Board.

As a result, I was unable to place reliance on the effectiveness of the controls surrounding the management of fixed assets. Consequently, I was not able to comment on the condition, valuation and existence of the fixed assets disclosed.

Management concurred with my findings and ensured to put in place proper systems to address the issues.

Payments without three (3) Quotations, Lack of Minor Contract/Consultancy Agreement and Public Tender

During my review, I noted that the Board did not comply with the requirements of the *Public Finances (Management) Act 1995 (PFMA)*, *Section 61* and *Financial Instruction 2-2013* in relation to the following;

- The Board did not obtain three (3) written quotations for purchases valued between K5,000 and under K500,000. As a result, payments totaling K970,590 were made without obtaining three (3) written quotations.
- The Board during the financial period ended 30 September 2014 engaged a company for supply and installation of water pumps for a total value of K519,750 without observing the Public Tendering processes.
- During the financial period under review, the Board engaged a Human Resource Consultant for its recruitment purposes. Based on the terms of reference or contract agreement provided for my verification, the total consultancy cost was K67,000 however, I noted that a total of K196,000 was paid to the consultant. I was not provided with explanation for the difference of K129,000 overpayment. As a result, I was not able to comment whether value for money was achieved and due care was exercised while awarding the contract.

I brought these issues to the Management and received the following responses; “We have discussed with the Assistant Secretary – Expenditure Control to advice mechanism to comply with the procurement processs by obtaining an Authority to Pre-commit (APC) book so that we will comply with the procurement process as per the Public Finances (Management) Act.”

Travel Advance Register

My review of travel and subsistence expenses amounting to K1,356,027 for the period ended 30 September 2014 revealed lack of travel acquittals by concerned staff of the Board. There was no Travel Advances Register maintained by the Board in 2014.

It is a requirement as per the *Financial Management Manual Part 20 paragraph 11.2* that cash advanced to officers travelling overseas on official duty must acquit travel advances within 14 days of return from duty travel. At the same time *Part 20 paragraph 12.10* of the Manual stipulates that advances to officers for domestic duty travels to be acquitted within 7 days of return from duty travel by submitting an acquittal form. This issue was also raised in my prior year audit report.

Management responded that the Board will comply with the requirements per the Financial Management Manual and advised that pay deductions would commence immediately once a circular was sent out to all officers concerned.

6.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements for the year ended 30 September 2015 had not been submitted by the Board for my inspection and audit.

6A. COCOA POD BORER PROJECT FUND

6A.1 INTRODUCTION

6A.1.1 Framework

The National Government has funded the Cocoa Pod Borer Project based on the Project Proposal for Cocoa Pod Borer Management Project submitted by the Cocoa Board of Papua New Guinea. The Project is administered by the Cocoa Board of Papua New Guinea and was implemented in 2010.

6A.1.2 Objectives of the Project Fund

The Principal objectives of the Project Fund are:

- To facilitate the impartation of skills and knowledge on better management practices that will result in the reduction of Cocoa Pod Borer (CPB) infestation to less than 10% of production, and increase cocoa yields;
- To introduce and/or enhance farmers skills and knowledge in the combined use of basic CPB management via the five Golden rules and the Integrated Pest Disease Management technology; and
- To provide farmer support by way of making high yielding cocoa planting materials, tools, equipment and chemicals readily available or accessible to cocoa farmers which would enable effective adaption of good management practices.

6A.2 AUDIT OBSERVATIONS

6A.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Fund's financial statements for the years ended 30 September 2013 and 2014 were issued on 30 May 2016. These reports did not contain any qualifications.

6A.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act*, on the inspection and audit of the accounts and records of the Fund for the years ended 30 September 2013 and 2014 were issued on 30 May 2016. These reports contained similar comments hence, only 2014 report is reproduced.

Non-Compliance with the *Public Finances (Management) Act 1995*

The *Public Finances (Management) Act 1995*, Section 63(2) and 63(4) requires the Project to furnish to the Minister before 30 June in each year, a performance and management report of its operations for the preceding financial year, together with financial statements. Before furnishing financial statements to the Minister, the Project shall submit them to the Auditor-General who shall report to the Minister. However, the Project had not prepared and submitted its financial statements for the year ended 30 September 2014 to my Office on a timely basis to enable me to conduct the audit on time. Accordingly, the Project had breached Sections 63(2) and 63(4) of the *Public Finances (Management) Act 1995*.

Bank Reconciliations

My review and examination on the cash at bank and bank reconciliations of the Project revealed that the bank reconciliations were not prepared, reviewed and verified by concerned officers of the Project in 2014 on a timely basis. As result, I was not able to place reliance on the effectiveness of the controls surrounding the management of cash and the bank reconciliation process.

I brought this to the attention of the Management and it responded as follows: *“This was attributed to the delays in installing the MYOB Accounting System which resulted in transactions being posted at a much later date after the transactions actually took place. All bank reconciliations are now being reviewed and verified by relevant accounts personnel as standard procedure.”*

Fixed Assets Register (FAR)

My review of the Project’s Fixed Assets Register (FAR) revealed that the Register was not properly maintained during the year under review. I noted that the FAR was incomplete as it did not include asset numbers, model and serial numbers of the different types of assets listed. Registration numbers for the motor vehicles were not provided in the FAR as well. Furthermore, these assets were not tagged for verification. As a result, I was unable to place reliance on the controls surrounding the management of the fixed assets acquired and used by the Project at year end.

The Management responded to comments as follows: *“The Board is in the process of acquiring an assets labeling machine to number all assets held by the Board which will make it easier for asset verification in the future.”*

Lack of Supporting Documents for Staff Debtors and Investigation on Cheque Payment Accounts

During my review of the Staff Debtors and Investigation on Cheque Payment accounts as per Note # 2 of the financial statements of the Project, I noted that the Project did not maintain proper supporting schedules and documents in relation to staff advances. In the absence of proper documentations, I was unable to verify whether staff advances were properly managed and correctly recouped during the year. This issue was also raised in my prior year report.

Acquittal of Travel Advances

My review of the travel expenses for the year revealed payments amounting to K20,500 were not properly acquitted as required by the *Public Finances (Management) Manual (PFMM)*. It is a requirement under the *Financial Management Manual Part 20 paragraphs 11.2 and 12.10* that cash advanced to officers travelling overseas on official duty must be acquitted within fourteen (14) days of return from duty travel and advances to officers for domestic duty travels to be acquitted within seven (7) days.

As a result, I was unable determine whether all the advances were properly accounted for during the year under review.

I brought this to the attention of the Management and was advised that it would ensure all travels both overseas and domestic would be acquitted within the prescribed timeframe.

6A.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Project had not submitted its financial statements for the year ended 30 September 2015 for my inspection and audit.

6B. COCOA STABILISATION FUND (Subsidiary of Cocoa Board of PNG)

6B.1 INTRODUCTION

6B.1.1 Legislation

The Cocoa Stabilisation Fund was established under *Section 19* of the *Cocoa Act 1981*. The Fund is administered by the Cocoa Board of PNG with the objective of establishing price stabilisation, price equalisation and stockholding arrangements within the cocoa industry.

6B.2 AUDIT OBSERVATIONS

6B.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Fund for the year ended 30 September 2014 was issued on 25 May 2016. The report did not contain any qualification.

6B.2.2 Audit Observation Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Fund for the year ended 30 September 2014 was issued on 25 May 2016. The report contained the following matter:

Non-Compliance with the *Public Finances (Management) Act*

The Board had not submitted the Fund's financial statements for the year ended 30 September 2014 on a timely basis to enable me to conduct the audit and submit the audit report within the time frame prescribed by the *Public Finances (Management) Act 1995 (as amended)*. Consequently, the Fund had breached *Section 63(2)* and *63(4)* of the *Public Finances (Management) Act 1995*.

I brought this issue to the attention of the Management and was informed that the delay was caused by the external accountant's late preparation of the 2014 accounts. Management also noted my comments and breaches of the Public Finances (Management) Act and ensured to comply in the future.

6B.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Fund for the year ended 30 September 2015 had not been submitted for my inspection and audit.

7. COCOA COCONUT INSTITUTE LIMITED OF PNG

7.1 INTRODUCTION

7.1.1 Legislation

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

7.1.2 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.

7.2 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 Company for the year ended 31 December 2013 was completed and results were being evaluated.

The Company, despite my reminders, had not submitted its financial statements for the years ended 31 December 2014 and 2015 for my inspection and audit.

8. COFFEE INDUSTRY CORPORATION LIMITED

8.1 INTRODUCTION

8.1.1 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.

8.1.2 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 PNG;
- To act in the best interests of coffee producers; and
- To promote development of the coffee industry in PNG.

8.1.3 Subsidiaries of the Corporation

The Corporation has a Fund and a Subsidiary Company, *Coffee Industry Fund* and *Patana No. 61 Limited*. Comments in relation to the Fund and the Subsidiary are contained in paragraphs 8A and 8B respectively of this Report.

8.2 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 2013 was in progress.

The financial statements of the Corporation for the years ended 31 December 2014 and 2015 had not been submitted for my inspection and audit.

8A. COFFEE INDUSTRY FUND

8A.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 stabilise the coffee industry by giving the Coffee Industry Corporation the financial ability to implement schemes relating to stabilisation and equalisation of coffee prices and stock holdings of coffee.

8A.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 Fund for the year ended 31 December 2013 was in progress.

The financial statements of the Fund for the years ended 31 December 2014 and 2015 had not been submitted for my inspection and audit.

8B. PATANA NO.61 LIMITED (Subsidiary of Coffee Industry Corporation Limited)

8B.1 INTRODUCTION

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

8B.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 2013 was in progress.

The financial statements of the Company for the years ended 31 December 2014 and 2015 had not been submitted for my inspection and audit.

9. GOVERNMENT PRINTING OFFICE

9.1 INTRODUCTION

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

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

9.1.1 Objective of the Office

The main objective of the Government 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 an affordable cost.

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* on the financial statements of the Printing Office for the year ended 31 December 2012 was issued on 31 March 2016. The report contained a Disclaimer of Opinion.

“BASIS FOR DISCLAIMER OF OPINION

Limitation on the Scope of my Audit

Opening Balances

Due to the disclaimer of opinion issued in respect of the years ended 31 December 2010 and 2011, I was unable to satisfy myself as to the accuracy of the opening balances. These opening balances impact the closing balances for 2012 and enter into the determination of the results for year under review. 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. As such, I was unable to form an opinion regarding the reliability of the financial records maintained by the Office and the closing balances stated in the financial statements.

Cash at Bank - K1,511,990

My examination of the Cash at Bank balance and its related supporting documents revealed that the preparation of the Office’s final accounts including monthly bank reconciliations were outsourced to an accounting firm. My review of the bank reconciliations and related records revealed that the ending balance of K1,511,990 did not agree with the reconciled bank balance.

As such, I was unable to confirm the accuracy of the bank balance disclosed at year end.

Trade Debtors – K8,458,522

My review of the Trade Debtors balance of K8,458,522 revealed that much of the 2008 to 2011 balances continued to remain outstanding. I was unable to verify the prior period debtors' balances due to lack of relevant information. In addition, there were a lot of incorrect postings noted in the ledgers which has inflated the ending balance. Further, no provisions have been made by management for possible bad debts for the long outstanding debts in 2012. As such, I was unable to satisfy myself as to the accuracy and completeness of the trade debtors balance disclosed at year end.

Property, Plant and Equipment – K4,071,740

My review of the Fixed Assets Register (FAR) showed that the Register was not properly maintained and updated showing additions and disposal of assets made during the year. I was not provided with supporting documentations for purchases and disposal of assets. In addition, an unexplained adjusting entry of K449,913 was passed to reduce the original balance from K4,521,653 to K4,071,740. Further, there was no stock-take done at year end to confirm the existence and valuation of the assets held at year end. As such, I was unable to conclude on the accuracy, valuation and existence of the fixed assets balance of K4,071,740 at year end.

Revenue – K20,401,390

The revenue balance of the Printing Office stated at year end was K20,401,390 (2011: K8,807,746) which is 131 percent higher than 2011 revenue disclosed in the accounts. My review of the account revealed that there was no audit trail available for revenue generated by the Office for my verification. There was no correlation between job records, general ledger, inward cash register maintained by the Printing Office and the bank statements. Accordingly, I was unable to execute all my planned audit procedures to conduct the necessary examination to form an opinion. I have in my past audit reports emphasised to management the importance of maintaining proper accounts but the Office is yet to implement my recommendation. In addition, there were a lot of incorrect postings noted in the ledgers which has inflated the ending balance. As such, I was unable to conclude on the accuracy and valuation of the revenue balance of K20,401,390 disclosed in the financial statements.

Provision for Long Service and Recreation Leave

The Government Printing Office did not disclose long service and recreation leave provisions for the permanent staff in its financial statements. There were no records in relation to personnel leave credits that was managed by the Printing Office. Without such records, I was unable to ascertain whether payments in relation to leave credits were properly accounted for in the financial statements.

DISCLAIMER OF OPINION

Because of the significance of the matters referred to in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements of Government Printing Office for the year ended 31 December 2012.”

9.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act*, on the audit and inspection of the accounts and records of the Printing Office for the year ended 31 December 2012 was issued on 31 March 2016. The report contained the following observations:

1.0 Cash flows

I noted during the course of my review that the Cash flow Statement had not been properly prepared. I was not provided with the workings for the Cash flow Statement to ascertain how the final figures were arrived at and disclosed in the financial statements.

2.0 Land Acquisition - K2,428,924.68

My examination of the related records revealed that a cheque amounting to K160,000 (No.5096, dated, 31/11/2012) was paid by Government Printing Office to Nambawan Super Ltd as a 10% deposit to purchase twenty (20) portions of un-serviced blocks of land marked for residential (medium covenant) purposes, located in the suburb of Gerehu, NCD.

Further, I noted that the final settlement was made through bank cheque No.1050944/1068747 dated 03/12/2013 for K1,440,087.67. In addition, there were legal fees of K250,012, Stamp Duty of K80,035 and capital expenses in relation to fencing totaling K498,790 were also incurred to acquire the said allotments. The total amount paid by GPO at the time of my audit aggregated to K2,428,924.68. The land titles for the twenty (20) undeveloped allotments were registered under a company named “*Government Printer Incorporated Limited*”. But my search with the Investment Promotion Authority in relation to this named company revealed that no such company was registered with Investment Promotion Authority.

I drew Management’s attention to the requirements of *Public Finances (Management) Act 1995* under *Part II Section 5*, which states among other duties, each Chief Executive Officer/Departmental Head is responsible for ensuring that;

- “(a) *all accounts and records relating to the functions and operations of the Office/Department are properly maintained; and*
- (b) *all necessary precautions are taken to safeguard the collection and custody of public moneys; and*
- (c) *all expenditures were properly authorized and applied to the purposes for which they were appropriated; and*
- (d) *all expenditure were incurred with due regard to economy, efficiency and effectiveness and the avoidance of waste; and*
- (e) *all necessary precautions were taken to safeguard stores and other Property of the State.”*

I was unable to state whether the above provisions of the Act were observed by the Government Printing Office.

3.0 The Life Expectancy of Print Machines

The Printing Office is a business arm of the Department of Prime Minister & National Executive Council (*PM & NEC*). The revenue generated from printing jobs and publication services is the only source of income to continue its annual operations. As such, there is a direct relationship between the print machines and revenue generation. However, with much concern I noted that some staff failed to understand that the print machines have a limited life span. I noted that staff had been doing print jobs for other printing companies using GPO print machines and other facilities. This adversely impacts the limited resources of the Printing Office and fast track the life expectancy of the print machines.

I recommended Management to take necessary disciplinary action against staff engaged in such practice and to immediately report these matters to the Chief Secretary's Office for those staff who continue to perform jobs for other printing companies using GPO print machines and other facilities.

4.0 Proper Maintenance, Control and Monitoring of “Trade Debtors” Account

My review of the Trade Debtors account of the Printing Office revealed that the Office did not have a properly coordinated system whereby an individual debtor's balance could be easily traced to their sales invoices, receipts, production and delivery dockets and orders. Periodic reconciliations and monitoring between these records is an important internal control measure which would ensure an effective collection system.

I recommended Management to adopt a properly coordinated system whereby the individual debtors can be easily traced to their sales invoices, receipts, production and delivery dockets and orders so that its debtors can be properly monitored and collection made easier.

5.0 Personnel Emoluments

Leave Fares

I noted that certain officers were being paid hire fares for transportation from major towns back to home districts and villages in spite of public transportation usage. The Management concurred with my comments and stated that corrective actions had been taken in 2013 with instructions from the Department of Prime Minister & National Executive Council.

Travel Allowance

I noted that the Government Printer had undertaken numerous overseas travels during 2012. I further observed that the Printer had approved his own travel. I brought this to the attention of Management emphasising that a Senior Officer cannot approve his/her own travel. I further stated that his travel should have been approved by an officer to whom he reports to; in this instance the Chief Secretary's approval should have been sought. Management concurred with my recommendation and agreed to take corrective action.

Government Printer's Contract Allowances

My review of the Government Printer's contract and its related records revealed that the Government Printer's salary and allowances were at the level equivalent to that of Contract Category for Deputy Secretaries in the Central Agencies on salary Grade 20.2 per his Contract of Employment for three (3) years starting 01st April, 2011. I further noted that the contract was signed on 08th May, 2014, only after his contract period (three years) had expired due to administrative delays as advised by the Government Printing Office.

The Government Printer's total salary, allowances and benefits per annum was K226,636. The allowances for housing and motor vehicle of K26,000.00 each annually were also included and was part of this package, administered by the Department of PM & NEC and paid through the Government's Alesco payroll system.

Housing Allowance

I noted that the Government Printer, despite being paid the full housing allowance, during the same contract period from June 2011 to 30 November 2013, a total of K129,999.90 was paid to a real estate company at a rate of K4,333.33 per month for 30 months to cover accommodation rentals for the Government Printer.

Again, from 1 December 2013 to February 2015, a new tenancy agreement was signed between a new printing & stationery company for his accommodation at an exorbitant monthly rate of K21,450.00 for a tri-level residence located at Garden Hills (K17,116.67 more than previous agreement). With this new agreement, a total of K343,200.00 (15 months rental, inclusive of one (1) month's rental as bond) was paid by the Printing Office. I noted that a total excessive housing benefit of K473,199 was accorded to the Government Printer for period June 2011 to February 2015.

Motor Vehicle Allowance

I noted that a total of K317,279.50 was paid for hire cars from two (2) different firms despite being paid a full motor vehicle allowance under his employment contract. These vehicles were hired by the Government Printer, the daily rates were presumed excessive and the vehicles were hired for lengthy periods. Further, I noted that two (2) motor vehicles purchased and owned by the Printing Office were under his custody for 24 hours use with fuel. In summary, it was estimated that a total excessive motor vehicle benefit of more than K369,279.50 was accorded to the Government Printer for the period January 2012 to December 2012.

I drew Management's attention to *Part II, Section 5 of the Public Finances (Management) Act 1995*, which states among other duties, the departmental head (Senior Officer) as an accountable officer was to ensure that expenditure was incurred with due regard to economy, efficiency and avoidance of waste. As such, I am of the view that the Printer had breached not only this section of the *PFMA* but his own *Employment Contract* with the State by benefitting himself excessively in relation to his housing and motor vehicle allowances.

9.3 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 Printing Office for the year ended 31 December 2013 had been completed and results were being evaluated.

The financial statements for the years ended 31 December 2014 and 2015 had not been submitted by the Printing Office for my inspection and audit.

10. INDEPENDENCE FELLOWSHIP TRUST

10.1 INTRODUCTION

10.1.1 Legislation

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

10.1.2 Objective of the Trust

The objective 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.

10.1.3 Functions of the Trust

The functions of the Trust are to:

- Make selections of candidates to receive the awards of fellowships;
- Determine the number and value of awards; and
- Invest the funds of the Trust.

10.2 STATUS OF THE FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Trust for the year ended 31 December 2015 had not been submitted for my inspection and audit.

11. INDEPENDENT CONSUMER AND COMPETITION COMMISSION

11.1 INTRODUCTION

11.1.1 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.

11.1.2 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.

11.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

11.2.1 Comments on the Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Commission for the year ended 31 December 2015 was issued on 31 May 2016. The report contained a Qualified Opinion.

“BASIS FOR QUALIFIED OPINION

1.0 STAFF ADVANCES – K30,576

My review of staff advances revealed that the account has not been properly maintained and reconciled by the Commission on a timely basis. I noted that the account contained credit balances for motor vehicles advances and staff advances amounting to K55,135. The Commission has not properly identified these amounts and corrected the entries to reflect the correct account balance. As a result, I was unable to validate the amount stated in the financial statements at year end.

2.0 FIXED ASSETS – K1,899,654

The Commission disclosed its fixed assets as K1,899,654 at 31 December 2015. During my review, I noted that the Commission has not maintained a proper Fixed Asset Register to record all assets purchased and under the custody of the Commission. I also observed that the Fixed Assets Register has not been properly updated on a regular basis to account for all the assets of the Commission. My sample verification of fixed asset revealed that the assets do not have identification tag numbers against each asset recorded in the Register to confirm its existence. Further, the Commission has not carried out any physical inventory check during the year to confirm the accuracy of the amount stated in the financial statements. As a result, I was unable to verify the ownership, existence and valuation of fixed assets stated by the Commission as at 31 December 2015.

3.0 VISA CARD PAYMENTS – K120,000

The Commission has obtained a Visa Credit Card from ANZ Bank for its official use. The card was mainly used for the purpose of official travel and travel related expenses. During my review, I noted that the Commission deposited K120,000 into Visa Credit Card account during the year to clear the payments made by using the Credit Card.

The Commission was unable to provide me with necessary source documents, supporting documents such as Credit Card statements during the audit for me to verify the payments made for various expenses.

Further, I noted that the Commission does not have a policy and procedure guidelines regarding the usage of Visa Credit Card.

As a result, I was unable to confirm whether or not the expense incurred by use of Credit Card was for the benefit of the Commission.

QUALIFIED AUDIT OPINION

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

- (a) the financial statements of the Commission 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 Commission as at 31 December 2015, and the results of its financial operations and cash flows for the year then ended.”

11.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Commission for the year ended 31 December 2015 was issued on 31 May 2016. The Report contained the following significant matters:

EMPLOYMENT CONTRACT

During my review of personnel files, I noted that Commissioner’s employment contract was not provided for my examination. I also observed that the Commissioner was being paid based on previous Commissioner’s salary scale. I brought this to the attention of the Commission and was informed that Department of Personnel Management was yet to formalize the Contract of Employment for the Commissioner.

BUDGET REVIEW

My review of the Commission’s budget against the actual expenditure revealed that the Commission had overspent by K1,213,931 on certain expenditure items and also incurred expenditure on unbudgeted items.

The total amount spent on unbudgeted items (Motor Vehicles) amount to K862,565. I was not provided with any explanation for the variances by the Commission. Further, the Commission was unable to provide me with documentary evidence such as Management Meeting Minutes, revisions to budget and tender documentations for approval and purchase of motor vehicles.

I brought this issue to the attention of the Commission and queried why such expenses were incurred for unbudgeted items and exceeded its expenditure on budgeted items. The Commission responded to my concern as follows:

“The Commission is fully aware that it overspent its budget and expended funds on unbudgeted items. We believe each expenses incurred were made with genuine intentions. However, as part of good governance and accountability, we will ensure our actual spending against budget is regularly monitored going forward.

The Commission for your information convenes regular management meetings, hence, will use this forum to review spending against budget and take appropriate measures where necessary to better manage and control our finance. In terms of procurement, the Commission will ensure due procurement and tender procedures are followed in future.”

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 PNG.

12.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

12.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Corporation's financial statements for the years ended 31 December 2012 and 2013 were both issued on 17 November 2015. The reports contained Qualified Opinions, hence only the 2013 report is reproduced as follows:

“BASIS FOR QUALIFIED OPINION

Trade Debtors - Malahang & Ulaveo Industrial Centres (MIC & UIC)

The trade debtors balance for the above Centres has been reported as K1,861,699 (included as part of total debtors of K2,377,141) at the year end. I noted that of the K1,861,699 receivable, K1,430,121 still remained outstanding for a long period of time, therefore the collectability of this amount is in doubt. I was unable to establish whether the Corporation has made adequate provision against these debts. As such, I was unable to satisfy myself as to the accuracy and collectability of the trade debtors as reported at the year end.

Land Sales Debtors – K515,442

Included in the total debtors of K2,377,141 were Land sales debtors totaled K515,442. I observed that land sales have been outstanding since 2008. The Corporation has not provided adequate provision for doubtful debts in its accounts. Consequently, I was unable to ascertain the accuracy, correctness and collectability of the sundry debtors as reported in the financial statements at 31 December 2013.

Cash at Bank – K5,781,063

The independent bank confirmation certificates for the Business Growth Centre (BGC), Ulaveo Industrial Centre (UIC) and Lands accounts for the year ended 31 December 2013 were not provided for my review. As a result, I was unable to confirm the closing bank balances as reported in the financial statements.

QUALIFIED AUDIT OPINION

In my opinion, except for the effects of the matters referred to in the Basis for Qualified Opinion paragraphs 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 Corporation for the year ended 31 December 2013 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 reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Corporation for the years ended 31 December 2012 and 2013 were issued on 17 November 2015. The reports contained similar comments, hence only the 2013 report is reproduced as follows:

1. Advance/Acquittal Register

The Corporation had not maintained Advance/Acquittal Register for Head Office and Malahang Industrial Centre despite my recommendation in my previous audits. Due to non-existence of Advance/Acquittal Register during the year under review, I was unable to trace the authenticity of advances against its acquittals. The Corporation in its response stated that it would take necessary remedial action to rectify the issue.

2. STAFF ADVANCE

My review of the Corporation's staff debtors revealed that there was no proper control, monitoring and recovery of the staff advances. As a result, recouping staff advances was slow and ineffective. I also noted that Staff obtained advances from the Project Division amounting to K124,554.

These are Public Investment Project (PIP) funds which are mainly used for the purpose of investments in Capital Development and Infrastructure designed to support the provision of services and the benefits of which were to span over several years.

Moreover, the Corporation had no policy on Staff Advances to control, monitor, recover and deal with those who don't comply with it. As such, staff advances amounting to K387,636 had been outstanding for a considerable period was not recouped on a timely basis. The management responded to my query as follows:

"All advances have been minimized; those requesting advance assistance from ICDC have been given against their entitlements. As for the list of outstanding debtors as per the audit report, action has been taken to recoup these amounts. Effort is being made to enforce full repayment by management with fortnightly compulsory deductions. Advances from BUG have been stopped and steps taken to recoup the outstanding monies."

3. ADVANCE TO PIMZ, PORTION 152, SEZ – K909,371

During my examination, I noted that advances of K909,371 were made to Pacific Marine Industrial Zone, Special Economic Zone and Portion 152, from Business Growth Centre (BGC) for the establishment of the Industrial Park at the LNG Plant. These advances were project related expenses and were reimbursable to BGC. I was not informed why these funds were not recovered yet and whether any follow up had been done. I drew this to the Management's attention and the management responded as follows:

"This is an ongoing query and as mentioned in previous audits, follow up letters have been sent to the Secretary of the Department of Trade, Commerce and Industry who is also the current manager of the project but so far there has been no response from the Department on this issue."

4. **FIXED ASSETS REGISTER**

During my review, I observed that the Corporation's Fixed Assets Register contained many of its old assets and was not properly updated. As a result, I was unable to ascertain the correctness and appropriateness of the amount reported in the financial statements. I drew this issue to the attention of the Management and they responded as follows:

"Management is now arranging to undertake a full and complete stock-take of all its assets and update the Fixed Assets Register for reflection of accurate information starting from the Head Office, MIC, UIC and the Project Division."

5. **Inter-Company Accounts**

During my examination, I noted that despite my prior year's recommendations, the inter-company/project transactions were not being reconciled to show a nil balance at year end. Inter-company/project transactions supposed to offset each other showing a zero balance. I noted that there was an outstanding balance of K1,557,653 that need to be reconciled and cleared. I drew this to the Management's attention and the Management responded as follows:

"We agree with your comment that the intercompany balances should offset or contra each other. The above difference will be further investigated and rectified in the accounts. In cases where the funds are paid to specific projects, the accounts have been classified as advances mainly because no funds were appropriated for these projects under ICDC budget from the National Government. The advances in question were given based on directions from the Corporation's Managing Director and Secretary for Commerce and Industry being the parent company of the Ministry; on the understanding that the funds used will be reimbursed as soon as the funds are made available for these particular projects. Unfortunately these have not been honored by the Department of Commerce and Industry to date despite repeated requests for reimbursements of same."

6. **Non-Compliance with the *Public Finance (Management) Act 1995***

The Corporation had not prepared and submitted its financial statements to my Office before 31 March 2013 to enable me to conduct the audit and issue the audit report within the time frame stipulated in the *Public Finance (Management) Act 1995*. Consequently, the Corporation had breached *Section 63(2) and 63(4) of the above Act*.

7. Other Internal Control Weaknesses

Other weaknesses noted during my review were:

- Certain cost on preliminary activities were over spent by the Corporation on the projects and they were still incomplete;
- Payment vouchers from Head Office and Business Growth Centre amounting to K55,406 were missing from the files;
- The Corporation executed some payments without obtaining three quotations from suppliers for payments exceeding K5,000;
- Inadequate control over cash encashment and payment to suppliers;
- Reconciliations of general ledger accounts were not prepared on a periodic basis and the expenditure general ledgers for Business Growth Centre were made available for my audit inspection;
- There was no Internal Audit Unit established as per *Section 9 of the Public Finances (Management) (Amendment) Act 1995*; and
- Minister's approval of the Land sale was not provided for verification.

I drew management's attention to these weaknesses and I was advised that steps have been taken to address these issues.

12.3 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 2014 and 2015 for my inspection and audit, despite my reminders.

13. INTERNAL REVENUE COMMISSION

13.1 INTRODUCTION

13.1.1 Legislation

The National Executive Council (NEC) in its meeting on 5 December 2013, Decision No: 419/2013 approved that the Internal Revenue Commission be transformed into an Independent Statutory Authority through a separate Act of Parliament.

In accordance with the NEC decision, the *Internal Revenue Commission Act 2014* was drafted and certified on 5 August 2014. In September 2014, the Internal Revenue Commission started carrying out its operations as a Statutory Authority.

Prior to September 2014, the Internal Revenue Commission was operating as a Department of the National Public Service under the Department of Finance.

13.1.2 The Objective of the Commission

The objective of the Internal Revenue Commission is to raise revenue for the government from taxes imposed on income that is liable to be taxed under the taxation laws it administers. The Commission assesses and collects taxes. It conducts tax education and awareness campaigns, and proposes tax administration reform measures to ensure that a conducive business environment is established for collecting right amount of taxes.

13.1.3 The Powers and Functions of the Commission

The powers and functions of the Internal Revenue Commission are to enable the Commissioner General to:

- administer and enforce the revenue laws;
- promote compliance with the revenue laws;
- take such measures as may be required to improve service provided to taxpayers with a view to improving efficiency and maximising revenue collection;
- take such measures as may be required to counteract tax fraud and other forms of tax evasion;
- advise the State on matters relating to taxation and to liaise with relevant stakeholders on such matters;
- represent the State internationally in respect of matters relating to taxation; and
- carry out such functions as are given to the Internal Revenue Commission under this Act or any other law.

13.2 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 Commission for the period 18 September to 31 December 2014 had been completed. The management letter responses together with the signed financial statements were being awaited to issue the audit report.

The Commission had not submitted its financial statements for the year ended 31 December 2015 for my inspection and audit.

14. INVESTMENT PROMOTION AUTHORITY

14.1 INTRODUCTION

14.1.1 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*.

14.1.2 Functions of the Authority

The principal functions of the Authority are to:

- Provide information to investors in the country and overseas;
- Facilitate the introduction of citizens and foreign investors to each other and to activities and investments of mutual benefits;
- Provide a system of certification of foreign enterprises;
- Advise the Minister on policy issues which relate to the Act; and
- Maintain a register of foreign investment opportunities.

14.2 AUDIT OBSERVATIONS

14.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Authority's financial statements for the year ended 31 December 2015 was issued on 31 May 2016. The report did not contain any qualification.

15. KOKONAS INDASTRI KOPORESEN (Formerly Copra Marketing Board of PNG)

15.1 INTRODUCTION

15.1.1 Legislation

The (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 PNG and required KIK to only regulate the copra price in PNG.

The *Kokonas Indastri Koporesen Act* subsequently established PNG Coconut Extension Fund and PNG Coconut Research Fund. Comments in relation to these Funds are contained in paragraphs 15A and 15B respectively, of this Report.

15.1.2 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 PNG and to administer the PNG Coconut Extension Fund and the PNG Coconut Research Fund.

15.2 AUDIT OBSERVATIONS

15.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Koporesen for the year ended 31 December 2015 was issued on 26 May 2016. The report did not contain any qualification.

15.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Koporesen for the year ended 31 December 2015 was issued on 26 May 2016. The report contained the following comment:

Managing Director's Contract of Employment

My examination of the Personal Records for the year ended 31 December 2015 revealed that the *National Executive Council (NEC)*, in its *Decision No: 14/2013* dated 23 February 2013 confirmed the appointment of Dr. James Vele Kaiulo as Managing Director of Kokonas Indastri Koporesen for a period of four (4) years.

The NEC further directed the Secretary for Department of Personnel Management to prepare a “*Contract of Employment*” for the Managing Director, which has not been finalised.

I brought this to the attention of the Management in my previous audits and followed up during the current audit as I was unable to determine the basis on which the Managing Director’s remuneration was calculated.

The Koporesen took note of my concerns and advised that they would continue to follow up with the Department of Personnel Management for the signed “*Contract of Employment*”. In addition, the Management stated that the Managing Director was on the same scale of the previous Managing Director and adjustments would be effected once the “*Employment Contract*” is signed.

15A. PNG COCONUT EXTENSION FUND

15A.1 INTRODUCTION

The *Copra Marketing Board (Amendment) Act 1997* provides for the establishment of the PNG 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.

15A.1.1 Objective of the Fund

The objective of the Fund is to engage in extension services and related programs 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 KIK.

15A.2 AUDIT OBSERVATIONS

15A.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Extension Fund for the year ended 31 December 2015 was issued on 26 May 2016. The report did not contain any qualification.

15B. PNG COCONUT RESEARCH FUND

15B.1 INTRODUCTION

15B.1.1 Legislation and Objective of the Fund

The PNG Coconut Research Fund was established by the *Kokonas Indastri Koporesen Act* following the repeal of the *Copra Marketing Board (Amendment) Act* and the cessation of the PNG Copra Research Fund. The KIK deducts a copra research fee 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 Limited of PNG.

15B.2 AUDIT OBSERVATIONS

15B.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Research Fund for the year ended 31 December 2015 was issued on 26 May 2016. The report did not contain any qualification.

16. KUMUL CONSOLIDATED HOLDINGS (Formerly Independent Public Business Corporation)

16.1 INTRODUCTION

16.1.1 Legislation

The Independent Public Business Corporation (IPBC) 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 PNG (Amendment) Act 2007* at which time the objectives and functions of the Corporation were changed.

A major impact of the amendments made was that the Corporation, the Trusts, the State Owned Enterprises or any other enterprises in which the Corporation, the Trusts or a State Owned Enterprise holds any interest shall not be subject to the *PFMA*. 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 8 June 2007.

The Principal IPBC Act was amended on 12 August 2015. The name of the Independent Public Business Corporation was repealed and replaced with Kumul Consolidated Holdings. The objectives and functions of the principal Act were not amended, all dividends declared by Kumul Consolidated Holdings shall be paid into the Sovereign Wealth Fund.

16.1.2 Objectives of the Corporation shall be:

- 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;
- 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 NEC;
- To enhance the financial position of the State or State Owned Enterprises; and
- To enter into and perform financial and other arrangements that in the opinion of the Corporation have as their objective either:
 - The advancement of the financial interests of the State or State Owned Enterprises; or
 - The development of the State or any part thereof.

16.1.3 Functions of the Corporation

- 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.
- Without limiting the generality of *Subsection (1)* but subject to the provisions of this Act, the Corporation may:
 - Undertake the function of holding and monitoring corporation for State owned assets and Majority State Owned Enterprises;
 - Undertake the function of planning, coordinating and managing State assets, infrastructure and projects;
 - Determine policies regarding:
 - The conduct of its affairs and the affairs of any of the Trusts; and
 - The administration, management and control of the Corporation and any of the Trusts;
 - Borrow, raise or otherwise obtain financial accommodation in PNG;
 - Advance money or otherwise make financial accommodation available to the State or State Owned Enterprises;
 - Act as a central borrowing and capital raising authority for State Owned Enterprises;
 - Act as agent for State Owned Enterprises in negotiating, entering into and performing financial arrangements;
 - Provide a medium for the investment of funds of State Owned Enterprises;
 - Manage or cause to be managed the Corporation's financial rights and obligations; and
 - Such other functions and duties as are prescribed by the Act or any other Act.

16.1.4 Subsidiaries of the Corporation

The subsidiaries of the Corporation are *General Business Trust*, *PNG Dams Limited* and *Port Moresby Private Hospital Limited*. Comments in relation to these subsidiaries are contained in paragraphs 16A, 16B and 16C of this Report.

16.1.5 Projects of the Corporation

The Corporation manages *Japanese Fund for Poverty Reduction Project* and *Lae Port Development Project*. It also implements the *Port Moresby Sewerage and Supply Upgrading Project*. Comments in relation to these Projects are contained in my Special Project Audits Report to Parliament.

16.2 AUDIT OBSERVATION

16.2.1 Comments on the Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Corporation for the years ended 31 December 2013 and 2014 were issued on 31 March 2016. The reports did not contain any qualifications.

16.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the audit of the accounts and records and the examination of the financial statements of the Kumul Consolidated Holdings for the year ended 31 December 2015 was in progress.

16A. GENERAL BUSINESS TRUST (Trust under Kumul Consolidated Holdings)

16A.1 INTRODUCTION

The General Business Trust was established under *Section 31* of the *Independent Public Business Corporation of PNG Act 2002 (as amended)* which came into operation on 20 June 2002.

16A.1.1 Objectives of the Trust

- The Kumul Consolidated Holdings (formerly Independent Public Business Corporation of PNG) 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 any time before or after the commencement date of the *Act*, the Minister responsible for privatisation matters may vest certain assets and liabilities in the Kumul Consolidated Holdings as Trustee of the Trust; and
- All the State Owned Enterprises and other investments owned by the State of PNG are vested in the Trust by the Minister responsible for privatisation as approved by the NEC from time to time.

16A.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

16A.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Trust's financial statements for the year ended 31 December 2013 was issued on 14 April 2016. The report contained a Disclaimer of Opinion.

“BASIS FOR DISCLAIMER OF OPINION

Measurement of Unquoted Equity Investments in State Owned Enterprises (SOE's)

Note 14 of the financial statements disclosed K6,031,913,426 as Unquoted equity investments under Non-Current Assets of which K5,821,898,592 was stated as investments under State Owned Enterprises (SOEs). The financial statements disclosed under the note that the investments have been carried by the Trust at fair value in accordance with *IAS 39, Financial Instruments: Recognition and Measurement*. However, no valuation was done on the investments to determine the fair value as at 31 December 2013. As a result, I was unable to determine whether any adjustments might have been required to the carrying value of the unquoted investments in the State Owned Enterprises for the year ended.

Accordingly, the measurement of the Trust's unquoted investments in the State Owned Enterprises is not in compliance with IAS 39.

Investments in Lae-Port Project

Note 14 of the financial statements reported totaled K6,031,913,426 as Unquoted Equity Investments. Included in the investments is Others (Projects under construction) totaled K131,247,583 as investment made in the Lae-Port Development Project (LPDP) as at 31 December 2013. However, the audited financial statements of LPDP for the year ended disclosed K172,274,048 as the total investment made by the Trust in the Project leaving an unreconciled difference of K41.0 million. As a result, I was unable to determine whether adjustments are required to be made to the carrying value of the Trust's investments in Lae-Port Development Project (LPDP) amount to K131,247,583.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence and accordingly, I am unable to and do not express an opinion on the financial statements of General Business Trust as at 31 December 2013, and of its financial performance and its cash flows for the year then ended."

16A.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Trust for the year ended 31 December 2013 was issued on 14 April 2016. The report contained the following comments:

Investment Corporation of Papua New Guinea

This Corporation was vested with IPBC in pursuant to *Gazettal Notice No. 33* dated 06 April 2004. The value of this property was taken up in the financial statements as K8,660,957 for the last eight (8) years. The conditions attached with the vesting notice was not to use the GBT assets (money) for the disposal of remaining assets and settle the liabilities and submit all the outstanding financial statements to my office to enable me to complete the audit and issue the reports. However, my repeated request to provide the financial statements for the years since 2002 was not responded positively by the respective managements in place in the years. However, in 2013 this investment was provided for allowance for impairment.

Investments in Niugini Insurance Corporation Limited (NIC)

This Niugini Insurance Corporation was corporatized and the business was transferred to Pacific MMI Insurance limited in 1998 except to keeping the insurance liability and assets attached with the liabilities remained with the Corporation.

However, in 2010, IPBC informed my office that they filed an application for deregistration of the company but no documentation was made available for my review to determine the appropriateness of the claim.

16A.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 Trust for the year ended 31 December 2014 had been completed and the results were being evaluated.

The fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Trust for the year ended 31 December 2015 was in progress.

16B. PNG DAMS LIMITED (Subsidiary of Kumul Consolidated Holdings)

16B.1 INTRODUCTION

16B.1.1 Legislation

PNG Dams Limited was incorporated under the *Companies Act* on 5 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 PNG Electricity Commission (ELCOM). This was gazetted through *Gazettal Notification No. G114* dated 16 July 2002. The Company was vested with the IPBC through the *Gazettal Notification No. G125* dated 2 August 2002.

16B.1.2 Objective of the Company

The objective of the Company is to store water in the two dams for the controlled release of water from the storage for the generation of electricity.

16B.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 years ended 31 December 2013 and 2014 had been completed and the results were being evaluated.

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 2015 was in progress.

16C. PORT MORESBY PRIVATE HOSPITAL LIMITED (Subsidiary of Kumul Consolidated Holdings)

16C.1 INTRODUCTION

16C.1.1 Legislation

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

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

16C.1.2 Objective of the Company

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

16C.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 years ended 31 December 2013 and 2014 had been completed and the results were being evaluated.

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 2015 was in progress.

17. LEGAL TRAINING INSTITUTE

17.1 INTRODUCTION

17.1.1 Legislation

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

17.1.2 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*.

17.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

17.2.1 Comments on the Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Institute for the year ended 31 December 2013 was issued on 11 February 2016. The report contained a Qualified Opinion.

“BASIS FOR QUALIFIED OPINION

Fixed Assets – K511,910

During my review of fixed assets, I noted that the Institute has not maintained a Fixed Assets Register. The assets owned by the Institute have not been tagged for easy identification and recording purposes. I also noted that the Institute has not carried out physical count of fixed assets over the years to ensure that assets have properly been recorded and in existence. As a result, I was unable to confirm the valuation, existence and accuracy of the fixed assets disclosed by way of notes in the financial statements.

Scope Limitation – Casual Wages – K140,680

During the year, the Institute has paid K140,680 as wages for twenty two (22) additional casual staff. During my examination, I was unable to establish the purpose of employing additional casual staff for K140,680. The Institute was unable to provide satisfactory explanations to validate the payments made. As a result, I was unable to comment whether the account balance has been fairly stated in the financial statements.

QUALIFIED OPINION

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

- (a) the financial statements of the Institute 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 Institute as at 31 December 2013, and the results of its financial operations and cash flows for the year then ended.”

17.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Institute for the year ended 31 December 2013 was issued on 11 February 2016. The report contained the following significant matters:

Council Meeting Minutes

My review of the Council meeting minutes revealed that meeting minutes were not signed by the Chairman and the Secretary of the Institute to confirm the minutes as true and correct recording of the proceedings. Where minutes were left unsigned they are susceptible to unauthorized modification. I recommended the Institute to ensure that meeting minutes are authorized by the Chairman.

Budget Against Actual

A comparison of the budget figures against the actual expenditure revealed that the Institute had exceeded the budget in its spending. There was a significant increase in spending by K438,865 (18 percent). The budget allocation for operational expenditure was K2,453,200 while the actual expenditure was K2,892,065 for the year under review for which the audit did not receive any satisfactory explanation (for the variance).

Accounting and Administration Procedural Manual

I noted that the Institute did not maintain a procedural manual for the staff to follow and adopt standardized procedures within the Institute for effective control purposes. In the absence of this manual, I was unable to establish whether the standard procedures were followed in the accounting, administration and other operational areas. Further, I was unable to establish whether the staff members carry out tasks in accordance with the prescribed procedures and guidelines applicable to the Institute.

Accounting System

I noted that the Institute's accounts and records were prepared manually from the cash book and subsequently transferred to the spreadsheet to compile the financial statements. Further, due to financial statements been prepared based on manual cash book, I was unable to place sufficient reliance on the financial statements due to inadequate manual control system. I recommended management to put in place a proper accounting system (accounting software) appropriate for the Institute for proper accountability and good governance.

Employment Contracts

During my review of the employment contracts, I noted that there was a Gazettal notice for the appointment of the Director. However, there was no written contract provided to me to enable me to verify the salaries and allowances paid to her. Further, the contract for the Deputy Director expired on 30 April 2013. However, the Deputy Director continued to perform her role as Deputy Director with full salaries and allowances with no renewed contract in place. In the absence of a valid and legally binding employment contract, I was unable to verify and confirm the total salaries and allowances paid to the two (2) Directors.

17.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Institute had not submitted its financial statements for the years ended 31 December 2014 and 2015 for my inspection and audit.

18. MINERAL RESOURCES AUTHORITY

18.1 INTRODUCTION

18.1.1 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 the Authority commenced operations in June 2007.

18.1.2 Objectives of the Authority

The objectives of the Authority are 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.

18.1.3 Functions of the Authority

The functions of the Authority are described as follows:

- To advise the Minister on matters relating to mining and the management, exploitation and development of Papua New Guinea's mineral resources;
- To promote the orderly exploration for the development of the country's mineral resources;
- 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 PNG's mineral resources;
- To negotiate mining development contracts under the *Mining Act* as agent for the State;
- 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 PNG's mineral resources;
- 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*, the *Mining (Safety) Act*, the *Mining Development Act*, the *Ok Tedi Acts* and the Ok Tedi Agreement, the *Mining (Bougainville Copper Agreement) Act* 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;

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

18.2 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 Authority for the year ended 31 December 2012 had been completed and the results were being evaluated.

The field work associated with the inspection and audit of the accounts and records and examination of the financial statements of the Authority for the years ended 31 December 2013 and 2014 were in progress.

The Authority had not submitted its financial statements for the year ended 31 December 2015 for my inspection and audit.

19. NATIONAL AGRICULTURE QUARANTINE AND INSPECTION AUTHORITY

19.1 INTRODUCTION

19.1.1 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.

19.1.2 Objectives of the Authority

The main objectives 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; any products derived from animals, fish and plants; and to prevent pests or diseases from entering in or going out of PNG.

19.1.3 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;
- 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;
- 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;
- 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;
- 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;

- 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;
- 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;
- 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;
- 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;
- 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;
- 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;
- Liaise with other countries, international agencies and other organisations in developing policies, strategies and agreements relating to quarantine, quality and inspection matters in respect of animals and plants;
- Provide quarantine and inspection information and services to individuals, agencies and other organisations within the Country and overseas in respect of animals and plants;
- Levy fees and charges for any of the purposes of this Act and any regulations made there under;
- 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
- 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.

19.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

19.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Authority's financial statements for the year ended 31 December 2014 was issued on 6 June 2016. The report contained a Qualified Opinion.

“BASIS FOR QUALIFIED OPINION

Land and Building and Payment of Labour and Land Mobilisation Costs to Lands Investment Limited

Included in land and building amount of K32,104,608 is an amount of K3,737,775 relating to costs incurred for the construction of the prefabricated houses. During the year, the Authority incurred additional costs amounting to K279,112. As qualified in the 2013 audit, the Authority has paid additional amount of K1,048,998 above the approved contract value of K2,475,000 as approved by the Central Supplies and Tender Committee. In addition, there were no specific clause in the contract in respect of the above payments of K1,048,998.

The houses have not been fully completed and certified for occupancy. However, I noted that the Authority has commenced depreciation of the houses, which is not in compliance with *International Financial Reporting Standards IAS 16 Property, Plant and Equipment*.

Accordingly, I am unable to ascertain the basis on which the payment was made to Lands Investment Limited. Further, I was unable to certify the correctness and validity of the Land and Building reported in the financial statement at year end.

Rental Debtor Balance of K2,549,232

Included in Prepayments and Other Receivables account of K5,156,139 is an amount of K2,549,232 relating to rental debtors for two (2) additional units of Tropicana Building occupied by the Authority since 2011. The amount is due from Office Allocation Committee. Since 2013, the Authority has made numerous attempts to obtain approval from the Office Allocation Committee but was unsuccessful. The amount was paid to Tropicana Building management through the Authority's internally generated revenue.

The amount has been outstanding since 2013. I am unable to ascertain as to whether the Authority's rental agreement is in line with the guidelines set by the Office Allocation Committee. Furthermore, I am unable to validate the recoverability of the amount of K2,549,232 and whether Office Allocation Committee will be settling the amount within the next 12 months.

Staff Provision

Note 13 to the financial statements disclosed a provisions of K1,808,911. Included in the total provision account is an amount of K1,782,357 relating to staff provisions.

Details as follows:

- Annual leave and leave fares of K402,129;
- Long service leave of K1,264,375; and
- Gratuity of K115,853

I was not provided with any documentary audit evidence to substantiate and perform my audit procedures on staff provision balances. Accordingly, I am unable to perform alternate audit procedures to validate the accuracy and completeness of these balances at year end.

QUALIFIED OPINION

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraphs, the financial statements of the National Agriculture Quarantine and Inspection Authority for the year ended 31 December 2014:

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

OTHER MATTER

In accordance with the Audit Act, I have a duty to report on significant matters arising out of the financial statements, to which the report relates. I draw attention to the following issue:

Compliance with *Public Finances (Management) Act 1995*

The Authority did not meet the deadline required by *Section 63* of the *Public Finances (Management) Act 1995* for audited financial statements of public bodies to be furnished to the Minister before 30 June of the subsequent year, being 30 June 2015.”

19.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Authority for the year ended 31 December 2014 was issued on 6 June 2016. The report contained the following significant matters:

Provision for Doubtful Debts

Note 11 to the financial statements reported a trade and other receivables of K887,568. A summary of aged debtors showed 60 days and over totalled K281,771. I noted that there were no provisions for doubtful debts made for trade receivables as at 31 December 2014. General practice and as required by *International Financial Reporting Standards (IFRS)* trade receivables impairment testing are undertaken by management and those counterparties demonstrating issues in relation to willingness and ability to pay provided for using management estimates and set guidelines. I have also noted that the current finance manual is silent on the performance of impairment testing on debtors and when and what criteria to consider when a third party has demonstrated signs of inability in settling the debts and what is the appropriate level of provision required to be considered and recorded in the accounts.

I recommended management that monthly review of trade receivables recoverability and appropriate actions undertaken to recover amounts outstanding beyond the approved/normal credit terms, document the processes undertaken to recover the outstanding debts and review and update of the existing Finance Manual to provide sufficient and clear guidance and procedures to management in relation to impairment and appropriate accounting estimates to provide for potentially doubtful debts.

Management responded as follows:

“We do not have a Revenue Accountant as per the approved structure and Revenue clerks have been doing the job. The importance of reconciliation of sub-ledger accounts and meeting with respective clients is a missing mechanism that has been identified. In house staff training has been conducted and this is seen improvements. Without the above, assessments of the provision were not possible.”

Fixed Assets

a) Difference between Fixed Assets Register and Trial Balance

There was a difference of K105,215 between the Fixed Assets Register and the Trial Balance as at 31 December 2014. The difference is a result of a difference in the costs in the opening balance (closing in 2013). I recommend management that regular and periodic review and reconciliation between the sub-ledger (Fixed Assets Register) and general ledger (Trial Balance). Any variances identified must be investigated and rectified on a timely manner.

b) Depreciation Charges

During my review of depreciation expenses, I noted the following:

- Significant inconsistency in the depreciation rates used in each category of assets in the fixed assets register;

- Difference in rates used in fixed assets register as compared to accounting depreciation rates stated in the accounting policy contained in the financial statements and the financial manual; and
- There is a computed depreciation charges variance of K701,134 between the actual total depreciation charge as compared to the expected depreciation charge. The expected depreciation charges is computed when applying the depreciation rates stated on the *Financial Statement and Finance Manual*.

I recommended management that a detailed review of the sub-ledger (Fixed Assets Register) depreciation rates currently to ensure that the depreciation rates are applicable and consistent with the economic useful life of the individual assets and ensure that there is consistency in the depreciation rates used which should be in line with applicable documents such as the financial statements and the Finance Manual.

Management responded that depreciations applied in Accpac were not amended as per their Valuation report. We note that as priority concern and we will progress to locate the Valuation report.

c) Kilakila Housing Project

The following issues were noted in relation to this housing project:

- I have noted that the Authority's housing project is still under work in progress and not commissioned/certified yet for occupancy. However, this project has been treated as completed fixed assets and depreciation was calculated.
- Actual total cost of this project recorded at year end is K3,939,841 and the depreciation charges is K202,066;
- The cost especially for land and buildings are not itemized by house but are grouped as one component. For prudent accounting and reporting purposes, it is suggested that itemized reporting by house is recommended; and
- Although there were costs/additions incurred in relation to the project, there were no significant changes in relation to the stage and status of the project since reported in 2013.

I recommended management that all costs related to the Kilakila Housing Project should be recorded under work in progress (asset account) until such time the assets are available for use. Also, in the existing accounting treatment, the assets should be reversed off and recorded as work in progress and the corresponding depreciation charges reversed.

I also stressed that itemized reporting by house should be undertaken to assign costs to each house rather than one component as currently reported.

Management responded as follows:

“There was no record of WIP account at this stage with the major one on the Kilakila housing project. We will trace all available records and compile all payments records and get a WIP account registered.”

d) Physical Assets Verification

The fixed assets of the Authority are the key investing activities of an entity and they are used to drive the entity forward in meeting its financial, statutory/regulatory and operational plans. Entities or organizations looking to bolster the accuracy and comprehensiveness of their audits and put together a balance sheet that reflects the true value of their holdings can leverage from a proper fixed assets register because fixed assets are the largest item in the balance sheet.

During the audit and further discussions with Finance officer, I noted the following:

- There were no records of actual 100% physical asset verification undertaken. Such exercises are required to be undertaken to ensure that the actual physical assets on hand are reconciled to the fixed assets register; and
- There were several assets in the fixed assets purchased in 2004 and back that should have either been disposed or fully written down.

I recommended management that a 100% nationwide asset verification and physical count to be undertaken and results of the verification/physical count be reconciled to the existing fixed assets register. Also, updated checklists by locations are provided to either finance team or internal audit and regular visits are undertaken to perform spot checks. Management concurs to my recommendations.

e) Asset Revaluation Reserve

Asset Revaluation Reserve of K21,311,372 as at 31 December 2014 representing an increment from Asset Valuation undertaken in 2013. This represents about 67% of total net book value of land and buildings at year end. I have noted some issues in relation to the valuation and asset revaluation reserve:

- The existing Fixed Assets Register does not correctly capture the costs (purchase price) and fair value (from valuation exercise) of each assets clearly as required by IFRS;
- The Fixed Assets Register especially in relation to land and buildings does not provide adequate audit trail for costs and valuation components;
- A significant issue is the absence and missing accounting records pertaining to the Valuation Reports issued by the valuers in 2013;
- The Asset Revaluation Reserve of K21 million is not itemised by assets (i.e. showing the increments or decrements by assets) to provide adequate audit trail.

I recommended management to locate the 2013 valuation reports and reconcile and reconstruct the assets by assets value to the total asset revaluation reserve of K21 million. Also, update the Fixed Assets Register to show values of individual asset by Costs and Fair Values. Management responded as follows:

“Depreciation applied in Accpac were not amended or verified as per the Valuation report. We note that as a priority concern and we will progress to locate the Valuation report and advise you.”

No Tax on Assessable Benefits Allowances

My audit review noted the following:

- Certain senior staff were provided with institutional houses or rental accommodation as well as motor vehicle with fuel with unrestricted use. As such, staff that are under this arrangement would attract an assessable benefit allowance under the prescribed rates as provided by the Internal Revenue Commission (IRC) in his/her salary computations. However, my review of payroll records revealed that this prescribed amount has not been included in the fortnightly pay calculation in 2014 for assessment of income tax earned. I also queried the Payroll division on clarity of non-deduction and my query remained outstanding.

I recommended management that there must be a detailed review of all existing staff contracts/offer letters to ascertain those being provided with accommodation and motor vehicle and to ensure that the prescribed taxable amounts must be included in fortnightly tax calculations for those staff that are provided with accommodations and motor vehicle with fuel with no usage restrictions.

Financial Reporting

During my audit review, there were only two (2) Board meetings held in 2014. During these meetings, there were no financial reports presented to the Board of Directors. I recommended management that proper and strict month end procedures to be undertaken by the Authority to ensure that financial reporting are accurate, timely and reliable. In addition, accurate financial information and reporting are readily available and provided to management and those charged with governance on a timely basis to assist each stakeholder in making informed financial decisions. Management responded that they established month-end check list and that is progressing.

19.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Authority for the year ended 31 December 2015 had not been submitted for my inspection and audit.

20. NATIONAL AGRICULTURAL RESEARCH INSTITUTE

20.1 INTRODUCTION

20.1.1 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 at commencement.

20.1.2 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 PNG.

20.1.3 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;
- Promote and facilitate applied and adaptive research in food crops, livestock, alternative cash crops, and resource management;
- 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;
- 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;

- Maintain and conserve the diversity of genetic resources for food and agriculture, act as custodian for these resources and promote the effective utilisation of these resources in the country;
- Update and maintain the national inventory on soil resources and to develop, promote and maintain sustainable practices in agriculture;
- 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;
- Perform such other functions as are given to it under this Act or any other law;
- Formulate national agricultural research policies, define sectoral research priorities and allocate funds and advise the Minister and the NEC on these matters; and
- Generally, do all such things as may be incidental or consequential upon the exercise of its powers and the performance of its functions.

20.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

20.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Institute for the year ended 31 December 2015 was issued on 31 May 2016. The report did not contain any qualification.

20.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Institute for the year ended 31 December 2015 was issued on 31 May 2016. The report contained the following observations:

Accounting System/Software

My review of the accounts and records of the Institute for the year ended 31 December 2015 revealed that the Institute was using the Quicken Accounting Package for past several years. I noted that the transactions from the Quicken cash ledgers were transferred manually to spreadsheets for reporting purposes as the Quicken was programmed to adopt cash basis of accounting. I further noted that the Accpac Accounting System acquired was purchased some years back but was not fully utilized. In my view, possibility of errors and mistakes would be minimized, a lot of time can be saved and a better audit trail would be available when this new Accpac Accounting System was fully utilized. This matter was reported to Management in my last report as well.

Management concurred with my comments and responded that the Accpac Accounting System was implemented progressively and when the internet facilities in all the centres including the Head Office was fully upgraded, a project was ongoing, the new system would be fully implemented.

Budget Versus Actual

My review of the 2015 Budgets (Recurrent and Development) against actual cash warrants revealed that warrants totaling K1,384,800 for recurrent expenditures for the Institute were not released. Further, I noted that the Institute was not funded in 2015 for its PIP funding for its ongoing scientific research into the food security. In addition, I observed that the Institute's priority agricultural and research development projects planned to be carried out since 2013 totaling K14 million under the PIP funding which span for several years were not funded.

I recommended that the Institute prepare a more realistic, achievable and properly constructed PIP budget submission as these relate to the overall food security which was paramount for the wellbeing of all citizens. Management responded that budgets prepared and submitted over the years met my recommendation and criteria and were funded in prior years. However, the continuous funding for PIP stopped since 2013 and as a result; the Institute was unable to implement the high priority research and development projects.

Land Titles, Valuation and Non-Disclosure

My review of the Fixed Assets Register of the Institute revealed that land belonging to the Institute (including Head Office where all establishments were located) for which titles had been secured were not valued and disclosed in the financial statements. Meanwhile, three (3) land titles for three (3) portions of land located in one of its high latitude research stations where the Institute's activities had been carried out were still not secured. I recommended Institute's Management to value the land where titles had been secured and continue to pursue with the Lands Department to obtain land titles for those portions of land where research activities were carried out.

21. NATIONAL AIDS COUNCIL SECRETARIAT

21.1 INTRODUCTION

21.1.1 Legislation

The National AIDS Council Secretariat was established under the *National AIDS Council Act 1997*. This Act was certified and became operational on 19 January 1998.

21.1.2 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;
- 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.

21.1.3 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:

- Make recommendations and provide guidelines on the related issues to the NEC, PGs and LLGs;
- Foster, co-ordinate and monitor HIV/AIDS prevention, control and management strategies and program;
- Accept, administer and account for the funds and other resources allocated to it;
- Consult and co-ordinate with the appropriate state agencies and other persons and organisations on matters related to its activities;
- Initiate, encourage, facilitate and monitor preparation and dissemination of information, counselling, care and legal services, research on or in relation to HIV/AIDS; and
- Perform such other functions given to it under *Section 5* of this Act or any other law.

21.2 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 examination of the financial statements of the Council for the years ended 31 December 2013 and 2014 had been completed, and Management Letter responses were awaited from the Council to finalize the audits.

The Council had not submitted its financial statements for the year ended 31 December 2015 for my inspection and audit.

22. NATIONAL BROADCASTING CORPORATION

22.1 INTRODUCTION

22.1.1 Legislation

The National Broadcasting Commission (NBC) 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 programs.

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;
- Do all in its power to preserve and stimulate pride in the indigenous and traditional cultural heritage of PNG;
- Take extreme care in broadcasting material that could inflame racial or sectional feelings; and
- Co-operate with the Government in broadcasting social, political, economic and educational programs.

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* on the Corporation's financial statements for the year ended 31 December 2013 was issued on 16 May 2016. The report contained a Disclaimer of Opinion.

“BASIS FOR DISCLAIMER OF OPINION**Limitation of Scope due to Disclaimer of Audit Opinion on the previous year's Financial Statements**

The previous year's audit report (2012) was issued with a disclaimer of opinion. The reason for the disclaimer of opinion was the limitation of scope arising from an inability to substantiate most of the balances included in the general ledger. Consequently, I was unable to quantify the effects of any material misstatements in the opening balance that might have a consequential effect on the financial statements of the Corporation for the year ended 31 December 2013. Therefore, there was considerable uncertainty as to the accuracy of the 2012 opening balances. Due to the lack of records and inadequate reconciliations, 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 in the financial statements.

General Ledger Integrity

I have identified several significant material adjustments and weaknesses in the NBC's trial balance and accounting system. The adjustments and the existence of weaknesses in the accounting system have occurred due to a number of reasons including none existence of an appropriate accounting policy in respect of posting of entries, no reviews of accounting entries or journals prior to posting them into the Attaché system, lack of understanding of accounting issues, none or no timely reconciliation of the general ledger at month end and human error due to lack of accounting experience. In addition, no Board of Directors' approval was sought by management in respect of major write-off of account balances.

Consequently, I was unable to place reliance on the accounts and records submitted for audit verification to establish whether the Corporation fully complied with the statutory requirements for maintaining proper accounts and records.

Limitation of Scope Arising from Lack of Information on Fixed Assets

As at 31 December 2013 the property, plant and equipment balance was K112,249,116 with a net written down value of K38,647,842. However, the Corporation has not maintained a fixed asset register to properly record, account and control the movement and perform depreciation of its assets. Further, it was not able to record and account for fixed assets additions, disposals and transfers of assets between stations' assets during the year under audit. The Corporation also has not performed depreciation of its assets during the year which resulted in significant misstatement of the Profit and Loss Statement. Furthermore, I was not able to confirm physical existence of the Corporation's assets that are located throughout the 20 provinces and verify the balances to the general ledger.

The Corporation had not conducted any revaluation of its land and building in consistent with the *International Accounting Standard (IAS) 16*. The Corporation had also expensed new assets purchased in the year under review, valued at K1.6 million which is against the IAS 16. Moreover, the evidence of ownership of various fixed assets and details of their effective lives were not made available for my examination and verification.

Consequently, I was unable to verify the physical existence, accuracy, ownership, usefulness and valuation of the Corporation's asset balances at the year end.

Limitation of Scope – Records related to Trade debtor and provision for Doubtful Debts

As at 31 December 2013 the trade debtors' balance was K3,382,285 and a provision for doubtful debts of K543,283. These balances do not agree to the balances on various schedules provided and also excludes all relating to governments debts. In the absence of sufficient evidence of trade debtors and provision for doubtful debts balances, I am unable to verify the accuracy, completeness and validity of the trade debtors' balances and the adequacy of the provision for doubtful debts at the year end.

Limitation of Scope – Trade Creditors and Accruals

According to *Note 9* and *Note 10* of the 2013 Financial Statements, the Corporation recorded trade and other payables balance of K4,039,647 and provision for accrual balance of K4,050,263. The Corporation did not provide any reconciliations or appropriate documentary evidence to supports the amounts. As a result, I was not able to confirm the accuracy, completeness and existence of the trade creditors and accrual balances at the balance date. Further, I was unable to perform the cut-off procedures test of trade creditors and accrual balances to ascertain whether all credits and accruals transactions were recorded in the correct accounting period or that accruals were fairly recorded and that the method of accounting for accruals was consistently applied. As a result, I was unable to confirm whether the account balances were fairly stated at the year end.

Issued Shares

As at 31 December 2013 the Issued Share Capital balance was K25,503,697. I was not provided with any records and reconciliations to verify the details and accuracy of the share capital balance. In the absence of sufficient evidence, I was unable to verify the accuracy, completeness and validity of the Issued Capital balance at the year end.

Asset Revaluation Reserve

As at 31 December 2013 the Asset Revaluation Reserve balance was K23,011,677. I was not provided with any records and reconciliations to verify the details and accuracy of the share capital balance and the movements in the Asset Revaluation Reserve balance. In the absence of sufficient evidence, I was unable to verify the accuracy, completeness and validity of the Revaluation Reserve balance at the year end.

Scope Limitation- Operating Expenditures

As disclosed in *Note 6* of the financial statements, the Corporation reported an operating expenditure for the year ended of K33,100,668. However, contained with this balance are amounts relating to fixed asset additions and manual journals posting entries. Should these amounts relating to fixed asset additions and manual journal posting entries verified and written back to fixed assets, the profit of the Corporation will decrease accordingly. In addition, there were numerous duplications and reversals of accounting entries during the year under review. Because of the lack of proper controls and processes in the recording of operating expenditure items in the accounting system, I was unable to verify the accuracy, completeness and validity of the account balance at the year end.

Record Management & Board of Directors' Meeting Minutes

The Corporation had not provided for review the records pertaining to the meeting minutes of the Board of Directors held during the year under review including other statutory record such as the common seal register, charges' register, and director's interest register. Hence, I am unable to verify whether the Board of Directors was responsible for the affairs of the Corporation in accordance with *Section 4(2)* of the *Broadcasting Corporation Act 1973* and also *Section 14* which states that the Board shall meet at such time and places and cause minutes of its meetings to be kept and forward copies of its minutes to the Minister. In addition, failure to maintain statutory records is in breached of the *General Order 23 - Records Management*. Consequently, I am unable to verify and ascertain whether any Board's decisions made during the year under review had any significant financial implications.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis of 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 National Broadcasting Corporation for the year ended 31 December 2013."

22.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Corporation for the year ended 31 December 2013 was issued on 16 May 2016. The report contained the following significant matters:

No Tax on Assessable Benefits Allowances

I noted the following issues in relation to the assessable benefits and allowances provided or paid to staff of the Corporation;

- Certain management staff are provided with rental accommodation at prices ranging from K1,000 to K2,000 per week. The rental rates would fall within medium cost house and in Area 1 in terms of taxable allowances. As such all staff that are provided with accommodation under this arrangement would attract an assessable benefit allowance of K400 in their tax computation. My reviews of payroll records reveal that this prescribed amount had not been included in the fortnightly pay calculation in 2013 for assessment of income tax earned.
- All executive managers are provided motor vehicle with fuel and are allowed unrestricted use of the vehicles. This would also attract an assessable benefit allowance of K125 in their tax computation. My review of payroll records also revealed that this prescribed amount has also not been included in the fortnightly pay calculations in year 2013 for assessment of income tax earned, and
- Other staff members are provided accommodation at the Corporation's owned flats or houses. Such arrangement fall within low cost house or flat and in Area 1 attracting an assessable benefit allowance of K160 in their tax computations. My review of payroll records revealed that this prescribed amount has not been included in the fortnightly pay calculations in year 2013 for assessment of income tax earned.

The implications for the above issue are such that the Corporation is in breach of the PNG Income Tax Act - salary and wages tax, the staff who are provided with accommodation and motor vehicle with fuel have been under paying tax, and the Corporation may be liable for a fine and also ordered to pay the un-deducted tax liability to the Internal Revenue Commission.

I recommended that the prescribed taxable amounts be included in fortnightly tax computations for those staff that are provided accommodation and motor vehicle with fuel and have no usage restriction. The management responded as follows;

“In 2015 after the successful restructure exercises conducted by NBC, management has consulted an attaché specialist to update, review and incorporate into the Attache’ payroll module, a comprehensive computation that will calculate staff leave accruals every fortnight in conjunction with the normally payroll runs.”

Duplicate Receipt of Grants - Government Grants

I noted that there was a duplicate receipt of funds from the same warrant in October 2013 of K2,379,400 from the Treasury Department. The full amount was used up during the year. The Corporation has not taken up any liability on the duplicate amounts given the possibility of re-imburement to the Treasury department and the Corporation has not informed the Department of Treasury of the overpayments.

In my exit meeting with management, the Corporation stated that it will only account for it as liability upon an instruction from the Treasury Department for a refund. The implication for this is that income is overstated by K2,379,400 and liability will be understated by the same amount in the event that Treasury recalls the duplicate amount. Further, failure to obtain proper clarification and approval from the Treasury Department on the overpayment may affect future government funding.

I recommended that a liability on the additional grants be recognized and the Treasury Department be advised accordingly in order to sort out this issue and management responded as follows;

“NBC does not have direct control nor dictate/influences the remittance or warrants issued by the Treasury Department.

The funds were released into NBC account by Treasury Department and were used by NBC in its operations.”

Co-Sitting Arrangements

I noted that the Corporation has a number of Co-sitting Lease Agreements (CLA) which were unsigned. Some of these CLA include Telikom, for PNG FM, B- Mobile, Datec PNG, Black Swan International and Global Technologies. There was no monthly reconciliation or a register maintained to keep track of rental income, debtors listing, and bond fee for co-sitting related accounts and lessees. Failure to have signed or have in place a valid CLA for the use of the transmitters is likely to result in loss of revenue and places the Corporation in a vulnerable position in the event of dispute. Also due to non-preparation of reconciliations or maintenance of a control schedule of CLA transactions, actual CLA related income and debtors of the Corporation could not be determined with ease throughout the year.

I recommend that management should review the users of the transmitters and draw up valid contracts signed by both parties. The signed agreements should clearly specify rates, users and terms and conditions and signed with the common seal of both parties.

In addition, proper register should be maintained to keep track of the users or CLAs including the monthly rentals collected from CLAs. Management responded as follows;

“NBC legal division since 2014 have reviewed all new and old agreements for renewal considering the commercial terms and conditions and the new contracts are now fully benefit NBC.”

General Ledger Integrity - Reconciliation of General Ledger

During the course of my audit I identified several significant material adjustments and weaknesses in the Corporation’s trial balance and accounting system. The adjustments and the existence of weaknesses in the accounting system have occurred for a number of reasons including;

- None or no proper review of accounting entries by a senior accountant prior to posting them into the Attache system. I have not seen an accounting policy in respect of creating and posting entries into the Attache system.
- Lack of understanding of accounting issues.
- None or no timely reconciliation of the general ledger at month end.
- Human error due to lack of experience.

The magnitude of the accounting adjustments and accounting system weaknesses existing in the finance division indicate that the management accounts brought before the BOD have material errors. The Board is required to produce accurate financial statements on a timely basis and in accordance with generally accepted accounting practice. The failure to perform key control reconciliations represents a significant failing of the Corporation’s control systems and increases 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 processes currently used and the capacity of the current staff.

Some actions I recommended to be undertaken to ensure the integrity of the general ledger include all journal entries should be authorised by the Finance director, all journals should have attached to them adequate supporting information of the transaction, monthly reconciliation of all general ledger balances should be performed immediately after month end, appropriate senior accounts staff should review the reconciliations and a file of these should be maintained.

Also there should be a clear understanding and distinguishing of accrual basis of accounting from cash base accounting by accounts staffs. The management responded as follows;

“This is the current practise with the introduction of the Finance Manual, which was approved by the Board in 2014. NBC has being using accrual basis of accounting.”

Reporting Requirements under the Corporation Act 1973

The NBC Act under *Section 27* states that the application of *Part VIII of Public Finance (Management) Act 1995*, which requires the Board of the Corporation to furnish to the Minister an annual report on the progress and performance of the finances before the end of 30 June each year. I noted that this had not been complied with in the 2013 financial year. The Directors have not met their responsibility to ensure the Corporation reports to the Minister as required under the Act. Failure of the Board to produce the annual report to Minister within the time frame stated is a breach of the *NBC Act* and *Public Finance (Management) Act 1995*.

I recommend that management strictly comply to *Section 63 of Part VIII of the Public Finance (Management) Act 1995* as adopted by the *NBC Act*, by producing the annual report to the Directors on time to enable the Board to produce to the Minister on time. The Corporation responded and stated that the management is taking heed of this and is addressing the issue.

Theft and Losses Report /Register

No proper internal audit has been carried out to investigate and report on incidents of theft and losses. Any urgent investigation or incident is commissioned only by the Managing Director and reports are furnished to him for deliberations. No copies of such reports were made available to me by the Managing Director or by the internal auditor. Some of the notable issues raised and audited but I was not provided with copies of the reports are as follows;

- Car accident in Lae,
- Waigani property issue, and
- Non delivery of vehicles from a K4.2 million deposited with Freeway Motors.

I have also not seen a register for recording of thefts and losses during the year. Without the production of any internal audit reports or maintenance of a register on thefts and losses may result in serious cases not being dealt with timely by senior management.

I recommend that all outstanding/pending issues on accidents, theft and misappropriation be investigated. I also recommend that a proper register be maintained to record all theft and losses. In addition, an accident or internal audit reports be produced by internal auditors on all thefts and incidents irrespective of its magnitude. The management concur with my recommendation.

Tender Committee

I note that there was no internal tender committee set up within the Corporation by management. This case was confirmed by management in the 2012 management letter. A committee was only established in 2014. I was unable to verify whether additions, disposals and write-offs of assets were subjected to the proper acquisition or disposal procedures (Tendering Process) including the policies and procedures of the Central Supply & Tender Board (CSTB) and the Public Finances Management Act. In addition, I was unable to confirm if tendering procedures have been applied with the engagements of external consultants and procurement of major assets. Failure to have a proper tender committee may result in engaging suppliers or service providers with technical and competency issues including not obtaining value for money. In addition, it is in breach of the CSTB and Public Finances Management Act to procure goods and services with significant value without following proper procurement policies and procedures.

I recommended that an internal tender committee be set up, comprising of senior management team. All major contracts, procurements, disposal and write-offs of assets, etc., should be referred to this committee for deliberations and selections prior to seeking the Managing Director and the Board for endorsements. Furthermore, all meetings should be adequately minuted, signed off by the designated chairman and filed away in a secured place for future reference by any interested parties. The management responded as follows;

“This issue have been raised in prior years and in our understanding is a RECURRING issue and not a new issue.

Subsequent to the issue being raised earlier in 2012 and prior year audits, the board and management of NBC has established the committee in 2014.”

Income Tax-Group Tax

The group tax payable balance has been accumulated since 2007 which the Corporation is yet to settle. The balance as per the Internal Revenue Commission (IRC) tax assessment issued is K5,725,562 as opposed to the general ledger balance of K6,224,838, resulting in a variance of K499,276. The management mentioned that the variance relates to penalties imposed by IRC for delay or non-payment of group tax on time.

A penalty of K499,276 was imposed so far and the penalty amounts continue to accumulate. Further delay in settling the group tax balance will result in IRC imposing a penalty of twenty per cent (20%) of the amount not remitted plus additional tax of 20% per annum calculated on a daily basis from the date the amount become due. I recommended that management as matter of priority should settle the tax liability in full or seek approval to offset some portion of the liability against GST receivable amount. Management responded as follows;

“It has taken management almost 12 months to discuss and provided IRC with relevant documents. Just recently in May 2015, IRC’s final assessment was K6.14m. The liability of K6.2m in the books is now considered adequate to cover the exposure, which was assessed at K6.14m.”

22.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with inspection and audit of the accounts and records and the examination of the financial statements of the Corporation for the year ended 31 December 2014 was in progress.

The Corporation had not submitted its financial statements for the year ended 31 December 2015 for my inspection and audit.

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 NCD and make preparatory arrangements for the establishment of a government for the NCD as required by *Section 4(4)* of the National Constitution. The *National Capital District Government (Preparatory Arrangements) (Amendment) Act 1986* came into operation in 1987.

The *National Capital District Commission Act 1990*, which became operational on 5 November 1990, established the NCD Commission. The introduction of this Act resulted in the amalgamation of Motu Koitabu Interim Assembly with the NCD 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 NCD through the *National Capital District Commission (Amendment) Act 1995* which came into operation on 19 July 1995. The NCD comprises the NCD Commission, the Motu Koitabu Council and Local-level Governments in the NCD.

23.1.2 Functions of the Commission

The functions of the NCD Commission are to:

- Control, manage and administer the NCD to ensure its welfare and that of the persons in its jurisdiction; and
- 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 NCD.

23.1.3 Subsidiaries of the Commission

The subsidiaries of National Capital District Commission are National Capital District Botanical Enterprises Limited, Port Moresby City Development Enterprises Limited and Port Moresby Nature Park Limited. Comments in relation to these subsidiaries are contained in paragraphs 23A, 23B and 23C of this Report.

23.1.4 Projects of the Commission

The National Capital District Commission implements *National Capital District Urban Youth Employment Project*. Comments in relation to this Project are contained in the Special Project Audits Report to Parliament.

23.2 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 Commission for the years ended 31 December 2013 and 2014 were in progress.

The financial statements of the Commission for the year ended 31 December 2015 had not been submitted for my inspection and audit.

23A. NATIONAL CAPITAL DISTRICT BOTANICAL ENTERPRISES LIMITED (Subsidiary of NCDC)

23A.1 INTRODUCTION

The NCD Botanical Enterprises Limited was incorporated under the *Companies Act 1997* on 17 January 2000. Port Moresby City Development Enterprises Limited, a 100% owned subsidiary of the NCD Commission, holds 94% of the shares and the NCD Commission holds the remaining 6% shares directly or indirectly through trust.

23A.1.1 Objective of the Company

The main objective of the Company is to take control over the operations of the Botanical Gardens.

23A.1.2 Functions of the Company

The Company's activities include the 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 Company had not submitted its financial statements for the years ended 31 December 2013, 2014 and 2015 for my inspection and audit, despite my reminders.

23B. PORT MORESBY CITY DEVELOPMENT ENTERPRISES LIMITED (Subsidiary of NCDC)

23B.1 INTRODUCTION

The NCD 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 the NCD Commission.

23B.1.1 Functions of the Company

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

23B.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 2013, 2014 and 2015 for my inspection and audit. The Commission advised that this entity was no longer in operation and in the process of deregistering from the Investment Promotion Authority (IPA).

23C. PORT MORESBY NATURE PARK LIMITED (Subsidiary of NCDC)

23C.1 INTRODUCTION

23C.1.1 Legislation

Port Moresby Nature Park Limited was incorporated on 1 December 2011 under the *Companies Act 1997*. The Company is a subsidiary of the National Capital District Commission (NCDC).

In early 2012, a Deed of Trust was signed between Port Moresby Nature Park Limited (being the Trustee) and the National Capital District Commission (being the Settlor). The Trust Deed provided the intention of the Settlor (NCDC) to make Port Moresby Nature Park Limited a charitable body to be known as “*Port Moresby Nature Park Trust*.”

On 11 June 2012, the Port Moresby Nature Park Limited was granted status of a charitable body based on the nature of its business operations. Hence, the Company has been exempted from Income Tax.

23C.1.2 The Objective of the Company

The objective of the Company is to allow the residents and visitors to Papua New Guinea (PNG) enjoying a botanical and zoological experience consisting of the flora and fauna of PNG in a safe, secure setting in Port Moresby, for the purposes of education and for purposes beneficial to the community, including:

- Allowing persons, including residents of, and visitors to, PNG to enjoy the benefits of flora and fauna of PNG in a peaceful, well-ordered and secure recreational settings in the grounds of the Port Moresby Nature Park;
- Encouraging a greater understanding of the cultural significance of the flora, fauna and environment of Papua New Guinea;
- Furthering the appreciation and learning of Papua New Guinea in relation to the flora, fauna and environment of Papua New Guinea;
- Promoting the use of the Port Moresby Nature Park to stimulate interest and research into Papua New Guinea flora, fauna and environment and assisting the conservation efforts of the Government of Papua New Guinea and the National Capital District Commission (NCDC) in relation to the environment; and
- Allowing students from any educational institute to gain practical training, education and research opportunities on specific terms.

23C.1.3 Functions of the Company

The functions of the Company include:

- Encouraging, promoting and supporting the use of new and established technologies to make the unique natural environment of Papua New Guinea more accessible to the public of Papua New Guinea;
- Promoting, assisting and initiating research in Papua New Guinea into the study of Papua New Guinea flora, fauna and the environment including the provision of such financial assistance as may be necessary to enable or assist such research;
- Promoting, supporting and initiating research in Papua New Guinea on the flora, fauna and environment of Papua New Guinea and educating and informing different communities about the results of such research;
- Providing a forum for information from international contributors from the global community for the purpose of educating the Papua New Guinea public in relation to the flora, fauna and environment of Papua New Guinea;
- Doing such other lawful acts and things as are incidental to or conducive to the attainment of any of the foregoing activities; and
- Generally:
 - Carrying out fund raising schemes and charitable projects for the purpose of the Company, including exhibition and competitions; and
 - Establishing, promoting and fostering workshops and other educational activities for the purpose of the Company.

23C.2 AUDIT OBSERVATIONS

23C.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Company's financial statements for the years ended 31 December 2012 and 2013 were both issued on 4 May 2016. The reports contained Qualified Opinions, hence, only the 2013 report is reproduced.

“BASIS FOR QUALIFIED OPINION

Agricultural Assets

The Trust has agricultural assets of K404,435 as set out in note 11 of the financial statements. However, I was unable to attend the stock take of the agricultural assets performed by the Trust at the year end. I therefore was unable to obtain sufficient appropriate audit evidence over the completeness or existence of the agricultural assets as at 31 December 2013.

As such, I was unable to determine whether adjustments might be necessary to the statement of financial position as at 31 December 2013 and the statement of comprehensive income for the year ended.

QUALIFIED 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 of the Port Moresby Nature Park Trust for the year ended 31 December 2013:
 - i) give a true and fair view of the financial position and the results of its operations for the period ended on that date; and
 - ii) the financial statements have been presented in accordance with the Trust Deed, *International Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea; and
- b) I have obtained all the information and explanations required.

OTHER MATTER

In accordance with the *Audit Act*, I have a duty to report on significant matter arising out of the financial statements, to which the report relates. I draw attention to the following issue:

Compliance with the Trust Deeds

The Trustee did not meet the deadline set by *Section 12.5* of the *Trust Deed* requiring the 31 December 2013 financial statements of the Trust to be issued before 30 June 2014.”

23C.3 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 2014 and 2015 for my inspection and audit.

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 there by 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 PNG;
- Encourage the development, promotion and protection of the contemporary cultures of PNG;
- Facilitate the marketing of selected and approved aspects of the cultures of PNG;
- Co-ordinate with related Government and non-Government agencies on cultural matters;
- Co-ordinate cultural activities with provincial cultural bodies;
- Liaise with non-Government organisations on cultural matters; and
- Liaise with international cultural organisations.

24.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

24.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Commission's financial statements for the year ended 31 December 2012 was issued on 27 May 2016. The report contained a Disclaimer of Opinion:

“BASIS FOR DISCLAIMER OF OPINION

Limitation of Scope – Cash at Bank – K1,418,742

During the audit, I noted that bank reconciliations were not properly prepared by the Commission. I was unable to verify the bank reconciliation statements of the Main Account operated by the Commission during the year.

The Commission did not perform the correct procedures in performing the bank reconciliations. Further, I was unable to carry out the audit review and verifications on other bank accounts maintained by the Commission for the National Film Institute, National Performing Arts Troupe and Institute of PNG Studies because the bank reconciliation statements were not furnished to me for audit examination. Consequently, I was not provided with all the necessary information for me to carry out my audit procedures. As a result, I was unable to confirm the reconciled cash book balance of K1,418,742 stated at year end.

**Limitation of Scope – Lack of Source Documents – Grant Transfers
– K1,079,800**

The Commission during the year transferred in total K1,097,800 to National Film Institute, National Performing Arts Troupe and Institute of PNG Studies for operational expenses. During my review, I was not provided with any documentary evidence by the Commission to verify how these funds were utilized by each centre. As a result, I was unable to confirm and verify the amount of grant transfers of K1,079,800 disclosed in the financial statements.

Limitation of Scope – Fixed Assets - K4,575,410

In my review of the Commission's fixed assets, I noted that the Commission has not maintained a Fixed Asset Register. I also noted that the Commission's acquisitions and disposals of assets were not properly accounted for. Since fixed assets of the Commission are susceptible to theft and misuse due to weak internal controls, the Commission must have appropriate control mechanism in place to safeguard these assets. As a result, I was unable to verify the value and existence of fixed assets totalling K4,575,410 as disclosed by way of notes in the financial statements.

Limitation of Scope – Cultural Database Project - K736,322

During my review of the Cultural Data Project of the Commission, I noted that a significant amount of expenditure was incurred under the Capital expenditure vote for the Cultural Database Project totalling K736,322 as disclosed in the financial statements. I was not provided with any documentation for my inspection to verify the Cultural Database expense of K736,322 disclosed in the financial statements at year end.

National Film Institute Office Complex – K600,000

The Commission during the year made two payments amounting K600,000 for the National Film Institute's New Office Complex located in Goroka. During my review of the Office Complex account, I did not sight any evidence during the audit to substantiate (by way of paid vouchers or other documents) the payments made to the Office Complex. As a result, I was unable to verify the expenses amounting to K600,000 incurred in relation to National Film Institute Office Complex.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for the Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient audit evidence and accordingly, I am unable to express an opinion on the financial statements of the National Cultural Commission for the year ended 31 December 2012.”

24.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Commission for the year ended 31 December 2012 was issued on 27 May 2016.

Travel Advances Acquittal Register

The Commission had not maintained a proper Travel Advances Register to monitor the travel advances of K530,654 paid during the year. Consequently, the Commission had breached the *Public Finances (Management) Act* and the *Financial Management Manual Part 20 paragraphs 11.2 & 12.10* which states that cash advanced to officers on official duty travels must acquit travel advances within 14 and 7 days for international and domestic travels respectively on return from duty travels.

Accounting System

The Commission since its inception had been recording and maintaining its financial information on a manual cash book and spreadsheets. Receipts and payments of the Commission were recorded manually using large register books and spreadsheets. Due to inadequate manual controls, the financial information produced from manual cashbook and ledgers may not be accurate. I recommended management to source an accounting package to maintain its financial transactions.

Policy and Procedural Manual

During my review of the financial statements, I noted that the Commission did not have any policy and procedural manual for its financial and operational areas to guide its operations. The policy and procedural manuals serve as a governance guide to assist staff at all levels to execute their duties and responsibilities in accordance with the guideline established via the manual. This would promote Good Corporate Governance and a standardized practice for executing transaction in uniformity in accordance with Public Finances Manuals and General Orders.

Rental for Minister`s Office – K33,598

I noted during my review that rental payment for the Ministers Office of K33,598 was made to Nambawan Super Limited for the Minister for Tourism, Arts and Culture Office.

However, there was no lease agreement provided to audit for verification. As such, I was unable to verify the payments made to the Ministry by the Commission.

Contract Agreement – Management Consultant

I noted that consultancy payment of K28,000 was made to a Consultant for professional services provided to the Commission. The consultancy contract was not signed by both parties and as such I was unable to determine the authenticity of the payment made to the Consultant.

Authorization of Payment

During my review of the expenses of the Commission, I noted that a payment of K100,000 was made on behalf of the National Film Institute as administration expense which was not authorized nor approved by the *Section 32* Officer. This payment was made to meet the cost of facilitating the meeting between relevant stakeholders in regards to the construction of the National Film Institute office Complex. In the absence of proper authorization, I was unable to state whether or not the payment was made for the benefit of the Commission.

24.3 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 Commission for the year ended 31 December 2013 had been completed and the results were being evaluated.

The Commission had not submitted its financial statements for the years ended 31 December 2014 and 2015 for my inspection and audit.

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:

- Provide assessment and views on national macro and micro economic issues and their relevance on the overall development of rural and urban communities;
- Consider and co-ordinate requests by Provincial Governments and Local-level Governments for foreign grants, loans and other financial assistance for development purposes;
- Ensure that Provincial Governments and Local-level Governments obtain a fair share of the national wealth and make recommendations to the NEC on the allocation of grants to Provincial Governments and Local-level Governments;
- Recommend suitable economic development strategies and sound fiscal management policies to the Minister responsible for financial matters;
- Carry out cost and benefit analysis on the development of all natural resources and the impact of such development on national development and make such analysis available to the NEC;
- Review public accounting and related practices;
- Make yearly reports and recommendations to the NEC through the Minister responsible for financial matters;
- Assist the Provincial and Local-level Service Monitoring Authority with assessments and views on the planning and implementation systems of the Provincial Governments and Local-level Governments;
- Establish and maintain a gradation system for the purpose of classifying provinces and districts according to the stages of development of each;
- Assist the Provincial and Local-level Service Monitoring Authority in carrying out its other functions; and
- Provide advice to the Minister responsible for Provincial Government and Local-level Government (now Inter Government Relations) matters as and when required.

25.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

25.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Commission's financial statements for the year ended 31 December 2015 was issued on 28 April 2016. The report contained a Qualified Opinion.

“BASIS FOR QUALIFIED OPINION

Salaries and Allowances

The Commission has disclosed its Salaries and Allowances as K879,352 at 31 December 2015 in the financial statements. The supporting documentation in relation to payroll records were not provided for my review and verification. In the absence of these documentation, I was unable to confirm and verify the accuracy of the account balance of K879,352 stated at the year end.

QUALIFIED 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 Commission for the year ended 31 December 2015 and the results of its financial operations for the year then ended.”

25.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Commission for the year ended 31 December 2015 was issued on 28 April 2016. The report contained the following observations:

Finance and Administration

During my examination I noted that the Commission, due to lack of staff capacity, was unable to undertake all finance and administration tasks effectively with necessary internal controls in place.

I recommended the Commission to recruit staff to assist the current Finance and Administration Officer and also provide training to ensure that the officers are appropriately and adequately skilled in discharging their duties.

There should be different officers performing incompatible functions to maintain segregation of duties for effective internal control of the organization. The management responded to my observation as follows;

“We acknowledge this internal control weakness raised and have since advertised and in the process to appointing officers with suitable skills to perform the duties. This will also provide an opportunity for more effective segregation of functions.”

Fixed Asset Register

It was a requirement under the *Public Finances (Management) Act, 1995* and the *Financial Management Manual (Section 12)* for the Commission to properly maintain and safeguard assets under its custody. My review of the Fixed Assets revealed that the Commission did not maintain a proper Asset Register for all its Assets for the year under review. The Register did not capture the identification numbers to identify individual assets and there was no physical stock take of the Commission’s assets as at balance date. As a result, I was unable to determine the fair value, the state, and the location of the assets.

I recommended Management to take a complete stock-take of all its assets and update the Fixed Assets Register to reflect the accurate information. The Commission responded to my concern as follows;

“We acknowledged the issue raised and will address the matter as soon as appointments of positions are completed.”

Staff Personnel Files

My review of the personnel emoluments revealed that staff personal files were not properly maintained. I noted that records such as salaries and allowances variation advices, tax declaration forms and appointment letters were either missing or not maintained regularly. The Commission also did not maintain control records like salary history cards/leave history records (annual leave, long service leave and sick leave) to assist in the verification of annual leave and long service leave entitlement.

I recommended Management to update all Staff Personnel Files on a regular basis for ease of reference and the Management responded as follows;

“We acknowledge the issue and have since advertised and in the process of appointing an experienced HR officer as a corrective measure.”

Group Tax Liability

During my review of salaries and personnel emoluments revealed that casuals were paid from the Commission's Operational bank account. Based on the Commission's fortnightly calculations, a total of K20,786.54 had been settled as tax for the year 2015. This tax liability was withheld by the Commission but had not been remitted to the Internal Revenue Commission and disclosed as a liability.

I recommended Management to comply with respective tax provisions and the Management responded as follows;

"We have been complying but there were no mechanism/tax coding in place with the IRC to capture tax payment from NEFC. This has also added to un-presented cheques in the bank reconciliations. We acknowledge the issue and agree to review for proper controls and will comply to correct this weakness."

Travel and Subsistence

Financial Management Manual Part 20 (paragraph 11.2-12.10) requires all travel allowances received by Officers on duty travel to be properly acquitted. However, I noted that travel advances of K847,108 were not fully acquitted upon return by the Officers of the Commission. I advised the Management of the Commission that duty travels must be acquitted within seven (7) days of return from duty trips for domestic travels and within fourteen (14) days for overseas travels.

The Management responded to my observation as follows;

"Some officers have not properly acquitted advances despite ongoing follow ups by the Administrative Team. We acknowledge and agree with the issue raised and will comply in taking corrective measures to rectify this weakness."

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* 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:

- The Authority shall:
 - Manage the fisheries within the fisheries waters in accordance with this Act, taking into account the international obligations of PNG in relation to tuna and other highly migratory fish stocks;
 - Make recommendations to the Board on the granting of licences and implement any licensing scheme in accordance with this Act;
 - Liaise with other agencies and persons, including regional and international organisations and consultants, whether local or foreign, on matters concerning fisheries;
 - Operate research facilities aimed at the assessment of fish stocks and their commercial potential for marketing;
 - 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;
 - Appraise, develop, implement and manage projects, including trial fishing projects;
 - Prepare and implement appropriate public investment programmes;
 - Collect data relevant to aquatic resources;
 - 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 PNG is or may become a party;
 - Make recommendations on policy regarding fishing and related activities;
 - Establish any procedures necessary for the implementation of this Act, including tender procedures; and

- 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.
- 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* on the Authority's financial statements for the years ended 31 December 2012 and 2013 were issued on 02 September 2015 and 21 April 2016 respectively. The reports contained Qualified Opinions, hence, only the 2013 report is reproduced as follows:

“BASIS FOR QUALIFIED OPINION

Land Titles

I was unable to sight and verify the Authority's *Certificates of Title* of Lands held throughout Papua New Guinea. I understand that the Authority is in the process of compiling all their landholdings and ensuring that appropriate *Certificate of Titles* are in place. The available documentation was not sufficient to allow me to perform audit procedures and satisfy myself that the Authority holds appropriate titles to land recorded in statement of financial position at K16,000,001 (2012: K16,008,001).

Long Term Loan Transferred to Equity

The statement of changes in equity includes a balance of contributed equity amounting to K19,139,858 which was transferred to equity during the year ended 31 December 2006. I understand that the Independent State of PNG (the “State”) negotiated the relevant loan with the Asian Development Bank (“ADB”) and then signed a subsidiary loan agreement with the Authority. I was advised that the loan was completely drawn down in 2003 and was forgiven by the State. On this basis the loan was classified to equity. I was not provided with the subsidiary loan agreement or documentation to support the Authority's position that the loan was forgiven and is no longer payable. In the absence of such documentation, I am unable to satisfy myself as to the validity, completeness and classification and presentation of the balance as an equity item rather than a loan item.

QUALIFIED OPINION

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements of National Fisheries Authority for the year ended 31 December 2013:

- 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 the exception of instances of non-compliance described under Other Matters, the financial statements have been prepared in accordance with the Finance Instructions issued under the *Public Finances (Management) Act 1995*.

OTHER MATTER

In accordance with the Audit Act, I have a duty to report on significant matters arising out of the financial statements, to which the report relates. I draw attention to the following issue:

- The National Fisheries Authority has not prepared their financial statements to the Minister and the Auditor-General prior to 30 June for the year ending 31 December proceeding, resulting in breaches of *Section 63(2)* and *Section 63(4)* of the *Public Finances (Management) Act 1995*.

26.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on inspection audit of the accounts and records of the Authority for the years ended 31 December 2012 and 2013 were issued on 02 September 2015 and 21 April 2016 respectively. For the purpose of the Report, only significant matters arising out of 2013 report is reproduced.

General Ledger Integrity

During the performance of procedures to agree the prior year audited financial statements to NFA's general ledger, I noted that the audit adjustments agreed in the prior year were not updated to the MYOB ledgers. Accordingly, the audited signed financial statements did not match the corresponding opening balances in the ledger. Furthermore, I noted that certain expenses that did not pertain to the 2013 financial period, were incorrectly included as relating to that year. I informed management that if adjustments are not processed in a timely manner, this could result in the general ledger not agreeing to balances in the financial statements and could make reconciliation become problematic in future due to the cumulative impact of the differences. Over time, the balances get distorted and will impact the reliability of the financial reporting system.

I recommended Management to safeguard the integrity of the general ledgers by ensuring that all adjustments are processed in a timely manner. The Management responded as follows;

“NFA strongly agree that all adjustments should be processed and recorded in the MYOB accounting software to ensure the general ledger agrees with the audited financial statements. Going forward to take note of the recommendation.”

Override of Established Internal Controls

The following exceptions in established controls were noted during my test of expenditure items:

- Two payments to OS Productions Company Limited were made for K102,995 and K93,297 respectively for the construction of the European Seafood Exposition booth 2013 in Brussels. The total of these amounts exceed K100,000 and would have required the approval of the internal Tenders Board. In this case, there was no documentary evidence of the tender’s board and the expenditure was split and gives the impression of a deliberate act to avoid the tender’s board procedures.
- There were instances of cheque requisitions, for which approval by the MD was missing. The MD is required to approve all payments above K1,000.
- There were instances of payments by the National Fisheries College where the Principal raised cheques and approved those requisitions himself indicating a lack of segregation of duties and therefore eliminating review procedures in the payment process.

I indicated to the Management that override of established controls exposes the Authority to significant risks including that of fraud in the course of procurement. I also pointed out that such practice works against principles of good corporate governance and particularly best practices over financial stewardship.

I recommended Management to ensure that appropriate awareness is made to various officers who support the function of the MD to ensure such incidences are contained. Where the matter requires urgent action, appropriate trail and documents should be made to ensure that exceptions made to established policy are transparent and demonstrates clearly how and why the action was necessary. The Management responded as follows;

“It’s been the NFA’s policy to strictly implement and follow the tender’s board procedure for all cost more than K100,000 however there were instances that requires urgent action hence this control is override but NFA made sure that necessary documents are complete and approval are in place.”

Recurrent and Project Expenditures

During my performance of audit procedures on the Authority's recurrent and project expenses, I noted the following issues:

- The Authority did not maintain a proper trail of the receipt of goods and services paid to suppliers. The NFA is possibly paying for goods and services it may not have received. This is in spite of the payment vouchers specifically requiring this aspect to be signed off.
- Many instances of non-compliance with Procurement Procedures where payments were made on the basis of usually one written quote or two rather than three written quotes as required by the *Public Finances (Management) Act*.
- The payment review procedure appears superficial and a mere formality. There was lack of scrutiny on whether or not funding is available, within budget and tracking against budget is not monitored.

I advised management that the lack of or inadequate system of tracking receipt of goods and services and budget will expose the Authority to a number of procurement risks including paying for goods /services that were not ordered or received, poorer quality goods and services than in the order and not fit for purpose, or overly priced items.

I also recommended that existing procurement procedures should be enforced and a regular review of this business cycle should be undertaken and non-compliance be monitored by management. The Management concurred with my observation and responded that the recommendations will be implemented going forward.

Control over Routine Travel

During my review of travel expenditure, I noted that internal controls and monitoring of these activity procedures was weak and is open to manipulation.

The following issues were noted:

- (a) There was insufficient documentation to support the purpose and validity of trips in line with NFA approved operations and work plans;
- (b) Instances where extensions were granted for trips which did not appear justified or having sound business to do so; and
- (c) Travel Request Forms did not appear to receive appropriate review with only one sign off by the claimant or an approval done by only one person within the process.

Although travel is necessary for the Authority to discharge its duties, it also provides significant opportunities or incentive for unwarranted travel and extension of stay because of the Travel Allowances associated with the trips. This incentive creates a climate for abuse of the travel by several ways:

- i) Rationalizations of unwarranted trips;
- ii) Increasing the number of delegates; and
- iii) Extension of stay following closure of formal business.

I recommended that review of travel plans and costs should form part of regular review agenda of the Executive Committee (Exco) to ensure these are valid and that staff act in an ethical manner. When the internal audit unit is established this matter should form part of their routine examination. The Management responded as follows;

“NFA is now in the process of checking all these issues and we take note of the recommendation.”

Monitoring of Deferred Revenues

The NFA access and license fees are billed in advance of the fishing periods. Consequently, amounts billed require an analysis to apportion between revenue and deferred revenues representing current and future fishing periods respectively. Deferred revenue is initially recognised as a liability in the balance sheet and subsequently transferred to revenue as the access period is being utilised.

I noted in 2013, the Authority did not track the different portions to accurately reflect the deferred amounts including additional amounts added to the deferred revenues and the component to be transferred to revenue.

I informed management that Access fees and deferred revenues are material balances in the financial statements. Accordingly, an accurate representation of these balances is important for ensuring a fair reflection of the income earned by the Authority in the year and amounts it has not yet earned but deferred to future periods.

I advised management to ensure that a detailed reconciliation of the deferred income should be prepared and tallied between invoices raised and the related receipts, transfers to revenues and the closing balance carried forward at the end of the year. The Management responded that the recommendation was already implemented in 2015.

Fixed Assets – Ownership of Kavieng Wharf

My review of the fixed assets noted the Kavieng wharf is recognised as an NFA asset carried at a value of K2,034,265 in the 2013 books while the New Ireland Provincial Government (NIPG) is also claiming ownership of the same asset. I understand the wharf has not been functioning since 2013 and has now been demolished.

The balance of the fixed assets reported by the Authority in its' fixed assets register would be overstated if title to significant items are questionable. In this case, it appears a Memorandum of Understanding (MoU) between NFA and NIPG was silent on the matter of ownership on this infrastructure.

I recommended the assets team to ensure that all matters pertinent to the maintenance of a reliable fixed assets register are maintained. This should include titles, valuations and details of custodians, location of mobile items such as boats. Regular reconciliation as recommended in other findings should be undertaken as a matter of course by the fixed assets accountants and issues identified dealt with on a timely basis. The Management responded as follows;

“NFA agree with the recommendation and this should be derecognized in 2014 financial audit.”

Fixed Assets – Control over Firearms

I noted that NFA has on its fixed assets register five (5) 22 Semi Auto Pistols valued at K22,000 each.

Upon enquiry, it appeared there is a high level of ambiguity around the policy for custody and the location of these items.

Firearms are dangerous and can fall into the wrong hands resulting in the loss of life and or theft in the organization or even holding executives to ransom if controls over their issuance and monitoring are loose.

I advised management to review the controls in place to properly monitor the handling and the issuance to the respective holders of these fire arms and ensure these are regularly kept in check. The Management responded as follows;

“All the Pistols were kept in the safety box and the management plan to dispose this year 2016.”

26.3 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 2014 was in progress.

The Authority had submitted its financial statements for the year ended 31 December 2015 for my inspection and audit and arrangements were being made to commence the fieldwork shortly.

27. NATIONAL GAMING CONTROL BOARD

27.1 INTRODUCTION

27.1.1 Legislation

The National Gaming Control Board was established under the *Gaming Control Act 2007*. The Act came into operation on 1 May 2007. The objective of the *Act* is to provide for the control of all forms of gaming; including lotteries, games and wagers, gaming machines and casinos and for their operations, and for related purposes. This Act repealed the *Gaming Machine Act 1993*.

27.1.2 Functions of the Board

The principal functions of the Board are to:

- Promote probity and integrity in gaming;
- Maintain the probity and integrity of persons engaged in gaming in the Country;
- Promote fairness, integrity and efficiency in the operations of persons engaged in gaming in the country;
- Reduce any adverse social impact of gaming;
- Promote a balanced contribution by the gaming industry to general community benefit and amenity; and
- Consider applications for and where appropriate grant permits and licenses under this Act and to control the operations of gaming machines as specified in this Act.

27.1.3 Subsidiary of the Board

National Gaming Control Board Community Benefit Trust Fund is a subsidiary of the Board. Comments in relation to this subsidiary are contained in paragraph 27A of this Report.

27.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

27.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Board's financial statements for the year ended 31 December 2014 was issued on 16 May 2016. The report contained a Qualified Opinion.

“BASIS FOR QUALIFIED OPINION

Fixed Assets

The National Gaming Control Board (NGCB) did not maintain a complete fixed assets register to record details of all fixed assets worth K27,644,489. There was also no physical stock take undertaken by NGCB to confirm the existence of assets and identifying impairment.

Considering this, I could not confirm the existence, accuracy and valuation of fixed assets and associated depreciation recorded in the financial statements.

QUALIFIED OPINION

In my opinion, except for the effect of the matter described in the Basis for Qualified Opinion paragraph, the financial statements of the National Gaming Control Board for the year ended 31 December 2014:

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

OTHER MATTER

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

- The Board has not prepared and submitted its financial statements prior to 30 June for the year ending 31 December proceeding, to enable me to conduct audit and report the results before this deadline, resulting in breach of *Section 63(2)* and *Section 63(4)* of the *Public Finances (Management) Act 1995*.”

27.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Board for the year ended 31 December 2014 was issued on 16 May 2016. The report contained the following observations:

Fixed Assets

The Fixed Assets disclosed in the financial statements showed a net book value of K27,644,489 after depreciation and disposal. During my review, I noted the following weaknesses;

- a) As per Ministerial approval under *Section 61* of the *Public Finances (Management) Act 1995*, National Gaming Control Board (NGCB) entered into an agency agreement with Consolidated Gaming Services (PNG) Limited (Agent) for five years at a cost of K62.6 million.

The agreement allowed the Agent to “import, supply, acquire, possess, service, maintain, install and operate approved gaming machines to premises.” In accordance with the agreement, the agent imported and supplied poker machines/spares at a cost of K13.2 million. The importation and supply by the Agent appears to be a breach of *Gaming Control Act 2007*, as only the Gaming machine operators have the license to import and supply poker machines under the current legislation.

- b) The poker machine register indicated that there were 1,557 machines as at balance date. However, monthly monitoring fees charged showed online machines as 1,300. I am unable to establish the status of remaining machines and reasons for the discrepancy.
- c) The National Gaming Control Board did not maintain a detailed schedule or a register to account for obsolete and disposals amounting to K130,339. I am unable to confirm if there were any board approvals for the disposals made during the year.

I recommended Management that all major procurements must be in accordance with *Public Finances Management Act 1995* and/or *National Gaming Control Act 2007*. Where doubt arises, appropriate legal advice is sought and followed. It should also be noted that in current legislation, only four (4) operators are allowed to import machines and Consolidated Gaming Services (PNG) Limited is not one of them. Hence the current arrangement is a breach of the governing legislation.

In addition, where fixed assets are lost/disposed of, obsolete, damaged and/or unserviceable, adjustments must be made on the fixed asset register and financial statements to reflect the potential impairment loss.

Revenue

My review of the Board's Revenue noted the following weaknesses;

- a) *Section 163(1) of Gaming Control Act 2007, Gaming Machine permit holder or machine operators must bank the previous day's gross profit. I did not find evidence of compliance in entirety. Considering this, NGCB did not enforce Section 163(2) of the Gaming Control Act 2007, by disabling gaming sites in accordance with Section 172(4) of Gaming Control Act 2007.*
- b) *During the year the Board had earned K540,110 as Tax lotto levy. This supposedly represent 10% levy charged on income generated by Digicel (Operator). In the absence of a proper monitoring and reporting system, I cannot confirm the correctness and completeness of K540,110 received from Digicel Limited as Tax Lotto levy during the year.*

I brought these issues to the Management and it responded as follows:

- a) *"This situation was forced due to the fact that there was a rapid increase in gaming sites under NGCB during the year. Couple with its dilemma of the manpower issues that NGCB faced within the last years 2012 & 2013 because NGCB's revised staff structure with the Department of Personal Management's (DPM) SCMC, although submitted in 2013 was not approved until 2015.*

Likewise, recruitment exercise for more personnel for the GMO Division just commenced towards the end of 2015. This situation will continue in 2015 and a directive has been issued to the GMO Division to uphold the NGCB's gaming revenue banking policy and at the same time collect the outstanding gaming machine revenue.

- b) *The Board granted the approval to Digicel (PNG) Ltd to operate the "SMS Game of Chance" and the NGCB through the Operations Division was not able to accurately access the revenue generated from this game of chance in 2014 and also in 2015. The CEO in 2015 has instructed for the license not be renewed when it expires and the Operations Division has been tasked to work on a paper for the NGCB Board to consider in its first meeting of 2016."*

Administrative Expenses***a) Legal Fees – K2.18 million***

My review of the legal fees noted the following:

Legal fees costs for the year had increased significantly by 50%. It appears that on a number of instances, legal bills were paid to various Law firms for the same scope of engagement as evident by invoices. I further noted that there were three legal firms engaged to draft Gaming Machine regulations. In respect of these engagements, I could not confirm and establish the status of work completed.

I recommended management that a public tender be called to invite large legal firms who may have the expertise and global network to draw on international experience and exposure. The present retainer arrangement could also be reviewed to ensure that NGCB is able to obtain the best legal advice on all matters at a competitive rate without the need for seeking multiple advice or opinions. I also suggested that where legal firms are engaged and the legal matter is closed, an outcome summary or final report should be made available for audit examination and verification.

b) Printing & Stationery – K0.63M

There were instances, where printing companies were engaged without evidence of three quotes being obtained and evidence of deliveries of ordered items being sighted. In absence of three quotes, I could not confirm if selection of the least cost provider and value for money is obtained.

I recommend management that for good procurement practice and for transparency purposes, due consideration must be given for procuring goods and services at competitive prices and value for money is achieved.

c) Staff Advances

An advance Register was not maintained to keep track of the advances given to Staff, Management and Board members. This had resulted in advances totaling K168,123 not being acquitted.

I recommend Management that acquittals must be filed in orderly manner that provides a sound audit trail.

d) Consultancy Fees – K0.613M

A consulting firm was engaged at a cost of K130,000 for reviewing Board Fees and allowances. However, this assignment was not completed by that particular consulting firm.

e) *Staff Expenses*

I was not furnished with details of higher duty allowances and entitlements for employees acting in higher roles. In absence of this information, I could not verify the correctness and accuracy of payments made in respect of higher duty allowances and other associated perks and privileges.

Annual Reports

As per *Section 23 (1) Gaming Control Act 2007*, the Board shall by each year on or about 31 March shall furnish to the Minister a report on the progress and performance of the Board for the previous financial year then ended. Similarly, every six (6) months on the gaming activities conducted in the provinces. I noted that these requirements were not met by the Board in year 2014.

Surplus Income

As per *Section 25 of Gaming Control Act 2007*, “*In January and July each year, the Board shall review the cost of carrying out its functions against income received for the purpose in six months prior to the month of review, and after taking into account anticipated income and expenditure for the ensuing six months, into the Community Benefit Fund.*” I did not sight evidence to confirm compliance with this provision of the Act. Management responded as follows:

“Management is aware of this provision however due to the NGCB’s increased Key Priority Projects in 2014 to 2019 such as NGCB being a Gaming Machine Operator and plans to revolutionize the gaming industry, any excess funds in the NGCB accounts other than CBF are needed.”

27.3 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 Board for the year ended 31 December 2015 was in progress.

27A. NATIONAL GAMING CONTROL BOARD COMMUNITY BENEFIT FUND TRUST (Subsidiary of National Gaming Control Board)

27A.1 INTRODUCTION

27A.1.1 Legislation

The Community Benefit Fund (CBF) was established under the provision of *Section 163(6)(a)* of the *Gaming Control Act 2007* on 1 May 2007 when the *Act* was passed and certified by the Parliament.

The *Gaming Control Act* authorises the Board of NGCB to establish a “*Community Benefit Fund*” and shall open a trust account to be called the “*Community Benefit Fund Account*” in which payments of 14% of monthly gaming revenues are made.

The Trust is managed and operated by a Board of Trustees comprised of the Chairman of the NGCB Board and four additional Trustees as members appointed by the Minister in a notice in the National Gazette, and in accordance with the terms of a trust deed that is settled by the Board.

The CBF started its operations in 2008.

27A.1.2 Objectives of the Fund

- The trust is established to provide for and apply the income and capital of the Trust Fund towards generally charitable purposes, including without limitation, the alleviation of poverty, the advancement of education, sports development and other purposes generally beneficial to the people of Papua New Guinea;
- To undertake research into the problems associated with gambling activities including the social and economic impact of gambling on individuals, families and the communities at large; and
- To promote community awareness and education in respect of problem gambling and the provision of counselling, rehabilitation and support services for problem gamblers and their families.

27A.1.3 Functions of the Fund

To provide for and apply the income and capital of the fund towards generally charitable purposes, including but not exclusive of, the following areas:

- Provision and improvement of social welfare;
- Development of sports and improvement of recreational facilities;

- Improvement of education and learning tools (not including school fees);
- Assistance to churches and religious groups;
- Provision of medical assistance;
- Assistance to education, health and law and order projects; and
- Undertake research into problems on gambling and promote community awareness and education on negative aspects of gambling.

27A.2 AUDIT OBSERVATIONS AND RECOMMENDATION

27A.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Fund's financial statements for the year ended 31 December 2014 was issued on 16 May 2016. The report contained a Qualified Opinion.

“BASIS FOR QUALIFIED OPINION

Donations

Donations totalled K62,124,144 had been paid out and committed for various purposes during the year. However, I have noted that K50,498,674 worth of donations/financial assistance were not supported with any form of acquittal/reports. Consequently, I cannot confirm the validity of the respective payments as there was no confirmation whether the payments made were for the intended purposes and the objectives of the payments were achieved. I also noted that there was no follow up or actual status established on prior outstanding acquittals worth K14.3million.

The Board of Trustees also did not have a tracking, monitoring and compliance system to do physical random checks to ensure donations were utilised for intended purposes and benefit the communities.

QUALIFIED OPINION

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements of the NGCB Community Benefit Fund for the year ended 31 December 2014:

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

27A.2.2 Audit observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Fund for the year ended 31 December 2014 was issued on 16 May 2016. The report contained the following observations:

Trust

My review of the Fund noted that there was no gazettal of the Trust Deed. As highlighted in the past audits, Trust deed also did not make any reference to *Public Finances (Management) Act 1995*, who can apply for assistance, the acquittal needs, investments and accountability.

In addition, the delay in preparation of financial statements was also a breach of *clause 10.4(d)* of the Trust Deed.

As I recommended in the past, the trust deed must specify the requirements of complying with the relevant legislations including *Public Finances (Management) Act 1995*, eligibility for assistance, investment guidelines, the reporting and acquittal processes and others.

Donations

- i)* A number of payments (donations) were made on account of Prime Minister's commitments and approvals by the Prime Minister, based on written memo requests. However, I was unable to obtain direct confirmation to confirm the correctness of the approvals by the Prime Minister.
- ii)* There were instances of donations made without being recorded in the CBF register.
- iii)* There were also cases of funding made without proper CBF application(s).

Board Expenses (BOD)

The board fees and allowances of K374,642 paid in the year were based on what was prescribed in the Trust deed, which was greater than Ministerial determination. In the absence of revised approved Ministerial determination, I could not confirm the validity and accuracy of board expenses.

27A.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the audit of the accounts and records and the examination of the financial statements of the Fund for the year ended 31 December 2015 was in progress.

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;
- Provide adequate and suitable housing or letting to eligible persons;
- Sell houses to eligible persons;
- Make advances to eligible persons and approved applicants to enable them to become the owners of houses occupied by them;
- Develop residential land by way of providing adequate services for human settlements;
- Carry out and promote research or investigations into matters connected with urban development and human settlements; and
- Maintain dwellings and associated buildings vested in the Corporation.

28.1.3 Subsidiary of the Corporation

The National Housing Corporation has a subsidiary Company, National Housing Estate Limited. The Company was incorporated under the *Companies Act* on 28 September 2007. The principal purpose of the Company is to provide Real Estate Services. From information available, the Company commenced its normal operations as of 1 January 2010.

However, the Company had not submitted its financial statements for the years ended 31 December 2010, 2011, 2012, 2013, 2014 and 2015 for my inspection and audit despite numerous reminders from my Office.

28.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the Corporation's financial statements for the year ended 31 December 2011 had been completed and the results were being evaluated.

The fieldwork associated with the inspection and audit of the accounts and records and examination of the Corporation's financial statements for the year ended 31 December 2012 was in progress.

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

29. NATIONAL INFORMATION AND COMMUNICATIONS TECHNOLOGY AUTHORITY (NICTA)

29.1 INTRODUCTION

29.1.1 Legislation and Objectives of the Authority

The National Information and Communications Technology Authority (NICTA) was established on 1 November 2009 by the *National Information and Communications Technology Act 2009*. The Authority succeeds the PNG Radio Communications and Telecommunication Technical Authority (PANGTEL) which was established on 1 January 1997 as part of the Government's policy to corporatise the Post and Telecommunication Corporation (PTC) and to have it divided into three different organisations namely: Telikom PNG Limited, Post PNG Limited and Pangtel.

NICTA is a 100% Government-owned statutory authority, established to regulate the telecommunication industry in PNG.

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 the 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. In the same manner, the assets, rights and liabilities as well as employees of Pangtel were transferred to NICTA by virtue of *Section 305* of the *National Information and Communications Technology Act*.

29.1.2 Functions of the Authority

The main functions or principal activities of the Authority are to exercise all licensing and regulatory functions in relation to the Information and Communications Technology Industry and perform all other functions as stated under *Section 9* of the *NICTA Act 2009*.

29.2 AUDIT OBSERVATIONS AND RECOMMENTATIONS

29.2.1 Comments on the Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Authority for the year ended 31 December 2012 was issued on 20 November 2015. The report contained a Disclaimer of Opinion.

“BASIS FOR DISCLAIMER OF OPINION**Opening Balances**

The opening balances could not be confirmed as correct due to errors and material limitations of scope expressed in my previous audit reports. I was unable to quantify the effect of the material misstatements on the opening balance that might have a bearing on the balances reported as at 31 December 2012. As a result of the limitations, I was unable to perform sufficient audit procedures to satisfy myself as to the completeness and accuracy of the account balances as at 31 December 2012.

Adjustments relating to Prior Periods

The statement of comprehensive income includes the impact of adjustments amounting to a net charge to the profit and loss account of K1,596,101 which I have been informed by management relates to unreconciled items in prior years. However, I have not been provided with sufficient audit evidence to support the adjustments and I am unable to conclude on their appropriateness or the accounting treatment applied.

Trade Debtors

The statement of financial position includes total Trade Debtors of K10,672,849, representing a gross balance of K16,396,255 net of a provision for doubtful debts of K5,723,406. The Gross Trade Debtors figure includes K6,305,064 which is not recorded in the trade debtors subsidiary ledger and for which I was unable to obtain sufficient audit evidence. In addition, for a number of trade debtor balances selected for testing as part of my audit procedure, I was unable to verify the balances to direct confirmation, subsequent receipt of cash or other alternative evidence. As a result, I was unable to verify the existence and accuracy of recorded trade debtors and the appropriateness of the provision for doubtful debts.

Land and Buildings Titles

The Authority reported in the statement of financial position the Land, Building and Contents totalling K19,726,789. I was not provided with sufficient audit evidence supporting the Authority's title to the properties. As a result, I was unable to conclude on the appropriateness of their inclusion in the statement of financial position.

Fixed Assets Revaluations

The Authority reported in the statement of financial position an Asset Revaluation Reserve of K18,677,117 as at 31 December 2012. I was not provided with sufficient audit evidence to support the revaluation of fixed assets performed in prior periods. As a result, I was unable to conclude on the valuation of land and buildings and the associated carrying value and the accuracy of the related asset revaluation reserve.

Income

The statement of comprehensive income reported an income totalling K22,388,908 as at 31 December 2012. Included in the Income Account is K2,086,652 relating to unidentified deposits. I was not provided with sufficient audit evidence for these cash receipts, as a result, I was unable to conclude on the appropriateness of their inclusion in the income account. Further, for a number of additional revenue transactions selected as part of my audit, I was unable to verify the recorded transactions to appropriate and sufficient audit evidence. As a result, I was unable to conclude on the completeness, accuracy, cut-off and occurrence of recorded income.

Financial Statement Disclosures

The accompanying financial statements of the Authority did not include all of the disclosures required by *International Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea.

OTHER MATTERS

In addition to the matters set out above, I was unable to obtain sufficient and appropriate audit evidence and finalise audit procedures in relation to a number of other areas within the financial statements.

The value attributed to the components of the financial statements referred to above are significant to the financial statements and are of fundamental importance to the preparation of the financial statements. As a result of the matters above, I was unable to determine whether any adjustments might have been found necessary to the financial statements for the year then ended.

In view of the significance of these matters and other areas in which I was unable to obtain sufficient and appropriate audit evidence, I was unable to form an opinion as to whether or not the financial statements present a true and fair view of the financial position of the Authority as at 31 December 2012 and its financial performance and cash flows for the year ended on that date.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs above, 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 National Information & Communications Technology Authority for the year ended 31 December 2012.”

29.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Authority for the year ended 31 December 2012 was issued on 20 November 2015. The Report contained the following significant matters:

Recording of Manual Journal Entries

The Authority's system is MYOB, an off-the-shelf accounting system. All transactions are recorded and posted manually into the general ledger by the financial accountant. However, no formal procedures were in place in relation to the review and approval of these journals, hence increasing the risk of misstatement either due to fraud or error. The deficiency in controls had resulted in various year end adjustments amounting to K1.5 million which could not be supported by valid documentations.

Cash Basis Accounting

The Authority uses the cash basis of accounting in its ledger, hence, income and expense were not properly matched in the period they were earned and incurred and adjustments were required to the financial statements to recognize accruals. Cash basis could potentially misstate the financial statements if a significant amount of transactions have not been collected or paid as at year end. The Management responded to this issue that, at that time they were using both types of accounting system – cash basis and accrual basis. Now they are in full accrual starting from 2014 onwards.

Reconciliation of Account Balances

There have been no formal procedures in place in relation to the month end process. Monthly reconciliations were not done on a regular basis, hence, general ledger account balances did not agree with the subsidiary ledger in a number of instances. I recommended management that as part of month end process, management should ensure that sub-ledger to general ledger reconciliation is done regularly. This would ensure the completeness and accuracy of the transactions recorded in the system. The Management concurred to my recommendations.

Other Weaknesses noted as follows:

- No formal documentation of business procedures;
- Documents were not filed properly; and
- Lack of training to finance staff.

29.3 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 2013 and 2014 had been completed and the results were being evaluated.

The financial statements of the Authority for the year ended 31 December 2015 had been submitted and arrangements were being made to commence the audit shortly.

30. NATIONAL MARITIME SAFETY AUTHORITY

30.1 INTRODUCTION

30.1.1 Legislation

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

30.1.2 Functions of the Authority

The functions of the Authority are to:

- Perform the functions and exercise the powers as are conferred upon it by this Act or under any other law;
- 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;
- Co-ordinate with other agencies and persons, including regional and international organisations and consultants, whether local or foreign, on matters concerning maritime safety, marine pollution prevention or search and rescue operations at sea;
- Collect data relevant to maritime safety, marine pollution prevention and search and rescue operations at sea;
- 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;
- Make recommendations on policy to the Minister regarding maritime safety, marine pollution prevention and search and rescue operations at sea;
- Provide consulting services, training and management services relating to any of its functions whether in PNG or overseas;
- Where appropriate to consult with:
 - *Other agencies of National Government;*
 - *Provincial Governments;*
 - *Local-level Governments; or*
 - *Commercial, industrial and other relevant bodies and organisations, in relation to matters affecting them in the performance of its functions.*
- Generally to do such supplementary, incidental or consequential acts and things as are necessary or convenient for carrying out its functions.

30.2 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 Authority for the year ended 31 December 2015 was in progress.

31. NATIONAL MUSEUM AND ART GALLERY

31.1 INTRODUCTION

31.1.1 Legislation

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

31.1.2 Functions of the Museum

The main functions of the Museum are to:

- Protect and conserve the cultural and natural heritage of PNG;
- Research and document the prehistory of PNG and manage the national archaeological collections, and monitor archaeological research in PNG;
- Maintain the national register of traditional and archaeological sites;
- Identify and maintain a register of national cultural property and monitor the collection and export of artefacts; and
- Issue permits and perform other duties as required by the *National Cultural Property (Preservation) Act (Chapter 156)*.

31.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

31.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Museum's financial statements for the year ended 31 December 2013 was issued on 16 May 2016. The report contained a Disclaimer of Opinion.

“BASIS FOR DISCLAIMER OF OPINION

Accounting System

The Museum, despite my recommendations, had not maintained a proper accounting system for a systematic preparation of financial statements. Consequently, the financial statements, trial balance and the cash book presented for audit review could not be relied upon. The Museum did not maintain necessary accounting records and documents such as receipt books, assets registers and expenditure records which should form the basis of the preparation of the financial statements. In the absence of these records and documents, I was not able to place any reliance on the computer generated Access-Based General Ledger and MYOB which were used as the basis for the preparation of the financial statements. I therefore, could not extend my audit procedures to perform sufficient tests to verify the validity and accuracy of the figures reflected in the financial statements.

Statutory Records

The Museum is required to maintain necessary accounting records under *Sections (62-64) of the Public Finances (Management) Act 1995*. During my examination, I observed that there were significant variances between the financial statement balances and general ledger balances. Further, some payroll and payment vouchers were not provided for my verification. As such, I was unable to reconcile these balances due to lack of proper and reliable accounting records.

Cash at Bank – K1,875,808

The Museum disclosed its Bank Balance as K1,875,808 at 31 December 2013. During my examination, I was not able to obtain, determine and verify the year end balances of one bank account (ANZ - 856233) as its bank statements have not been provided for my review and confirmation. Furthermore, I was also not provided with the independent bank confirmation for these undisclosed bank accounts for my review. As a result, I was unable to ascertain the accuracy and completeness of the total bank balance of K1,875,808 disclosed at the year end.

Fixed Assets – K5,059,690

The Museum did not properly maintain and update its Assets Register with the details of identification or serial/code numbers to enable me to locate and verify the existence of the assets. I was advised that no proper stock take or physical count of assets was conducted during the year under review. As such, I was unable to determine the condition and existence of various assets. In addition, I was not provided with revaluation certificates of buildings and title deeds of land owned by the Museum; therefore, I was unable to determine the ownership and valuation of these assets.

Furthermore, I noted that artifacts and science collections have accumulated over many years and hence there was a large volume of collections and artifacts for which there was no proper database system maintained to record, update and revise the collections periodically. In the absence of proper inventory records, the correctness, completeness and existence of these collections could not be verified.

Limitation of Scope – Unallocated Expenditure – K1,381,739

The Museum has disclosed (K1,381,739) as unallocated expenditures in its financial statements for the year ended 31 December 2013. During my review, the Museum was unable to provide the necessary supporting documents to substantiate the above payments. As a result, I was unable to confirm whether or not the above expenses were incurred for the benefit of the Museum.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient audit evidence and accordingly, I am unable to express an opinion on the financial statements of the Papua New Guinea National Museum and Art Gallery for the year ended 31 December 2013.”

31.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act* on the audit and inspection of the accounts and records of the Museum for the year ended 31 December 2013 was issued on 16 May 2016. The report contained the following comments:

Non-Submission of Financial Statements

The Museum had not prepared and submitted its financial statements to my Office before 31 March 2014 to enable me to conduct the audit and issue the report within the timeframe stipulated by the Law. Consequently, the Museum had breached *Sections 63 (2) and 63 (4) of the Public Finances (Management) Act 1995*.

Acquittal of Travel Related Expenses

During my examination, I noted that the payments relating to Travel and Subsistence totaling K532,787 was paid to staff during the year. This amount was not acquitted by officers of the Museum after travel which was contrary to the requirements of the *Financial Management Manual*.

It was a requirement under the *Financial Management Manual Part 20 paragraph 11.2* that cash advance to officers travelling overseas on official duty must acquit travel advances within 14 days of return from duty travel. While *Part 20 paragraph 12.10* of the *Manual* requires that advances to officers for domestic duty travel to be acquitted within 7 days of return from duty travel. I drew this issue to the National Museum & Art Gallery’ Management and they responded as follows:

“A template for acquittals has been developed and is being implemented. We have now demanded that officers provide acquittals for their trips before they are able to take the next official trip.”

Staff Personnel Files

During my review on the Museum’s Staff Personnel Files, I noted that the personnel files were not properly maintained and updated on a regular basis. Some employees did not have employment contracts, appointment letters and other staff advices relating to salary and allowances.

Although, some employees had employment contracts in their files, the rates of salaries and allowances did not correspond to the rates on which salaries and allowances were paid to them. Further, salaries/wages declaration forms and leave records of employees were not properly maintained.

As a result, I was not able to verify the rates on which some of the contract and casual employees were paid their salaries and wages since their personnel files were not provided for my review. I brought this matter to the attention of the Management of the Museum and the Management concurred with my observation and they assured me that they will look into it and rectify the matter.

Ministerial Support/Grant

I observed that the Museum was funding a monthly grant of K20,000 while Tourism Promotion Authority and National Cultural Commission were paying K25,000 and K8,333.33 respectively per month for ministerial duties and commitments. These grants are for the purpose of supporting the Ministry's operations in terms of logistical support including airfares and associated costs incurred by the Minister while on official duty for any one of these three institutions. This monthly grant by the Museum has now increased to K20,000 during the year under review.

During my review, I noted that there have been no proper acquittals made by the Ministry over the years for the use of these grants. I also noted that this arrangement between the Ministry and its three related institutions had no legal basis as there was no documentary evidence to legitimize the funding to the Ministry. I brought this matter to the attention of the Management of the Museum and they responded that this issue had now been raised with the agencies and would be actioned to rectify the issue.

Internal Control Weaknesses

Other internal controls breakdown and weaknesses noted during my audit are summarized in the subsequent paragraphs:

- (i) Three (3) (out of four) Board of Trustees Meeting Minutes for the year ending 31 December 2013 were not signed by the Chairman and Secretary to confirm and legitimate the minutes to be true records of the meetings.
- (ii) I was not provided with the 2013 budget documents despite numerous requests and as such, I was unable to perform budget analysis with actual expenditure incurred during the year.
- (iii) Payroll records were not maintained properly as the payroll summary sheets were incomplete and as such, I was not able to verify the total payroll figure from the payroll file.

- (iv) The Museum did not maintain any schedules and calculations of all Contract Gratuities paid to its contract officers during the year.
- (v) I was not able to substantiate the validity and the authenticity of payments amounting to K1,634,502 due to insufficient or missing supporting documents.
- (vi) The Museum had neither maintained any records for petty cash, nor done any reconciliations.
- (vii) Leave records of employees of the Museum were not properly maintained by the Human Resources Department. I was not able to determine when the leave fares were paid and verify if employees were qualified for recreational leave and leave fares in the absence of the leave records.

The Management responded to all the observations highlighted in my Management Letter and agreed to take necessary action to rectify the issues.

31.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Museum for the years ended 31 December 2014 and 2015 had not been submitted for my inspection and audit, despite reminders.

32. NATIONAL NARCOTICS BUREAU

32.1 INTRODUCTION

32.1.1 Legislation

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

32.1.2 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 rehabilitation program, and conduct surveys and gather and evaluate information, on the consumption, cultivation, trafficking and manufacture of drugs.

32.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Bureau, despite numerous reminders, had not submitted its financial statements for the years ended 31 December 2013, 2014 and 2015 for my inspection and audit.

33. NATIONAL RESEARCH INSTITUTE

33.1 INTRODUCTION

33.1.1 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 'PNG Institute of Applied Social and Economic Research' to 'National Research Institute' following the approval of the NEC 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 PNG 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.

33.1.2 Functions of the Institute

The functions of the Institute include the promotion of research into PNG society and economy; the undertaking of research into social, political and economic problems of PNG 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 PNG Studies; and research into all aspects of education for National and Provincial Departments of Education.

33.2 AUDIT OBSERVATIONS

33.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Institute for the year ended 31 December 2015 was issued on 26 May 2016. The report did not contain any qualification.

33.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on inspection and audit of the accounts and records of the Institute for the year ended 31 December 2015 was issued on 26 May 2016. The report contained the following matters:

Bank Reconciliation (Outstanding Deposits) – K35,044.86

As stated in my prior years' reports, I still noted that outstanding deposits from prior years (2012 & 2013) for Operating Account and Commercial Account amounting to K3,449.70 and K31,595.16 remain uncleared as at 31 December 2015 respectively. In total, the outstanding deposits amounted to K35,044.86. I brought this to the attention of the Management and was advised that a report would be done and presented to the Council for further actions.

Fixed Assets Register

My examination of the Fixed Assets Register (FAR) revealed that the Register was not properly maintained. Accordingly, the following discrepancies were noted:

- Ñ As mentioned in my prior year report the assets in the Register did not have serial numbers. Without proper tagging/labeling, the identification of the Institute's fixed assets would be deemed impossible. It would be difficult for the Institute to know if the assets still exist. In addition, I was unable to carry out physical inspection to confirm certain fixed assets against the records to verify their existence and condition due to lack of asset identification.
- Ñ Again assets purchased prior to 2013 had no acquisition/purchase dates recorded in the Register. In the absence of the purchase dates, I was unable to confirm the depreciation charges calculated and expensed in the accounts.

I brought these issues to the Management in my prior year audit report and was advised that stock-take was done in 2015 to address the issues raised. However, management was yet to fully implement my recommendations. As a result of the above observations, I was unable to rely on the FAR maintained by the Institute.

Title Deeds to Leasehold Land

The Institute claimed to own three (3) properties located at Section 482 allotment 61 and allotment 62, and Section 484 allotment 35 with a total carrying value of K100,859 as at 31 December 2015. However, I was not able to confirm the ownership of the above properties as the Institute still did not have clear titles over the properties. I noted that the said properties were registered under a deregistered company, Mimino & Associates. I also noted that attempt by Management to secure the titles had not materialized to date.

The above issue was again brought to the attention of the Management and they responded as follows:

"we have now engaged a new law firm to pursue our titles with the Registrar of Titles."

Revaluation of the Institute's Properties

During my review I noted that the Institute's properties had not been revalued for the past ten (10) years since the last revaluation in 2005. I further noted that note #5 to the financial statements stated that the NRI was not a profit making government entity and revaluing of assets was not in the interest of the Institute. However, in accordance with the *International Accounting Standards (IAS 16)*, an entity's assets be revalued at fair value every three (3) or five (5) years if it adopts the International Financial Reporting Standards to comply with the requirements.

I raised this issue with the Management of the Institute and was advised that the revaluation exercise would be carried out in 2016 by a professional valuer.

Appointment of Council Members

As reported previously, I noted that the Chairman and the Community Representative of the NRI Council terms had expired on the 17 January 2010. Also during 2015 audit, I observed that there were no appointments made for the respective position.

The Institute advised me that they had written to the Minister for Higher Education, Research, Science & Technology in 2014 however, due to frequent ministerial changes, the Institute was not able to receive a favorable response and outcome. The Institute also advised that a new NEC submission would be made.

34. NATIONAL ROAD SAFETY COUNCIL

34.1 INTRODUCTION

34.1.1 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.

34.1.2 Functions of the Council

The principal functions of the Council are to:

- Determine the goals and objectives in the promotion of road safety in PNG;
- 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;
- Recommend to appropriate authorities the adoption of precautionary measures of all kinds calculated to prevent accidents involving the use of motor vehicles;
- Foster, promote and conduct educational campaigns designed to stimulate compliance with acceptable and proven principles of road safety;
- 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;
- Procure sufficient personnel and finance for purposes of the Council and to co-ordinate and control their use;
- Foster and promote road safety research;
- Determine measures which will lead to the improvement of road safety and implementation of such measures;
- Monitor and evaluate the effectiveness of programs and strategies of organisations involved in the promotion of road safety;
- Formulate, monitor and update an appropriate long-term national program for the improvement of road safety in PNG and to supervise its implementation;
- Consider and implement any other aspects of road safety as may be referred to it from time to time;
- Perform such other functions as are given to it under this Act or any other law;
- Advise the Minister and the NEC on all or any of its functions specified in this section; 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.

34.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

34.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act*, on the Council's financial statements for the year ended 31 December 2014 was issued on 17 February 2016. The report did not contain any qualification.

34.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the audit and inspection of the accounts and records of the Council for the year ended 31 December 2014 was issued on 17 February 2016. The report contained the following observations:

Fixed Assets

My review of the Council's Fixed Assets Register revealed that the Council's Register contained a large quantity of fully depreciated, obsolete or disposed assets in the Register. These assets carried either nil or negative balances in the year under review. I sought Management's explanation and the Management responded to my query as follows;

"The management decided that we had to take stock of our fixed assets and those damaged and obsolete assets need to be recommended to the NRSC board for writing them off."

"As per the recommendations we have selected the obsolete and damaged assets and recommended for the board to write them off and actually in the last NRSC board meeting the board passed a resolution and wrote them off."

Damaged Motor Vehicle

During my review of the Council's Fixed Assets Register and physical inspection, I followed up on the progress made in relation to the Executive Director's official vehicle (Toyota L/Cruiser - registration no. BDV 596) that was involved in a car collision in 2012. The Police Incident Report and Conviction Notice confirmed the driver of the other (Digicel) vehicle was convicted for drink driving and had caused the accident.

My examination revealed that the matter was still with the courts for Digicel to compensate for damaged vehicle's cost recovery or vehicle replacement cost. I sought explanation from the Management and it responded to my query as follows:

“Our lawyer has already given the summons to Digicel and the courts are yet to set a date for mention so we are still awaiting the update from our lawyer. We will update your office from time to time when we receive any latest developments from this court case.”

Traffic Infringement Notices (TIN)

My review of the traffic infringement fines revealed that controls surrounding this area had improved compared to prior years. However, there were instances where TIN books were given to police officers but were never returned to the Council and some Inspectors had lost the TIN books. Further, TIN fines records were not properly arranged and maintained by one designated officer. I brought this matter to the Management and the Management responded to my query as follows;

“We have taken this area seriously and one of the senior officers who has been responsible for the TIN books was already been disciplined and most of the responsibilities has been given to another staff and now we keep a good record of our TIN books.”

Personnel Files

My review of the Staff Personnel Files revealed that salary history cards, employment letters, birth/marriage certificates and salary declaration forms were not maintained for most of the files examined. In the absence of such valid documents, I was unable to verify each officer’s salary/wage and allowances paid and accruals provided for at year end. I requested the Management for explanation and the Management responded as follows;

“The management has taken this area seriously as per your recommendations and our Human Resources section is currently updating the staff files.”

34.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Council for the year ended 31 December 2015 had not been submitted for my inspection and audit.

35. NATIONAL ROADS AUTHORITY

35.1 INTRODUCTION

35.1.1 Legislation

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

35.1.2 Objectives of the Authority

The objectives of the Authority are to:

- Raise funds for the maintenance of public roads;
- Ensure the efficient preparation of effective annual road maintenance programmes; and
- 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 road assets to the economic and social development of PNG.

35.1.3 Functions of the Authority

The functions of the Authority are to:

- Establish and operate a Road Fund from road user charges, budget and other sources;
- Establish resources and an organisation to enable the Authority to perform its functions;
- Maintain and manage updated data on asset conditions using the Road Asset Management System, Bridge Inventory and Bridge Maintenance and other approved systems;
- 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;
- Establish annual road maintenance funding requirements in accordance with the future annual road maintenance plans;
- Determine and implement road user charges in accordance with the financial resource requirements of the annual road maintenance plans;
- 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;

- Deliver road improvement, and road restoration when required, by undertaking the design studies necessary for the programmed road improvement or rehabilitation projects by:
 - *Preparing corresponding construction plans, specifications, cost estimates, and the other documents required for the proper tendering of the programmed works;*
 - *Monitoring and supervising the works as are executed, by such qualified consultants and/or contractors as are engaged; and*
 - *Ensuring safety audits on design, construction, maintenance and safety aspects of road.*
- 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;
- 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;
- 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;
- Report publicly and transparently on collection of user charges, revenues, and in detail on the use of the revenues on the road maintenance programs in accordance with internationally accepted accounting principles;
- Establish environmental management capacity;
- Provide a continuing programme of professional staff development and required skills training for non-professional staff; and
- Construct, erect or affix signs or marks on road transport infrastructure in accordance with the *Motor Traffic Act (Chapter 243)*.

35.2 AUDIT OBSERVATIONS

35.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Authority for the year ended 31 December 2014 was issued on 8 March 2016. The report contained a Qualified Opinion.

“BASIS FOR QUALIFIED OPINION

Cash at Bank – K22,588,002

During my review of the Bank Accounts, I noted that the beginning General Ledger (GL) balance for the Operating account of K11,940,165 did not agree to the prior year ending balance of K19,740,165 resulting in a variance of K7,800,000. I further noted that the variance was created due to prior years (2012 and 2013) unreconciled and incorrect bank transfer postings and adjustments. As the beginning balance determines the basis for the ending balance, I was unable to obtain comfort over the accuracy and completeness of cash at bank balance of K22,588,002 reported in the financial statements as at 31 December 2014.

Goods and Services Tax (GST) Recoverable – K7,191,602

Goods and Services Tax (GST) Recoverable of K7,191,602 was disclosed in the financial statement under current assets as at 31 December 2014. During my review I noted that the Authority as a Government Entity was receiving direct funding from the Government and also from fuel levies collected from fuel suppliers in the country for its operations. The fuel levy collected was exclusive of GST however, the Authority claims that the disclosed amount was recoverable. As result, I was unable to ascertain whether the amount will be recovered in the foreseeable future and whether the balance has been fairly stated in the financial statements.

QUALIFIED OPINION

In my opinion, except for the effects of the matters referred to in the Basis for Qualified Opinion paragraphs 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 for the year ended 31 December 2014 and the results of its financial operations and cash flows for the year then ended.”

35.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Authority for the year ended 31 December 2014 was issued on 8 March 2016. The report contained the following observations:

Withholding Taxes - K2,030,698

During my review, I noted that the Authority disclosed in its financial statements Withholding Tax of K2,030,698 as at balance date. This amount relates to the ten per cent (10%) withholding tax component of payments to contractors without valid Certificate of Compliance (COC). However, at the time of my examination, I noted that this amount which has accumulated over the years has not been remitted to Internal Revenue Commission (IRC). I brought this to the attention of the management of their non-compliance of *Sections 280 (1f) and (6) and Section 354O (1) of the Income Tax Act 1959 (as amended)* and management responded to my query as follows:

“NRA has reconciled the withholding tax accounts and has prepared forms for lodgement but did not lodge the returns and payment to IRC because it is awaiting advice from IRC on NRA’s claim for reimbursement on GST Input Credits against Withholding Tax Payable. While waiting for IRC’s guidance, the Management has agreed to comply with Income Tax Act and submit the WHT returns and settle the tax amount owed to IRC.”

Long Service Leave

My review on the Provision for Long Service Leave Entitlement Account revealed that the Authority had provided long service leave for officers who have served the Organization for less than four (4) years which contravenes the *Public Service General Orders 14.89 (4th Edition)* which clearly specifies that an officer has to serve in the Public Service for four (4) years to be eligible to accrue furlough leave. I brought this to the attention of the Management and they responded as follows:

“The Management’s approach to recognition of LSL Liability is on the premises that it is ‘highly probable’ that staff members can clock up and serve up to and beyond four (4) years quite easily. Although no payments are paid to staff leaving the NRA before accumulating to four (4) years the provisions are made given the assumed ‘high probability’.”

Staff Debtors – K187,906

My review of the Staff Debtors Account revealed that the Authority in 2014 did not properly maintain staff advances records. Outstanding advances dating back to 2010 were not recouped on a timely manner and gratuity advances made to officers for school fees were not withheld to recoup the outstanding advances. As a result, I was unable to place reliance on the controls surrounding the administration of the advances by the Authority. Further, I was unable to confirm whether the balance disclosed in the financial statement was fairly stated.

The Management concurred with my observation and stated that Staff Debtors were not properly maintained since deductions were made through Alesco payroll from 2011 to date and deduction reports were not easily provided by Department of Finance (DOF) to offset against staff debtors listing on regular basis.

Acquittal of Duty Travel Advances

My review on the travel related expenses for the year revealed that on certain instances without acquitting the expense for the previous travels, officers were allowed subsequent travels. Thus, the Authority had breached the requirement of the *Financial Management Manual Part 20 paragraph 12.11* which stipulates that no second advance is to be made when the first one is outstanding. It must also be noted that it is a requirement under the *Financial Management Manual Part 20 paragraphs 11.2 and 12.10* that cash advanced to officers travelling overseas on official duty must be acquitted within 14 days of return from duty travel and advances to officers for domestic duty travels to be acquitted within 7 days of return from duty travel by submitting an acquittal form.

The Management agreed to my observation and responded as follows:

“It is acknowledged that improvements to compliance with the Public Financial Management Manual Part 20 paragraphs 11.2, 12.10 and 12.11 on cash advances needed to be made. Management has issued a draft policy on staff travel and related advances and will be implemented once approved for use by the Board.”

Motor Vehicle Disposal

The National Roads Authority Board in its Meeting on 14 May 2014 agreed in principal to dispose twelve (12) vehicles. As per the Authority’s Motor Vehicle Policy, disposal of vehicles was to be done through public tender and staff members will be accorded preference over others through open market tender or internal tender. However, my review revealed that all the twelve (12) motor vehicles were not disposed of through proper tendering process. Officers from the Authority purchased the vehicles based on Ela Motors valuation reports and by submitting request memorandums together with payment receipts. There were no evidence of bidding and tendering of the said vehicles. As a result, I was unable to comment on whether proper tendering procedures were followed for the disposals. I raised this to the attention of the Management and they responded as follows:

“Management agrees that expression of interest was not publically sought as per tender requirements both internally and externally.”

Staff Ledgers/Personnel Files

My examination revealed that staff salary history ledgers/cards were not properly maintained in their respective personnel files. Salary history cards are maintained to provide a summary of staff employment information and benefits such as leave, other entitlements and adjustments for salary and provide easy access for Management use and decision making. Inadequate record keeping of the staff salary records exposes the Authority to the risk of paying incorrect employee benefits, thus such weak controls provide avenues for abuse and fraud. I brought this to the attention of the Management and they responded as follows:

“Steps have now been taken to ensure all employees’ history cards are updated regularly. Electronic data storage of all employee records is the more preferred option and these will be kept within the Alesco and the Attaché payroll respectively for ease of access and maintenance of records database.”

Salary and Wages Tax & Dependents Declaration Forms

My examination of personnel files revealed that most of the Authority’s employees did not have salary and wages tax declaration forms and birth certificates of officers’ children in their personnel files. Duly completed and signed salary and wages declaration forms and birth certificates are the basis for claiming dependent tax rebates and also for claiming dependents leave fares. In the absence of salary and wages tax declaration forms, I was unable to state whether salary and wages tax were properly calculated without adjusting for dependent rebates. Further, the *Public Services General Order # 41.41* specify that the officers can claim leave fares for their spouse and children under the age of 19 who are wholly dependent and maintained by the officer. However, due to lack of dependents declaration and birth certificates of the children, I was unable to comment on the legitimacy of dependents leave fares claimed by officers.

The Management agreed with my findings and stated that copies of Tax Declaration forms had been downloaded from the IRC website and steps had been taken to ensure all employees complete a Tax Declaration Form and lodge with the HR team.

35.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the audit and inspection of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December 2015 was completed and the results were being evaluated.

36. NATIONAL TRAINING COUNCIL

36.1 INTRODUCTION

36.1.1 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.

36.1.2 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;
- 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;
- Make the benefits of training as widely as possible;
- Plan and encourage the development of a system of training fitted to the requirements of the country and its people;
- Establish, preserve and improve standards of training throughout the country;
- 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
- Generally augment and support the role and functions of the Commission for Higher Education as specified in the *Higher Education Act (Chapter 397)*.

36.1.3 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 NEC, 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.

36.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Council for the year ended 31 December 2015 had been submitted for my inspection and audit and arrangements were being made to commence the audit shortly.

37. NATIONAL VOLUNTEER SERVICE

37.1 INTRODUCTION

37.1.1 Legislation

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

37.1.2 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 PNG; 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 PNG, in achieving their plans and purposes; and to encourage and participate generally in the advancement of the development of PNG.

37.2 AUDIT OBSERVATIONS AND RECOMMENDATION

37.2.1 Comments on the Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the National Volunteer Service financial statements for the years ended 31 December 2014 and 2015 were issued on 21 March 2016 and 31 May 2016 respectively. The reports contained Qualified Opinions, hence only the 2015 report is reproduced.

“BASIS FOR QUALIFIED OPINION

Cash At Bank – K250,146

During my review I noted that the Service did not perform any bank reconciliations for the year under review. Bank reconciliation is a key control mechanism which helps to detect errors and instances of fraud and embezzlement and ensures the bank records are reconciled with the cash book of the Service to report a correct ending bank balance. In the absence of the monthly bank reconciliations, I was not able to perform necessary audit procedures to satisfy myself as to the accuracy of the bank balance of K250,146 as disclosed at the year end. As a result, I was unable to confirm whether the bank balance had been fairly stated in the financial statements.

Fixed Assets – K250,545

The Service disclosed its total Fixed Assets balance in *Note 2* to the financial statements as K250,545 at 31 December 2015. My review of the Fixed Assets Register revealed that the Service did not maintain a proper Fixed Assets Register of all the assets under its custody and control. The Register provided for my review was an incomplete asset inventory listing maintained in a spread sheet. The register recorded only assets acquired from 2010 onwards. As such, I was unable to confirm whether all assets have been fully disclosed in the financial statements.

QUALIFIED OPINION

In my opinion, except for the effects of the matters 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 Service for the year ended 31 December 2015 and the results of its financial operations for 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* on the inspection and audit of the accounts and records for the years ended 31 December 2014 and 2015 were issued on 21 March 2016 and 31 May 2016 respectively. The reports contained similar significant matters, hence only the 2015 report is reproduced:

Three Quotations

During my review of sample of cheque payments selected for verification, I noted that payments totalling K40,766 were made without obtaining three quotations from three different suppliers as required under *Part 8, Section 16 of Finance Management Manual*. I drew this to the Management’s attention and they agreed to take corrective measures in the future.

Group Tax Liabilities – K244,566

The Service reported Group Tax Liabilities totalling K244,566 as at 31 December 2015. From this total liabilities, K41,402 was outstanding since 2011, K33,421 was outstanding since 2012, K81,055 was outstanding since 2013 and K88,688 was related to 2014. I observed that the Service was not able to meet these obligations due to liquidity problems.

Negotiations with the Internal Revenue Commission to have this liability written off were unsuccessful and the Service was required to fully meet this obligation. I brought this to the attention of the Management and the Management responded to my observations as follows:

“The Service has included these liabilities in its 2015 Budget however, due to financial crisis, the Service was not remitted the allocated funding for the year 2015 and it failed to pay off the tax liabilities. The Service will still abide and comply with your recommendations.”

38. NATIONAL YOUTH COMMISSION

38.1 INTRODUCTION

38.1.1 Legislation

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

38.1.2 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;
- Provide opportunities to enable youths to participate meaningfully in community activities;
- Promote self-reliance among youths and to discourage dependability on outside assistance;
- 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;
- Assist and encourage youths to improve their education, and attain competency in numerical and communication skills;
- Provide the means for tertiary students to enter into the Service;
- Promote and maintain amongst youths acceptable social norms and values; and
- Generally do such supplementary, incidental or consequential acts and things as are necessary or convenient for carrying out its functions.

38.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Commission for the years ended 31 December 2012 and 2013 had been submitted for my inspection and audit and the audit will commence shortly.

The financial statements for the years ended 31 December 2014 and 2015 had not been submitted by the Commission for my inspection and audit.

39. OIL PALM INDUSTRY CORPORATION

39.1 INTRODUCTION

39.1.1 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.

39.1.2 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.

39.2 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 2011 had been completed. The Corporation failed to submit its management response despite my repeated reminders. As such, I intend to finalise the reports without Corporation's responses.

The financial statements for the years ended 31 December 2012, 2013, 2014 and 2015 had not been submitted by the Corporation for my inspection and audit, despite numerous reminders from my Office.

40. OMBUDSMAN COMMISSION OF PAPUA NEW GUINEA

40.1 INTRODUCTION

40.1.1 Legislation

The Ombudsman Commission was established under the provisions of the Constitution of the Independent State of PNG. 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.

40.1.2 Functions of the Commission

The functions of the Commission are:

- 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;
- To investigate any defects in any law or administrative practice appearing from any such investigation;
- To investigate any case of an alleged or suspected discriminatory practice within the meaning of a law prohibiting such practices; and
- Any functions conferred upon it by *Part III Division 2 (Leadership Code)* of the National Constitution.

40.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the audit and inspection of the accounts and records and the examination of the financial statements of the Commission for the year ended 31 December 2014 was completed and results were being evaluated.

The Commission had not submitted its financial statements for the year ended 31 December 2015 for my inspection and audit.

41. PACIFIC GAMES (2015) AUTHORITY

41.1 INTRODUCTION

41.1.1 Legislation

The Pacific Games (2015) Authority was established by the National Parliament under the *Pacific Games (2015) Authority Act 2011 (as amended)*. This Act came into operation on 24 October 2011.

41.1.2 Functions of the Authority

The principal functions of the Authority are to:

- Consult with the Pacific Games Association (PGA) and the Games Organising Committee (GOC) to ensure the effective implementation of the Host Contract;
- Authorise and direct collection and disbursement of funds to the Venue, Infrastructure and Equipment Committee (VIEC) and the GOC or other appropriate bodies or organisations for the holding of the Games and the construction or rehabilitation of the Games venues;
- Enter into and perform contracts for the construction and rehabilitation of the Games venues and ancillary works and services;
- Exercise critical oversight over, and to ensure that transparent, efficient and economical expenditure of moneys so authorised or disbursed, or otherwise under its control;
- Liaise and consult with the GOC to ensure the efficient and successful running of the Games;
- Co-operate with and assist sporting and other bodies in stimulating interest in the preparation for the Games;
- Oversee the work of the VIEC to ensure the efficient and successful construction and rehabilitation of the Games venues; and
- Do all things ancillary to the foregoing.

41.2 AUDIT OBSERVATIONS

41.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Authority for the years ended 31 December 2012 and 2013 were both issued on 4 April 2016. These reports contained similar Qualified Opinions, hence, only the 2013 report is reproduced.

“BASIS FOR QUALIFIED OPINION

Games Organising Committee (PNG Pacific Games Limited)

Section 18 of the Pacific Games (2015) Authority Act 2011 (as amended) enforces existence of Games Organising Committee (GOC). The Games Organising Committee as per “*Interpretation*” of the said Act means PNG Pacific Games Limited (the Company), which organise the Pacific Games 2015 under the Charter of Host Contract.

In 2013, Pacific Games Authority (PGA) transferred K10,999,999 to PNG Pacific Games Limited for its operational needs. However, I was not provided with all necessary acquittals for the amount of K11.0 million to determine whether they were expended as per Charter of the Host Contracts. Also, I did not audit the financial statements of the Company as required under *Section 63 of the Public Finances (Management) Act 1995 (as amended)*.

Consequently, I was unable to determine whether the funds transferred to the Company was as per the Charter of the Host Contract requirements, the nature of the expenses and additional liabilities that may be incurred and payable as at 31 December 2013.

Grassroots to Gold

Note 3(b) to the financial statements disclosed that K10,082,400 was paid to PNG Olympic Committee in 2013 towards training costs for PNG national sports personnel. However, I was not provided with all relevant documentation or acquittals to ascertain how these amounts were expended by these organisations to validate the payments.

Therefore, I was unable to determine whether the payments made towards Grassroots to Gold for the year ended was appropriate.

QUALIFIED AUDIT OPINION

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs, the financial statements of Pacific Games Authority for the year ended 31 December 2013:

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

41.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act*, on the inspection and audit of the accounts and records for the years ended 31 December 2012 and 2013 were both issued on 4 April 2016. These reports contained similar observations, hence, only the 2013 report is reproduced as follows:

Non Availability of Supportive Documentation

My review of the payment vouchers revealed that five (5) invoices amounting to K5,074,562 were signed by one signatory while the Authority's procedure required that cheques are to be signed by two signatories.

Further, documentation in respect of one (1) payment amounted to K963,464 was not made available for my review to determine the validity which included in the Authority's capital expense for 2013.

Compliance with *Public Finance (Management) Act, 1995*

The audit of the 2013 statutory financial statements commenced in July 2014 which was after the deadline of 30 June 2014. As such, the directors did not meet the deadline set by *Section 63* of the *Public Finances (Management) Act 1995* for audited financial statements of public bodies to be furnished to the Minister before 30 June of the subsequent year.

41.3 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 2014 had been completed and the results were being evaluated.

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 2015 was in progress.

42. PNG ACCIDENT INVESTIGATION COMMISSION

42.1 INTRODUCTION

42.1.1 Legislation

The *PNG Accident Investigation Commission* was established under *Section 218 of the Civil Aviation Act 2000 (as amended)* and came into operation in January 2011.

42.1.2 Objectives of the Commission

The principal purpose of the Commission is to determine the circumstances and causes of accidents and incidents with a view to avoiding similar occurrences in the future, rather than to ascribe blame to any person.

42.1.3 Functions of the Commission

- The principal function of the Commission is the Investigation of aviation accidents and incidents;
- The Minister may, by notice in the National Gazette, direct the Commission to investigate any serious land or marine transport accident or incident;
- Where a direction is given under *Subsection (2)* all references to an “*aircraft*” shall be read as a reference to the vehicle or vessel or other form of transport involved in the accident or incident to be investigated;
- Without limiting the principal function under *Subsection (1)* the Commission shall also have the following functions:
 - Make such inquiries and investigations as it considers appropriate in order to ascertain the cause or causes of accidents or incidents;
 - Co-ordinate and direct all such inquiries and investigations and to determine which other parties, if any, should be involved in the investigation;
 - Prepare and publish findings and recommendations, if any, in respect of any such inquiries and investigation;
 - Where requested by the Minister, to deliver a written report on each investigation to the Minister, including any recommendations for changes or improvements that it considers will ensure avoidance of accidents and incidents in the future;
 - Co-ordinate and co-operate with other accident investigation organisations of Contracting States, including taking or collecting evidence on their behalf;
 - Request from the Authority or PNG Air Traffic Services (PNGATS) or any other person such information as it considers appropriate regarding any accident or incident that the Commission believes that it is required to investigate under this Act;

- Perform any other function or duty conferred on the Commission under any Act or prescribed by regulations; and
- With the consent of the Minister, to provide consulting services, training and management services relating to any of its functions, whether in PNG or overseas.

42.2 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 Commission for the years ended 31 December 2011 and 2012 were in progress.

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

43. PNG IMMIGRATION AND CITIZENSHIP SERVICE AUTHORITY

43.1 INTRODUCTION

43.1.1 Legislation

The *PNG Immigration and Citizenship Services Authority* was established under the *Immigration and Citizenship Service Act 2010*. This Act came into operation on 9 July 2010.

Under this Act, all assets used for the Authority services (other than land held by the State) which immediately before the coming into operation of this Act, were held by the Department of Foreign Affairs and Trade and which, by agreement between the Department Head of that Department and the Authority are necessary to be transferred to the Authority for the purposes of the Authority are on that coming into operation, transferred to and become assets of the Authority.

43.1.2 Objectives of the Authority

The objectives of the Authority are the following:

- The management, development and protection of the nation's interest in so far as the security of the nation is protected;
- Elimination of corruption and increase in accountability;
- Provision of a more flexible operational working environment;
- Increased operational and management efficiency in financial management, accountability and performance management;
- Provision of a mechanism for the achievement of best practice;
- Provision of financial and administrative autonomy;
- Increased levels of client service delivery;
- Encouragement of study and research in areas which will contribute to the protection and security of the nation;
- Increased acquisition and dissemination of skill, knowledge and information in immigration and citizenship through education and training;
- Pursuit of effective strategies including improved administrative and legal machinery for managing immigration, citizenship and passport matters; and
- Ensure the Authority retains its primacy and leadership role with regard to the provision of effective border control and security through the effective management of entry and stay of people in PNG.

43.1.3 Functions of the Authority

The functions of the Authority are to:

- Perform the functions and exercise the powers conferred on an authorised person or an officer under the *Migration Act* (Chapter 16) or the *Passports Act* (Chapter 17);
- Assist the Ministers responsible for the administration of the *Migration Act* (Chapter 16) and *Passport Act* (Chapter 17) in the performance of their functions under those Acts respectively;
- Assist the Minister responsible for citizenship in the performance of his/her functions under Part IV of the *Constitution* and the *Citizenship Act* (Chapter 12);
- Collect fees, penalties and other revenue authorised under the *Migration Act* (Chapter 16), *Passport Act* (Chapter 17) and *Citizenship Act* (Chapter 12);
- Administer the APEC Business Travel Card Scheme under the *Migration Act* (Chapter 16);
- Collect, monitor, secure and maintain information and technological systems to enable fully integrated and supported immigration, citizenship and passport operations;
- Undertake development of legislation and policy to support the operations of the Authority and the effective administration of the *Migration Act* (Chapter 16), *Passport Act* (Chapter 17) and the *Citizenship Act* (Chapter 12);
- Advise the Minister on policy issues which relate to this Act and the effective administration of the *Migration Act* (Chapter 16), *Passport Act* (Chapter 17) and the *Citizenship Act* (Chapter 12);
- Exercise and carry out such functions and powers and perform all duties which under any other written law are or may be or become vested in the Authority or delegated to the Authority by this Act or any other law; and
- Carry out such other duties as are necessary, supplementary, incidental to or consequential to achieve the objectives or the discharge of its functions under this Act.

43.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

43.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Authority for the years ended 31 December 2012 and 2013 were issued on 19 November 2015. The reports contained Qualified Opinions, hence, only the 2013 report is reproduced.

“BASIS FOR QUALIFIED OPINION

Limitation of Scope

Opening Balance – K9,587,818

I was unable to confirm the correctness of the opening balance as at 1 January 2013 due to a material difference noted between the closing balance of the Statement of Receipts and Payments and the aggregate bank balance carried forward in my prior year audit. As a result of this material variance, I was unable to perform the necessary audit tests to verify the completeness and the accuracy of the opening balance for the year ended 31 December 2013.

Variance between the Bank Balance and Financial Statements

I noted that the Authority’s accounts were prepared using the cash basis of accounting. This accounting method recognizes cash transactions and does not take into account those payable and receivable on an accrual basis. The difference between the total receipts and payments should agree to the bank balance. However, I noted a material difference of K2,830,418 between the reconciled bank balance and the Statement of Receipts and Payments balance. I was not provided with any valid explanations for this variance. As such, I was unable to conclude on the accuracy of the closing balance of the receipts and payments and the aggregate bank balance disclosed in the financial statements at year end.

Fixed Assets

My review of the Fixed Assets Register (FAR) revealed that the Register was not properly maintained and updated on a timely basis showing addition and disposal (if any) of assets made during the year. I also noted that summary of the fixed assets owned by the Authority as at 31 December, 2013 was not disclosed by way of notes to the accounts. In addition, assets purchased during the year totaling K2,066,368 were not reflected in the Register provided to me during my examination. As such, I was unable to conclude on the accuracy, valuation, existence and ownership of the fixed assets owned by the Authority as at 31 December 2013.

QUALIFIED OPINION

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

- (a) the financial statements of the Authority 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 2013 and the results of its financial operations for the year then ended.”

43.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act*, on the inspection and audit of the accounts and records for the years ended 31 December 2012 and 2013 were issued on 19 November 2015. The reports contained similar observations, hence, only the 2013 report is reproduced as follows:

Bank Reconciliation

My review of the cash balances of the two bank accounts (Trust and Operating) maintained by the Authority revealed that bank reconciliations were not prepared, checked and approved by senior finance officers of the Authority on a timely basis. As a result, unpresented cheques totaling K3,364,430.83 dating back to 2012 still remained outstanding.

Further, direct credits made into the Authority's bank accounts and classified under deposits in transit totaling K29,936,047.41 in the reconciliations were not properly identified, reconciled, recorded and cleared to their respective accounts. However, this total was accounted in the financial statements. This internal control weakness was also reported in my 2012 report.

Board Meetings

I noted that *Section 8* of the *Immigration and Citizenship Service Act 2010* requires the Authority to have an established board to oversee and make important decisions on behalf of the Authority for administrative purposes. The Act also requires the Board to have at least four (4) meetings in a year. My review revealed that the Authority's Board convened the meeting only once in 2013. I also noted that the meeting minutes were not signed and approved by the Chairperson certifying the proceedings of the meeting. As a result, I was unable to comment on whether all administrative, financial and migration decisions were collectively discussed and transacted during the year and whether they were made in the best interest of the Authority.

I recommended the Board of the Authority to convene its meetings as per the requirement of the Act and meeting minutes be properly recorded and approved by the Chairperson.

Non-Acquittal of Travel Advances

My review of the travel expenses totalling K4,138,990 by staff on duty travel (domestic and overseas) revealed again that the Authority did not maintain a Travel Advances Register to monitor that the advances were properly recorded and timely acquitted. As a result, the Authority had not complied with the *Public Finances (Management) Act*.

I drew management's attention to the requirements of the *Public Finances (Management) Act 1995* and *paragraph 11 Part 17* of the *Financial Management Manual* for compliance. The Authority had been yet to implement my recommendations.

Lack of Proper Assets Records

During my review, I was unable to ascertain the value and existence of the assets purchased during the year and the cumulative balance due to lack of proper maintenance of records. In addition, I noted that there were no proper asset numbers or tagging done to the assets purchased during the years up to 2013. Further, no stock-take exercise was carried out during the year to verify assets' conditions, existence and usage.

Non-Compliance with the Public Finances (Management) Act

The Authority had not submitted its financial statements for the year ended 31 December 2013 on a timely basis to enable me to conduct the audit and submit the audit report within the time frame prescribed by the *Public Finances (Management) Act 1995 (as amended)*. Consequently, the Authority had breached *Sections 63(2) and 63(4)* of the *Public Finances (Management) Act 1995*.

43.3 STATUS OF FINANCIAL STATEMENTS

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

44. PAPUA NEW GUINEA FOREST AUTHORITY

44.1 INTRODUCTION

44.1.1 Legislation

The PNG 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:

- 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;
- Maximisation of PNG's participation in the wise use and development of the forest resources as a renewable asset;
- Utilisation of the Nation's forest resources to achieve economic growth, employment creation and increased "downstream" processing of the forest resources;
- Encouragement of scientific study and research into forest resources so as to contribute towards a sound ecological balance, consistent with the national development objectives;
- Increased acquisition and dissemination of skills, knowledge and information in forestry through education and training; and
- 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)*.

44.1.2 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;
- Prepare and review the National Forest Plan and recommend it to the NEC for approval;

- Through the Managing Director, to direct and supervise the National Forest Service;
- Negotiate Forest Management Agreements;
- 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*;
- 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;
- 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 NEC;
- Undertake the evaluation and registration of persons desiring to participate in any aspect of the forestry industry;
- Act as agent for the State, as required, in relation to any international agreement relating to forestry matters; and
- Carry out such other functions necessary to achieve its objectives or given to it under the Act or other relevant law.

44.2 AUDIT OBSERVATIONS

44.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Authority's financial statements for the years ended 31 December 2010, 2011 and 2012 were issued on 27 July 2015, 19 November 2015 and 19 February 2016 respectively. These reports contained Disclaimer of Opinions, hence, only the 2012 Report is reproduced.

“BASIS FOR DISCLAIMER OF OPINION

General Ledger

Proper accounting records were not maintained by the Authority for the year ended 31 December 2012. As a result, an external accounting firm was engaged to perform various reconciliations and prepare the 2012 financial statements. Numerous journal entries were made as a result of this, including entries passed by the accounts team of the Authority. However, appropriate records of journal entries were not maintained. Accordingly, I was unable to obtain a complete list of the journals processed during the year, or supporting documents for journal entries made. As a result, I was unable to obtain sufficient appropriate audit evidence over a number of transactions recorded in the general ledger. Due to this limitation, I am unable to obtain sufficient appropriate audit evidence over the existence and accuracy of a significant number of amounts recorded in the financial statements or determine whether adjustments might be necessary to the financial performance and cash flows for the year ended 31 December 2012, and financial position of the Authority as at 31 December 2012.

Opening Balances

My report on the financial statements of the Authority for the year ended 31 December 2011 was a disclaimer of opinion. As a result, I was unable to satisfy myself as to the accuracy or completeness of the opening balances for the year ended 31 December 2012. Since the opening balances enter into the determination of the results of operations and cash flows of the Authority for the year ended 31 December 2012, any adjustments that are found to be necessary on such opening balances would have a consequential effect on the financial performance and cash flows for the year ended 31 December 2012. I was unable to determine whether any such adjustments to the financial performance and cash flows of the Authority might be necessary for the year ended 31 December 2012.

In addition, because of the matters set out in this report the corresponding financial information for the year ended 31 December 2011 has not been subject to an audit opinion.

Cash at Bank and Interest Bearing Deposits

The confirmations from the Bank of South Pacific, ANZ Banking (PNG) Limited and the Westpac Bank were not received in respect of the cash at bank and interest bearing deposit balances as at 31 December 2012. As a result, I was unable to confirm, nor was I able to perform alternative procedures to evaluate the completeness, existence and accuracy of the Cash at Bank balance of K18,282,955 and Interest Bearing Deposits balance of K80,081,264. I was unable to determine whether any such adjustments might be necessary to the financial performance and cash flows for the year ended 31 December 2012, and financial position of the Authority as at 31 December 2012.

Royalty Trust Fund, Reforestation Levy Trust Fund and Production Development Levies

The records over Timber royalties, Plantation royalties, Reforestation levies and Project development levies for the period ended 31 December 2012 have not been properly maintained. As at 31 December 2012, the Royalty trust fund had a balance of K14,636,463 as disclosed in *Note 3*, the Authority plantation royalty had a balance of K19,016,454 as disclosed in *Note 4*, the Reforestation Levy Trust had a balance of K16,279,226 as disclosed in *Note 5*, and the Project development levies had a net balance of K7,588,530 as disclosed in *Note 6* of the financial statements. I was unable to obtain sufficient appropriate audit evidence over the completeness and accuracy of Royalties and Levies due and received. Due to the inability to reconcile Royalties and Levies to the production of the respective timber permits or logging operations, it was not possible to obtain persuasive evidence regarding the computation and recording of Royalties and Levies including that these were recorded for and paid to the legitimate beneficiaries.

I was unable to determine whether any such adjustments might be necessary to the financial performance and cash flows for the year ended 31 December 2012, and financial position of the Authority as at 31 December 2012.

Property, Plant & Equipment (PPE)

No physical verification was performed by the Authority as at 31 December 2012 to confirm the existence of the PPE of K37,139,929 as disclosed in *Note 8* of the financial statements. Therefore, I could not obtain sufficient appropriate audit evidence over the existence of the Authority's Properties, Plants and Equipment as at 31 December 2012.

In addition, the Authority owns five plantations within Papua New Guinea. All plantation land is stated at cost and additional costs incurred on land improvements are not capitalized in accordance with IAS 16 "*Property, Plant and Equipment*". Management have not estimated the uncapitalised land improvements to determine any impact to the carrying amounts of land in the 31 December 2012 financial position and related income and expenditure impact. Furthermore, I could not obtain sufficient appropriate audit evidence over the accuracy of the depreciation charged for the year ended 31 December 2012 of the Authority.

I was unable to determine whether any such adjustments might be necessary to the financial performance and cash flows for the year ended 31 December 2012, and financial position as at 31 December 2012 of the Authority.

Biological Assets

Plantation trees (biological assets) are not accounted for in the books of the Authority. Instead, costs incurred on the tree seedlings and planting activities are expensed in profit and loss, which is not in compliant with IAS 41 "*Biological Assets*" which requires these biological assets to be recorded at fair value less cost to sell or if fair value cannot be measured reliably at cost.

Management have not estimated the fair value to determine any impact to the carrying amounts of biological assets in the 31 December 2012 financial position and related income and expenditure impact. I was unable to determine whether any such adjustments might be necessary to the financial performance and cash flows for the year ended 31 December 2012, and financial position as at 31 December 2012 of the Authority.

Difference In Suspense Account

As disclosed in *Note 15* of the financial statements, the Authority had changed their accounting software from Accpacc to Attache in 2001. Lack of proper migration of accounts from the old system to the new system resulted in an unknown Difference in Suspense account of K7,458,716 carried forward from that date and recorded as an asset in the Balance sheet of the Authority from 2001 through to 31 December 2012.

I have not been able to obtain sufficient appropriate audit evidence over the nature or basis of this Difference in Suspense account balance which is increasing assets in the Balance sheet by these amounts or whether adjustments might be necessary to the financial performance and cash flows for the year ended 31 December 2012, and financial position as at 31 December 2012 of the Authority.

Plantation Income

Included in *Note 14(a)* of the financial statements for the year ended 31 December 2012 is Bulolo/Wau plantation income of K5,014,436. I was not provided with invoices and supporting documents to obtain sufficient appropriate audit evidence over the existence and accuracy of the plantation income recorded in the statement of income and expenditure and cashflow statement. Further, I was not provided with a reconciliation of the plantation income recorded for the year to the volume of timber extracted. As a result, I was not able to obtain sufficient appropriate audit evidence over the completeness, existence and accuracy of the plantation income recorded in the financial statements, or whether adjustments might be necessary to the financial performance and cash flows for the year ended 31 December 2012, and financial position as at 31 December 2012 of the Authority.

Other Liabilities

Included in *Note 6* of the financial statements in the other liabilities are a number of accounts totalling K5,174,657 as at 31 December 2012. I was not provided with sufficient, appropriate audit evidence, nor was I able to perform alternative procedures to evaluate the accuracy and completeness of these accounts that are categorized as other liabilities.

Accordingly, I was unable to obtain sufficient appropriate audit evidence over the completeness, existence and accuracy of other liabilities at the year ended 31 December 2012 and the related operating expenses for the 2012 financial year, or determine whether adjustments might be necessary to the financial performance and cash flows for the year ended 31 December 2012, and financial position as at 31 December 2012 of the Authority.

Personnel Emoluments

Included in the statement of income and expenditure are personnel emoluments for the year ended 31 December 2012 of K24,720,838 and included in the balance sheet as at 31 December 2012 are employee benefits of K10,352,854. I was not provided with the appropriate payroll reports and supporting documentations to gather sufficient appropriate audit evidence over the completeness, existence and accuracy of the personnel emoluments or employees benefits.

As a result, I was not able to obtain sufficient appropriate audit evidence over the completeness, existence and accuracy of the personnel emoluments for the year ended 31 December 2012 and the employee benefits recorded in the financial statements as at 31 December 2012 or whether adjustments might be necessary to the financial performance and cash flows for the year ended 31 December 2012, and financial position as at 31 December 2012 of the Authority.

Accumulated Government Equity

Included in *Note 16* of the financial statements is an adjustment of K45,093 to accumulated government equity for which I was not provided any supporting documentation. As a result, I was unable to obtain sufficient appropriate audit evidence over the completeness, existence and accuracy of accumulated government equity as at 31 December 2012, or determine whether adjustments might be necessary to the financial performance and cash flows for the year ended 31 December 2012 and financial position as at 31 December 2012 of the Authority.

Operating Expenses

Included in the statement of income and expenditure for the year ended 31 December 2012 are operating material and supplies of K2,287,684, transport and fuel of K2,003,884 and legal fees and charges of K795,873 in *Note 14(b)* for which supporting documentation was not provided. I was unable to obtain sufficient appropriate audit evidence over the completeness, existence and accuracy of operating material and supplies, transport and fuel, and legal fees and charges, or determine whether adjustments might be necessary to the financial performance and cash flows for the year ended 31 December 2012 and financial position as at 31 December 2012 of the Authority.

Cash Grants

Included in the statement of income and expenditure for the year ended 31 December 2012 is cash grants of K6,500,000 (to fund the development of capital projects). Of these grants, K3,674,688 was utilized during the financial year resulting in an unspent balance remaining of K2,825,312 as at 31 December 2012. This unspent balance should have been recognized as a deferred income in the balance sheet of the Authority as at 31 December 2012 as opposed to income.

Compliance with *International Financial Reporting Standards (IFRS)*

The financial statements of the Authority for the year ended 31 December 2012 do not contain all the presentation and disclosure required by IFRS.

Litigation and Claim Liabilities

I have not been provided with the records of legal cases or claims current at 31 December 2012. Neither have I received any independent confirmation of current legal cases from the solicitors of the Authority. Therefore, I am unable to obtain sufficient appropriate audit evidence over the completeness of legal liabilities that may exist as at balance date or whether adjustments might be necessary to the financial performance and cash flows for the year ended 31 December 2012, and financial position as at 31 December 2012 of the Authority.

Going Concern

I am unable to assess the financial position of the Authority as at 31 December 2012 due to significant matters described in the paragraphs above. Consequently, I am unable to determine whether the Authority will continue as a going concern. Should the Authority be unable to continue as a going concern, it is unlikely they will be able to realise their assets and extinguish their liabilities in the normal course of business and at amounts stated in the financial statements.

DISCLAIMER OF OPINION

Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion paragraphs, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements of the Papua New Guinea Forest Authority for the year ended 31 December 2012.

OTHER MATTERS

Compliance with *Public Finances (Management) Act 1995*

Without adjustment to the Disclaimer of Opinion above, I note the preparation of the 31 December 2012 statutory financial statements of the Authority commenced in September 2014, at which time the audit commenced.

Given this timing, the Directors did not meet the deadline set by *Section 63* of the *Public Finances (Management) Act 1995* for audited financial statements of public bodies to be furnished to the Minister before 30 June of the subsequent year, being 30 June 2013.

Compliance with the Reporting Requirements of the *Forestry Act 1991*

Without adjustment to the Disclaimer of Opinion above, I note the Authority has not complied with *Section 20* of *The Forestry Act 1991* which requires the Board of the Authority to furnish to the Minister of Forestry an annual report on the progress and performance of the finances of the Authority before the end of March of the next year, being 31 March 2013.”

44.3 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 2013 was in progress.

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

45. PAPUA NEW GUINEA INSTITUTE OF MEDICAL RESEARCH

45.1 INTRODUCTION

45.1.1 Legislation

The PNG Institute of Medical Research was established by the *Institute of Medical Research Act (Chapter 166)* on 1 January 1980.

45.1.2 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 PNG.

45.2 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 year ended 31 December 2014 had been completed and awaiting Management responses to finalise the audit reports.

The Institute had not submitted its financial statements for the year ended 31 December 2015 for my inspection and audit.

46. PNG INSTITUTE OF PUBLIC ADMINISTRATION

46.1 INTRODUCTION

46.1.1 Legislation

The PNG Institute of Public Administration was established in 1993 under the *PNG Institute of Public Administration Act 1993*.

46.1.2 Functions of the Institute

The functions of the Institute are to plan, organise, conduct and assess a wide range of practices and relevant training programmes in the Country 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.

46.2 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 examination of the financial statements for the years ended 31 December 2012 and 2013 of the Institute had been completed and the results were being evaluated.

The Institute had not submitted its financial statements for the years ended 31 December 2014 and 2015 for my inspection and audit.

47. PNG MARITIME COLLEGE

47.1 INTRODUCTION

47.1.1 Legislation

The PNG Maritime College was established under the *PNG 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 PNG Maritime College and *PNG Maritime College Act* respectively.

47.1.2 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.

47.2 AUDIT OBSERVATIONS

47.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the College for the year ended 31 December 2013 was issued on 20 October 2015. The report contained Disclaimer of Opinion.

“BASIS FOR DISCLAIMER OF OPINION

Student Tuition Fee Deposits – K1,018,617

The College did not maintain a proper listing of deposits, reconciliations and other necessary supporting documents in respect of the Student Tuition Deposit account during 2013 to enable me to verify the amounts as reported in the financial statements. Further, the College did not have skilled staff to check and update the students' tuition fees account. As a result, the amount was accumulating over the years to-date. Consequently, I was unable to confirm the accuracy and completeness of the 2013 students tuition fees account at the year end.

Scope Limitation- Long Service & Annual Leave Provisions – K103,500

My review of the leave provisions amounting to K103,500 as at 31 December 2013 revealed that the College did not maintain proper accounts and records for the provisions for long service and annual leave for its employees.

Further, the closing account balance was brought forward from prior years balance without proper supporting documents to substantiate the amount. In the absence of proper accounting records and source documents such as individual employee control ledgers detailing leave credits available and used-up, it will be difficult for the College to determine leave accruals for each employee. As such, I was unable to comment on the accuracy and completeness of the long service and annual leave provisions balances as disclosed in the financial statements.

Opening Balances of Balance Sheet Accounts

My review of the 2013 balance sheet accounts revealed that the 2012 closing balances did not agree to 2013 opening balances of the respective accounts. Since 2012 balance enter into the determination of 2013 closing balances, I was unable to satisfy myself on the accuracy and completeness of the 2013 closing balances as reported in the financial statements.

Scope Limitation - Trade Debtors – K646,487

My review of the College trade debtors totaling K646,487, revealed that the account was not properly maintained and reconciled to receivable listings at the year end. The Accounting Division at the time of audit was reconciling, cross-checking with the available records to validate the appropriateness of the debtors balance. However, the reconciled account balance and adjusted figures were not furnished for my review and verification. This indicates that the College did not check and update its trade debtors on a timely basis to reflect the correct balance. As a result, I was unable to satisfy myself on the accuracy and completeness of the trade debtors account balance disclosed as at 31 December 2013.

Goods & Services Tax (GST) Receivable – K323,981

The financial statements disclosed GST receivable account as K323,981 at the year end. I noted that the College did not make any attempt to claim its GST receivable from Internal Revenue Commission (IRC) on a regular basis. In the absence of monthly GST reconciliation and claims lodgments with the IRC, I was unable to confirm whether the GST receivable amount has been fairly stated in the financial statements.

Scope Limitation – Withholding Taxes (Salary Taxes) – K1,053,903

During my review of the College Withholding Tax (Salary Tax) Account, I noted that there was no audit trail nor proper supporting documentation was produced in respect of the withholding tax (salary tax) account. I had difficulty in reconciling the withholding tax deductions and other tax deductions accumulated over the years.

The College has not remitted group taxes over the years to-date. As a result, I was unable to ascertain the accuracy and completeness of the account balance at the year end.

Limitation of Scope – Fuel and Uniforms & Safety Boots Inventories – K479,318

The College has not maintained proper inventory records in relation to fuel and safety boots amounting to K200,735 and K278,583 respectively. This issue was highlighted in my previous audits as well. As a result, I was unable to state whether the inventories have been fairly stated in the financial statements.

Limitation of Scope Other Debtors – K244,865

The other debtors comprised of staff advance, prepayments and other statutory sundry debtors totaling K244,865 at year end. During my review, it was noted that the College did not maintain proper accounts and records and reconciliation schedules to perform necessary audit procedures to satisfy the account balance. As a result, I was unable to state whether the account balance has been fairly stated in the financial statements.

Scope Limitation – Non-current Assets – K10,954,739

During my review of the non-current assets of K10,954,739, I noted that the College did not perform any revaluation exercise and year end stock take over the years. I further noted that assets records in the Register were not assigned by an identification number to enable me to verify and match the asset against the Fixed Assets Register. As a result, I was unable to verify the accuracy and completeness of the account balance stated as at 31 December 2013.

Levy Fees – K135,194

During my review of the Levy Fees of K135,194, I noted that the College has no control over the levy fees collected. Further, I was not provided with the fixed levy rate to substantiate the levies collected and the invoices issued by National Maritime Safety Authority (NMSA) to the shipping companies. The College relied on the fees that were deposited by National Maritime Safety Authority. Further, I was not provided with a detailed listing of shipping companies with their registered vessels operating in the territorial waters of Papua New Guinea.

DISCLAIMER OF OPINION

As a result of the significance of the matters discussed in the preceding paragraphs, I am unable to and do not form 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 College's affairs as at 31 December 2013 and the results of its operations and cash flows for the year then ended."

47.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act*, on the inspection and audit of the accounts and records of the College for the year ended 31 December 2013 was issued on 20 October 2015. The report contained the following observations:

Non-Compliance with the Public Finances (Management) Act, 1995

The College had not prepared and submitted its financial statements to my Office on a timely basis to enable me to complete the audit on time for tabling the report in the Parliament before 30 June 2013. Consequently, the College had breached *Section 63(2) and 63(4) of the Public Finances (Management) Act 1995*.

Title Deeds of College Properties

During the review of the Land & Buildings, I noted that the College had no valid title deeds in place or was unable to locate the deeds for thirteen properties for my verification. As a result, I was unable to verify the College's ownership and rights over the properties.

I brought the above issue to the attention of the College management and I was advised that the College was continuously pursuing and addressing the title issues.

47.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the College for the years ended 31 December 2014 and 2015 had not been submitted for my inspection and audit, despite reminders.

48. PNG NATIONAL INSTITUTE OF STANDARDS AND INDUSTRIAL TECHNOLOGY

48.1 INTRODUCTION

48.1.1 Legislation and Objectives of the Institute

The PNG 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 PNG 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.

48.1.2 Functions of the Institute

The main functions of the Institute are to:

- Safeguard PNG against the dumping and supply of unsafe, unhealthy and inferior or substandard products;
- Establish and co-ordinate the National Standardisation system;
- Provide education, training and industrial extension and consultative services to assist industries;
- Promote public and industrial welfare, health and safety;
- Recognise as testing authorities, bodies and institutions;
- Establish a National Certification System of conformity;
- Assist industries overcome technical barriers on its products and services to international trade; and
- Assist industries to produce quality products and services.

48.2 AUDIT OBSERVATIONS AND RECOMMENDATION

48.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Institute's financial statements for the years ended 31 December 2011, 2012 and 2013 were issued on 27 October 2015. The reports contained Qualified Opinions, hence only the 2013 report is reproduced as follows:

“BASIS FOR QUALIFIED OPINION

Cash at Bank – K345,154

My review of Cash at Bank revealed that bank reconciliations were not prepared, checked and certified by senior officers of the Institute on a timely basis. The bank reconciliations for the months of January, May and June were not provided for audit verification. Due to the missing reconciliations, I was unable to ascertain and comment whether all the reconciling items were taken into account to arrive at the year-end cash at bank balance. Consequently, I was unable to determine the completeness and accuracy of the Cash at Bank balance of K345,154 as disclosed in the financial statements in the year under review.

Short Term Investment – K7,141,218

I was unable to confirm the Short Term Investment of K7,141,218 as disclosed in the financial statements as the independent bank confirmation in respect of the above balance was not furnished to me during the audit. Further, there were no proper records maintained to authenticate the above amount. As a result, I was not able to verify the balance as disclosed in the financial statements.

Debtors – K37,949

During my review of the Debtors, I observed that the Institute disclosed its trade debtors as K37,949 at 31 December 2013. However, the Institute did not have a trade debtors listing to record and monitor unpaid invoices. Further, accounts receivable ageing report and accounts receivable reconciliations were not maintained by the Institute. As a result, I was unable to state whether the Debtors have been fairly stated in the financial statements.

Staff Advance – K23,143

The Institute disclosed K23,143 as staff advance in the financial statements. During my review, I noted that the Institute did not maintain a Staff Advance Register to record and monitor advance payments and collections so as to reconcile with general ledger records. In addition, the Institute has no documented policy for advances.

As a result, I was not able to verify the staff advance amount as disclosed in the financial statements.

Fixed Assets – K3,787,641

The Fixed Assets Register provided for my review was not properly maintained and updated. During my examination, I was not provided documentation to substantiate the purchase of fixed assets (additions) of K912,678. As a result, I was not able to verify the amount as disclosed in the financial statements.

Other Receipts – K879,467

My review of Other Receipts revealed that receipts and supporting documentations were not properly maintained by the Institute. As a result, receipts totalling K254,183 were missing from file and as such, I could not verify the other receipts amounting to K879,467 as disclosed in the financial statements.

Payments – K125,008

During my review of the payments of K1,431,334, I noted that a substantial amount of payment vouchers/cheque requisitions amounting to K125,008 in relation to Administrative Expenses and Other Operating Expenses could not be located or were missing from their respective files. As a result, I was not able to verify the expense incurred in respect of the above amount.

QUALIFIED AUDIT OPINION

In my opinion, except for the effects of the matters 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 Institute for the year ended 31 December 2013 and the results of its financial operations for the year then ended.”

48.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the audit and inspection of the accounts and records of the Institute for the years ended 31 December 2011, 2012 and 2013 were issued on 27 October 2015. The reports contained similar observations, hence, only the 2013 report is reproduced as follows:

Non-Submission of Financial Statements

The Institute had not prepared and submitted its financial statements to my office before 31 March 2014 to enable me to conduct the audit within the timeframe stipulated by the *Audit Act, 1989 (as amended)*. Consequently, the Institute had breached *Sections 63 (2) and 63 (4) of the Public Finance (Management) Act, 1995*.

Fixed Assets Register

During my review of the Fixed Assets Register, I noted that the Institute did not maintain a proper Fixed Assets Register for all the assets under its custody and control. The Fixed Assets Register provided for my review was incomplete and did not contain sufficient information to enable me to determine the value of individual assets. In addition, there was no year-end stock take of these assets. As a result, I was unable to determine the fair value, condition and location of the fixed assets held under the custody of the Institute as at 31 December 2013. I drew this to the attention of the Management and they responded as follows:

“We agree with your comments that the Institute needs a proper FAR. Please note that a Fixed Assets Register has been prepared for 2014 and onwards.”

Travel Advance/Acquittals Register

The Institute did not maintain a Travel Advance/Acquittals Register to keep proper records of acquittals for all duty travels and related expenses. The Institute did not comply with the *Public Finances (Management) Act, 1995* which governs the management and use of public funds. It is a requirement under the *Financial Management Manual Part 20 paragraph 11.2* that cash advance to officers travelling overseas on official duty to acquit travel advances within 14 days of return from duty travel. While *Part 20 paragraph 12.10* of the Manual requires that advances to officers for domestic duty travel to be acquitted within 7 days of return from duty travel. Thus, I was unable to trace and authenticate advances and travel expenses against its acquittals. I brought this issue to the attention of the Management and they responded as follows:

“We take note of your recommendation to maintain a Travel Advance/Acquittal Register and ensure duty travel expenses are acquitted timely as per Public Finances (Management) Act, 1995. We will work towards having this established immediately.”

Personnel Emoluments

My review of the personnel files for employees of the Institute revealed that no proper and timely updating of staff information were done. Information such as salaries and wages tax declarations, birth certificates, salary history cards, leave records and other correspondences relating to salary variations were not updated on a timely basis. I brought this issue to the attention of the Management and they responded as follows:

“We take note of the issue raised and undertake to improve the maintenance of personnel records.”

Internal Control Weaknesses

Other internal controls breakdown and weaknesses noted during my audit are summarized as follows:

- (i) During my examination of the payments, I noted that three (3) quotations were not sought for payments of K5,000 and above amounting to K15,011. It is in breach of the *Financial Management Manual, Division 3, Paragraph 14*, which states that *“three (3) written quotes should be obtained for purchases valued between K5,000 and under K100,000.”*
- (ii) The payments of wages for casual staff were made without proper supporting documents.
- (iii) There were non-compliance and deviations from actual to budget estimates.
- (iv) A fixed asset that was disposed through tender for K20,000 had no documentation for my review.
- (v) The Institute transferred its investment (IBD) from First Investment Finance Ltd to Nationwide Microbank Limited without proper approval from the Council.

I drew management’s attention to these weaknesses and I was advised that steps have been taken to address the issues.

48.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements for the years ended 31 December 2014 and 2015 had not been submitted by the Institute, despite reminders, for my inspection and audit.

49. PNG SPORTS FOUNDATION

49.1 INTRODUCTION

49.1.1 Legislation

The PNG Sports Foundation was established by the *PNG Sports Foundation Act, 2005*. This Act was certified on 8 August 2006 and became operational on the same date and replaced the *PNG Sports Commission Act 1992*.

Under this Act, all assets held or occupied by and all liabilities and obligations of the PNG Sports Commission prior to the operation of this Act were transferred to and became assets and liabilities and obligations of the Foundation at commencement.

49.1.2 Objectives of the Foundation

The principal objectives of the Foundation are: to encourage the private sector to contribute to the funding of sports to supplement assistance by the government of PNG; to provide leadership in the development of PNG's performance in sports; and to encourage increased participation and '*Sport for All*' by Papua New Guineans in sports.

49.1.3 Functions of the Foundation

The principal functions of the Foundation are to:

- Advise the Minister in relation to the development of sports;
- Co-ordinate activities in PNG for the development of sports and to develop and implement programs to promote equality of access to and participation in sports by all PNG and;
- Develop and implement programs for the recognition and development of persons who excel it, or who have the potential to achieve standards of excellence as sports coaches, umpires, referees or officials essential to the conduct of sports;
- Undertake research development related to sports science and sports medicine and to provide sports medicine services and sports science services to persons participating in programs of the Foundation;
- Establish, manage, develop and maintain facilities for the purposes of the Foundation;
- Collect and distribute information and provide advice on matters related to the activities of the Foundation;
- Fostering co-operation in sports between PNG and other countries and to provide access to persons from other countries to the resources, services and facilities of the Foundation;

- Raise money through the National Sports Trust or by other means for the purposes of the Foundation and to administer and expend money appropriated by the Parliament or raised in accordance with and for the purpose of the Foundation;
- Consult and co-operate with appropriate authorities of the National Government or the Provinces and Local-level Governments and with other persons, associations and organisations on matters related to the activities of the Foundation;
- Provide advice on matters related to sports to the PNG National Olympic Committee or other persons, bodies or associations; and
- Co-operate with districts, provincial, national and international sporting organisations in aiming to foster a sporting environment that is free from the unsanctioned use of performance enhancing drugs and doping methods.

49.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with inspection and audit of the accounts and records and examination of the financial statements of the Foundation for the years ended 31 December 2005 to 31 December 2013 were in progress.

The financial statements for the years ended 31 December 2014 and 2015 had not been submitted for my inspection and audit.

50. PAPUA NEW GUINEA UNIVERSITY OF TECHNOLOGY

50.1 INTRODUCTION

50.1.1 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.

50.1.2 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.

50.1.3 Subsidiaries of the University

The University has two wholly owned subsidiary companies, *National Analysis and Testing Services Limited* and *Unitech Development and Consultancy Company Limited*, which were incorporated under the *Companies Act*.

Comments in relation to the subsidiary Companies are contained in paragraphs 50A and 50B of this Report respectively.

50.2 AUDIT OBSERVATIONS

50.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the University's financial statements for the years ended 31 December 2011 and 2012 were issued on 31 August 2015 and 03 December 2015 respectively. The reports contained similar Disclaimer of Opinions, hence only the 2012 report is reproduced as follows:

“BASIS FOR DISCLAIMER OF OPINION

Opening Balances

The opening account balances of the University for the financial year 2012 were the closing balances as at 31 December 2011. My reports for the prior years (2010 and 2011) on the accounts of the University were Disclaimer of Opinions due to serious deficiencies in accounting and record keeping.

Due to limitation of scope expressed in my prior years audit reports, I am unable to confirm on the correctness of the opening balances recorded in 2012.

Cash on Hand

The financial statements reported Cash on hand of K445,498 as at 31 December 2012. This balance comprised of Petty cash K47,554 and Un-deposited funds K397,943. The management did not prepare proper reconciliations to enable me verify the funds on hand. As a result, I was unable to extend my audit procedure to verify the existence and accuracy of the Cash on hand balance of K445,498 as reported in the financial statements. Similar issue was raised in 2010 and 2011.

Cash at Bank – K23,713,224

Included in the Cash at bank balance of K23,713,224 reported in the financial statements as at 31 December 2012 were recurrent and non-recurrent bank balances of K1,796,593 and K14,505,807 respectively. Proper bank reconciliations were not carried out on these two bank accounts maintained by the University. Consequently, I was unable to extent my audit procedure to verify the existence, accuracy and completeness of the balances reported.

Debtors and Prepayments

The Debtors and Prepayments reported in the financial statements totalled K11,260,105 as at 31 December 2012. *Note 5* to the financial statements provided the details of this account as follows:

- **Fees Receivable (Student Fees) – K400,424**

Included in the debtors and prepayments balance was an amount of K400,424 relating to Taraka Campus tuition fees receivable. I was not provided with details of the Fees receivable in order for me perform the audit procedure. Hence, I am unable to comment on the validity and completeness of the student fees receivable balance reported in the financial statements as at 31 December 2012.

- **GST Refundable**

Included in the debtors and prepayments balance was an amount of K6,103,981 disclosed as Goods and Services Tax (GST) receivable from Internal Revenue Commission (IRC). This amount was taken directly from the IRC records instead of the University's records.

No GST reconciliation was done during the period under review to ascertain the completeness and accuracy of the amount reported in the financial statements at 31 December 2012.

- **Other Advances – K4,666,759 and Staff Debtors – K88,941**

Included in the Debtors and Prepayments were the amounts K4,666,759 and K88,941 relating to Other advances and Staff debtors respectively. I was not provided with details of these accounts in order for me to perform the audit procedure. Hence, I was not able to ascertain the completeness and accuracy of these amounts as reported in the financial statements as at 31 December 2012.

Bank Overdraft – K31,146

The financial statements reported an overdraft totalling K31,146. These overdrafts were from Timber and Forestry Training Commercial Centre and Bulolo bank accounts. However, proper bank reconciliations were not prepared for these bank accounts. As result, I was unable to comment on the existence, completeness and accuracy of the overdraft balance reported in the financial statements as at 31 December 2012.

Creditors – K2,338,200

Included in the Creditors balance of K2,338,200 was an amount of K1,570,634 relating to refundable student fees. The MYOB software used to manage the student fees crashed and was inaccessible making it difficult for me to establish the validity and correctness of the balance.

Accruals and Other Payables – K2,611,201

I was not provided with details of the Accruals and other payables and explanations for its movement during the year. As a result, I was not able to perform my audit procedures to ensure the validity, completeness and accuracy of the balance reported in the financial statements as at 31 December 2012.

Group Tax Payable – K1,206,722

The Group tax payable balance of K1,206,722 reported in the financial statements was taken directly from Internal Revenue Commission (IRC) print out/records without performing proper reconciliations against the University's records. The balance has reduced from K9,045,870 in the prior year, however, I was not provided with schedules and relevant documentations explaining the movement.

I also noted that group tax returns were not lodged with the tax office during the period under review and up to the present date. Hence, I am unable to comment on the correctness of the group tax payable balance as reported.

Employee Provisions – K3,159,816

I noted inaccuracies in the calculation of long service and annual leaves as reported in the financial statements. I also noted that provisions for accrued annual leave were not made for the year. Hence, I was not able to comment on the correctness of the employee provisions balance as reported.

Contractors

I noted during my review that the contractors balance reduced from K21,254 in the prior year (2011) to Nil in the current year. I was not provided with details explaining the movement. I was therefore not able to extend my audit procedure to ensure the validity and accuracy of the contractors movement during the year as reported in the financial statements as at 31 December 2012.

Fixed Assets – K19,189,957

The University did not maintain a proper fixed assets register during the year under review. The details in respect of fixed asset additions, disposals, locations and conditions at the year end were not made available for my review and inspection. In addition, depreciation charge was not calculated. As a result, I was unable to perform my audit procedures to ensure the validity, completeness and accuracy of the fixed assets balance reported as at 31 December 2012.

Other Assets – K8,583,667

Other assets balance comprised of K998,918 relating to advances made to Unitech Savings and Loan Society and K7,584,749 relating to other assets. I was not provided with proper schedule of K998,918. The management explained that the balance of K7,584,749 is a balancing amount in the general ledger when balances were transferred to Attache software in 2011. Hence, I am unable to comment on the completeness and accuracy of the other assets balance reported in the financial statements as at 31 December 2012.

Un-appropriated Surplus – K54,845,366

The Un-appropriated Surplus balance of K54,845,366 reported in the financial statements included K16,999,353 in prior period adjustments. *Note 4* to the financial statements disclosed that adjustment amount of K16,999,353 was obtained from unidentified accounts.

However, I was not provided with details and all supporting documentations in respect of these unidentified accounts. Hence, I could not perform my audit procedures to confirm the validity and correctness of the adjustment amount. Consequently, I am unable to comment on the correctness or any material impact this may have on the Un-appropriated Surplus balance reported in the financial statements as at 31 December 2012.

Consolidation of Subsidiary accounts

The University has subsidiary Companies namely, Unitech Development & Consultancy Limited and National Analysis & Testing Services Limited. The financial transactions of these two Companies were not consolidated which deviated from the requirement of the International Accounting Standards, *IAS 27 – Consolidated and Separate Financial Statement*.

DISCLAIMER OF OPINION

Because of the significance of 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 Papua New Guinea University of Technology for the year ended 31 December 2012.

OTHER MATTER

In accordance with the *Audit Act*, I have a duty to report on significant matters arising out of the financial statements, to which the report relates. I draw attention to the following issue:

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

50.3 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 2013 was in progress.

The University had not submitted its financial statements for the years ended 31 December 2014 and 2015 for my inspection and audit.

50A. NATIONAL ANALYTICAL AND TESTING SERVICES LIMITED (Subsidiary of University of Technology)

50A.1 INTRODUCTION

The National Analytical and Testing Services Limited was initially incorporated as Champion No: 67 Limited on 10 March 2011. However, on 24 March 2011 the former Company name (Champion No: 67 Limited) was changed to what is now the National Analytical and Testing Services Limited.

The shareholders of the Company are Unitech Development and Consultancy Limited and Star Mountains Institute of Technology Limited, each holding 61% and 39% of the total issued shares respectively.

50A.1.1 Functions of the Company

The functions of the Company are to provide analytical, pathological and mineral testing services:

- Analytical testing including tests for food, water, soil, mining or industrial waste;
- Pathology testing relating to test for human diseases; and
- Mineral (geo) testing involving testing for mineral compositions.

50A.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

50A.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Company's financial statements for the year ended 31 December 2011 was issued on 4 April 2016. This report contained a Qualified Opinion.

“BASIS FOR QUALIFIED OPINION

Transfer of assets of K2,974,514 as Equity Contribution

Included in the Property, Plant and Equipment is a balance of K2,974,514 relating to assets that were transferred by the shareholder (Unitech Development and Consultancy Limited) as equity contribution in kind to the company. The breakup of the amount is as follows:

Asset	Amount (K)
Furniture & Fittings	60,000
Foundry Plant	454,188
Land & Building	1,400,000
Malahang Geo Chem – WIP	1,000,000
Office Equipment	55,826
Motor Vehicle	4,500
Total	2,974,514

The shareholders' agreement or the valuation report on the assets transferred was not provided for me to verify the correctness of the balance of assets transferred. I also noted that ownership documents evidencing ownership by the company in respect of the land and building of K1,400,000 were not included in the list above were not provided for my review. In the absence of these information, I am unable to comment on the correctness of the balance of assets transferred as equity contribution and included in the fixed assets balance of K3,102,291 and the K2,974,514 equity contribution of the shareholder Unitech Development Consultancy Limited (UDC) under share capital.

Share Capital – K7,500,000

I noted during my review of the share capital of the company that shareholding in the company, as per the company extract from IPA, was to be 39% UDC and 61% Star Mountain Institute of Technology Limited (SMIT). As at the year-end capital contribution by UDC amount to K4,500,000 which is 60% as opposed to 39% on the IPA extract and capital contribution by SMIT amount to K3,000,000 which is 40% as opposed 61% on the extract. In view of these inconsistencies, I am unable to comment on the fairness of the share capital balance.

Inventory – K85,750

I have reviewed the inventory balance and note that the balance represents amounts spent on purchases made. Details including stock take reports were not provided to support the amounts disclosed. In the absence of such important information, I am unable to comment on the fairness of the balance of K85,750 in inventory.

QUALIFIED OPINION

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

- (a) the financial statements of National Analysis & Testing Services Limited for the year ended 31 December 2011;

- (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.”

50A.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Company for the year ended 31 December 2011 was issued on 4 April 2016. The report contained the following significant matters:

Motor Vehicle Purchase – K99,983

I noted during my review of fixed assets that a motor vehicle (Lexus. Rego # LLB 126) was purchased for K99,983 on 7 July 2011. Proper tendering procedures were not followed in the acquisition of the motor vehicle.

I recommended that Management take necessary steps to ensure proper tendering procedures are followed in acquiring major assets of the company. The Management responded as follows:

“We agree that proper tendering process was not followed to acquire the motor vehicle indicated. Despite the fact that the purchase was approved at Board level (Board approves major payments exceeding K20,000) there is no proper documentation to support the Board’s decision to purchase this particular vehicle.

Going forward, Management will make more of an effort to ensure that proper tendering process is followed including appropriate documentation such as valuation reports and quotes.”

GST Returns Lodgement

I noted during my review that GST returns have not been submitted during the period under review and up to the time of audit. I pointed out that the company was not being compliant with the requirements of the tax laws and recommended that the Management ensure GST returns are submitted to the tax office without delay. The Management responded as follows:

“We agree that the company has been non-compliant with respect to its duty to remit monthly GST returns to IRC. Outstanding GST Returns have been prepared and will be lodged with IRC immediately.”

Compliance with Companies Act 1997

NATSL is a company incorporated under the *Companies Act 1997* and is required to comply with the requirements of the Act. I have reviewed the company's compliance with the requirements of the Act and my review revealed that the Company was not compliant with the following provisions of the Act:

- i) *Section 101-103 of the Companies Act 1997* – This section requires the Board to call an Annual General Meeting of Shareholders once every year and no later than six months after the balance date. My review revealed that no Annual General Meeting of Shareholders was called.
- ii) *Section 179 of the Companies Act 1997* – This section requires the Board to prepare financial statements within five months after the balance date. As the audit of the financial statements occurred in October 2014, it was obvious that Management had not complied with the requirements of this provision in the *Companies Act 1997*.

Section 215 of the Companies Act 1997 – *Section 215* of the Companies Act requires that Annual Return be lodged with the companies' office within fourteen (14) days after the AGM. The Company had not complied with this section of the Act. Further, the company is yet to lodge annual returns for the years 2011, 2012 and 2013.

I recommended Management to take measures to ensure the company was compliant with the requirements of the Companies Act. The Management responded as follows:

“Management agrees with the observation made with respect to statutory compliance obligations not being satisfied and will work on ensuring proper records are maintained and updated with IPA going forward.”

Internal Control Weaknesses

I have reviewed the overall internal control environment of the Company and note the following issues in respect of the control environment;

(i) Stock Management System

A proper stock management was not in place to track and manage stock movements.

(ii) Compliance Program

NATSL is required to comply with certain laws and regulations. A compliance program was not in place to ensure the Company is complying with laws and regulations on a continuous basis.

(iii) Business Continuity/Disaster Recovery Plan

A disaster recovery plan was not in place to ensure that in the event of fire, demise of key personnel, or natural disaster, the Company can be able to retrieve its records to function properly.

In the absence of properly defined control environment, the operations of the Company may not be effective and efficient, laws and regulations governing the operations of the Company may be breached, and assets of the Company may not be properly safeguarded. Further, reliable reports may not be produced.

I recommended that Management take appropriate steps to ensure that the control environment is tightened up and adequate systems are in place to ensure sound operations and continuity of the Company. The Management responded as follows:

“Management acknowledges that proper control procedures are lacking in the Company’s operational systems. Areas for improvement in the office systems highlighted in your observations have been recognised and Management will ensure that proper procedures and processes are implemented and adhered to.”

50A.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 years ended 31 December 2012 and 2013 were in progress.

The Company had not submitted its financial statements for the years ended 31 December 2014 and 2015 for my inspection and audit.

50B. UNITECH DEVELOPMENT AND CONSULTANCY LIMITED **(Subsidiary of University of Technology)**

50B.1 INTRODUCTION

Unitech Development and Consultancy Limited is a Company incorporated under the *Companies Act*.

50B.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.

50B.2 AUDIT OBSERVATIONS

50B.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Company's financial statements for the year ended 31 December 2013 was issued on 22 October 2015. The report contained an Adverse Opinion.

“BASIS FOR ADVERSE OPINION

Revaluation of Land at Tenth City – K11,290,000

The land situated at Tenth City was revalued upwards to K11,290,000. The value was arrived at based on an independent valuation carried out by Melanesian Real Property Valuation Services. The revaluation increase was debited to fixed assets and credited to Assets Revaluation Reserve. The land was given to Unitech Development & Consultancy Limited through verbal agreement by the University of Technology to hold, develop and sell. I have not sighted any signed written agreement between the University and UDC or the University council minutes authorising UDC to hold, develop and sell the land. Also I noted that the title to this land was still under the name of the University. I noted two issues that arose from this, first, the recognition of the land in the books of the Company as asset had no proper basis as UDC had no proper title. Second, was the classification of the land as fixed asset was not correct as it did not fit into the definition of fixed asset pursuant to *IAS 16 “Property, Plant and Equipment.”* Fixed assets by definition are items used to produce revenue. Here was a situation where the Company would develop the land to build houses and sell to third parties at a profit.

It fits more into the definition of inventory than fixed assets. Hence, I consider the fixed assets and the Assets Revaluation Reserve were overstated by the above amount.

Accounting for Monies received from PNG Customs Services

Money received from PNG Customs Services during the period under review, for the development of 28 houses at Tenth City amounted to K1,467,106 was treated as Property Development Income in the income statement. Expenses out of the amount received amounted to K1,173,944 were also treated as Property Development Expenses in the income statement. The basis of the money received was the undated heads of agreement signed between the PNGCS and UDC. Under the agreement, 28 houses once completed would be purchased by PNGCS at a price of K7,540,400. The K1,467,106 (K1,633,299 was paid in 2012) paid and received was part of this agreement. I am of the view that the amount received from PNGCS was money received on behalf of third party for the construction of houses and strictly cannot be income in full. Income would only be recognised to the extent that it had been earned.

Also the recognition of disbursement as expenses should be deferred to a later date when the houses are constructed and delivered to PNGCS. As a result of the incorrect treatment of the money received from PNGCS, Income was overstated by K1,467,106 and expenses were overstated by K1,173,944. Furthermore, assets and liabilities in the balance sheet were overstated and understated respectively.

Share Capital – K1,936,229

The balance of share capital did not agree with the records maintained at IPA. IPA records show the share balance of K2 whilst the share capital balance disclosed in the accounts was K1,936,229, an increase of K1,936,227. The Share Capital balance was hence overstated by K1,936,227.

Consultancy Income – K665,366

Included in the above amount is K207,392 relating to profit margin from land sales. I was not provided details/calculations as to how the above amount was arrived at. However, I am of the view that any profit arising from the property development will have to be deferred until the houses are delivered.

Trust Account – K279,868

Included in the trade creditors account was a trust account balance of K279,868. I noted that the amount relate mainly to PNG University of Technology staff engaged to carry out consultancies on behalf of UDC. Proper trust ledgers were not maintained by the Company for the monies owed to the respective consultancies.

Tax Payable – K85,826

The Company reported an Income tax payable of K85,826 as at 31 December 2013. The Company is yet to lodge company income tax returns for the years 2012 and 2013. I am unable to comment on the correctness of the tax payable balance as reported.

Retained Earnings – K2,804,945 Deficit

Included in the retained earnings was an unexplained balance of K297,698 taken as prior year adjustments. This amount was the difference between the audited retained earnings balance of prior year and the opening balance taken into the accounts for the 2013 financial year.

Consolidation of Subsidiary Accounts

The Company had a subsidiary known as the National Analysis and Testing Services Limited. The accounts for the year ended 31 December 2013 did not include the effects of the subsidiary transaction. This was a deviation from the requirements of the *International Financial Reporting Standards 10 “Consolidated Financial Statements.”*

ADVERSE AUDIT OPINION

In my opinion, because of the significance of the effects of the matters described in the Basis for Adverse Opinion paragraphs, the financial statements do not give a true and fair view of the financial position of the Company as at December 2013, the results of its operations, the cash flows and the changes in equity for the year then ended.

Reports on the other legal and regulatory requirements

The *Companies Act 1997* requires that in carrying out my audit, I consider and report on the following matters. I confirm that;

- i) the financial statements of Unitech Development & Consultancy Limited as set out on pages 4 to 13 do not comply with International Financial Reporting Standards; and
- ii) proper accounting records have been kept by Unitech Development & Consultancy Limited, as far as appears from my examination of those records.”

50B.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Company for the years ended 31 December 2014 and 2015 had not been submitted for my inspection and audit.

51. PARLIAMENTARY MEMBERS' RETIREMENT BENEFITS FUND

51.1 INTRODUCTION

51.1.1 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.

51.1.2 Objectives of the Fund

The objectives of the Fund are 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.

51.2 AUDIT OBSERVATIONS

51.2.1 Comments on Financial Statements

My report to the Minister under *Section 8(4)* of the *Audit Act* on the Fund's financial statements for the year ended 31 December 2014 was issued on 30 May 2016. The report did not contain any qualification.

51.2.2 Audit Observations Reported to the Minister

My examination in accordance with *Section 8(2)* of the *Audit Act* generally revealed satisfactory results.

51.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Fund had not submitted its financial statements for the year ended 31 December 2015 for my inspection and audit.

52. PUBLIC CURATOR OF PNG

52.1 INTRODUCTION

52.1.1 Legislation

The Office of the Public Curator of PNG was established under the *Public Curator Act (Chapter 81)*.

52.1.2 Functions of the Public Curator

The main functions of the Public Curator are to act as an administrator of estates; an executor appointed under a will by a member of the public; and/or an official trustee.

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* on the Public Curator's Office financial statements for the year ended 31 December 2012 was issued on 30 November 2015. The report contained a Disclaimer of Opinion.

“BASIS FOR DISCLAIMER OF OPINION

Limitation of Scope – Opening Balances

My reports for the years ended 31 December 2009, 2010 and 2011 were disclaimed due to limitation on the scope of audit on opening balances. I was unable to confirm the opening balances resulting from non-submission of financial statements for the years ended 31 December 2004 to 2008. I was therefore, unable to satisfy myself as to the accuracy and completeness of the opening balances of term deposits, estate accounts, minor & insolvency accounts and suspense accounts of Port Moresby, Lae and Rabaul.

Since these opening balances entered into the determination of the results of operations and cash flows of the Public Curator's Office in 2012, I was unable to determine whether adjustments to the results of operations, receipts and payments might have been necessary for the year ended 31 December 2012.

Limitation of Scope – Accounting Records

The Public Curator's Office did not maintain proper books of accounts in 2012 and in prior years. The financial statements were prepared from manually maintained records on Excel Spread sheet. The statements were prepared from incomplete and insufficient records without proper supporting reconciliations and documentations resulting in the limitation on the scope of my audit.

As a result, it was impracticable for me to carry out all my planned audit procedures to determine the accuracy of the year end balances as disclosed in the financial statements.

Suspense Account – K17,751,128

My examination of this account revealed that the account is a clearing account maintained to keep track of proceeds from deceased individuals and transfers between various estate accounts pending reconciliation, proper identification and allocation to their respective estate accounts. However, I noted that proper, accurate and timely reconciliations were not done in prior years to allocate these funds to their respective estate accounts. Further, I noted that there was a reduction of K202,502 during 2012 from the 2011 balance but I was not provided with the supporting documents for this movement. As a result, the balance in the suspense account continue to remain high over the years at K17,751,128 as at 31 December 2012. Consequently, the beneficiaries to these estate accounts may have been denied of their rights to have access to these funds.

Unidentified Deposit – K227,244

The Corporate Trust Bank Account of the Public Curator was credited with an unidentified deposit of K227,244 in May 2010. In my last two (2) reports the Management was advised to identify where the deposit was made from and if the money was not intended for this account, I recommended that the money be transferred back to where it originated from. The Office is yet to resolve this issue.

Estate Properties

I noted a list of unrealised and personal properties that were identified or in possession of and administered by the Public Curator's Office. I noted that these properties were not valued and disclosed by way of notes to the financial statements as the proceeds from the disposal of these assets would be properly identified and credited to their respective estate accounts or transferred (non-liquid form) to the beneficiaries at a later date. As a result, I was unable to satisfy myself as to the completeness or accuracy of receipts of K18,583,696.75 and the amounts due to the estates and trusts of K3,323,752.17 as disclosed in the financial statements.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements of Public Curator's Office for the year ended 31 December 2012."

52.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Public Curator's Office for the year ended 31 December 2012 was issued on 30 November 2015. The report contained the following comments:

No Proper Accounting System and Lack of Audit Trail

The Public Curator's Office did not have an integrated Management Accounting System incorporating estate data from the regional centres together with Head Office. The records had been kept and prepared manually from the cashbook and bank statements. I recommended Management to source an integrated accounting package that would capture and keep track of all information including estate data from the regional centres.

Segregation of Duties

During my review, I noted that the internal control environment of the Public Curator's Office was very weak in terms of segregation of duties over the accounting process of receipting, depositing cheques, recording and posting of transactions to the cash book, raising of requisition forms, cheque payments and bank reconciliations. I brought this issue to the attention of the Management for necessary action.

Bank and Account Reconciliations

The Public Curator's Office over the years had not properly performed its bank and estate account reconciliations. As a result, the balance in the suspense account had been accumulating over the years. I recommended Management to ensure that bank and estate accounts reconciliations be done on a monthly basis to correctly identify individual estate receipts/proceeds and post them to their respective individual estate accounts.

Trust Instruments (Deeds)

My review of the trust bank accounts revealed that there were no trust instruments or deeds maintained by the Public Curator's Office governing the operations of each trust bank account. Trust Instruments and deeds govern the operations of every trust account operated by any government agencies. Without the trust instruments and deeds maintained by the Public Curator as the official Trustee of deceased estates, the trust funds are susceptible to misapplication, misuse and abuse.

Minor and Insolvency Trust Account – Port Moresby

The monies held in this Minor and Insolvency Trust Account are basically for the purpose of maintenance, education and advancement of the minors. The disbursements would be done in accordance with *Section 22(a)* and *Section 7(2)* of the *Public Curator's Act 1951*. However, I noted that monies had been disbursed to relatives of the minors for other purposes.

Professional Fees

My review of the payments made out from the Port Moresby Deceased Trust Account revealed that K150,000 was paid to the then Finance Manager of Public Curator's Office as consultancy/professional fees for a claim totaling K300,000. However, audit could not verify the claim as to its authenticity and validity as the claimant failed to provide detailed invoices and statements confirming proof of services provided to the deceased estate. The provision of consultancy services of the Finance Manager while employed by the Public Curator's Office had constituted a conflict of interest by the claimant himself.

There was no written clearance or approval from Departmental Heads (Treasury and Justice & Attorney General) was sought by the claimant in providing professional services based on General Orders 12 relating to consultancy services. The letters and other statutory declarations noted on file were from the Chairman of the estate who was acting without consent from other members of the deceased (Paglei TRP Group).

I recommended the Public Curator to investigate this payment and other payments made from this estate (Paglei TRP Group). In addition, the management of the Public Curator's Office should ensure that deceased estates are managed properly as required by the Act and other relevant regulations.

Management Structure, Staff Strength and Funding

The Public Curator's Office did not have the staff capacity with adequate skills to effectively carry out its mandated functions. The Office had a total of forty seven (47) approved positions with only thirty nine (39) funded and eight (8) unfunded positions. Further, of the thirty nine (39) funded positions, ten (10) positions were vacant.

At the time of audit, there were a total of One Thousand One Hundred (1,100) registered deceased estate properties and Three Thousand (3,000) deceased estate oil palm blocks. Audit noted with concern that with the current staff strength, the Office would not be in a position to effectively discharge all its mandated functions, as most of the property matters registered with the Office involve complex legal issues. In addition, the accumulating balance of the suspense account over the years was a clear evidence of not enough skilled staff being employed by the Public Curator to properly identify and allocate proceeds and transfers to their respective estate accounts.

52.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements for the year ended 31 December 2013 had been submitted for my inspection and audit and arrangements were being made to commence the audit shortly.

The financial statements for the years ended 31 December 2014 and 2015 had not been submitted by the Public Curator's Office for my inspection and audit.

53. SECURITY INDUSTRIES AUTHORITY

53.1 INTRODUCTION

53.1.1 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 in April 2005.

53.1.2 Functions of the Authority

The principal functions of the Authority are to:

- Grant licenses and permits under the Act;
- Fix minimum standards of training applicable to holders of licenses and permits respectively;
- 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;
- 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;
- 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;
- Formulate a Code of Conduct governing the disciplinary matters and work ethics within the Industry; and
- Undertake such other functions and exercise such powers as may be conferred on it by this Act or any other law.

53.2 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 Authority for the years ended 31 December 2012, 2013 and 2014 had been completed and results were being evaluated.

The Authority had not submitted its financial statements for the year ended 31 December 2015 for my inspection and audit.

54. SMALL BUSINESS DEVELOPMENT CORPORATION

54.1 INTRODUCTION

54.1.1 Legislation

The Small Business Development Corporation was established under the *Small Business Development Corporation Act 1990* which came into operation on 19 June 1990.

54.1.2 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 programs; 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.

54.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

54.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Corporation's financial statements for the year ended 31 December 2012 was issued on 2 November 2015. The report contained a Qualified Opinion.

“BASIS FOR QUALIFIED OPINION

Government Equity

The financial statements disclosed the Government Equity as K3,749,880 at 31 December 2012. However, I was unable to verify the accuracy, correctness and validity of the Government Equity as disclosed in the financial statements due to the absence of adequate documentation and relevant information.

Other Income – K899,144

My examination and review of the Other Income revealed that the cash receipt and deposit books were misplaced and were not made available for my verification. As result, I was unable to confirm the accuracy of other income disclosed as K899,144 at year end.

QUALIFIED OPINION

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

- (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 2012, and the results of its financial operations and cash flows for the year then ended.”

54.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Corporation for the year ended 31 December 2012 was issued on 2 November 2015. The report contained the following observations:

1. Non-Compliance with the *Public Finances (Management) Act 1995*

Section 63(2) and (4) of the *Public Finances (Management) Act 1995* requires the Corporation to furnish to the Minister before 30 June in each year, a performance and management report of its operations for the year ending 31 December preceding, together with financial statements. Before furnishing financial statements to the Minister, the Corporation shall submit them to the Auditor-General who shall report to the Minister. However, the Corporation had not prepared and submitted its financial statements for the year ended 31 December 2012 to my office for me to complete the audit as specified in the Act. Accordingly, the Corporation had breached *Section 63(2) and (4)* of the *Public Finances (Management) Act 1995*.

I brought this to the attention of the Management and was advised that the delay was due to changes in senior management and staff positions.

2. Bank Reconciliations

My review of the three (3) bank accounts owned and operated by the Corporation revealed that bank reconciliations and their independent reviews were not done on a timely basis. I noted that the reconciliations were prepared in 2013 and were reviewed in early 2014. Due to the above weaknesses, I was unable to place reliance on the controls surrounding the use and management of cash.

I brought this issue to the attention of the management and was advised that bank reconciliations will be prepared and reviewed on a timely basis.

3. Staff Advance

During my review, I noted that the Corporation allowed Staff Advances for school fees, rentals and other personal expenses. At the year ended 31 December 2012, advances totaling K139,661 was not fully recouped. The advances should be properly managed and recouped within the financial year. I recommended the Corporation to ensure that Staff Advances are closely monitored and recouped within a reasonable period. This issue was raised in my previous reports as well.

4. Travel Advance

I noted that the Corporation did not comply with the Policy for Travel Advance and the advances totaling K375,730 were not acquitted as at 31 December 2012. It is a requirement under the *Public Finances (Management) Act, 1995* and *Financial Management Manual* that all travel advances must be acquitted within a timeframe as stipulated in the Finance Manual (i.e. 7 days for domestic travel and 14 days for overseas travel). I advised the Corporation to adhere to the requirements of the *Public Finances (Management) Act 1995* and the *Finance Management Manual* in relation to travel advances.

5. Fixed Assets Register (FAR)

My review of the Corporation's FAR revealed that it was not properly updated to give a true and fair value of the assets owned by the Corporation as at 31 December 2012. I noted that some assets which have already been damaged, lost, obsolete or disposed-off were still being recorded in the FAR. As such, I was physically unable to inspect certain assets against the records to confirm their existence and conditions.

I brought this the attention of the management and was advised that corrective actions were being taken.

6. Procurement Process

During my review, I was not provided with supporting documents totaling K649,720 to verify whether proper procurement procedures were followed. In addition, I noted that the Corporation failed to obtain three (3) quotations for various payments amounting to K348,808.

As a result, the Corporation had breached *Section 62(1)* of the *Public Finances (Management) Act 1995* by not properly maintaining records and breached Part 12 Division 3 of the *Financial Management Manual* when not obtaining three (3) written quotations for purchases valued between K5,000 and K100,000. Consequently, I was unable to place reliance on the internal controls surrounding the procurement process in the Corporation.

I brought this issue to the management and management took note of my concern and advised that necessary actions were being taken based on my recommendations.

54.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Corporation for the year ended 31 December 2013 had been submitted for my inspection and audit and arrangements were being made to commence the audit shortly.

The Corporation had not submitted its financial statements for the years ended 31 December 2014 and 2015 for my inspection and audit.

55. TOURISM PROMOTION AUTHORITY

55.1 INTRODUCTION

55.1.1 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 on 1 April 1993.

Under the *Tourism Promotion Authority Act* 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.

55.1.2 Functions of the Authority

The principal functions of the Authority are: to foster the development of tourism in PNG; to formulate a tourism policy for consideration by the NEC and to implement the tourism policy approved by the NEC; to promote PNG overseas as a tourist destination; to co-ordinate the overseas promotional efforts of the PNG tourism industry; to encourage the provision, development and expansion of tourism infrastructure, facilities and products in PNG; and to enhance awareness within PNG of the tourism industry and tourism opportunities.

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* on the Authority's financial statements for the year ended 31 December 2014 was issued on 20 October 2015. The report did not contain any Qualification.

55.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Tourism Promotion Authority for the year ended 31 December 2014 was issued on 20 October 2015. The report contained the following comments:

Contract of Employment for Chief Executive Officer

I noted during the review of the personal files that the Authority's Managing Director's Contract of Employment was not available for my verification. The Authority advised that it had not received the valid Contract of Employment from the Department of Personnel Management since his appointment in 2011.

Staff Salary History Cards

During my review of the personal files for certain selected officers of the Authority revealed that the management had not maintained the salary and history cards in their respective personal files to confirm the remuneration paid to employees. In the absence of staff salary history cards, I was unable to confirm the salary and allowances paid to employees of the Authority. The management of the Authority had concurred with my observation and assured me that it would take necessary steps to update Staff Salary History Cards (SSHC).

Office Rental – K388,207

During my review of the Office Rental, the Authority did not provide supporting documentation such as lease agreement for the office space occupied by the Authority to authenticate the validity of rental costs amounting to K388,207 incurred in 2014. I brought the matter to the attention of the Authority and it responded as follows:

“The signed office lease agreement was never delivered back to us since the signing in March of 2010 between the Authority and Pacific Equities & Investments Ltd (PEIL) for a term of 5 years expiring 1st March 2015. The property management was then transferred to Melanesian Trustee Services Ltd (MTSL). Last year, Mineral Resources Development Corporation (MRDC) took over from MTSL and forced rental charges to increase from K29,000 plus to over K34,000 per month.

We are unable to provide the signed copy of the Office Lease Agreement between the Authority and Melanesian Trustee Services Ltd including the memorandum advising tenants of the new rates when MRDC took over from MTSL in 2014. However, we enclose a copy of the draft lease agreement between the Authority and Mineral Resources Development Corporation (MRDC).”

Overseas Promotion Cost – K5,235,022

During my review, I noted that the Authority's Chief Executive Officer has exceeded the financial delegation limits in approving some payments above K100,000 contrary to that is stipulated in the *Clause 18.2* of the *Authority's Finance Management Procedural Manual*.

I brought the matter to the attention of the Authority and I was informed by the management as follows:

“In accordance with Clause 18.2 of the Tourism Promotion Authority Financial Procedures Manual on ‘Financial Authorization’, it spells out the financial authorization limits of the Chief Executive Officer, the Corporate Affairs Manager and Divisional Managers including the Board and Minister/NEC. The Chief Executive Officer’s financial authorization limit has changed to K300,000 as stipulated in the current provision of Section 61 of the public Finance Management Act which states “Unless they have approval of the Minister, public bodies shall not enter into contracts exceeding K300,000 or (K500,000 in certain cases).” We will incorporate this change when we review the financial procedures manual.”

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 Authority for the year ended 31 December 2015 had been completed and the Management responses were being awaited to finalise the audit reports.

56. UNIVERSITY OF GOROKA

56.1 INTRODUCTION

56.1.1 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 PNG 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.

56.1.2 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 PNG; 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

The University shall have the power to:

- Grant such degrees as are authorised by the Statutes and such diplomas, certificates or other academic awards as it determines;
- Provide instruction and facilities for study, education and research to persons registered as preparing for degrees, diplomas, certificates or other awards of the University;
- 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;
- 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* to appoint academic, administrative and other staff on such terms and conditions of service as the University may determine;
- Provide for promoting the health and general welfare of the students of the University, including the establishment and supervision of residence;
- Regulate and enforce discipline among the employees and students of the University by such measures as the University may determine;

- Cancel, annul or revoke any act done in the exercise of these powers; and
- 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.

56.1.4 Subsidiary of the University

The University has a Subsidiary Company, *Unigor Consultancy Limited*. Comments in relation to this Company are contained in paragraph 56A of this Report.

56.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

56.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the University's financial statements for the year ended 31 December 2013 was issued on 19 November 2015. The report contained a Disclaimer of Opinion

“BASIS FOR DISCLAIMER OF OPINION

Opening Balances

The 2012 audit report was issued with a Disclaimer of Opinion due to Limitation of Scope arising from inability to obtain satisfactory accounting records, source documentations and reconciliations to satisfy myself as to the accuracy and completeness of opening balances of Fixed Assets, Cash at Bank and Equity. I was unable to perform sufficient audit procedures to satisfy myself as to the accuracy or completeness of the opening balances. Consequently, I was unable to quantify the effects of any material misstatements in the opening balances that might have consequential effects on the financial statements of the University for the year ended 31 December 2013.

Cash at Bank – K19,266,307

The University maintained four (4) Bank Accounts (Grant, Internal Revenue, Public Investment Program (PIP) and Special Purpose) with a Cash at Bank balance of K19,226,307 as disclosed in the financial statements. During my review I noted that:

- Bank reconciliations of above four (4) accounts were not done on a timely basis. I noted that the 2013 bank reconciliations were prepared only in 2014 and there was no evidence to indicate that the reconciliations were independently reviewed for accuracy.

- There were variances between the bank reconciliation statements and the cashbook due to lack of proper maintenance of the accounts in prior years. The variances noted above were posted to the cash accounts as bank reconciliation balancing amounts in order to reconcile the balances.

Further, of these variances, amount totaling K1,063,925 was debited to the respective bank accounts (PIP, SPA and Grant) and the same amount credited to various income accounts. In addition, a total of K3,402,090 was credited to Internal Revenue account and the expense account (Unidentified Debit – Bank) was debited as corresponding entry.

As a result of the above observations, I was unable to ascertain the accuracy and completeness of cash at bank balance and the corresponding income and expense accounts affected as above. Consequently, I am unable to comment on whether the bank, income and expense accounts were fairly stated in the financial statements at year end.

Fixed Assets – K36,217,475

My review of the University's fixed assets account revealed the following:

- The University did not maintain a proper, complete and accurate Fixed Assets Register (FAR) to record the details of assets owned by the University. Due to lack of proper FAR, I was unable to physically inspect certain assets against the records and confirm the existence and conditions of the assets.
- Fixed assets were never been counted and tagged with number for easy reference and identification. In the absence of fixed assets stock take and numbering, assets that are idle, misplaced or stolen cannot be identified by the University. This may result in misstatement in the financial statements.
- Depreciation for fixed assets was calculated based on aggregate balance of the entire asset category rather than calculating depreciation on individual fixed asset item. As a result, it will be difficult to ascertain the net book value of asset and the profit/loss on disposal, when an asset is earmarked for disposal.

Due to above observations, I was unable to confirm the existence, valuation and completeness of the fixed assets balance reported in the financial statements as at 31 December 2013.

Cashflows Statement Balance

During my review and examination of the cashflows statement of the University for the year ended 31 December 2013, I noted an unreconciled difference of K1,790,499 between the cashflows statement balance of K23,082,678 and the cash and cash equivalent balance of K21,292,179 disclosed in the balance sheet.

The University was unable to provide any explanation for the variance. As such, I was unable to place any reliance on the cashflow statement presented as part of the financial statements.

DISCLAIMER OF OPINION

In my opinion, because of the existence of the limitation of scope on my work as described in the Basis for Disclaimer of Opinion paragraphs, and the effects of such adjustments, if any, that might have been determined to be necessary had the limitations not existed, I am unable to and do not express an opinion on the financial statements of the University for the year ended 31 December 2013.”

56.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act*, on the inspection and audit of the accounts and records of the University for the year ended 31 December 2013 was issued on 19 November 2015. The report contained the following observations:

Non-Compliance with the *Public Finances (Management) Act 1995*

The *Public Finances (Management) Act 1995 Section 63(2) and 63(4)* requires the University to furnish to the Minister before 30 June each year, a performance and management report of its operations for the year ending 31 December preceding, together with financial statements. Before furnishing financial statements to the Minister, the University shall submit them to the Auditor-General who shall report to the Minister. However, the University had not prepared and submitted its financial statements for the year ended 31 December 2013 to my Office on a timely basis to enable me to complete the audit on time for tabling the report in the Parliament before 30 June 2014. The 2013 financial statements of the University were prepared in March 2015. Accordingly, the University breached *Section 63(2) and 63(4) of the Public Finances (Management) Act 1995*.

The University Management responded to the above issue as follows:

“We will improve and submit all outstanding financial statements to the audit Office on timely manner in compliance with the Public Finances (Management) Act 1995.”

Unbudgeted Projects

During my review of the recurrent budget, I noted that the University spent K500,000 and K200,00 for the Talisma and Menifo projects which were not included in the budget for the year. As a result, I was unable to state whether all factors were taken into consideration by the University before the budget was formulated.

Revaluation of Fixed Assets

In 2003, Unitech Development & Consultancy Limited revalued the assets of the University at a value of K53,918,605. To date, the University had failed to incorporate the revalued amounts in its Books. This had resulted in the University's Fixed Assets under valued by K53,918,605 and it does not represent the fair value of the University's Assets. I further noted that to date, there was no revaluation conducted subsequent to the revaluation done in 2003. As such, the University had failed to comply with the *International Accounting Standards (IAS) 16 paragraph 34* which requires assets to be revalued at regular intervals.

I raised this issue in my previous reports however, Management is yet to implement my recommendation to comply with the *International Accounting Standards (IAS)*.

Tender Board Meeting Minutes

During my review, I was not provided with the University's Tenders Board Meeting Minutes. In the absence of the Tenders Board Meeting Minutes, I was unable to state whether proper deliberations were undertaken prior to making decisions on procurements or awarding contracts to suppliers/contractors during the year.

Maintenance of Personnel Files and Records – Birth Certificates

My review of personnel files revealed that most of the University's employees had completed and signed Salary and Wages Tax Declaration Forms. However, birth certificates of officers' children were not filed in their respective files. Birth certificates substantiate the date of birth indicated on the dependents' declaration forms. The *Public Service General Order (GO) 41.41* specify that the officers can claim leave fares for their spouse and children under the age of 19 who are wholly dependent and maintained by the officer. However, due to lack of birth certificates of the children, I was unable to comment on the legitimacy of the dependents that were claimed in 2013 for leave fares amounting to K780,914.

I recommended the University to ensure that all the staff members provide birth certificates of their children and must be filed in their respective files.

Non-Remittance of Salaries & Wages Taxes to Internal Revenue Commission (IRC)

Pursuant to *Section 299G* of the *Income Tax Act 1959* the group employer (in this case the University) is required to remit salary and wages tax to IRC within 7 days after end of each month. Failure to remit salary and wages tax on time would result in penalty of 20% for outstanding tax payable and an additional interest of 20% per annum on the amount that remains unpaid.

However, I noted that since 2008 the University did not remit salaries and wages tax to IRC and the salaries and wages tax payable to IRC accumulated to K4,491,649 as at 31 December 2013. As a result, the University had breached the above provision of *Income Tax Act 1959*.

The above issue was brought to the attention of the Management and I was advised that K600,000 was annually estimated in the budget to settle the outstanding group tax liability and that so far K900,000 was paid. Further, management advised that all salaries and wages tax liabilities for 2013 were remitted to IRC.

Projects

My examination of the University accounts and records revealed that in 2013, the University undertook two projects, of which I was unable to examine and perform necessary audit tests due to lack of proper supporting details. I noted that K800,000 and K200,000 were paid from ANZ IBD account for the Talisma and Menifor projects respectively. I was not able to comment on these projects since, there were no tender minutes provided for my review nor were they included in the 2013 budget proposal. Further, I was not able to substantiate payments relating to accommodation paid by the University to Talisma project consultant's and the determination of K300,000 as annual fee since no contract document was provided for my verification. The Menifor Project on the other hand, cannot be ascertained as I was not provided with progress reports to comment further whether the project had progressed well and the objectives of the project were met.

Procurement Process

My review of the payment process of the University revealed that payments totaling:

- K283,422 were made without obtaining three (3) written quotations from three (3) different suppliers. It was a breach of *Financial Management Manual Part 12 Division 3*, which states that three (3) written quotations must be obtained for purchases valued between K5,000 and under K100,000.
- K611,988 were paid to suppliers based on quotations and not invoices. As a result, I was unable to ascertain as to whether the goods and services were received by the University.

Due to above discrepancies, I was unable to place reliance over the controls surrounding the functions of payment process.

The Management agreed with my findings and responded that in the future they would improve in the procurement procedures.

Delegated Financial Authority

The University had a Financial Manual specifying the delegated financial authority. However, on several instances I observed that some of the Deans of Schools and Head of Departments had approved payments above their approval limits. Accordingly, I was unable to comment as to whether the University's Financial Manual was out of date or there had been amendments made to the delegated financial authority. I also raised this issue in my prior year reports.

I recommended the University to clearly specify the delegated financial authority of the University officers.

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 examination of the financial statements of the University for the year ended 31 December 2014 had been completed. However, the Management, despite numerous reminders, had not responded to my management letter to finalise the audit.

The University had not submitted its financial statements for the year ended 31 December 2015 for my inspection and audit.

56A. UNIGOR CONSULTANCY LIMITED (Subsidiary of the University of Goroka)

56A.1 INTRODUCTION

Unigor Consultancy Limited is 100% owned by the University of Goroka. It was incorporated in March 2000 as a consultancy company under the *Companies Act*.

56A.1.1 Objectives of the Company

The Company's objectives are to:

- Advance, promote, assist and encourage the educational purposes of the University through;
 - Short term programs for and on behalf of the University tailored to the needs of clients; and
 - Research, consultancy and publication of all educational materials for commercial purposes;
- Conduct or undertake any other business activity both within and outside of PNG; and
- Expand and diversify business activities to maximise profits and to promote the interest of the Shareholder from time to time.

56A.1.2 Functions of the Company

The core function of the Company is to provide services in four key areas:

1. Professional consultancy services, teaching and dissemination of knowledge;
2. Merchandising of text books, educational supplies and stationary;
3. Printing and publication of educational materials, textbooks, business documents and all other forms of print material; and
4. Catering and cafeteria services.

56A.2 AUDIT OBSERVATIONS AND RECOMMENDATION

56A.2.1 Comments on Financial Statements

My reports in accordance with the provisions of the *Companies Act* on the financial statements of the Company for the years ended 31 December 2010, 2011 and 2012 were issued on 21 October 2015 while the 2013 was issued on 30 November 2015 respectively. These reports contained Disclaimer of Opinions, hence only 2013 report is produced as follows:

“BASIS FOR DISCLAIMER OF OPINION**Opening Balances**

My 2012 audit report was issued with a Disclaimer of Opinion due to Limitation of Scope arising from inability to obtain satisfactory accounting records, source documentations and reconciliations to satisfy myself as to the accuracy and completeness of opening balances of Fixed Assets, Trade & Other Debtors, Cash at Bank, Stock, Investments, Provisions for Annual Leave, Income Tax Provisions and Share Capital & Reserves. I was unable to perform sufficient audit procedures to satisfy myself as to the accuracy and completeness of the opening balances. Consequently, I was unable to quantify the effects of any material misstatements in the opening balances that might have consequential effects on the financial statements of the Company for the year ended 31 December 2013.

Fixed Assets – K86,248

The Company disclosed the balance of its fixed assets as K86,248 at 31 December 2013. However, the amount disclosed was not supported by appropriate accounting records and supporting documents. Further, there were no stock-take carried out on fixed assets during the year to ascertain the actual existence and condition of assets owned by the Company. As a result, I was unable to extend my audit procedures to satisfy myself as to the valuation, accuracy and existence of the fixed assets balance as at 31 December 2013.

Investments – K551,000 (Unigor PNGTIS JV & Unigor Catering JV)

The Unigor Consultancy Limited disclosed investments in its financial statements as K306,000 for Unigor Catering JV and K245,000 as investments in Unigor PNGTIS JV respectively as at balance date. However, payment details and supporting documents relating to the investments were not made available for my verification. As a result, I was unable to confirm the accuracy and valuation of the investment totalling K551,000 as disclosed in the financial statements at year end.

Prepayments – K12,300

My examination of the prepayment account revealed that there were no supporting documents to verify the prepayment carried forward balance of K10,800. As a result, I was unable to verify the accuracy and completeness of the prepayment balance of K12,300 disclosed in the financial statements as at 31 December 2013.

Provisions for Income Tax – K194,292

A balance of K194,292 relating to provision for income tax was stated in the financial statements without proper documentary evidence supporting the balance. Due to lack of supporting details, I was unable to gain reasonable assurance over the accuracy and completeness of provision for income tax balance of K194,292 disclosed in the financial statements at 31 December 2013.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, 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 Unigor Consultancy Limited as at 31 December 2013 and of its financial performance and its cash flows for the year then ended.”

56A.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Company for the years ended 31 December 2010, 2011 and 2012 were issued on 21 October 2015 while the 2013 was issued on 30 November 2015 respectively. The reports contained similar observations, hence, only the 2013 report is reproduced:

Lack of Proper Maintenance of Accounting Records

Pursuant to *Section 188* of the *Companies Act 1997* Unigor Consultancy Limited is obliged to keep proper accounts and records of its transactions and affairs. However, the Company’s source documents and relevant records were not properly maintained.

Due to lack of proper record keeping, I was unable to perform the necessary audit procedures to determine the authenticity of amounts disclosed in the accounts. Consequently, the Unigor Consultancy Limited had breached the requirements of *Section 188* of the *Companies Act 1997*.

I brought this issue to the attention of the Management and was advised that the issue was due to shortage of qualified personnel.

Bank Reconciliations

My review of the bank reconciliations revealed that monthly reconciliations were not prepared on a timely basis. Further, the bank reconciliations were not checked and reviewed by competent personnel to ensure accuracy of the reconciled bank balances. The lack of regular independent reviews on the bank reconciliations by competent officers may result in errors, variances, misstatements and fraudulent application of funds without being detected on a timely manner. I recommended the Company to perform timely bank reconciliations.

Non-Compliance with Statutory Requirements

The Company did not comply with the following statutory requirements:

- **Preparation of Financial Statements**

Section 179 of the Companies Act 1997 requires the Unigor Consultancy Limited Board of Directors to ensure that within five (5) months after the balance date to prepare financial statements or accounts. However, the Company Board had not prepared the Company's financial statements for the year ended 31 December 2013 on time. Accordingly, the Board had breached the above Section of the Companies Act.

- **Group Tax Remittance**

I noted that Unigor Consultancy Limited withheld salary and wages tax from the payments made to the Managing Director and the Bookshop Manager. However, the Company did not remit the 2013 group tax to Internal Revenue Commission (IRC) on time as required under the Act. It is stipulated under *Section 299G of the Income Tax Act 1959* that a group employer is required to remit salary and wages tax to IRC within 7 days after month-end. It also states that failure to remit salary and wages tax will result in penalty of 20% for outstanding tax payable and an additional interest of 20% per annum on the amount that remains unpaid.

- **Company Income Tax Remittance**

The Unigor Consultancy Limited did not remit its company income tax returns from prior years and for 2013 to IRC on time. Thus, the returns for year ended 31 December 2012 and prior years remained outstanding as at 31 December 2013. It is a requirement under the *Income Tax Act 1959* that company tax returns must be lodged to IRC on or by 28 February after the end of the financial year.

- **Goods & Services Tax (GST) Remittance**

I observed that the Unigor Consultancy Limited did not remit GST returns from prior years and for 2013 to IRC on time breaching the IRC requirements. It is stipulated under *Section 63-66* of the *GST Act 2003* to remit monthly GST Returns to IRC by 21 day after month-end. Failure to remit GST Returns on time will result in penalties of additional tax payable at the rate of 10% on the amount owing, and 20% calculated on an annual basis under *Section 85(1)* of the *GST Act 2003*.

I raised these issues to the Management again as in my prior year reports and management took note of my comments and recommendations assuring that corrective actions will be taken.

Lack of Employee Files

My examination of personnel records revealed that Unigor Consultancy Limited did not maintain employee files. Consequently, I was unable to validate that the salaries and other allowances paid to employees were based on proper employment contracts and/or employment offer acceptance letters. Further, I was unable to confirm the dependents claimed for tax rebates and leave fares were correct due to absence of employee files. This issue was also raised in my prior year reports.

Travel Advance Register

My examination of travel advances and the related travel and subsistence expenses revealed that the Unigor Consultancy Limited did not maintain a Travel Advances Register to keep proper records of all the duty travel advances and expenses. I also noted that travel advances and expenses were never acquitted. In the absence of Travel Advances Register and the corresponding travel advance and expense acquittals, I was unable to confirm whether the travel and subsistence payments of K13,042 as disclosed in the financial statement was used for the intended purposes.

Consultancy Payments

During my review, I noted that a consultant was engaged to carry out work for the transfer of land title for the University of Goroka to Unigor Consultancy Limited and was paid amount in excess of K20,000. However, I was not provided with contract documents and details of work performed. Further, I also noted that an accounting firm from Australia was hired to prepare the Company's outstanding accounts without a proper signed contract. As a result, I was unable to verify whether or not that the company derived benefit from the payments made.

56A.3 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 2014 and 2015 for my inspection and audit.

57. UNIVERSITY OF NATURAL RESOURCES AND ENVIRONMENT

57.1 INTRODUCTION

57.1.1 Legislation

The University of Vudal was established under the *University of Vudal Act 1997*. This Act came into operation on 1 January 1997. The University changed its name to University of Natural Resources and Environment in 2008 and became operative in the same year.

Under this Act, the Vudal University College Campus of the PNG 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.

57.1.2 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 PNG; and endeavouring to achieve academic and professional excellence to meet those needs through teaching, research and community service.

57.1.3 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;
- Provide instruction and facilities for study, education and research to persons registered as preparing for degrees, diplomas, certificates or other awards of the University;
- 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;
- 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 *SCMC Act* appoint academic, administrative and other staff on such terms and conditions of service as the University may determine;

- Provide for promoting the health and general welfare of the students of the University, including the establishment and supervision of residences;
- Regulate and enforce discipline among the employees and students of the University by such measures as the University may determine;
- Cancel, annul or revoke any act done in the exercise of these powers; and
- 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.

57.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Management of the University had responded to my management letter for the year ended 31 December 2014 and these responses were being evaluated.

The financial statements for the year ended 31 December 2015 had not been submitted by the University for my inspection and audit.

58. UNIVERSITY OF PAPUA NEW GUINEA

58.1 INTRODUCTION

58.1.1 Legislation

The University of PNG was established under the *University of PNG Act (Chapter 169)*.

58.1.2 Objectives of the University

The objectives of the University include the:

- Provision of facilities for study and education;
- 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;
- Conferring, after examination, of the degrees of Bachelor, Master and Doctorate and such other degrees, diplomas, certificates and other academic honours as are authorised by the Statutes;
- 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.

58.1.3 Subsidiaries of the University

The University has two subsidiaries, Unisave Limited and Univentures Limited, which were incorporated under the *Companies Act 1997*.

Comments in relation to the subsidiaries are contained in paragraph 58A and 58B of this Report.

58.2 AUDIT OBSERVATIONS

58.2.1 Comments on the Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the University's financial statements for the years ended 31 December 2009, 2010, 2011 and 2012 were all issued on 16 February 2016. The reports contained Disclaimer of Opinions, hence, only the 2012 report is reproduced as follows:

“BASIS FOR DISCLAIMER OF OPINION

Opening Balances

My report for the year ended 31 December 2011 was a disclaimer of opinion. I was not able to satisfy myself as to the accuracy and completeness of the opening balances of cash on hand and at bank and other accounts which were qualified due to disagreement between the books and the financial statements. Since these opening balances entered into the determination of the results of operations of the University for the year under review, I was unable to determine whether adjustments to the results of Statement of Receipts & Payments and the accompanying notes might have been necessary for the year ended 31 December 2012.

The Financial Statements

The University's financial statements were prepared from data maintained on Excel Spreadsheets which included data from PGAS. The University did not have proper management accounting system during the year. I also noted that various manual journal entries were posted at the year-end without adequate and proper documentation and reconciliation, and necessary approvals.

The University Council had approved the change of its accounting policy from accrual to cash basis from 2009. As a result, account receivables and payables were omitted or insufficiently disclosed in the 2012 financial statements. I was unable to determine the full status of the receivables and payables as at 31 December 2012.

Further, the nature and volume of the transactions of the University had been significant and its properties were of great value. Therefore, cash basis of accounting seemed not appropriate for the University. The 2012 financial statements did not disclose sufficient financial information for me to determine the accurate financial position of the University and subsequently the going concern.

As a result, I could not ensure the completeness of the 2012 financial statements and appropriateness of maintaining cash basis accounting for the University.

Cash at Bank – (K5,857,553)

Note 8 of the financial statements disclosed cash on hand and bank balances of the various bank accounts of the University as at 31 December 2012. However, I was not provided with the monthly bank reconciliations of the respective bank accounts to ensure their accuracy. I also noted that cash and bank balances of the Open Campus Centers were omitted from the disclosure in the financial statements.

Further, a credit balance of K59,792,920 was disclosed as cash from other sources, however, adequate details and relevant source documents were not furnished to establish the accuracy and correctness of the amount reported. As a result, I was unable to determine the existence, completeness and accuracy of the *overdraft* bank balance of K5,857,553 as reported in the financial statements.

Special Purpose Accounts – K2,699,990

I noted that the Special Purpose Account (SPA) appeared to operate on its own. All its transactions were not taken up in the statement of receipts and payments of the University. Due to limitation of my audit scope, I was unable to review the Special Purpose Account. However, my review of the *Note 11* to the financial statements revealed that the SPA's opening balance stated at (K2,199,272) did not agree with the records maintained. Also, the receipts totaled K14,817,874 and the payments totaled K9,918,612 as reported did not agree with the schedules provided. Due to lack of details and proper documentation, I was unable to satisfy myself as to the completeness and accuracy of the SPA's receipts and payments.

As a result, I was unable to ensure the existence, completeness and accuracy of the SPA's balance of K2,699,990 as reported in the financial statements.

Government Grants – K35,161,000

The government grants totaled K35,161,000 was reported under receipts in the financial statements. However, the amount stated in the financial statements did not agree with the total governments grants receipt of K43,912,372 per the bank statements record. Due to lack of proper documentation, I was unable to extend my audit procedures. As a result, I could not verify the completeness and accuracy of the government grants as reported in the financial statements.

Building Grants – K41,750,000

The building grants totaled K41,750,000 was reported under receipts in the financial statements. However, the amount stated in the financial statements did not agree with the building grants receipt of K48,500,000 per the bank statements records.

In the absence of proper details and reconciliations, I was unable to verify the completeness and accuracy of the receipts of building grants as reported in the financial statements.

Students Fee – K33,022,963

The student fees totaled K33,022,963 was reported under receipts in the financial statements. However, the amount stated in the financial statements did not agree with the tuition fee receipts totaled K33,914,638 per the bank statements record. I was not provided with the details and all relevant documents and reconciliations needed to ensure the completeness and accuracy of the student fees received.

I also noted that reconciliations were not performed on tuition fees collected from the external students against the registered students under the distance education mode. Hence, I could not determine whether all the fees collectable were in fact collected. In addition, I was not provided with the details of the Imprest bank accounts of the respective Open Campus Centers and the Head Office. Therefore, I was unable to verify whether all fees collected from the students under the distance education mode were deposited intact into the respective Centers' Imprest bank accounts and subsequently transferred to the External Students fee bank account.

Further, the fees collected from the Honiara Open Campus Students were not accounted for in the books of the University. Therefore, the student fees were understated in the financial statements. As a result, I was unable to ensure the completeness and accuracy of the Student Fee receipts totaled K33,022,963 as reported in the financial statements.

Fixed Assets – K105,567,525

Note 9 of the financial statements disclosed fixed assets of the University at a book value of K105,567,525. The University did not maintain a proper Fixed Asset Register during the year. The Register was incomplete and details of the assets including descriptions, additions, disposals and location of their existence were not recorded. Physical stock take of all the fixed assets of the University was not conducted in 2012 or in the past years to update the Register.

I also noted that the details on Infrastructure Development Program (IDP) money spent by the Office of Higher Education (OHE) on various rehabilitation programmes of the University were not disclosed under fixed assets. In addition, the work-in-progress on major constructions undertaken during the year was not adequately identified and disclosed.

Due to lack of physical stock count and revaluation, and in the absence of full disclosure of all the fixed assets of the University, I was unable to conclude on the cost, valuation, existence, ownership and the conditions of the fixed assets totaled K105,567,525 as reported in the financial statements.

Payroll Tax Liability – K41,931,524

The payroll tax liability was disclosed in *Note 10* of the financial statements. However, I was not provided with the proper reconciliations and relevant supporting documents to ensure the completeness and accuracy of the payroll tax liability balance of K41,931,524 as reported in the financial statements as at 31 December 2012.

Loan from Special Purpose Account (SPA) – K17,861,396

The loan from Special Purpose Account (SPA) was disclosed in *Note 10* of the financial statements. Due to the limitation of my audit scope, I was unable to confirm whether the loan received and the repayments made were correctly accounted for by the SPA. As such, I was unable to confirm the completeness and accuracy of the loan payable balance of K17,861,396 as reported in the financial statements.

Univentures Capital from SPA– K1,000,000

I was not provided with all the required documents to determine the correctness of the K1.0 million reported as Univentures Capital from SPA in *Note 10* of the financial statements. As a result, I was unable to verify the validity, completeness and accuracy of the amount reported in the financial statements as at 31 December 2012.

Loan from Bookshop –K500,000

I was not provided with all the necessary documentations to verify the balance of K500,000 reported as loan from bookshop in *Note 10* of the financial statements. As a result, I was unable to verify the validity, completeness and accuracy of the amount as at 31 December 2012.

Payments from Building Grants – K15,141,629

A contractor was engaged at a cost of K30.45 million for a construction of the UPNG Law School in three (3) phases. The first (1) phase of the construction was valued at K10.0 million. I was unable to validate the contract in the absence of the National Executive Council (NEC) approval. Further, a project manager was employed at a cost of K1.568 million for the full phases of the construction. However, the full amount was paid despite only two (2) phases were completed.

Approval of the Central Supply & Tender Board (CSTB) was not made available for my review to validate the engagement of the project manager. As a result, I was unable to confirm the validity, completeness and accuracy of the payments from building grants totaled K15,141,629 as reported in the financial statements.

Scientific Equipments – K1,546,486

My review of the payments noted that a total of K1,546,486 was paid to foreign suppliers for purchase of various scientific equipments. However, I was not provided with the relevant documents including Goods Received Notes (GRN) to justify that all the equipments purchased were received by the University. Consequently, I could not validate the payments made for the scientific equipments.

Open College Capacity Building – K1,544,390

A total of K1,544,390 was paid towards this project. However, I was not provided with the contract copy for the engagement to verify the validity of the payments.

Personnel Emoluments – K48,593,588

The personnel emoluments totaled K48,593,588 was reported in the financial statements. However, I was not provided with the schedules, payroll reconciliations and all the necessary documents requested. As a result, I was unable to determine the completeness and accuracy of the payments for personnel emoluments as reported in the financial statements.

Operational Expenses – K14,225,986

I noted that fourteen (14) payments totaled K166,149 expended under operational expenses were not substantiated with invoices, receipts and evidences of goods and services delivery to ensure compliance with the *Public Finances (Management) Act 1995*. Also, I was not provided with the final statements from Air Niugini to determine the correctness of an amount of K150,000 paid in advance for freighting UPNG Open College materials. As a result, I was unable to verify the validity, completeness, and accuracy of the operational expenses totaled K14,225,986 as reported in the financial statements.

Travel Expenses – K1,161,514

My review of the travel expenses noted that in most instances travel and related payments were not supported by evidence of travel, original invoices and acquittal of the advances as required by the *Finance Policy and Accounting Procedure Manual (FPAPM)* of the University. As a result, I could not verify the validity of the travel expenses totaled K1,161,514 as reported in the financial statements.

Management Declaration

The management disclaimed correctness of the Statement of Receipts and Payments. The management also disclosed that all the records and books of account have not been properly maintained by the University in 2012.

This declaration indicated that the council and the management had failed to comply with the requirements of the *Public Finances (Management) Act 1995 (PFMA)* by not maintaining proper records and books of accounts to enable me to conduct the audit in time as required under *Section 63(4)* of the *PFMA*.

Subsidiary – Univenture Limited

University has incorporated a subsidiary Company namely Univentures Limited in 2007. The University did not disclose the results of the Company as part of the Notes to the financial statements. Consequently, I was unable to determine whether the presentation of the financial statements complied with statutory requirements.

DISCLAIMER OF AUDIT OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence and accordingly, I am unable to and do not express an opinion on the financial statements of the University of Papua New Guinea for the year 31 December 2012 ended.”

58.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the University for the years ended 31 December 2009, 2010, 2011 and 2012 were all issued on 16 February 2016. These reports contained similar observations, hence, only the 2012 report is reproduced.

Financial Statements / Accounting System

The financial statements submitted for my audit had many material errors. I noted that the University’s financial statements were prepared from data maintained on Excel Spreadsheets which included data from PGAS. The University was lacking proper management accounting system. Therefore, a uniform management accounting system (accounting package) was needed by all the branches, divisions, and centers of the University to be integrated to enable timely production of system generated financial reports.

“Non-submission and delays in preparation of Financial Statements was in breach of *Section 63(2) & Section 63(4) of Public Finances (Management) Act 1995*, where it states that all public bodies must submit the audited financial statements for the financial year ended to the Minister before 30 June of the following year.”

Open Campus

Expenses incurred by the open colleges were not reimbursed through an imprest system. The cash replenishments made by the General Fund were directly charged to the various expense accounts, which was not appropriate.

Property Insurance

The University’s buildings including the furniture & fittings, equipment and other inventories were not insured. In the event of fire or other natural disasters, these properties were exposed to significant risk of losses.

Home Ownership Scheme

The University had implemented National Home Ownership Scheme (NHOS) for its staff members. However, adequate information was not disclosed in the financial statements. Consequently, I was unable to confirm the status of this scheme as at 31 December 2012.

“The Section 39D of the University of Papua New Guinea Act 1983 stipulates that the University must at least once in every fiscal year, furnish to the Minister, for presentation to the National Executive Council (NEC), a report on NHOS devised and operated by the University.”

I was unable to confirm whether this provision was complied with by the University.

Loans to General Fund

Up to 31 December 2011 a total loan amount of K15,352,588 was given to the General Fund by the Special Purpose Account (SPA). Despite the standing instruction from the Council not to borrow further funds from the SPA, the management borrowed K2,508,808 in 2012. As a result, the total loan liability to SPA had increased to K17,861,396 as at 31 December 2012. I noted that the University was not repaying the loan but kept on borrowing year after year. I was unable to conclude whether the University was able to settle the loan liability as and when it falls due.

Loans to Staff

Staff loan register was not maintained by the University. The loan movement schedules detailing individual staff member's opening balance, additional loans granted, and installments recovered during the year were not made available for my review. Having operated a cash basis accounting, a proper loan register must be maintained to control the borrowings and to obtain reliable figures for disclosure in the financial statements.

Tuition Fees

Reconciliation was not done for the tuition fees paid direct to the tuition fee bank accounts against the fee receipts submitted by the students. Student files were not updated to identify the outstanding fees. Control environments surrounding student fee collection was weak or non-existence.

Tender & Quote Procedures

The University had awarded several contracts worth more than K100,000 without inviting tenders. On the contrary, the University used Certificate of In-Expediency. Therefore, the University had departed from compliance with the requirements of the *Public Finances (Management) Act 1995 (as amended)*.

Staff Records

The staff records were not well maintained and updated. Therefore, the information available was not accurate. As such, the calculation of the provisions and employee liabilities could not be accurate.

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 University for the year ended 31 December 2013 was in progress.

The University had submitted its financial statements for the year ended 31 December 2014 and arrangements were being made to commence the audit shortly.

The financial statements of the University for the year ended 31 December 2015 had not been submitted for my inspection and audit.

58A. UNISAVE LIMITED (Subsidiary of University of Papua New Guinea)

58A.1 INTRODUCTION

58A.1.1 Legislation

Unisave Limited was incorporated under the *Companies Act* on 18 October 2011.

The incorporation of Unisave Limited was as a result of a Memorandum of Agreement (MOA) signed between the Univentures Limited, (a company 100% owned by University of PNG) and S.I.T Co. Limited of the Republic of South Korea.

58A.1.2 Objective of the Company

The parties to this MOA shall endeavor to create mutual commercial benefits through assembly and sales of Information Communication Technology (ICT) products and various projects which have price and quality competitiveness compared with other organisations in PNG. This will be achieved by combining of infrastructures and marketing power in PNG provided by Univentures and the technical know-how and successful long-term various experience in Korean ICT market provided by S.I.T.

The main business of the Company is to assemble TVs, PCs, laptops, monitors and other items which can be included under mutual consent, such as systems integration, systems administration and maintenance in information technology.

58A.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements for the years ended 31 December 2012, 2013, 2014 and 2015 had not been submitted for my inspection and audit, despite numerous reminders.

58B. UNIVENTURES LIMITED (Subsidiary of University of Papua New Guinea)

58B.1 INTRODUCTION

58B.1.1 Legislation

Univentures Limited was incorporated under the *Companies Act*, on 2 August 2007. The Company has a total issued capital of one ordinary share of K1.00 and is wholly owned by the University of Papua New Guinea.

58B.1.2 Functions of the Company

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.

58B.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 2012, 2013, 2014 and 2015 for my inspection and audit despite numerous reminders from my Office.

59. WATER PNG (Formerly PNG Water Board)

59.1 INTRODUCTION

59.1.1 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. On 10 December 2010 PNG Water Board changed its name to Water PNG.

59.1.2 Functions of Water PNG

Water PNG is entrusted with co-ordinating, planning, designing, construction, management and charging for water supply and sewerage services throughout the country.

59.2 AUDIT OBSERVATIONS

59.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the inspection and audit of the accounts and records of the Board for the year ended 31 December 2013 was issued on 15 February 2016. The report contained a Disclaimer of Opinion.

“BASIS FOR DISCLAIMER OF OPINION

Limitation of Scope due to Opening Balances

My audit report for the year ended 31 December 2012 was a Disclaimer of Opinion due to the limitation of scope on the opening balances. I was not able to satisfy myself as to the accuracy and completeness of the opening balances of fixed assets, trade debtors, other current assets, asset revaluation reserve, trade payables, other payables, and long term borrowings for 2013 which is the closing balance for 2012. Since these opening balances entered into the determination of the results of operations and cash flows of Water PNG for the year under review, I was unable to determine whether adjustments to the results of operations and cash flows might have been necessary for the year ended 31 December 2013.

General Ledger Balances

I noted that certain reports produced by the *Pronto* accounting software had been inaccurate. There were instances where data inputs had not been picked up by the system and manual journal entries were passed to update the missing transaction records. Further, the financial data transferred from the former accounting system to the current *pronto* accounting system was not done correctly or completely. Consequently, I was unable to substantiate many of the general ledger balances.

Revaluation of Fixed Assets

The fixed assets of Water PNG represent a significant proportion of its Balance Sheet. However, the Board over the past years had not performed proper valuation of its properties. In 2010, TOL Valuer Limited conducted valuation of the lands and buildings; however, the new valuations were not adopted and reported in the financial statements. As a result, I was unable to determine whether the values of the Water PNG's properties were fairly and correctly reported in the financial statements as at 31 December 2013.

Fixed Assets in Arawa, Bougainville – K1,455,022

Fixed assets held by Water PNG in Arawa, Bougainville valued K1,455,022 were included in the financial statements. I noted that these assets have been abandoned since the Bougainville crisis in 1989. The Board had not carried out physical verification on these assets since the crisis. Hence, these assets were likely to be non-operational, obsolete, damaged, misplaced or stolen. As a result, I was unable to determine the validity of these assets included in the financial statements.

Land Title Deeds

I was not provided with the title deeds for all the properties (lands and buildings) owned by the Board. In addition, proper listings of all the lands were not made available for my review. I was unable to perform further audit procedures to determine the legal ownership right over the lands claimed to be owned by the Board.

Work in Progress – K16,902,290

Note 7 of the financial statements included work-in-progress totaled K16,902,290. I was not provided with the updated status of all the work-in-progress and all the relevant documents from the Donor funded project management teams. Consequently, I was unable to perform audit procedures to ensure the existence and accuracy of the WIP and to determine the appropriateness of transferring completed projects to fixed assets and their related depreciation charges for the year under review.

Physical Stock-take of Water PNG Assets

The Water PNG had not physically verified the fixed assets it owned throughout the country for many years. As a result, accurate information in respect of disposed, obsolete, damaged or stolen assets was not available. The Water PNG did not provide proper and reliable records needed for me to confirm the completeness, existence, location, and accuracy of the fixed assets totaled K211,559,430 as reported in the financial statements as at 31 December 2013.

Financial Statements for Provincial Water Supply Projects

Water PNG with the assistance of the National Government and the Asian Development Bank initiated a number of Provincial Water Supply Projects (PWSP). However, the audited financial statements of these projects were not made available for my review to determine whether all the completed projects were transferred to the fixed assets. Further, audit reports of the projects for the financial year 2008 remained outstanding. Therefore, I was unable to verify the value of the completed projects capitalized and the consequential effects this might have on the financial statements of Water PNG for the year ended 31 December 2013.

Trade Receivables – K26,020,000

The trade receivables was disclosed at K26,020,000 after allowing K12,978,576 as doubtful debts. However, the aged listing of the trade debtors and policy of the Board in respect of doubtful debt provisions were not made available for my review. As a result, I was unable to determine the validity of the provisions made and the completeness and accuracy of the trade receivables balance as reported in the financial statements.

Inventories – K1,221,508

My review of the inventories noted that obsolete and rusted items were included in the listings provided. I also noted that provisions were not made for the rusted and obsolete items. As a result, I was unable to have comfort over the completeness and accuracy of the inventories balance of K1,221,508 as reported in the financial statements.

Trade Creditors – K2,152,886

Trade creditors was reported as K2,152,886 in the financial statements. However, this amount was not supported by schedules and supplier statements. The trade creditors listing produced from the *Pronto Accounting System* was incomplete. As a result, I could not determine the accuracy of the balance reported as at 31 December 2013.

Other Payables and Accruals – K15,296,741

Note 5(b) of the financial statements disclosed other payables & accruals totaled K15,296,741. Included in this balance were accrued expenses and other liabilities valued K3,930,835 and K1,142,728 respectively. I was not provided with the detailed listing and all relevant source documents for verification. As a result, I was unable to perform my audit procedures to confirm the accuracy of the amounts disclosed in the financial statements.

Asian Development Bank Loan – K87,301,163

Note 6 of the financial statements disclosed long term borrowings. Included in the long term borrowings was the Asia Development Bank (ADB) loan amount of K87,301,163. My review of the *Loan Agreement* dated 16 January 2001 revealed that the Government of Papua New Guinea (GoPNG) was the borrower of the funds. Hence, it has been improper for Water PNG to account for the loan in its books. The Management informed that there exists a *Sub-Loan Agreement* between the GoPNG and the Water PNG which allows for the Board to account for the loan and its repayments. However, the sub-loan agreement was not made available for my review. I also noted that no interest has been accrued or accounted for in the books of the Board.

In the absence of the *Sub-Loan Agreement*, I was unable to confirm the existence and correctness of the loan liability to the ADB. I also could not conclude whether the loan has been serviced in line with agreed terms and conditions of the loan agreement.

Grant Received and not Spent - K3,285,568

Note 8(a) of the financial statements disclosed grants received and not spent at K3,285,568. My review of the account noted that this amount was a carried forward balance from the prior years and classified as a deferred income. I was not provided with the details to support this account balance. As a result, I was unable to perform audit procedures to ascertain the accuracy and completeness of the amount reported.

Grants Received and Spent - K56,023,756

Note 8(b) of the financial statements disclosed grant received and spent at K56,023,756. This amount represented the Government of PNG funded portion of the provincial water assets transferred to the ownership of the Water PNG. During the year Water PNG realized K2,470,263 as income through amortization.

Due to lack of details and supporting documentations of all the transferred assets, I was unable to perform further audit procedures to determine the actual value of the depreciation charges incurred each year on the transferred assets and the validity of the level of reduction in depreciation charges made.

Bonds and Refundable Deposits - K3,390,241

The bonds and refundable deposits valued K3,390,241 was included in *Note 6* of the financial statements. I was not provided with the listing or schedule of this account to verify the accuracy of the balance as reported in the financial statements.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer 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 Water PNG for the year ended 31 December 2013.”

59.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Board for the year ended 31 December 2013 was issued on 15 February 2016. The report contained the following significant matters:

Compliance with *Public Finance (Management) Act, 1995*

The audit of the 2013 statutory financial statements commenced in July 2015 which was after the deadline of 30 June 2013. As such, the Directors did not meet the deadline set by *Section 63* of the *Public Finances (Management) Act, 1995* for audited financial statements of public bodies to be furnished to the Minister before 30 June of the subsequent year.

Fixed Asset Register (FAR) – General Observations

A high proportion of fully depreciated assets were still recorded in the Fixed Asset Register (FAR). Most of these appear to be very old assets which may or may not exist. As noted, Water PNG has failed to account for obsolescence or theft of assets. Additionally, many assets recorded in the FAR have no specific identifying details. There were insufficient details in the FAR as purchase orders were not used in a number of cases and some additions had no supporting documents. Payments for assets were often based on a quote with no invoice filed or available for review.

Accounting for Goods Services Tax (GST) on asset acquisition was incorrect on a number of purchases made. Number of assets purchased during the year was included in the FAR inclusive of GST, and not fully deducted when recording the assets.

Inadequate Insurance Cover

I have noted that Water PNG has insurance cover on its fixed assets, however, given the uncertainty regarding the valuation or existence of these assets there is a risk that claims may be undervalued and not cover actual replacement costs or assets which have been damaged or stolen, may not be identified and therefore cannot be claimed from Insurance.

Without an accurate Fixed Asset Register and adequate insurance cover based on such a register, Water PNG is exposed to significant potential financial losses and legal risks from fire, theft and other destructive occurrences.

General Accounting and Internal Control Environment

The operation of the accounting system and the internal control environment at Water PNG appears to be deficient with the nature of its business. The organisation suffers due to an ineffective management information system as well as an inadequate financial reporting structure. The result of which is slow, ineffective and incomplete accounting as well as unreliable information for management. This increases the risk of suboptimal decision making, as well as incomplete financial records and delayed financial statements.

The reports that were produced by the system were inaccurate and the management was unable to substantiate many of the balances included in the general ledger. This effectively meant neither Management nor any third party could place reliance on the accounting system to give a complete and accurate information. Because of the failures in record keeping, internal control, segregation of duties and Management oversight, I am of the view that the Water PNG did not keep proper accounting records of its 2013 financial transactions.

I also observed that the Water PNG lacked a proper documentation system which prevented me from testing the internal control system. Number of essential documentation either could not be retrieved or simply did not exist. This resulted in delays and even failures to provide the requested audit information which impacted me to complete the audit as planned.

The lack of proper documentation and the non-adherence to standard procedures and processes is an example of an ineffective internal control system. The absence of documentary evidence of any control procedures restricted me from carrying out tests for compliance of control procedures and processes but in itself is evidence that the procedures were ineffective.

59.3 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 Board for the year ended 31 December 2014 was in progress.

The financial statements of the Board for the year ended 31 December 2015 had not been submitted for my inspection and audit.

SECTION B

NATIONAL GOVERNMENT OWNED COMPANIES

60. FOREWORD

This Section of my Report deals with Companies in which the Government of PNG holds more than 50% of the Issued Share Capital. On 26 January 1983, the *NEC'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*.

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

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.

61. AIR NIUGINI LIMITED

61.1 INTRODUCTION

61.1.1 Legislation

Air Niugini Limited was incorporated under the *Companies Act*. It was formed to be the successor company of National Airline Commission, following the NEC decision of 20 June 1996 to corporatise the National Airline Commission in accordance with *Section 45* of the *National Airline Commission Act*.

As a result of the NEC decision, all assets, liabilities, staff and operations of the National Airline Commission were to be transferred at the written down book value (as at 31 August 1996) to Air Niugini Limited. Air Niugini Limited is a 100% State Owned Company.

61.1.2 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 other business which may be usefully carried on in connection with such business;
- 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;
- Carry, collect, receive, load, unload, store, consign, distribute, transfer and deliver property of every description by any mode of transportation; and
- Carry passengers by air, road, rail, land, sea or water and to operate any taxi service and to obtain any necessary licences for such purposes.

61.1.3 Subsidiary of the Company

The Company has a subsidiary Company, Link PNG Limited. Comments in relation to that Company are contained in paragraph 61A of this Report.

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 2014 had been completed and the results were being evaluated.

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 2015 was in progress.

61A. LINK-PNG LIMITED (Subsidiary of Air Niugini Limited)

61A. INTRODUCTION

61A.1 Legislation

The Link-PNG Limited came into existence on 26 June 2014 after the name changed from PNG Link Limited. Link-PNG Limited was incorporated under the *Companies Act 1997* on 4 May 2010. This Company was bought by Air Niugini Limited from Steamships Limited on 05 August 2014 for a consideration of K100.

This Company is a 100% subsidiary of Air Niugini Limited. The Company commenced the business of air travel for the PNG Domestic markets since November 2014.

61A.1.2 The Objective of the Company

The key objective of the Company is to:

- Be the leading domestic airline in Papua New Guinea, delivering safest, cost effective air travel to the communities.

61A.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 2015 was in progress.

62. KUMUL PETROLEUM HOLDINGS LIMITED (formerly NPCP Holdings Limited)

62.1 INTRODUCTION

62.1.1 Legislation

This Company was incorporated under the *Companies Act* on 4 March 2014 and was established in accordance with the *NEC Decision No. 108/2011* dated 7 July 2011. As a result of the enactment of the Kumul Petroleum Holdings Limited Authorisation Act, 2015 the issued shares of the Kumul Petroleum Holdings Limited previously owned by Independent Public Business Corporation (IPBC) was transferred to the Kumul Petroleum Trustee. On 25 September 2015, the Company changed its name from NPCP Holdings Limited to Kumul Petroleum Holdings Limited.

62.1.2 Objective of the Company

NPCP Holdings Limited and its wholly owned subsidiaries are the only group of State Owned Companies from which the State would nominate one or more of them to participate in all future Petroleum Projects as State nominee for the purposes of *Section 165* of the *Oil and Gas Act 1998*.

62.2 AUDIT OBSERVATIONS

62.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act* on the Company's financial statements for the year ended 31 December 2015 was issued on 31 March 2016. The report did not contain any qualification.

62A. KUMUL PETROLEUM DEVELOPMENT LIMITED (formerly NPCP Pipeline and Gas Supply Limited) (Subsidiary of Kumul Petroleum Holdings Limited)

62A.1 INTRODUCTION

62A.1.1 Legislation

This Company was incorporated under the *Companies Act 1997* on 19 September 2014. This Company was established in accordance with the *NEC Decision No. 108/2011* dated 7 July 2011. Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Petroleum Development Limited. On 25 September 2015 the Company changed its name from NPCP Pipeline and Gas Supply Limited to Kumul Petroleum Development Limited.

62A.1.2 Objective of the Company

The objective of the Company is to provide pipeline facilities to the upcoming various Liquefied Natural Gas (LNG) projects. In 2014, the Company purchased 100% shareholding in Cue PNG Limited at a cost of US\$7 million and changed the name as NPCP Oil Company Limited registered in Melbourne, Australia.

62A.2 AUDIT OBSERVATIONS

62A.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 2015 was issued on 31 March 2016. The report did not contain any qualification.

62B. KUMUL PETROLEUM INVESTMENTS LIMITED (formerly NPCP Investments Limited) (Subsidiary of Kumul Petroleum Holdings Limited)

62B.1 INTRODUCTION

62B.1.1 Legislation

This Company was incorporated under the *Companies Act* on 15 October 2014. This Company was established in accordance with the *NEC Decision No. 108/2011* dated 7 July 2011. Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Petroleum Investments Limited. On 25 September, 2015, the Company changed its name from NPCP Investment Limited to Kumul Petroleum Investments Limited.

62B.1.2 Objective of the Company

The Principal objective of the Company is to hold the State's shareholding interest in Oil Search Limited and other Investments by the State in oil and gas in Papua New Guinea. In this respect, on 4 March 2014, Independent State of PNG (ISPNG) acquired 10.01% shareholding (149,390,244 shares) in Oil Search Limited (OSH) at a price of AUD8.20 per share for a total consideration of AUD1.225 million. The funding for purchase of the ISPNG interest in OSH was provided by UBS Australia. On 23 December 2014, ISPNG transferred its 10.01% shareholding interest in OSH and the obligations arising from the loan facilities provide by UBS to Kumul Petroleum Investments Limited and Kumul Petroleum Holdings Limited.

62B.2 AUDIT OBSERVATIONS

62B.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act* on the Company's financial statements for the year ended 31 December 2015 was issued on 31 March 2016. The report did not contain any qualification.

62C. KUMUL PETROLEUM (PNG LNG) LIMITED (formerly National Petroleum Company of PNG (Kroton) Limited) (Subsidiary of Kumul Petroleum Holdings Limited)

62C.1 INTRODUCTION

62C.1.1 Legislation

This Company was incorporated under the *Companies Act* and was acquired by IPBC on 24 November 2008.

IPBC was approved as the State's nominee in the *PNG Liquefied Natural Gas (PNG LNG) Project* as resolved by *NEC in its Meeting No. 36/2008 through Decision No. 223/2008*. NPCP Holdings Limited is the 100% Shareholder of National Petroleum Company of PNG (Kroton) Limited as per *NEC Decision No. 108/2011* dated 7 July 2011, which came into effect in 2013. All the Company's shares held by IPBC were transferred to NPCP Holdings Limited in 2013. On 25 September 2015, the Company changed its name from National Petroleum Company of PNG (Kroton) Limited to Kumul Petroleum (PNG LNG) Limited.

62C.1.2 Objective of the Company

The objective of Kumul Petroleum (PNG LNG) Limited is to invest in the PNG LNG Project as PNG State's nominee holding 16.57% Equity in the Project.

62C.2 AUDIT OBSERVATIONS

62C.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act* on the Company's financial statements for the year ended 31 December 2015 was issued on 31 March 2016. The report did not contain any qualification.

62D. KUMUL PETROLEUM TECHNICAL INSTITUTE AND CONSULTING LIMITED (formerly NPCP Technical Institute and Consulting Limited) (Subsidiary of NPCP Holdings Limited)

62D.1 INTRODUCTION

62D.1.1 Legislation

This Company was incorporated under the *Companies Act* on 08 September 2014. This Company was established in accordance with the *NEC Decision No. 108/2011* dated 7 July 2011. Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Petroleum Technical Institute and Consulting Limited. On 25 September 2015 the Company changed its name from NPCP Technical Institute and Consulting Limited to Kumul Petroleum Technical Institute and Consulting Limited.

62D.1.2 Objective of the Company

The Principal objective of the Company is to provide professional and other business services. In 2015, the Company bought 12.5% shares in Orion Enga Children's Fund JV Limited. Orion Enga Children's Fund JV owns South Pacific Employment Institute which is registered as a business name which runs the Port Moresby Technical College (i.e now known as Kumul Petroleum Academy).

62D.2 AUDIT OBSERVATIONS

62D.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act* on the Company's financial statements for the year ended 31 December 2015 was issued on 31 March 2016. The report did not contain any qualification.

63. LIVESTOCK DEVELOPMENT CORPORATION LIMITED

63.1 INTRODUCTION

63.1.1 Legislation

The Livestock Development Corporation Limited was incorporated under the *Companies Act*. The share capital is wholly owned by the National Government.

63.1.2 Functions of the Corporation

The main activities of the Corporation are breeding and slaughtering cattle and pigs, purchasing and exporting insects, growing vegetables and fruits, and raising poultry.

63.2 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 2010, 2011, 2012, 2013, 2014 and 2015 for my inspection and audit.

I expressed my concern to the Minister for Agriculture and Livestock through my letters dated 12 April 2015 and 26 April 2016 for the long delay by the Corporation in submitting its financial statements to enable me to perform the audit for the years stated above.

64. MINERAL RESOURCES DEVELOPMENT COMPANY LIMITED

64.1 INTRODUCTION

64.1.1 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 PNG 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.

64.1.2 Objective of the Company

The principal objective of the Company is to hold the Government's equity in mineral and petroleum development ventures within PNG.

64.2 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 years ended 31 December 2012, 2013, 2014 and 2015 were in progress.

65. MOTOR VEHICLES INSURANCE LIMITED

65.1 INTRODUCTION

65.1.1 Legislation

The Motor Vehicles Insurance (PNG) Trust Limited was incorporated under the *Companies Act* following the NEC Decision No. 4/98 of January 1998. It was formed to change the status of the then existing Motor Vehicles Insurance (PNG) Trust to conform to the intentions of the NEC for the then PNG 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 (MVITL). The shares of this entity which were held by the Independent State of PNG were subsequently sold to the then PNG 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 PNG 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 PNGBC Limited was Finance Pacific Limited, a Company wholly owned and controlled by the Independent State of PNG.

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

65.2 AUDIT OBSERVATIONS

65.2.1 Comments on Financial Statements

My reports in accordance with the provisions of the *Companies Act* on the Company's financial statements for the years ended 31 December 2012, 2013 and 2014 were issued on 14 April 2016. These reports contained similar Qualified Opinions, hence only the 2014 report is reproduced.

“BASIS FOR QUALIFIED OPINION

Non-Consolidation of Subsidiaries

Note 16(ii) of the financial statements disclosed the Investment in subsidiaries relating to 100% and 52 % of shareholdings in Pacific MMI Limited and Pacific Re Limited respectively. Since the shareholdings in these companies are more than 50%, the consolidated financial statements including these subsidiaries are required to be prepared in accordance with *IAS 27 Consolidated and Separate Financial Statements*. However, no consolidated financial statements have been prepared and submitted for my review. The Company has accounted for these investments on a cost basis and therefore have not complied with the accounting standards *IAS 27*.

Overseas Investments – Woodlawn Capital Limited

Note 16 of the financial statements disclosed a total amount of K450,458,578 as Non-Current Investments. Of this, K52,987,922 (net of provision of K38,257,972) relates to Overseas Investment of K90.68 million in Woodlawn Capital, Australia. Fund Manager’s confirmation disclosed that equivalent amount held in foreign currency (Australian dollar) was AUD \$27,536,040. However, the relevant certificates of these investments were not made available for my review to verify the claim made by the Fund Manager. Therefore, I was unable to verify the accuracy of the non-current (overseas) investments taken up as K52,987,922 in the financial statements as at 31 December 2014.

Investments in NCDC Road Investment

Note 16(iii) of the financial statements reported Non-Current Investments totaled K112,304,771. Included was K50,000,000 as Grant paid to National Capital District Commission (NCDC) under Road Investment Grant at an annual interest rate of 15%. Clause 6 of the agreement stated that K50.0 million paid by MVIL to NCDC was a Grant.

MVIL Board had approved this Grant on 16th of July 2013 but its validity could not be determined since the Board Minute was not signed by the Chairman and Secretary of the meeting. In addition, the approval from the Minister for Finance in respect of this investment was not made available for my verification.

Therefore, I was unable to verify the appropriateness of K50.0 million included under other non-current investments in the financial statements as at 31 December 2014.

Fixed Assets

Note 13 of the financial statements disclosed fixed assets totaled K35,948,551. Included in the Fixed Assets was Work In Progress (WIP) amounted to K21,328,284. This amount was spent by the Company between 2008 and 2011 towards property development at Koki Heights Land (KHL). However, the project was scrapped on the advice of the Investment Manager. A Consulting firm reviewed this project advised that this project is a failed project and should be fully provided. However, the financial statements still reported this amount as WIP resulting in value of the fixed assets being overstated. Consequently, I was unable to verify the accuracy of the fixed assets reported as K35,948,551 in the financial statements as at 31 December 2014.

QUALIFIED OPINION

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

- (a) The financial statements of Motor Vehicles Insurance Limited for the year ended 31 December 2014;
 - (i) give a true and fair view of the financial position and the results of its operation 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) Except as noted under emphasis of matter paragraphs, proper accounting records have been kept by the Company; and
- (c) I have obtained all the information and explanation as required except for the matters referred to in qualification and emphasis of matter paragraphs.

EMPHASIS OF MATTERS

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

Loss on Equity Monetization of BSP Shares

As at 1 January 2009, Motor Vehicles Insurance Limited owned 530,105,100 shares in Bank of South Pacific (BSP).

These shares under Equity Monetization Contract (EMC) were mortgaged to Nominees Niugini Limited on 22 July 2009 for a loan of K100 million. The value of these shares mortgaged at the date of transfer was K439,987,233 at K0.83/share as per POM Stock Exchange.

On 6 June 2011 BSP reconstructed its shares by issuing one (1) share for every ten (10) shares held and 530,105,100 BSP shares owned by MVIL were converted into 53,010,510 shares. On 22 June 2011, 21,766,774 mortgaged BSP shares were retained by Nominee Niugini Limited as a result of the termination of the Equity Monetization Contract and 31,243,736 BSP shares were transferred back to MVIL.

As a result of this Equity Monetization Contract, MVIL incurred a loss of K45,837,385 (Gross) as noted below;

Value of 53,010,510 shares as at 22 June 2011 @ K6.70/ Share	K355,170,417
Value of 31,243,736 shares transferred back to MVIL @ K6.70/Share	<u>K209,333,031</u>
Gross Loss Incurred on the transfer	K145,837,385
Less: EMC proceed	<u>K100,000,000</u>
Loss on transfer of BSP Shares as on 22 June 2011	<u>K 45,837,385</u>

Though, this loss was provided in the accounts of MVIL, the management has not complied with the requirements of *IPBC Act* and *Companies Act* in monetization of the BSP shares.

Non-Compliance of Companies Act

Further to my qualification in respect of Monetization of BSP shares, I noted that the MVIL Board had erred in law by convening a meeting to obtain a Special Resolution of the Board for the Monetization of BSP shares. The Special Resolution as per *Section 2* of the *Companies Act 1997* defines the 'Special Resolution' means the special resolution of shareholders and in this case, Independent Public Business Corporation (IPBC). IPBC has not given the consent for this Monetization Contract before the contract and even after the transaction has taken place.

False declarations were made on the Finance Forms which form part of the Equity Monetization Contract and Mortgage Contract.

The MVIL Board had contravened *Section 110, 112, 114* and *115* of the *Companies Act 1997*. The respective provisions of the *Companies Act* referred to, requires that all the company's major transactions entered into shall be approved by the Shareholder of the Company which is IPBC, by a Special Resolution.

Further, the Directors of the Company should act in good faith in the best interest of the Company, in that they should not act or agree to the Company acting in a manner that contravenes the *Companies Act 1997* and the Constitution of the Company.

As a consequence of their failure, I am of the view that the MVIL Board Members could be penalized under *Section 112 (5) 114(2)* of the *Companies Act 1997* and other relevant provisions relating to offences and penalties. These Sections impose significant penalties, including financial penalties for failure to comply with the Act.

In my 2009 audit report, I also reported the issue on the non-compliance of the *Companies Act* by the Management of *Motor Vehicles Insurance Limited*, regarding the loan of K100 million for *Nominees Niugini Limited* by mortgaging 530,105,100 BSP shares.

Non-Compliance of Independent Public Business Corporation Act 2002 (IPBC)

The K100,000,000 loan arrangement and the mortgaging of the 530,105,100 BSP Shares was in breach of *Section 46B* of the *IPBC Act 2002* because the Section requires the Ministerial approval from the Minister of Finance & Treasury upon the recommendation of the Managing Director of IPBC.

Penalty for Non-Compliance of Agreement

In 2013, under *Note 10* to the financial statements, an amount of K22,861,850 was reported as penalties and fines in relation to Monetization of BSP shares, and as liability to Nominee Niugini Limited for non-compliance of monetization agreement. I was not provided with all relevant documentation in respect of this claim for my review to determine the validity of this provision. Further, this liability was discharged in April 2014 to Nominee Niugini Limited.”

65.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Company for the years ended 31 December 2012, 2013 and 2014 were all issued on 14 April 2016. These reports contained similar observations, hence, only the 2014 report is reproduced as follows:

Non-Compliance with the notification issued on Investment Criteria

Motor Vehicles Insurance Limited (MVIL) is a successor company under the *Motor Vehicles (Third Parties Insurance) Act*. The Finance Minister, in accordance with powers granted by *Motor Vehicles (Third Parties Insurance) Act*, had laid down the following criteria as regards to the composition of investments made by MVIL:

	<u>Per Notification</u>	<u>At 31/12/2014</u>
Government Securities	15%-25%	Nil
Term Deposits	20%-30%	25.35%
Commercial Equities	25%-35%	51.18%
Property	20%-30%	-

Long Term Development

Loans/Debentures	10%-20%	-
Subsidiaries	Nil	6.4%
Overseas Investments	Nil	8.78%
NCDC – Grant	Nil	8.28%

From the above table, it was evident that MVIL had not complied with the criteria laid down in the notification.

Further, per investment policy the company should not invest in any one company more than 50% of the paid up capital of that company. However, MVIL owned 100% of the paid – up capital in Pacific MMI Limited by which it had not complied with the investment policy.

I brought this matter to the attention of management and I have since been advised that the 50% of the shares in Pacific MMI will be disinvested to prospective buyer and claimed that the NCDC investment was fully recoverable.

Directors Allowances Not-Taxed

Directors' stipend paid during the year totalled K788,882, however, appropriate taxes were not deducted and remitted to Internal Revenue Commission (IRC). This was in contravention of *Income Tax Act 1959*. I brought this matter to the attention of management and I have since been advised that all directors were be deemed to have a primary employment elsewhere; therefore all payments made to them would be taxed at marginal tax rate of 42% from hereon.

Internal Audit Division (IAD)

During the year there was no internal audit done by the *Internal Audit Division (IAD)*. Claims were released without being reviewed and approved by the Internal Audit Division to ensure that the payments were allowed after complying with the required procedures of the Company.

Non-Compliance with *Income Tax Act*

No variation forms from Internal Revenue Commission for the exemption of motor vehicle allowance and housing allowance (other than those who participate in National Housing Ownership Scheme) were made available for audit verification.

As a result, the appropriateness of payment of K3,205,122 as housing allowance and K324,262 as motor vehicle allowance during the year could not be ascertained as appropriate tax was not deducted from these allowances. Non-deduction of appropriate tax may not be in compliance with *Income Tax Act*.

I brought this to the attention of management and I have since been advised that management is currently working with Human Resource and Accounts to address this issue.

65.3 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 2015 had been completed and the results were being evaluated.

66. NATIONAL AIRPORTS CORPORATION LIMITED

66.1 INTRODUCTION

66.1.1 Legislation

National Airports Corporation Limited was incorporated under the *Companies Act*. The Company had begun operations in October 2009 after its incorporation on 6 October 2009. This Company was established in accordance with *Section 132* of the *Civil Aviation Act 2000 (as amended)*.

National Airports Corporation Limited is regulated by the *Civil Aviation Authority Act 2000 (as amended)* as a Company having its own operating certificates. Except for the governance requirements specified in the *Civil Aviation Act*, it operates independently. The two shares issued by the Company are equally held by the Minister for Civil Aviation and the Minister for Finance on behalf of the Independent State of Papua New Guinea.

66.1.2 Functions of Corporation

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

66.1.3 Subsidiary of the Corporation

The Corporation has a subsidiary company, *Airport City Development Limited*. Comments in relation to that company are contained in paragraph 66A of this Report.

66.1.4 Project of the Corporation

The National Airports Corporation Limited also manages the *Civil Aviation Development Investment Program (CADIP)* which is funded by Asian Development Bank and counter funded by the Government of PNG (GoPNG). Comments in relation to the Project are contained in my **Special Project Audits Report to Parliament**.

66.2 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 Corporation for the year ended 31 December 2011 was completed and the results were being evaluated.

The Corporation had not submitted its financial statements for the years ended 31 December 2012, 2013, 2014 and 2015 for my inspection and audit, despite repeated reminders.

66A. AIRPORT CITY DEVELOPMENT LIMITED (Subsidiary of National Airports Corporation Limited)

66A.1 INTRODUCTION

The Airport City Development Limited was incorporated on 20 August 2009 and was deregistered on 20 April 2010. However, the Company was reinstated on 19 September 2011 as a subsidiary company of the National Airports Corporation Limited. The Company came into operation on 19 September 2012.

66A.2 CHARTER OF THE COMPANY

The Company was incorporated to establish and manage the design, construction and operating stages of the Airport City Project to ensure economic, technically sound and expeditious completion of the Airport City Project.

66A.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Company for the years ended 31 December 2012, 2013, 2014 and 2015 had not been submitted for my inspection and audit, despite reminders.

67. NCD WATER AND SEWERAGE LIMITED (Trading as Eda Ranu)

67.1 INTRODUCTION

67.1.1 Legislation and Objectives of the Company

The NCD Water and Sewerage Limited was incorporated on 23 February 1996 under the *Companies Act*. The *NCDC (Transfer of Assets) 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 NCDC.

67.1.2 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 NCD.

67.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

67.2.1 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 2014 was issued on 19 January 2016. The report contained a Qualified Opinion.

“BASIS FOR QUALIFIED OPINION

Fixed Assets – K75,927,392

The Company has disclosed its fixed assets at a written down value of K75,927,392 as at 31 December 2014. Of the total fixed assets, I have not been able to verify K14,983,884 worth of assets classified under Water and Sewerage Assets categories. Further, the Company has not maintained a fixed assets register for all the fixed assets under the custody and control of the Company. As a result, I was not able to verify the accuracy, measurement, existence and completeness of the carrying amount of the fixed assets at the year end.

Provision for Doubtful Debt

My review of the aged debtors shows that over K25 million which is 56% of the total debts (K44.6m) are beyond one year. This is so high and in comparison with the K1.2 million ‘provision for doubtful debts’ that was passed in the general ledger, it is deemed insufficient.

On that basis, I am unable to satisfy myself as to the accuracy and completeness of the balance of ‘*provision for doubtful debts*’ disclosed in the accounts.

QUALIFIED OPINION

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

- (a) The financial statements of NCD Water and Sewerage Limited for the year ended 31 December 2014:
 - (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* and *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 explanation required.”

67.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the audit and inspection of the accounts and records of the Company for the year ended 31 December 2014 was issued on 19 January 2016. The report contained the following observations:

Government Grants

Funds received from local Members of Parliament (MPs) were treated as shareholders equity as reported in the financial statements. However, according to the *International Accounting Standards (IAS 20)*, these monies should be recognised in the profit and loss statement on a systematic basis over the period in which the entity recognises as expenses related to costs for which the grants were intended to compensate. This was a deviation from the underlying accounting standards (IAS 20) resulting in overstating reserves and capital balances in the accounts by K7.6 million.

I recommended Management to apply the correct accounting treatment of grants received from MPs under the *International Accounting Standards*. The Management responded as follows:

“Government’s (local MPs) injection of funds to Eda Ranu is purposely for infrastructure development in the city, especially in settlements. Hence, these funds are directly paid to various new projects costs as opposed to supporting the entity’s normal operating expense. Thus are not allowed to be classified as income as allowed for under paragraph 38 of IAS 20.”

Annual Tax Returns

The Annual Tax Returns of the company were not up to date. The last Returns lodged were for 2009. Since this was non-compliance to Internal Revenue Commission Act. This would attract late penalty fees.

I recommended Management to comply with all laws and that Eda Ranu operates under necessary laws to avoid unnecessary costs. The Management responded as follows:

“We are aware that these are outstanding and are putting great efforts and resources to get out of this.”

67.3 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 2015 was in progress.

68. PNG PORTS CORPORATION LIMITED (Formerly PNG Harbours Limited)

68.1 INTRODUCTION

68.1.1 Legislation

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 NEC in 1999. The Company changed its name to PNG Ports Corporation Limited on 7 March 2006.

68.1.2 Functions of the Company

The general functions of PNG 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.

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 inspection and audit of the accounts and records of the Company for the year ended 31 December 2014 was issued on 29 February 2016. The report contained a Qualified Opinion.

“BASIS FOR QUALIFIED OPINION

Revaluation of Property, Plant and Equipment – Revaluation of Entire Class of Assets

The Company carried out a revaluation in 2011 of land, building and wharf facilities resulting in an increase in the value of the property, plant and equipment by K568 million. However, wharf facilities with a carrying value of K73 million were not considered for revaluation. This in my opinion is a departure from *International Accounting Standards 16 – Property, Plant and Equipment (IAS 16)* which requires that where an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued. Had the wharf facilities been completely revalued in their entirety, the carrying value of property, plant and equipment and revaluation reserve may have been materially different to that recorded in the attached financial report. The financial effect of this matter is unable to be quantified.

Presentation of Consolidated Financial Statements

In Note 2 “Basis of Preparation and Significant Accounting Policies” the directors state that the financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). IFRS 10 “*Consolidated Financial Statements*” requires that the Parent should present consolidated financial statements. These financial statements are not consolidated financial statements of the Group consisting of PNG Ports Corporation and its subsidiaries.

The financial statements are the separate financials statements of PNG Ports Corporation Limited and therefore do not comply with the requirement of IFRS 10.

QUALIFIED OPINION

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph above:

- (a) The financial statements of PNG Ports Corporation Limited for the year ended 31 December 2014:
 - (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 as far as it appears from my examination of those records; and
- (c) I have obtained all the information and explanations required.

EMPHASIS OF MATTER

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

Compliance with the Companies Act 1997

The financial statements for the year ended 31 December 2014 have not been submitted to the Registrar within the required timeframe. This is in my opinion, a contravention to the *Companies Act 1997*, which requires the Directors of every company to, within five months after the balance date of the company, submit the duly signed financial statements to the Registrar unless the Registrar extended the period on the application of the company.”

68.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and the audit of the accounts and records of the Company for the year ended 31 December 2014 was issued on 29 February 2016. The report contained the following significant matters:

Risk Assessment related to Fraud Risk

During my audit, I noted that the internal audit department was investigating various fraudulent act committed in operation such as fraudulent released of container at the Port Moresby Port. The Company may never be able to eliminate fraud entirely; however, management can prevent some things from happening to lessen the financial impact to the Company.

The Board of Directors had the responsibility for effective and responsible corporate fraud governance. The role of the board is to oversee and monitor management's actions to manage fraud risks. Specifically, the Board evaluates management's identification of fraud risks, implementation of anti-fraud measures, and creation of the tone at the top. I recommend management to perform fraud risk assessment. The fraud risk assessment was a tool that assists management and internal auditors in systematically identifying where and how fraud may occur and who may be in a position to commit fraud.

The management responded as follows:

- “1. To address fraud risks is to address the “symptoms” only and not the root “causes” of the underlying issues;
2. PNGPCL had come a very long way in the last 6 years to address probity issues by putting place adequate systems and processes to detect and prevent occurrences of fraud. The employment contract and the Code of Conduct Letter signed off by each employee are examples of significant deterrent measures adopted by PNGPCL management. The “ton at the top (Board/CEO) with respect to corporate governance are exemplary;
3. The existence of an effective and robust IA function (Governance & Risk Division) and Board Audit & Risk sub-committee mandated under respective charters are testaments to the commitment of the Board and management to promoting good corporate governance, risk management and compliance culture in PNGPCL;
4. The management has set a “zero-tolerance” policy for fraud and inappropriate staff behavior by dealing with recalcitrant employees swiftly and decisively leading to a significant drop in occurrence of fraud; and

5. *Fraud Management Policy and Whistle Blowing Policy will be drafted and implemented in 2016.”*

Idle Property, Plant and Equipment and lack of supporting ownership to Land

During my inspection and inquiry of property, plant and equipment I noted some items that were idle and no use in the Company. As per my discussion with the management, the cost of running these assets were higher than the revenue they would receive if they use the assets. I also noted that the Company’s Fixed Assets Register contains land without certificate of land titles.

The Property, plant and equipment recorded in the books maybe impaired or overstated due to the recoverable amount of some items included in property, plant and equipment was lower than the carrying value of the assets.

I recommended management that at each reporting date, management assesses whether impairment indicators exists for long lived assets. Some indicators of impairment of property, plant and equipment;

a) Internal indicators

1. Obsolescence or physical damage.
2. Significant changes with adverse effect on the company (e.g. idle assets; plan to dispose).
3. Internal reporting that indicates that the economics performance of the assets was unsatisfactory.

b) External Indicators

1. Assets market value had declined.
2. Significant changes (e.g. technological changes, market or legal).
3. Carrying amount of assets of the Company was more than its market capitalization.

Management should work out to determine and acquire the necessary documentation to show ownership to these lands.

The management responded as follows:

“Management is aware of this matter which was raised by previous auditors and accepted qualification in 2011 and 2012 which was subsequently addressed and taken up as management letter point in 2013. Management is working on acquiring titles for the land. Management considers this a management letter point as the total value of all missing titles is approximately K2 million which can be considered not material compared to the total asset value.

The RTG (Lae Rubber Tyred Gantry's Cranes) have not been used since end of 2013 due to high operating cost and not been able to charge fees due to regulatory restrictions. Management is working on strategies to ensure the machines are utilized in the future."

Reconciliations were not provided – GL Code 41010 & 41020

I was not provided with reconciliations for staff debtors and salary packaging accounts on timely manner. I recommended to management to ensure reconciliations are updated on monthly basis.

Management responded as follows:

"Management advised auditors of the reconciliations been worked on and also informed that this will not be completed in time for audit completion. Management is currently working on reconciliations and expected to be completed in time for the next audit process."

Contravention to Companies Act 1997

The Company search from IPA online database shows that the last annual return lodged by the company was for the period 1 June 2012. This was in contravene to the *Companies Act 1997* which requires the Directors of every Company to within five months after the balance sheet date of the Company lodged an annual return to the IPA. I recommended management to adhere to the *Companies Act* and ensure financial statements were lodged within the required timeframe.

The management responded as follows:

"Management is aware of this issue and has been working to address this. All annual returns since corporatization have been lodged with IPA up to year ended 31 December, 2013. Due to delays in the audit process, annual returns were lodged out of time. However extension to lodge out of time has been sought from the IPA."

Absence of Accounting Manual

The Company did not have proper accounting manual in place. In the absence of detailed accounting procedures manual, it was difficult for the Company to monitor and implement the new and revised accounting standards. I suggested management consider the implications of the foregoing standards on the preparation of the Company's financial statements, both for internal and statutory reporting purposes. I further suggested that the Company personnel involved in accounting and preparation of financial statements attend training courses related to these new standards.

The management responded as follows:

"Management is in the process of preparing an accounting manual. However, in the absence of accounting manual international accounting standards apply (e.g. IFRS & IAS)."

68.3 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 2015 was in progress.

69. PNG AIR SERVICES LIMITED

69.1 INTRODUCTION

69.1.1 Legislation

PNG Air Services Limited was incorporated under the *Companies Act 1997*. The Company began its operation in January 2008 after its incorporation on 30 April 2007. The Company was established in accordance with *Section 143(6) of the Civil Aviation Act 2010 (as amended)* which envisaged the establishment of a Company to deliver “*air traffic services, aeronautical navigation services and aeronautical communication services and all related services in Papuan New Guinea and the airspace for which it is responsible.*”

PNG Air Services Limited as a State Aviation Enterprise (SAE) is an independent self-funding Company. The two shares issued by the Company are equally held by the Minister for Civil Aviation and the Minister for Finance on behalf of the Independent State of Papua New Guinea. The Company has its own operating certificates and operates independently from other Aviation Entities established under the *Civil Aviation Act 2010 (as amended)*.

69.1.2 Functions of the Company

PNG Air Services Limited was established with a purpose of delivering safe and efficient air navigation services to the aviation industry and the travelling public. It ensures provision of quality Communication, Navigation, Surveillance (CNS) and Air Traffic Management (ATM) services to both domestic and international customers who operate within the PNG airspace, at a reasonable cost, hence to be a leader in providing world standard air navigation services. PNG Air Services Limited makes sure that the radio coverage in PNG both VHF and HF are improved and that efficient and effective air traffic services are maintained.

69.2 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 2015 had been completed and the results were being evaluated.

70. PNG DATACO LIMITED

70.1 INTRODUCTION

70.1.1 Legislation

The PNG DataCo Limited came into existence on 2 December 2010 after the name changed from Whittlesea Limited. Whittlesea Limited was incorporated under the *Companies Act 1997* on 21 April 2010.

On 6 February 2014, the National Executive Council (NEC) in its *Decision No: 32/2014* approved for immediate operations of the PNG DataCo Limited as a 100% Majority State Owned Enterprises (SOE) to oversee and implement the National Transmission Network Impact Project (NTN) Strategy and Objectives as approved by the NEC *Decision No: 268* of 2010, NEC *Decision No: 107* of 2011 and NEC *Decision No: 108* of 2012.

PNG DataCo Limited is governed by the *Companies Act*, the *IPBC Act*, and the regulator - *NICTA Act*. The Company came into operations from February 2014.

70.1.2 The Objectives of the Company

The key objectives of the Company are to:

- Work towards the PNG Government's Policy on ICT to refurbish the existing transmission network, extend its availability across the country, allow new transmission networks to develop, and to increase technical capabilities to support high-speed broadband;
- Develop the National Transmission Network (NTN) as the efficient domestic and international telecommunication transmission network and that the NTN is available on a wholesale and non-discriminatory basis to all licensed operators of the telecommunication industry to stimulate and foster social and economic developments in Papua New Guinea using State Owned assets and new network investments;
- Provide internet gateway services at the international gateway;
- Improve the availability of broadband transmission telecommunication services within PNG and internationally;
- Improve performance of telecommunication services in terms of responsiveness;
- Lower the cost of telecommunication services to end users; and
- Ensure the current network operations are scalable, standardise network and IT, invest in required capabilities to build low-cost position, develop deal making capabilities, and best-in-class execution capabilities.

70.1.3 The function of the Company

The main functions of the Company are to:

- Develop the National Transmission Network (NTN) as the efficient domestic and international transmission network; and
- Supply high value and market driven suite of data services on a wholesale and non-discriminatory basis to all licensed operators and ISPs (i.e. holders of a Network or applications licenses) leveraging its exclusive network asset base.

70.2 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 2014 had been completed and the results were being evaluated.

The Company had not submitted its financial statements for the year ended 31 December 2015 for my inspection and audit.

71. PNG POWER LIMITED

71.1 INTRODUCTION

71.1.1 Legislation

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

- The *Electricity Commission (Privatisation) Act* transferred to PNG Power Limited:
 - (i) 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;
 - (ii) All of ELCOM's liabilities other than those transferred to PNG Dams pursuant to item 2(b); and
 - (iii) All water use permits held by ELCOM and referred to in *Section 7(1)* of the *Act*.
- Transferred all of the employees of ELCOM to the employment of PNG Power Limited;
- Declared PNG Power Limited as a "*Specified Entity*" for the purposes of *Section 8* of the *Act*;
- In accordance with the privatisation policy of the Privatisation Commission, all the issued shares of PNG Power were transferred to the Privatisation Commission (and deemed transferred to the successor to the Privatisation Commission, the Independent Public Business Corporation of Papua New Guinea (IPBC of PNG)) as the trustee of the General Business Trust under the *IPBC of PNG Act*; and
- The consideration for the transfers referred to in items 1 and 2 was nil.

71.1.2 Functions of the Company

The functions of the Company are 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.

71.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

71.2.1 Comments on the Financial Statements

My reports in accordance with the provisions of the *Companies Act* on the financial statements of the Company for the years ended 31 December 2013 and 2014 were issued on 27 July 2015 and 9 March 2016 respectively. These reports contained Disclaimer of Opinions, hence, only the 2014 report is reproduced.

“BASIS FOR DISCLAIMER OF OPINION

Opening Balances

My report for the year ended 31 December 2013 was a disclaimer of opinion. I was not able to satisfy myself as to the accuracy and completeness of the opening balances of capital work in progress, property, plant and equipment, trade receivables, trade creditors, cash and cash equivalents and bank overdrafts, inventories, other payables, other receivables, employee entitlements, and tax balances. Since these opening balances entered into the determination of the results of operations and cash flows of the Company in 2014, I was unable to determine whether adjustments to the financial position, results of operations and cash flows might have been necessary for the year ended 31 December 2014.

Revaluation of Land and Building

Included in the carrying value of property, plant and equipment reported as K1,205.37 million as at 31 December 2014 was land and building valued K166.18 million. The Company has elected to adopt revaluation model as its accounting policy and carried its *Property, Plant and Equipment* at fair value. However, the Company had not performed any revaluation of its land and building after the last revaluation in 2006. In my opinion, such practice is a departure from *IAS-16, Property, Plant and Equipment* which requires revaluation to be made with sufficient regularity to ensure that the carrying value does not differ materially from that which would be determined using fair value at the end of the reporting period. Had the land and building been revalued on a regular basis, the carrying value of land and building and revaluation reserve may have been materially different from that reported in the financial statements.

As a result, the Company had not complied with the requirements of IAS 16 and accordingly, I was unable to satisfy myself as to the accuracy of the carrying value of the land and building and related asset revaluation reserve of the Company as at 31 December 2014.

Impairment of Property, Plant and Equipment

In accordance with *IAS-36, Impairment of Assets*, an entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. The Company determined that there were indications of possible impairment at the end of the reporting period, hence, prepared an impairment calculation. However, the Company in the end concluded that no impairment existed as at 31 December 2014. I was not provided with the supporting information to review the reasonableness of the assumptions used in performing the impairment testing. As a result, I was unable to verify as to whether the carrying values of property, plant and equipment and related impairment loss, if any, were stated in the financial statements as at 31 December 2014.

Capitalisation of Overhead Cost for Capital Projects

I noted that PNG Power Limited capitalized overhead costs of up to 5% on its capital projects, and up to 10% on the rural electrification capital projects. However, paragraph 19 of *IAS 16, Property, Plant and Equipment* requires that administration and other general overhead costs be excluded from the cost of property, plant and equipment. I was not able to obtain any support on the basis of these overhead costs to verify whether these costs qualify as directly attributable costs as defined under *IAS 16*. I was, therefore, unable to quantify the impact of the erroneous capitalization of overhead costs in property, plant and equipment, and retained earnings as at 31 December 2014 and comprehensive income for the year ended.

Accounting for Capital Work in Progress

Note 4 of the financial statements disclosed the carrying value of capital work in progress at K243.18 million as at 31 December 2014. During the year, the Company transferred capital work in progress valued K412 million to fixed asset registers and charged depreciations on them. My review of the capital projects management identified a number of control weaknesses such as delay in finalization of Project Completion Forms, ineffective monitoring and approval of Project Variation Forms and a lack of physical inspection of projects. In addition, I was unable to ascertain the date from which these assets should have been classified as property, plant and equipment and appropriately depreciated.

Consequently, I was unable to obtain sufficient and appropriate audit evidence to confirm the accuracy and completeness of the property, plant and equipment as at 31 December 2014, and the related depreciation expenses charged to the comprehensive income for the year ended.

Inventories

The inventories of the Company were reported at K38.47 million as at 31 December 2014. My review of the inventories noted the following matters which individually or collectively prevented me from verifying the existence, cost, valuation, accuracy and completeness:

Existence of Inventories

The results of the physical counts including the resolution of inventory variances noted were not provided for my review. In addition, I was not provided with reconciliations of the physical counts and the inventory ledger balances, together with the supporting documents or explanations for the variances identified in the counts. Further, a roll-forward analysis from the inventory count date to reporting year end was not performed by the Company.

As a result, I was unable to validate the accuracy of the quantities reflected in the inventory ledger as at the date of the counts.

Costing of Inventories

I noted that costs directly attributable to the purchase of inventories were not included as part of the inventory costs, instead, charged directly to profit or loss when incurred. The practice has been contrary to *IAS 2, Inventories* which requires that other cost incurred in bringing the inventories to their present location and condition including shipping, insurance and handling cost should form part of the cost of inventories. I was not able to obtain sufficient information to quantify the possible impact on the carrying value of inventories as at 31 December 2014, and the amount of operating expenses recognised in the comprehensive income for the year ended.

Valuation of Inventories

The Company's provision for stock obsolescence was K2.84 million as reported in the financial statements as at 31 December 2014. However, I was unable to obtain analysis to justify the basis of percentages applied to the aged inventory balances in the calculation of inventory provision. I noted that the aging of inventories was calculated as the number of days from the date of last issuance and the reporting year end. Also, the provision did not take into consideration the age of inventories from actual purchase date and other factors that could materially affect the valuation of inventories. Further, the inventory aging report was not properly reconciled to the general ledger. I was unable to determine the adequacy, reasonableness and accuracy of the provision for stock obsolescence valued K2.84 million as reported in the financial statements and the possible impact this may have on the carrying value of the inventories.

As a result of the above, I was unable to ascertain the existence, costing, valuation, accuracy and completeness of the inventories valued at K38.47 million as reported in the financial statements as at 31 December 2014.

Trade Receivables and Revenue

The trade receivable and electricity revenue were reported at K116.44 million and K817.42 million respectively as at and for the year ended 31 December 2014. I was unable to obtain sufficient and appropriate audit evidence to confirm the existence and completeness of the recorded trade receivables and revenue due to the following factors:

- (a) I noted a variance of K7.67 million existed between the revenue recorded in the Gentrack Billing System and the General Ledger. The Company adjusted revenue to reflect the balance recorded in the Gentrack Billing System. However, I was not provided with all necessary supporting documentation to verify the accuracy of the reconciling items;
- (b) I was unable to obtain revenue transaction details from the Suprema Easipay System to support the revenue balance shown in the Oracle General Ledger which amounted to K134.35 million;
- (c) I was unable to verify the occurrence and measurement of the revenue as the Company was not able to provide evidences such as approved credit meter application forms, bill notes and invoices, and a reconciliation of the amount recorded in the General Ledger and the Gentrack Billing System;
- (d) I was unable to verify the reasonableness of the accrued unbilled revenue of K1.1 million as I could not obtain sufficient information to verify the occurrence and measurement of this revenue;
- (e) The general ledger trade receivables account had a balance of K116.44 million which was less than the balance of K121.9 million shown in the Gentrack Billing System. I was unable to obtain a reconciliation to explain or support the variance between trade receivables in the General Ledger and Gentrack Billing System; and
- (f) The provision for doubtful debts accounts amounted to K39.78 million. However, I could not ascertain the accuracy of the aging reports generated from the Gentrack Billing System as at 31 December 2014 to assess the reasonableness of the provision for doubtful accounts.

In addition, I was not able to perform alternative audit procedures to quantify the impact of the above matters on the financial statements. As a result, I was unable to satisfy myself as to the accuracy, existence and completeness of the trade receivables of K116.44 million and electricity revenue amounted to K817.42 million as at 31 December 2014.

Trade and Other Payables

Note 9 of the financial statements disclosed trade and other payables totalled K176.5 million as at 31 December 2014. I was not able to obtain sufficient appropriate audit evidence including reconciliation of trade payable accounts between the general ledger and subsidiary ledger. In addition, reconciliations between supplier statements and their respective payable balances in the subsidiary ledger were not available for my review. Further, purchase cut off testing could not be performed as no supporting documents or transactions listings were provided after 31 December 2014.

Accordingly, I was unable to confirm the accuracy and completeness of the trade and other payables totalled K176.5 million as reported in the financial statements as at 31 December 2014.

Accounting for Government Grants

The current accounting treatment given to government grants by the Company is not in accordance with IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. In prior years, the Company recognised government grants as income on completion of projects.

This practice is not in accordance with IAS 20, paragraph 12, which requires government grants to be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

I was unable to obtain sufficient information to quantify the potential impact of this error in the retained earnings as at 31 December 2014, and the comprehensive income for the year ended.

Employee Benefits

Note 10 of the financial statements disclosed the Company's obligation to its employees at K62.3 million. The provision for employee benefits included long service leave, annual leave, ex-gratia payments and other employee benefits. The Chris payroll system calculated the provision for employee benefits based on data supplied by the employee master file. However, there were errors and inconsistencies between the employee master file and supporting documents. Also, I was unable to obtain sufficient information and documentation including commencement dates, basic pays, and the completeness of employees entitled to the benefits.

Consequently, I was unable to quantify the potential impact on provisions for employee benefits and operating expenses in the comprehensive income.

Further, included in the provision for employee benefits were other long-term employee benefits such as ex gratia payment and long service leave. The Company has been measuring these other long-term employee benefits at undiscounted value of the entitlements which was a departure from *IAS 19, Employee Benefits*.

In accordance with the revised *IAS 19, Employee Benefits*, the amount recognised as liability for other long-term employee benefits should be the net total of the present value of the defined benefit obligation.

The revised *IAS 19* also specifies that the cost of other long term employee benefits may be influenced by many variables, such as final salaries, employee turnover and mortality, and discount rates. The ultimate cost of the other long-term employee benefits is uncertain and this uncertainty is likely to persist over a long period of time. In order to measure the present value of the post-employment benefit obligations and the related current service cost, it is necessary to apply an actuarial valuation method to attribute benefit to periods of service and to apply actuarial assumptions. However, the Company had not provided me with an actuarial valuation report for the other long-term employee benefits. As a result, I was unable to verify the accuracy, completeness and valuation of the other long-term benefits included in the provision for employee benefits as at 31 December 2014.

Accordingly, I was unable to obtain sufficient appropriate audit evidence to confirm the accuracy, completeness and valuations of the carrying value of employee provisions reported at K62.3 million as at 31 December 2014, and quantify any potential impact on operating expenses in the comprehensive income for the year ended.

Income Taxes

Note 5 of the financial statements disclosed information on income tax and tax position of the Company. Based on the amended income tax return lodged by the Company with the Internal Revenue Commission (IRC), the provision for income tax for the 2009 financial year amounted to K25 million as at 31 December 2014. During the year 2014, the Company recognised income tax expense amounting K18.3 million representing a true-up adjustment to increase the provision of income tax with respect to the 2009 financial year to K25 million. However, based on the Statement of Account provided by the IRC there was no income tax payable with respect to the 2009 financial year. Furthermore, the Statement of Account confirmed that income tax returns have been assessed by the IRC up to the 2013 financial year and shown a tax refundable of K1.68 million. I was unable to obtain a reconciliation of the provision for income tax as stated in the Statement of Account from the IRC to the General Ledger amount.

In addition, I was unable to confirm the accuracy and completeness of deferred income tax liabilities disclosed at K118.20 million in *Note 5(c)* of the financial statements which represented the temporary difference between the tax and accounting carrying values of fixed assets. Further, sundry expenses of K12 million and other expenses of K5.8 million have been treated as deductible expenses in the 2014 income tax effect computation which gave rise to tax losses and a related deferred tax asset. I was unable to obtain relevant information to allow me to determine whether or not these expenses were deductible and therefore whether they have been appropriately treated in the income tax effect accounting calculation. I could not quantify the adjustment, if any were necessary, to the deferred tax asset recognised in relation to these sundry and other expenses.

Because of the qualifications raised on revenue and operating expenses noted in the preceding qualifications, I was unable to quantify their impact on income tax balances.

Presentation and Disclosure of Financial Statements

The 2014 financial statements as presented did not contain all the disclosures required by *International Financial Reporting Standards (IFRS)*, including:

- Required disclosures on restatements of prior period adjustments, and consistency of presentation of comparative figures under IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*;
- IAS 7, *Statement of Cash Flows* – no disclosure of non-cash activities;
- IAS 12, *Income Taxes* – no disclosure of income tax effect of revaluation reserve;
- IAS 16, *Property, plant and equipment* – no disclosure for each revalued class of property, plant and equipment of the carrying amount that would have been recognised had the assets been carried under the cost model;
- IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* – no disclosure of the nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the entity has directly benefited and unfulfilled conditions and other contingencies attaching to government assistance that has been recognised;
- IAS 1, *Presentation of Financial Statements* – disclosure of significant accounting policies and key estimation assumptions were not complete;
- IAS 24, *Related Party Disclosures* – disclosures of related party transactions were not complete;
- IAS 19, *Employee Benefits (Revised)* – disclosure of actuarial assumptions were not complete; and

- IAS 10, *Events after the Reporting Period* – no disclosure of non-adjusting events after the reporting period.

Accordingly, I was unable to attest to the statement of compliance with *International Financial Reporting Standards* as set out in *Note 1* of the financial statements.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, 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 PNG Power Limited as at 31 December 2014.”

71.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Company for the years ended 31 December 2013 and 2014 were issued on 27 July 2015 and 9 March 2016 respectively. For the purpose of this Report, only significant matters arising out of 2014 report is reproduced below:

Purchase and Payable Processes and Systems

- a) I noted control deficiencies in the design and implementation of the purchase orders and invoices having approved subsequent to the delivery of goods and services;
- b) I noted that PPL operates a general ledger account named “*goods received not invoiced*”. As at 31 December 2014, this account had a balance of K17.28 million. Goods received not invoiced, indicates that the three-way matching process is not operating effectively. That is, goods are not been matched at receipt to clear the goods received not invoiced account and create a creditor against which the account can be paid;
- c) Evidence in respect of review of creditors’ reconciliation by a senior officer was not sighted. I also noted that documentation supporting the reconciliation of the creditors was insufficient to allow the preparer to perform the reconciliation effectively and the reviewer of the reconciliation to effectively identify items requiring attention; and
- d) Sufficient audit evidence was not available to support the incurrence and recording of the expense transactions selected for testing during the audit.

Revenue Process and Systems

I was unable to validate the control environment surrounding revenue recognition due to an incomplete 'audit trail'. The following control deficiencies were noted:

a) *Monthly reconciliation of electricity sales per Suprima, Gentrack and Oracle*

I noted that the reconciliation of electricity sales between the three systems (Suprima, Gentrack and Oracle) was not performed during the year. In addition, a net reconciling amount of K7.67 million was identified which PPL had not provided me with the supporting documentation.

b) *Monthly reconciliation of electricity debtors*

Monthly reconciliation of the electricity debtors were not performed on a regular basis. I noted that the general ledger account of electricity debtors had a balance of K117.89 million which was less than the balance of K121.9 million per the Gentrack system. No reconciliation or supporting documentation was provided to explain the variance.

c) *Review of validation report for read meters*

Due to lack of sufficient documentation, I was unable to ascertain whether review was performed to ensure that manual meter readings were input correctly into Gentrack system and that sales recorded were accurate. The validation report, which is utilized by the data input clerks to check whether the sales per bill-book are within accepted parameters was not reviewed by the Centre Supervisors.

d) *Review of exception reports on unread meters*

Due to lack of sufficient documentation, I was unable to ascertain whether a review was performed to ensure that sales were complete and accurate on a monthly basis.

e) *Accuracy of aging report*

From the sample of the aging reports of the electricity debtors tested, I noted variances which were not reconciled. I was unable to ascertain the accuracy of the aging report generated from the Gentrack system.

Information Technology Control Environment

I noted significant weaknesses in the IT control environment. Specifically, I noted weaknesses with respect to system access, system change management, reporting capability to support account reconciliations, and the broader control environment and ongoing system monitoring. These are detailed below:

a) *Follow up of prior year findings*

Significant control weaknesses identified and reported in my prior years reports remain unresolved. I understand from IT management that remediation plans to address the issues are in progress.

b) *Testing over Information Technology*

- (i) The Company does not have procedures in place to formalize the documentation and approval of the request for change in the system. Unauthorised or inappropriate program changes are made and as a result, the integrity of financial data may be compromised;
- (ii) I noted that documentation in respect of testing by the Company personnel for changes to the Oracle, Chris21, Gentrack and Suprima applications was lacking. The Company was not able to provide the test plans, test cases and test results. Lack of adequate user acceptance testing and approval may also result in application systems that do not meet user functionality or internal control requirements being placed into the production environment. This increases the risk of accidental or deliberate programming errors adversely affecting processing at PNG Power. Consequently, the Company may suffer loss of business and revenue due to incorrect data processing or system failure;
- (iii) The Company did not maintain evidence to support the change approval obtained prior to implementation. Unauthorised or inappropriate program changes can be made and as a result, the integrity of financial data may be compromised;
- (iv) At the time of my review, there was no formal process for reviewing changes post-implementation and the procedures currently being developed will not satisfy the control objective in the future. Failure to adequately review or monitor change activities in a timely manner increases the risk of unauthorised access to production environment being undetected for an extended period of time, resulting in unauthorised and erroneous changes being developed and implemented within the application;

- (v) The responsibility to develop and move changes was performed by the same person. Where adequate segregation of duties is not enforced, it is possible that the integrity of programs being moved into the live systems can be compromised, either accidentally due to oversight or deliberately due to manipulative processing;
- (vi) The password settings for the Oracle, Chris21, Gentrack and Suprima applications were set to minimum and below recommended settings. Unauthorised access to accounts is made more possible where password settings are not activated;
- (vii) Formal periodic reviews of user access privileges have not being performed for the Oracle, Chris21, Gentrack and Suprima applications to confirm that users with active accounts are valid employees and the access privileges granted is consistent with their roles and responsibilities. Excessive or inappropriate access granted to users increases the risk of unauthorised access to financial applications and may result to deliberate or accidental manipulation of financial data;
- (viii) At the time of my review, there is no formal process in place for the removal of terminated user access. As a result, access of terminated employee was not removed in a timely manner (i.e. a day after his/her termination). Furthermore, there was no process for Human Resources (HR) to communicate the need for access removal to IT. Where user accounts belonging to terminated employees are not removed or disabled in a timely manner, the risk of unauthorised use of these accounts may increase;
- (ix) I noted that no periodic review has been performed of user access to the key financial systems to determine that their access rights are appropriately authorised and established. Unauthorised or inappropriate access may be granted to a user which increases the risk that key financial data/ programs are intentionally or unintentionally modified; and
- (x) There were no backup processes in place for the Chris21, Suprima or Gentrack applications. I understand there is a backup process for Oracle where the data is backed up to tapes daily, but these tapes are stored onsite. There was no policy and procedure in place to support the process. There was also no formal process in place to test that backups can be successfully restored if needed.

Without a formalised backup policies and procedures on servers and supporting infrastructure, there is an increased risk of a prolonged outage should the power, or restore procedures fail. In addition, a lack of formal backup and recovery policies and procedures increases the risk that day-to-day backup administration activities are difficult to monitor and enforce.

I brought to the attention of the management the above deficiencies noted including my recommendations for improvement.

Quality of General Ledger Reconciliations

The reconciliations have been prepared on a regular basis and that there is an overriding framework to manage the reconciliation process.

However, I identified a number of weaknesses which include the level of skepticism applied for account reconciliations (preparer and reviewer), limited knowledge and understanding of operational processes by reconciliation preparer's/reviewer's, limited support provided for reconciling items and aging of reconciling items. I also identified a number of reconciliations and schedules which were signed off by the preparer and reviewer but contained errors, which was not identified during the review process. These findings indicate the review process is not effective and increases the risk of errors and irregularities not being detected and resolved. This could lead to increases risk of material misstatement.

The impacts of the above issues include:

- Reconciliations containing material errors cannot be detected;
- Increased use of 'general provisions' by management to counter the risk of potential reconciliation errors;
- Reconciliations are not supported by adequate documentation / calculations; and
- Build-up of long outstanding reconciling items that have not been actioned.

Asset and Project Management Process

The Management of PPL commenced implementing improvements in this area. However, there remains significant opportunity to improve processes associated with asset impairment monitoring, fair value assessments, useful life assessments, and capital WIP management.

The significant matters that have been highlighted include:

a) Capital Project Management

Capital project management is a critical process for PNG Power. I noted a number of deficiencies as summarised below:

(i) Delay in finalisation of project completion forms

PPL is currently behind in their submission of completion notice forms for completed projects. This increases the risk that projects are not closed out and subsequently capitalized and depreciated from the date the assets are held ready for use.

(ii) Lack of physical inspection of projects

The Company performed physical inspection of significant project assets. However, I suggest that a full count be performed to account for the recorded assets in the books. This creates the risks of misuse of project related assets and/or projects that the completion status of projects is not physically verified by PPL staff independent of the project team.

(iii) No Internal Analysis of 5% to 10% Overhead for Projects

I noted that a 5% to 10% general allowance is allocated into the cost of the asset to cover for overheads. The 5% to 10% is allocated as a standard to all project work orders and that there is no specific internal analysis for the allocation of this overhead for each projects.

b) *Performing impairment testing*

The Company prepared an impairment calculation, and concluded that no impairment existed as at 31 December 2014. However, I was not provided with the supporting information to review the reasonableness of the assumptions used in the impairment testing performed by the Company.

c) *Revaluation of land and building*

PNG Power Limited had not revalued its lands and buildings since 2006. The Company has a policy of carrying land and building at fair value. At 31 December 2010, a new valuation was obtained by the Company. However, the Management had not adopted the new valuation.

d) *Review of Assets' Useful Lives*

I noted inconsistencies in the useful lives disclosed in the financial statements and those used in the fixed asset register. Management should review the useful lives of its assets and appropriately reflect this in its financial statements.

e) Accuracy of Property, Plant & Equipment (PPE) as at 31 December 2014

In 2013 and in prior years' audit reports, I qualified in respect of capitalized Project Work-In-Progress (WIP). To this extent, I was unable to confirm the accuracy of the property, plant & equipment ("PPE") cost as at 31 December 2014.

This consequentially impacted the accuracy of depreciation charge for the year, which further impacted the accuracy of results for the year and carrying value of the PPE at the year end.

I recommended that a review should be performed on Projects WIP from the date each project commenced so as to identify when each asset was available for use. Once this review is completed, assets should be transferred from Project WIP to PPE from the date they became available for use.

Reconciliation and Cash and Bank Balance

I noted the following matters over the bank reconciliation process:

- a)** In respect of the Company's main bank account (Acc Code: 12393), I noted a significant number of reconciling items that were greater than 12 months old. Unreconciled bank deposits, credits and debits existed.
- b)** Bank reconciliations have been prepared manually. Oracle has a built in function where bank reconciliations are automatically prepared if the accounting system is linked to online banking.

Inventory

I noted the following key matters with respect to inventories:

- a)** Noted variances between the inventory listing report and general ledger. Also, there were negative quantities in the inventory listing provided as at 31 December 2014;
- b)** The Company did not have a formalised inventory count procedures and instruction that would serve as a guide in performing inventory count;
- c)** The weighted average cost as per my recalculation and the amount as shown in the system had variances which were not reconciled.

Tax workings could not be substantiated

In 2013 and prior years' audit reports, I disclaimed my opinion on tax balances for want of supporting documentation to ensure completeness and accuracy. To the extent that these balances were brought forward and included in the 2014 financial statements, had also impacted the accuracy and completeness of the tax balances as at 31 December 2014 and tax expense charged for the year.

Due to information not provided in respect of PPE, Projects WIP, revenue, inventory and accounts payable, I was unable to substantiate the tax workings provided.

Skills, Culture & Work Ethic

The current accounting processes and outcomes are significantly impacted by the level of skills, culture and work ethic of the staff. The Company needs to improve the quality and productivity of accounting and other key business personnel. These areas include:

- Inadequately skilled staff to be trained and motivated to perform business functions;
- Implement the changes required to improve the operational efficiency and control environment; and
- Maintain operations once necessary changes have been made.

Payroll and Employee-related Provisions

I noted the following key matters with respect to payroll and employee-related provisions:

a) Update of employee information

Based on my testing, I noted one sample where an employee had received an internal appointment but was paid on an old salary rate until four fortnights later when adjustments were made in the system. Inconsistencies in the payroll records could lead to misstatement in the payroll liability, related benefits and payroll expenses;

b) Measurement and accuracy of provision for other long term employee benefits

As at 31 December 2014, the Company provided for other long term employee benefits such as ex gratia payments and long service leave. These other long term employee benefits are measured currently at the undiscounted value of the entitlements.

In accordance with *Revised IAS 19, Employee Benefits*, the amount recognised as liability for other long-term employee benefits should be the net total, at the end of the reporting period, of the present value of the defined benefit obligation.

71.3 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 2015 was in progress.

72. POST (PNG) LIMITED

72.1 INTRODUCTION

72.1.1 Legislation

Post (PNG) Limited was incorporated on 24 December 1996 under the *Companies Act*. This Company was formed following the *NEC 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 PNG Telecommunication Authority (PANGTEL) now known as National Information and Communications Technology Authority (NICTA) as established by *Section 8* of the *National Information and Communications Act*.

As a result of the NEC Decision, all assets, rights, liabilities, staff and regulatory powers and business of the 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.

72.1.2 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;
- Manufacture and market postage stamps, philatelic products and other products for use in connection with services provided by Post PNG;
- Provide money transfer services within the Independent State of PNG and between PNG and other places;
- Engage in research relating to postal products and activities;
- Provide packet and parcel carrying services;
- Provide courier and freight services;
- Provide mail house, documents exchange and contract mail management services;
- Carry on any business or activity that is related, incidental, ancillary or complementary to the provision of domestic and international postal services;
- 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
- Perform functions relating to the provision of postal services in a manner consistent with PNG's obligations under any convention.

72.2 AUDIT OBSERVATIONS

72.2.1 Comments on Financial Statements

My Report in accordance with the provisions of the *Companies Act* on the Company's financial statements for the year ended 31 December 2015 was issued on 6 June 2016. The report did not contain any qualification.

73. TELIKOM (PNG) LIMITED

73.1 INTRODUCTION

73.1.1 Legislation

Telikom (PNG) Limited was incorporated under the *Companies Act*. This Company was formed following the *NEC Decision No. 18/96 of 17 April 1996* to corporatise the Post and Telecommunications Corporation (PTC) and to separate it into three entities namely: Telikom (PNG) Limited, Post PNG Limited and National Information and Communication Technology Authority (NICTA) formerly known as (PANGTEL).

As a result of the NEC Decision, all assets, rights, liabilities, staff and regulatory powers and business of the 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.

73.1.2 Objectives of the Company

The primary objectives of the Company are to:

- Be the successor Company to the Telikom Divisions of PTC within the meaning of and for the purposes of the *Telikom (PNG) Limited Act*;
- Supply telecommunication services within PNG and between PNG and other places;
- Carry on any business or activity relating to telecommunications either inside or outside of PNG;
- Publish telecommunications directories, and to supply directory information service;
- Supply, install and maintain customer equipment and customer lines;
- Develop, manufacture, market and supply facilities and software;
- Supply value added services;
- 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;
- Carry on any business incidental to telecommunication;
- Unless otherwise advised to the contrary by the Minister acting in accordance with a directive of the NEC to:
 - Act as an adviser to the Government of PNG on matters relating to telecommunication activities in PNG;

- Represent PNG as a member of, and actively participate, in international bodies concerned with the administration of telecommunication services;
 - Enter into international agreement relating to telecommunication activities; and
 - Perform functions relating to the provision of telecommunication services in a way consistent with PNG's obligations under any convention; and
- 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.

73.1.3 Subsidiaries of the Company

The subsidiaries of Telikom (PNG) Limited are *Kalang Advertising Limited* and *PNG Directories Limited*. Comments in relation to these subsidiaries are contained in paragraphs 73A and 73B of this Report.

73.2 AUDIT OBSERVATIONS

73.2.1 Comments on the Financial Statements

My report in accordance with the provisions of the *Companies Act* on the Company's financial statements for the year ended 31 December 2013 was issued on 7 December 2015. The report contained a Qualified Opinion.

“BASIS FOR QUALIFIED OPINION

Communication Plant and Equipment

Communication plant and equipment of the Company and the Group as set out in note 14 was revalued at 31 December 2011 on a depreciated replacement cost basis in accordance with *IAS 16 “Property, Plant and Equipment,”* however no assessment of the recoverable amount of these assets has been conducted by the Company in accordance with *IAS 36 “Impairment of Assets.”* Accordingly, I am unable to determine whether any adjustments relating to the carrying value of communication plant and equipment were necessary in the financial statements for the year ended 31 December 2013 or the year ended 31 December 2012.

Communications plant and equipment of the Company and the Group earmarked to be replaced under the National Broadband Network Project with a net book value of approximately K156 million as at 31 December 2013 has not undergone appropriate impairment assessment in accordance with *IAS 36 “Impairment of Assets.”*

An impairment of K47,740,311 has been taken up in the 2013 financial statements as set out in note 14, however the impairment assessment has not been conducted in accordance with IAS 36 nor in sufficient detail to evaluate whether the impairment charge is appropriate.

Accordingly, I am unable to determine whether any adjustments relating to the carrying value of communication plant and equipment were necessary in the financial statements for the year ended 31 December 2013.

Recoverability of BeMobile Receivable

The financial statements reported that BeMobile owes the Group K108,461,785 at 31 December 2013 (2012: K93,803,079), and the Company K108,361,932 at that date (2012: K93,703,226) which is included in the trade and other receivables as set out in note 19. I was unable to substantiate the receivable as I was not able to obtain a confirmation from BeMobile or perform alternative audit procedures in relation to the existence or recoverability of the amount receivable. Consequently, I am unable to determine whether any adjustments relating to the carrying amount of this receivable or provisions raised in respect of this receivable, were necessary in the financial statements for the year ended 31 December 2013 or the year ended 31 December 2012.

Land and Buildings

Land and buildings as set out in note 14 have a net book value for the Group and the Company of K236,797,026 as at 31 December 2013 (2012: K259,662,916). I noted that land and buildings to the value of K15,783,267 (2012: K15,951,497) were recorded in the financial statements, however Group entities were not recorded as owners of these properties with the lands titles office. Sufficient alternative evidence regarding ownership of these items of land and buildings were not obtained and in addition, ownership of further land and buildings to the value of K85,232,158 could not be verified. Accordingly, I am unable to determine whether any adjustments relating to the carrying value of land and buildings were necessary in the financial statements for the year ended 31 December 2013 or for the year ended 31 December 2012.

QUALIFIED AUDIT OPINION

In my opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph:

- a) The consolidated financial statements of Telikom PNG Limited 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 Consolidated Entity as at 31 December 2013, and of its financial performance and its cash flows for the year then ended;
- b) Proper accounting records have been kept by the Group as far as it appears from my examination of those records; and
- c) I have obtained all the information and explanations I required for the purposes of my audit.”

73.3 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 2014 was substantially completed and the results were being evaluated.

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 2015 was in progress.

73A. DATEC PNG LIMITED (Subsidiary of Telikom (PNG) Limited)

73A.1 INTRODUCTION

73A.1.1 Legislation

Datec (PNG) Limited was incorporated under the *Companies Act 1997*. The Company was fully acquired by Telikom (PNG) Limited from Steamships Trading Company Limited on 1 August 2014. The Company is a wholly owned subsidiary of Telikom (PNG) Limited.

73A.1.2 Functions of the Company

Datec (PNG) Limited's principal activity is in the provision and support of technology applied solutions including business critical ICT consulting, solutions and services, IT outsourcing, business process outsourcing, internet services, electronics and computer retail, training and wide-ranging technical support.

73A.2 AUDIT OBSERVATIONS

73A.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act* on the Company's financial statements for the year ended 31 December 2014 was issued on 10 June 2016. The report did not contain any qualification.

73A.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 2015 was in progress.

73B. KALANG ADVERTISING LIMITED (Subsidiary of Telikom (PNG) Limited)

73B.1 INTRODUCTION

73B.1.1 Legislation

Kalang Advertising Limited was incorporated under the *Companies Act*. The Company is wholly owned by Telikom (PNG) Limited.

The ownership of the Company changed following the *National Court Order of 9 September 1997* which allowed Telikom (PNG) Limited to convert the debt due from Kalang Advertising Limited into shareholding. Subsequently, Kalang issued 535,424 ordinary shares to Telikom (PNG) Limited on 31 October 1997.

73B.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.

73B.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

73B.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act* on the financial statements of the Company for the year ended 31 December 2013 was issued on 7 December 2015. This report did not contain any Qualification.

73B.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Company for the year ended 31 December 2013 was issued on 7 December 2015. The report contained the following matters:

GST Remittance

Kalang had not done any remittance of the 2013 Goods and Services Tax (GST) in that financial year and has only done so in 2014. The actual GST remittance in 2014 are different from the transaction amounts sitting in the general ledger due to the Company making adjustment to certain revenue figures in the 2013 general ledger.

I also noted that the general ledger is not reconciled to the Internal Revenue Commission (IRC) statement. I recommended to management to perform periodic reconciliation of GST, income tax and other statutory payable accounts so that adjustments are taken up in the correct accounting period. I also recommended management to comply with the prescribed timing requirements of IRC. The management accepted my recommendations.

Group Tax

My review of the Company's group tax revealed a balance carried forward from the prior year that management is unable to explain. I recommended to management to perform reconciliations of balances on a timely basis and to investigate and clear unknown balances as required. The management concurred with my recommendation.

Payroll Deduction Payable

During my review, I noted the account Payroll deduction payable balance of K11,488 carried forward from 2008. The balance was a deduction made to several employees in 2008 that have loans with Finance Institutions but the Company was unable to make remittance to the Finance Institutions since no claims have been brought. I recommend to management to consider resolving old balances or where required write them off to the income statement. The management concurred with my recommendation.

Making Provisions and Staff Debtors

The Company does not have a set policy on providing for doubtful debts. Each year the provisioning approach appears to change and there appears to be no uniformity in the computations of the provisions for doubtful debts. I also noted that there are a number of staff debtors pertaining to former employees. I recommend management to have a provision policy in place and to make provisions for staff that are no longer employed with the Company. I also recommended that staff advances for the staff exiting the Company should be deducted in full from their entitlements.

Legal Claims from Office Link Limited

I noted that there were fraudulent dealings by a former employee of the Company using Kalang's purchase orders without authority to obtain goods from a stationery Company. Although threats of legal action were issued, no legal proceedings have been filed to date. As per the external legal counsel, there is a potential claim against the Company for approximately K50,000 by the stationery Company against Kalang. I recommended to management to review the specific incident as well as a general review of the control environment. The management concurred to my recommendation.

Journal Entries & Other Adjustments

I noted on numerous occasions that only one person prepared, reviewed and posted general journal entries. The lack of segregation of duties poses a risk that journal entries may be subject to error or fraud. I recommend management to ensure there is segregation of duties in terms of journal entries to prevent erroneous or fraudulent entries. The management responded as follows:

“There is some segregation of journals processed by our accountant which is reviewed by the Finance Manager. Most of these journals relate to accruals for electricity, directors’ fees, audit fees, depreciation and debtors provision and they are recurring journals systematically until a review is made at the year end to adjust for actual and prepare for audit.”

Bounced Cheques not Properly Monitored and Recovered

Bounced cheques were included within the trade receivables. I noted that a larger portion of this balance was carried forward from prior year totaling K13,928. These dishonored cheques dated back to 2010 and are still included in the period under review. I recommend management that dishonored cheques should be only treated as such for a short period of time at which time they should be written back to the concerned trade debtors. Any long outstanding bounced cheques should be provided for write off.

73B.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 years ended 31 December 2014 and 2015 were in progress.

73C. PNG DIRECTORIES LIMITED (Formerly E. H. O'Brien Limited) (Subsidiary of Telikom (PNG) Limited)

73C.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.

73C.2 AUDIT OBSERVATIONS

73C.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act* on the financial statements of the Company for the years ended 31 December 2013 and 2014 were issued on 29 June 2015 and 10 June 2016 respectively. The reports did not contain any qualifications.

73C.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 2015 was in progress.

SECTION C

NATIONAL GOVERNMENT SHAREHOLDINGS IN OTHER COMPANIES

74. 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*, and these have been elaborated in Paragraph 61 of this Report.

As the Government of PNG 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.

75. BOUGAINVILLE COPPER LIMITED

75.1 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 PNG. 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 2015 the issued capital of the Company was 401,062,500 ordinary shares of K1 each, fully paid. Of these, the Government of PNG held 76,430,809 ordinary shares of K1 each, or 19.06% of the total shares.

75.2 REPORT OF THE COMPANY'S AUDITORS

A Private Firm of Auditors conducted the audit of the Company's financial statements including the accounts and records for the year ended 31 December 2015 and the audit report was issued on 24 March 2016. This report did not contain any qualification except an Emphasis of Matter.

EMPHASIS OF MATTER

We draw attention to Notes two (2) (i) and eight (8) of the financial statements which describe the continued significant uncertainty surrounding the future of the Panguna mine and related assets particularly in relation to the Company's rights to those assets. The mine assets were fully depreciated or impaired in previous financial years.

76. GOGOL REFORESTATION COMPANY LIMITED

76.1 INTRODUCTION

Gogol Reforestation Company Limited was incorporated under the *Companies Act*. The objective of the Company is to be involved in reforestation.

As at 31 December 2009, 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 PNG held 98,001 'B' class ordinary shares of K1.00 each, representing 49% of the issued Capital at a cost of K98,001.

76.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the audited financial statements and the audit report of the Company for the years ended 31 December 2010, 2011, 2012, 2013, 2014 and 2015 had not been submitted for my verification.

Further, I was informed by Management that the Company was no longer in operation since 2011 due to the winding down of the Company.

In 2014, I communicated with IPBC requesting for the winding down documents and IPBC responded that they had not received any winding down application nor deregistration documents with regards to Gogol Reforestation Co. Limited. A Company search with the Investment Promotion Authority (IPA) in June 2016 revealed that the Company was not deregistered.

77. OK TEDI MINING LIMITED

77.1 INTRODUCTION

Ok Tedi Mining Limited, formerly Mt. Fubilan Development Company Limited, was incorporated under the *Companies Act*. The main function of the Company is mining.

As at 31 December 2011, the issued and fully paid up capital of the Company was K195,102,000 (192,700,000 Ordinary Shares with no par value). Of these, the Government of PNG held fully paid 47,000,000 Ordinary Shares valued at K47,000,000 representing 24.4% of the Ordinary Share capital. On 19 September 2013, the Parliament passed the 10th Supplemental Agreement cancelling the 122,200,000 shares of PNG Sustainable Development Program and issuing 122,200,000 new shares to the State of PNG, making the Company a 100% State owned Enterprise.

77.2 STATUS OF FINANCIAL STATUS

At the time of preparing this Report, the Company had not submitted its audited financial statements and audit reports for the year ended 31 December 2015 for my verification.

78. PNG SUSTAINABLE DEVELOPMENT PROGRAM LIMITED

78.1 INTRODUCTION

78.1.1 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 PNG, particularly those of Western Province 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.

78.1.2 Objectives of the Company

The objective of the Company is to promote and improve the quality of life of current and future generations of the people of PNG, 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 PNG in partnership with the government, churches and other non-government and business partners.

78.1.3 Functions of the Company

The primary functions of the Company are to:

- Promote sustainable development in Western Province and PNG more generally; and
- Manage the Long Term Fund to support a high level of development expenditure in Western Province in particular and PNG in general for at least 40 years after the closure of the Ok Tedi Mine.

78.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Company had not submitted its audited financial statements and the audit reports for the years ended 31 December 2012, 2013, 2014 and 2015 for my verification.

SECTION D

PROBLEM AUDITS (AUDITS IN ARREARS)

79. FOREWORD

This Section of my Report deals with problem audits, especially audits in arrears. 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.

80. AUDITS IN ARREARS

80.1 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 *PFMA*. 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 (2015) 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.

80.2 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.

80.3 LEGISLATIVE REQUIREMENTS

To ensure the timely preparation of financial statements, *Section 63 (1)* of the *PFMA* 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 37 entities as depicted in **Schedule B(iv)** 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 *PFMA*. 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 *PFMA*, 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.

80.4 CURRENT YEAR AUDITS (2015 AUDITS)

Entities totalling **99** subject to audit by the Auditor-General comprise **77** Public Bodies and their subsidiaries, **22** National Government owned companies, and **4** companies in which the National Government has share holdings (referred to as Section 'C' Companies).

TYPES OF ENTITIES SUBJECT TO AUDIT

Table 1

Section	Types of Audit	Number of Entities	
		2015/2016	2014/2015
(A)	Public Bodies and their Subsidiaries	77	81
(B)	National Government Owned Companies	22	19
(C)	National Government Shareholdings in other Companies	4	4
(D)	Projects	0	11
		103	115

Table 1. Shows the total of Types of Entities subject to Audit

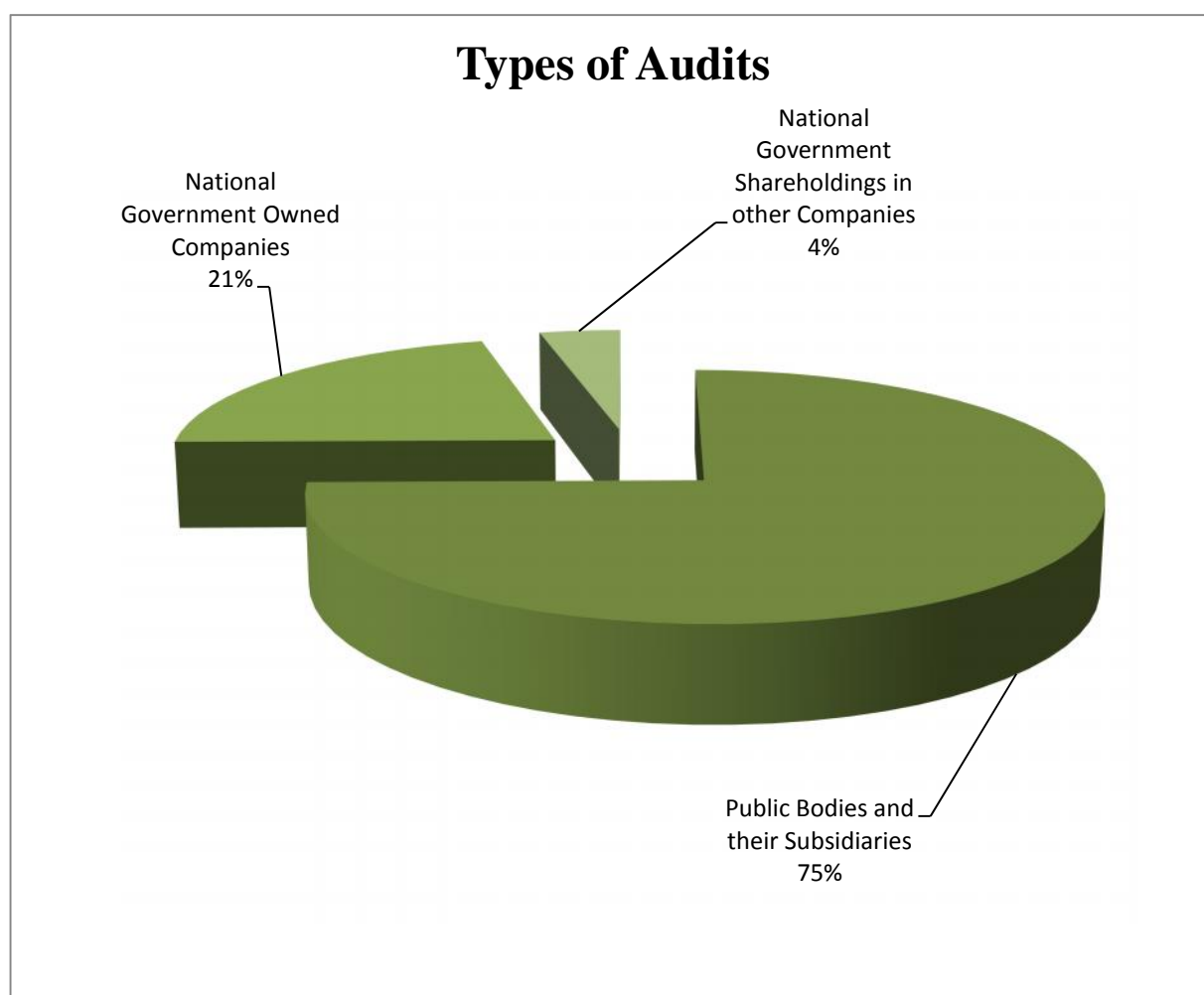


Chart 1. Shows the percentages of Types of Entities subject to Audit during 2015/2016 Audit Cycle.

80.5 STATUS OF CURRENT YEAR AUDITS

Each of the **99** entities, except Section ‘C’ Companies are subject to audit and required under *Section 63(4)* of the *PFMA* to submit annual financial statements for audit. Information available in my Office shows that only **41** entities have submitted their financial statements for 2016 (**Schedule A**) for audit up to the time of preparing this Report. A total of **58** entities have not submitted their 2015 financial statements (**Schedule A**) for audit in 2015. It could therefore be logically concluded that, about 59% of the public bodies might not have submitted their annual reports and financial statements for 2015 together with my reports on them, to the respective Ministers for tabling in the National Parliament on or before June 2016.

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 2015.

STATUS OF CURRENT YEAR AUDITS 2015

Table 2

No.	Status of Current Year Audits	Number of Entities	
		2015/2016	2014/2015
1	Audits completed and reports issued thereon (<i>Schedule A</i>)	16	18
2	Audits substantially completed (<i>Schedule A</i>)	5	2
3	Audits in progress (<i>Schedule A</i>)	18	8
4	Audits to commence shortly (<i>Schedule A</i>)	2	5
5	Financial Statements not submitted (<i>Schedule A</i>)	58	66
		99	99

Table 2. Shows the total of Status of Current Year (2015) Audits (*Schedule A*).

Chart 2

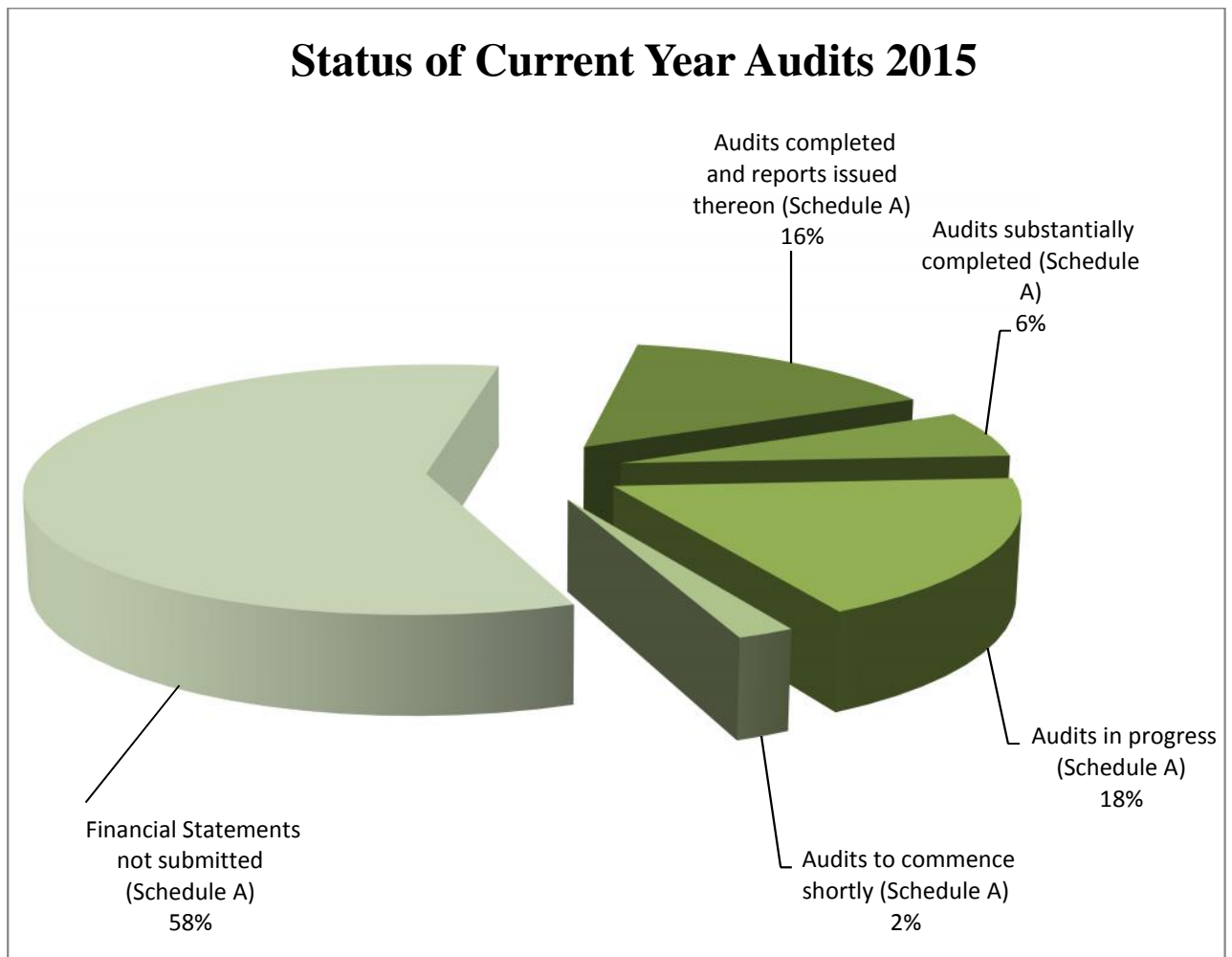


Chart 2. Shows the percentages of Audit Status for the Current Year (2015) during 2015/2016 Audit Cycle. (*Schedule A*)

80.6 AUDITS IN ARREARS (2014 AND PRIOR YEARS)

Records available in my Office show that a total of **83** entities (126 audits) were in the Audit in Arrears category due to non-submission of financial statements on time. **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 (2014 AND PRIOR YEARS)

Table 3A

No.	Status of Audits in Arrears by No. of Entities (2014 and Prior Years)	Number of Entities	
		2015/2016	2014/2015
1	Audits substantially completed (<i>Schedule B</i>)	25	24
2	Audits in progress (<i>Schedule B</i>)	17	27
3	Audits to commence shortly (<i>Schedule B</i>)	4	8
4	Financial Statements not submitted (<i>Schedule B</i>)	37	27
		83	86

Table 3A. Shows the Status of Audits in Arrears by number of Entities for 2014 and Prior Years during 2015/2016 Audit Cycle. (*Schedule B*)

Chart 3A

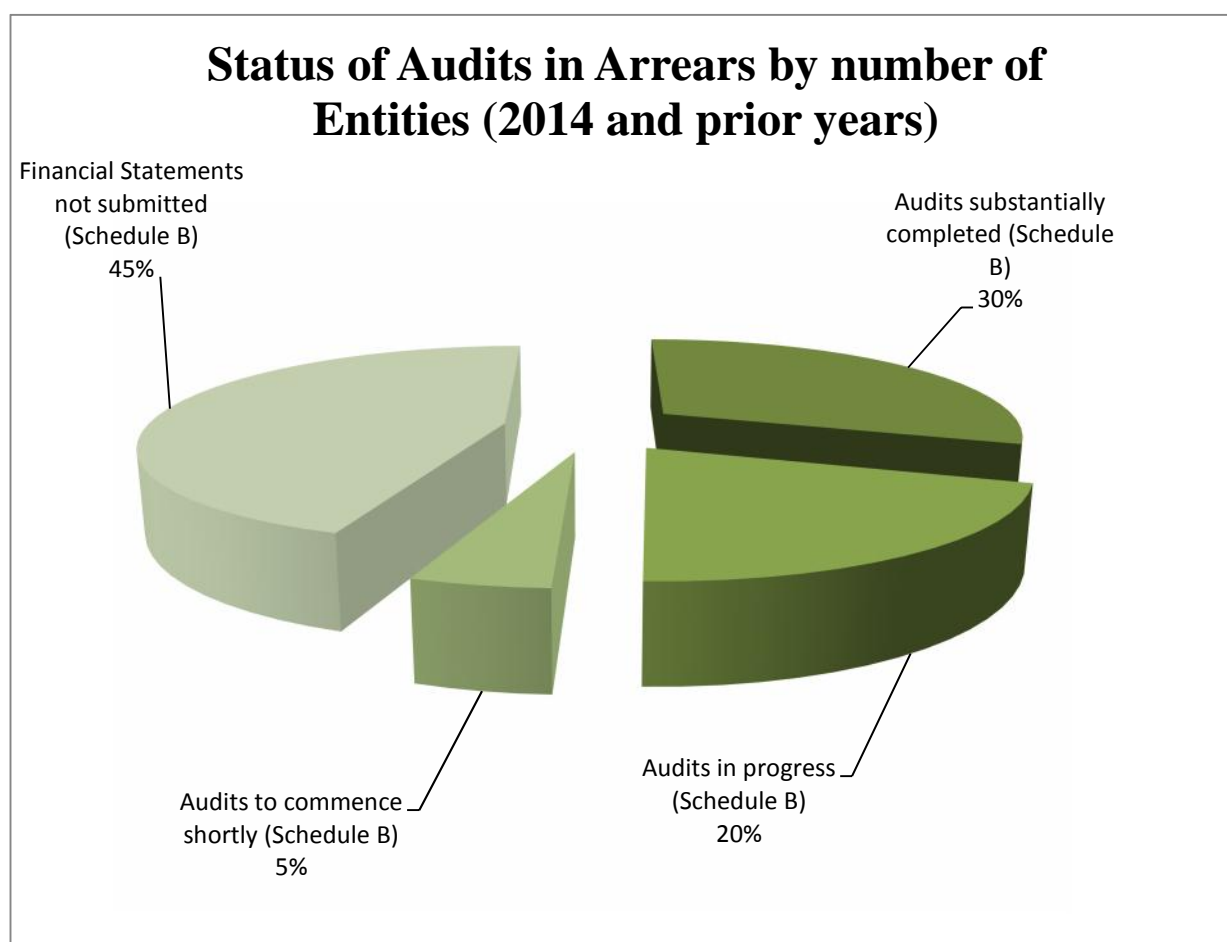


Chart 3A. Shows the percentages of Audit Status for Audits in Arrears by number of Entities for 2014 and Prior Years during 2015/2016 Audit Cycle. (*Schedule B*).

STATUS OF AUDITS IN ARREARS BY NUMBER OF AUDITS (2014 AND PRIOR YEARS)

Table 3B

No.	Status of Audits in Arrears by No. Of Audits (2014 & prior years)	Number of Audits	
		2015/2016	2014/2015
1	Audits substantially completed (<i>Schedule B</i>)	32	44
2	Audits in progress (<i>Schedule B</i>)	31	32
3	Audits to commence shortly (<i>Schedule B</i>)	5	17
4	Financial Statements not submitted (<i>Schedule B</i>)	58	41
		126	134

Table 3B. Shows the Status of Audits in Arrears by number of Audits for 2014 and Prior Years during 2015/2016 Audit Cycle. (*Schedule B*)

Chart 3B

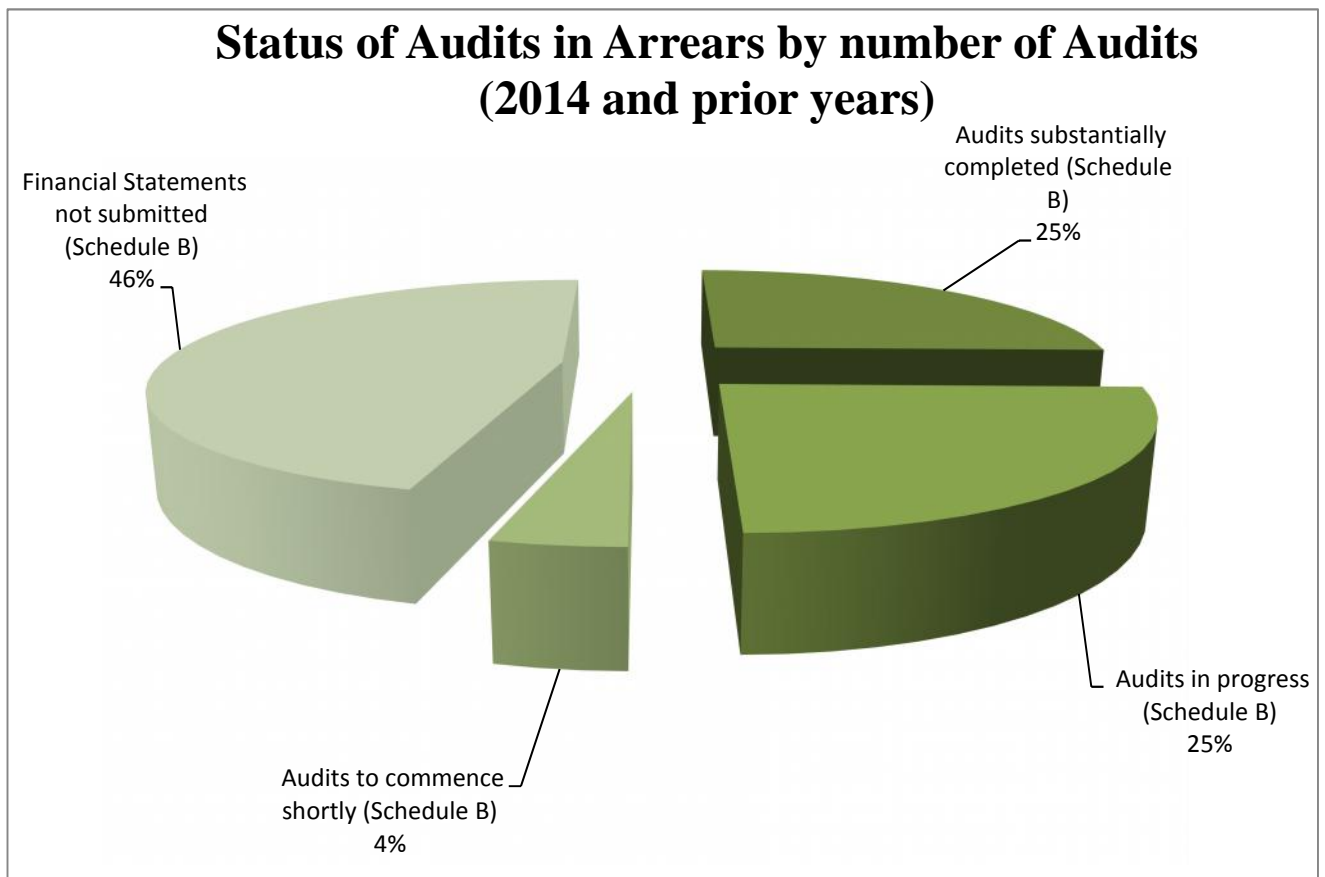


Chart 3B. Shows the percentages of Audit Status for Audits in Arrears by number of Audits for 2014 and Prior Years during 2015/2016 Audit Cycle. (*Schedule B*)

80.7 LONG OUTSTANDING FINANCIAL STATEMENTS

During this Audit Cycle (2015/2016) **37** audit entities were in the arrears category, increase of ten compared to prior year (2014). Of these **37** entities, **58** financial statements for periods ranging from one year to five years have still not been submitted. In other words, they still have financial statements outstanding for the years from 2010 to 2014. Details of these are shown below in **Table 4, Chart 4** and also in **Schedule C** attached.

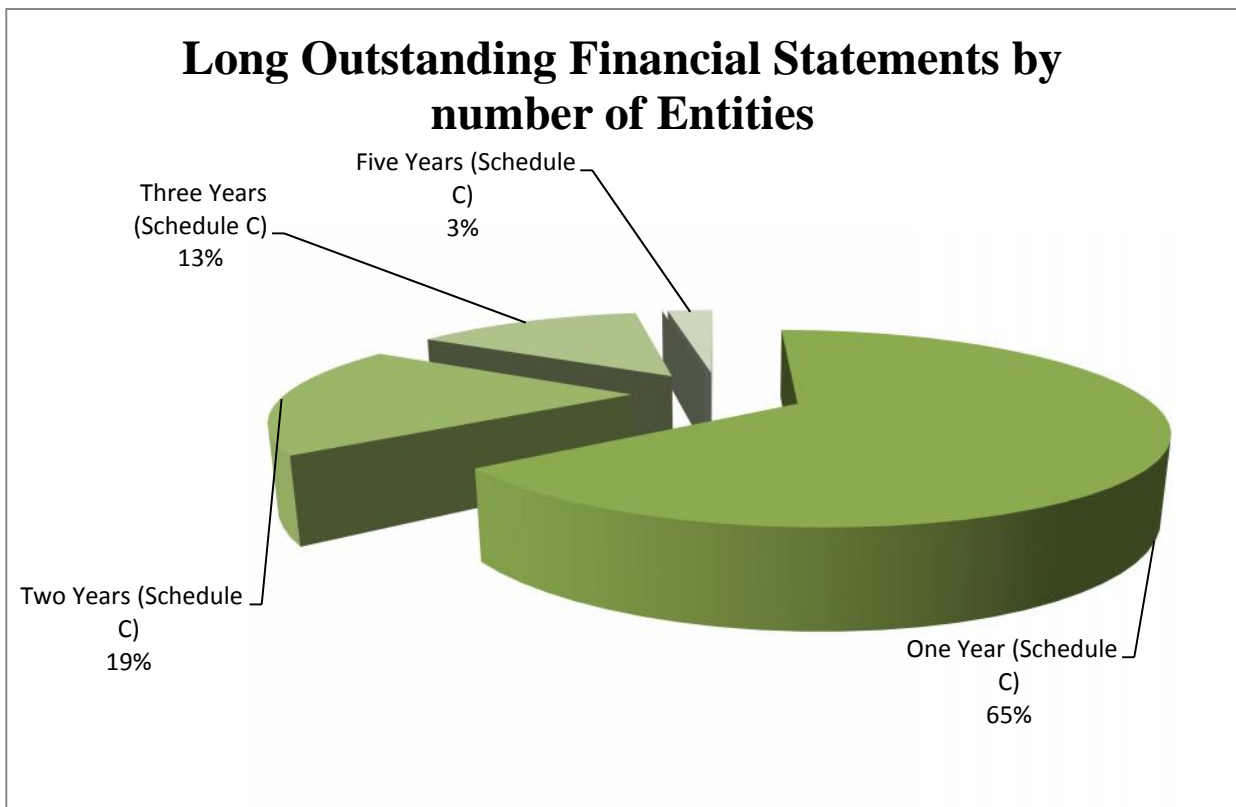
LONG OUTSTANDING FINANCIAL STATEMENTS BY NUMBER OF ENTITIES (2014 AND PRIOR YEARS)

Table 4A

No.	Years Outstanding by Entities	Number of Entities	
		2015 Report	2014 Report
1	One Year (<i>Schedule C</i>)	24	17
2	Two Years (<i>Schedule C</i>)	7	8
3	Three Years (<i>Schedule C</i>)	5	2
4	Four Years (<i>Schedule C</i>)	0	0
5	Five Years (<i>Schedule C</i>)	1	0
		37	27

Table 4A. Shows the total of Long Outstanding Financial Statements by number of Entities during 2015/2016 Audit Cycle. (*Schedule C*)

Chart 4A



LONG OUTSTANDING FINANCIAL STATEMENTS BY NUMBER OF AUDITS (2014 AND PRIOR YEARS)

Table 4B

No.	Years Outstanding by Audits	Number of Audits	
		2015 Report	2014 Report
1	One Year (<i>Schedule C</i>)	24	17
2	Two Years (<i>Schedule C</i>)	14	16
3	Three Years (<i>Schedule C</i>)	15	8
4	Four Years (<i>Schedule C</i>)	0	0
5	Five Years (<i>Schedule C</i>)	5	0
		58	41

Table 4B. Shows the total of Long Outstanding Financial Statements by number of Audits during 2015/2016 Audit Cycle. (*Schedule C*)

Chart 4B

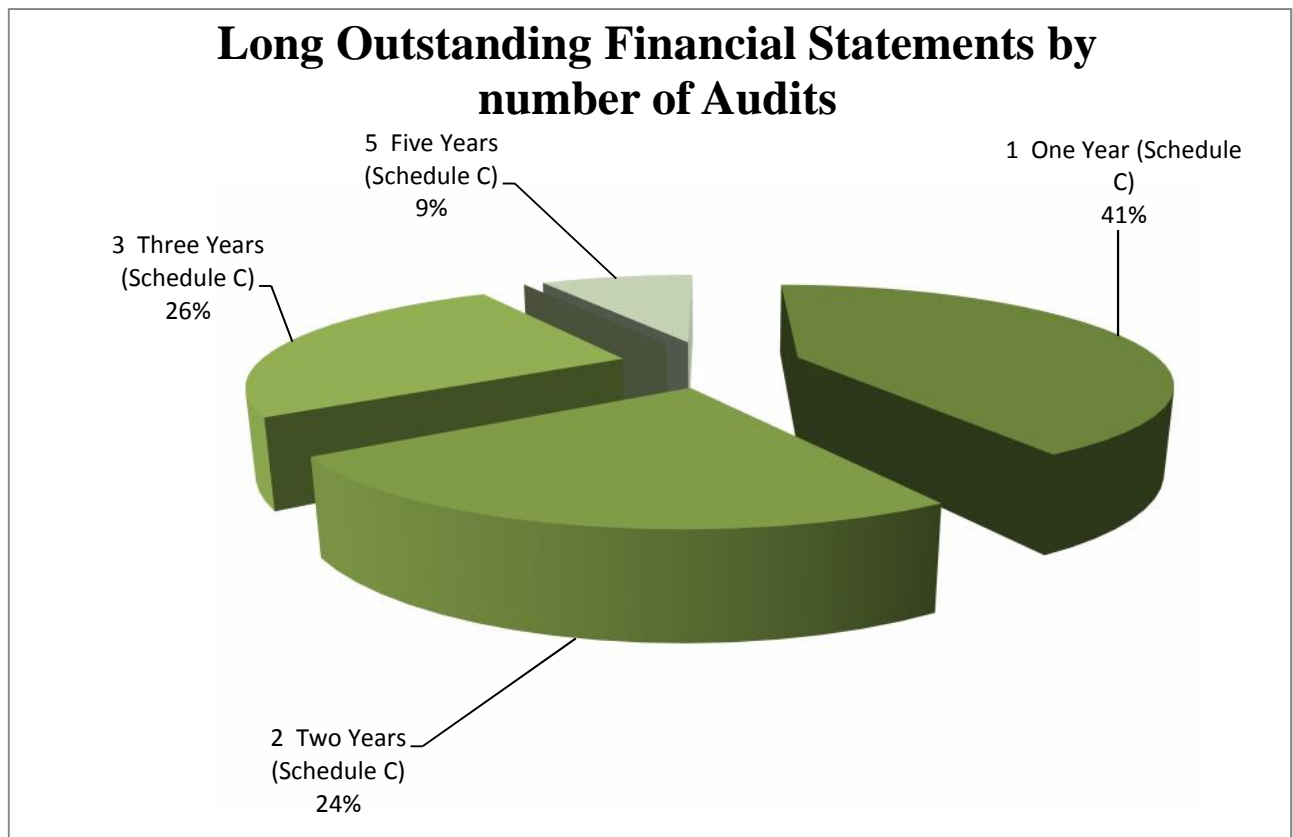


Chart 4B. Shows the percentages of Long Outstanding Financial Statements by number of Audits during 2015/2016 Audit Cycle. (*Schedule C*).

80.8 STATUS OF AUDITS AS AT 30 JUNE 2016

As illustrated in **Executive Summary Table 1**, during July 2015 and June 2016 Audit Cycle a **total of 174 audits** were undertaken by the Audit Office. Out of **174 audits** carried out, **88 audit** reports were issued. **Table 5 and Chart 5** shown below provide the details of the Status of Audits during the period July 2015 to June 2016.

STATUS OF AUDITS AS AT 30 JUNE 2016

Table 5

No.	Status of Audits	Number of Audits	
		2015/2016	2014/2015
1	Audits completed and reports issued thereon (<i>Schedule A & E</i>)	88	114
2	Audits substantially completed (<i>Schedule A & B</i>)	37	46
3	Audits in progress (<i>Schedule A & B</i>)	49	40
4	Audits to commence shortly (<i>Schedule A & B</i>)	7	22
5	Financial Statements not submitted (<i>Schedule A & B</i>)	116	107
		297	329

Table 5. Shows the Status of Audits as at 30 June 2016 for the 2015/2016 Audit Cycle. (*Schedules A&E and A&B*)

Chart 5

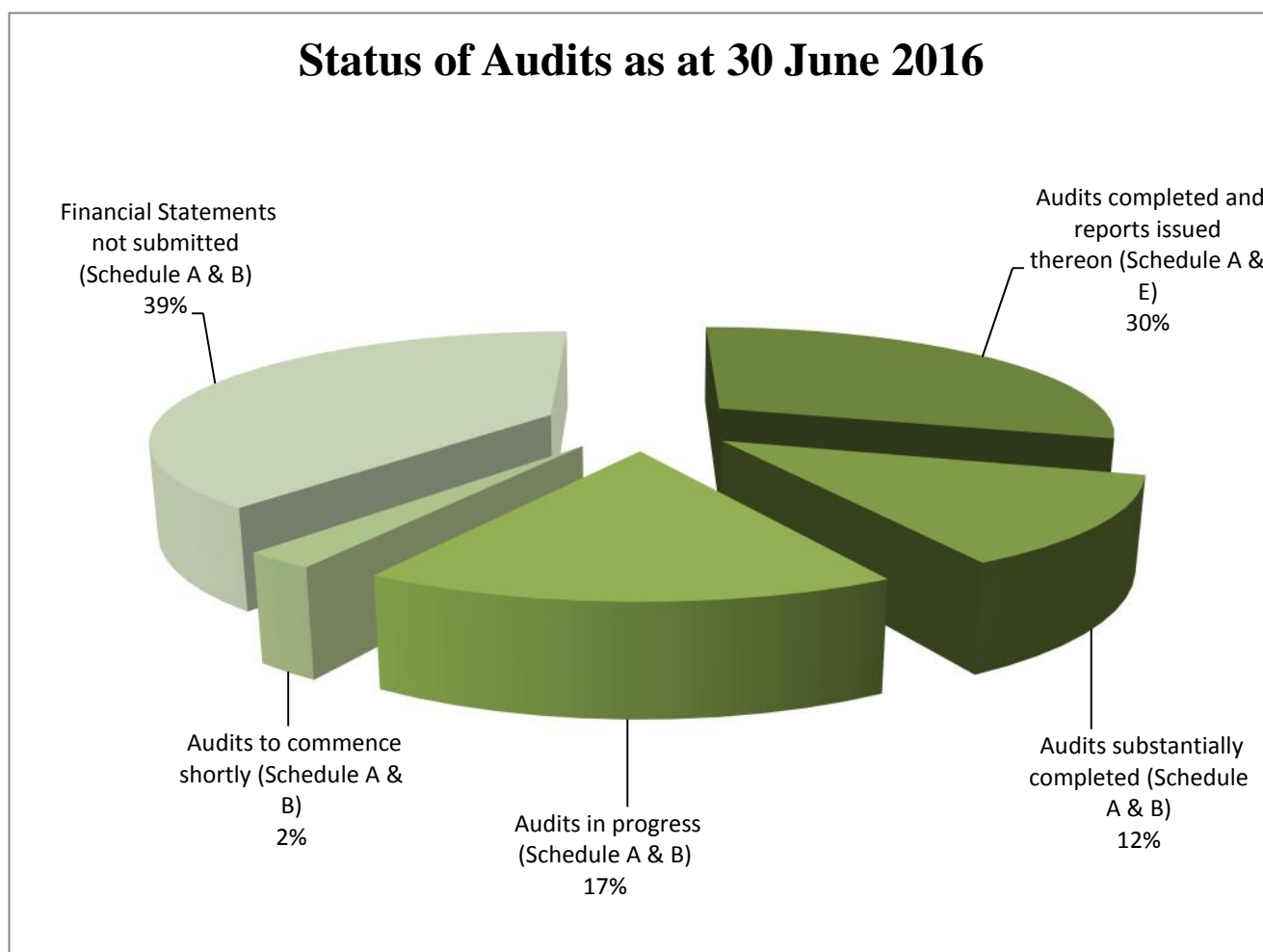


Chart 5. Shows the percentages of Audit Status as at 30 June 2016 for the 2015/2016 Audit Cycle (*Schedules A&E and A&B*)


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 Government Printing Office 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 PNG and the Secretary for the continuous interest shown in my work.

**SIGNED AT WAIGANI ON 29 OF JULY
TWO THOUSAND AND SIXTEEN**



PHILIP NAUGA

Auditor-General of Papua New Guinea

SCHEDULES

Schedule 'A'

STATUS OF CURRENT YEAR (2015) AUDIT

(i) AUDITS COMPLETED AND REPORTS ISSUED THEREON

No.	Section	Para. No.	Entity	No. of Audits
1	A	4	Civil Aviation Safety Authority	1
2	A	11	Independent Consumer and Competition Commission	1
3	A	14	Investment Promotion Authority	1
4	A	15	Kokonasi Industri Koporesen	1
5	A	15A	Papua New Guinea Coconut Extension Fund	1
6	A	15B	Papua New Guinea Coconut Research Fund	1
7	A	20	National Agricultural Research Institute	1
8	A	25	National Economic and Fiscal Commission	1
9	A	33	National Research Institute	1
10	A	37	National Volunteer Service	1
11	B	62	Kumul Petroleum Holdings Limited	1
12	B	62A	Kumul Petroleum Development Limited	1
13	B	62B	Kumul Petroleum Investments Limited	1
14	B	62C	Kumul Petroleum (PNG LNG) Limited	1
15	B	62D	Kumul Petroleum Technical Institute and Consulting Limited	1
16	B	72	Post PNG Limited	1
				16

(ii) AUDITS SUBSTANTIALLY COMPLETED

No.	Section	Para. No.	Entity	No. of Audits
1	A	2	Bank of Papua New Guinea	1
2	A	35	National Roads Authority	1
3	A	55	Tourism Promotion Authority	1
4	B	65	Motor Vehicles Insurance Limited	1
5	B	69	PNG Air Services Limited	1
				5

(iii) AUDITS IN PROGRESS

No.	Section	Para. No.	Entity	No. of Audits
1	A	16	Kumul Consolidated Holdings	1
2	A	16A	General Business Trust	1
3	A	16B	PNG Dams Limited	1
4	A	16C	Port Moresby Private Hospital Limited	1
5	A	27	National Gaming Control Board	1
6	A	27A	National Gaming Control Board Community Benefit Fund Trust	1
7	A	30	National Maritime Safety Authority	1
8	A	41	Pacific Games (2015) Authority	1
9	B	61	Air Niugini Limited	1
10	B	61A	Link-PNG Limited	1
11	B	64	Mineral Resources Development Company Limited	1
12	B	67	NCD Water and Sewerage Limited (Eda Ranu)	1
13	B	68	Papua New Guinea Ports Corporation Limited	1
14	B	71	PNG Power Limited	1
15	B	73	Telikom PNG Limited	1

No.	Section	Para. No.	Entity	No. of Audits
16	B	73A	DATEC (PNG) Limited	1
17	B	73B	Kalang Advertising Limited	1
18	B	73C	PNG Directories Limited	1
				18

(iv) AUDITS TO COMMENCE SHORTLY

No.	Section	Para. No.	Entity	No. of Audits
1	A	29	National Information and Communication Technology Authority (NICTA)	1
2	A	36	National Training Council	1
				2

(v) FINANCIAL STATEMENTS NOT SUBMITTED

No.	Section	Para. No.	Entity	No. of Audits	Last Report Issued	Date of Report
1	A	3	Border Development Authority	1	2012	27.10.15
2	A	3A	Papua New Guinea Maritime Transport Limited	1	2012	29.10.15
3	A	5	Climate Change and Development Authority	1	2011	04.04.16
4	A	6	Cocoa Board of Papua New Guinea	1	2014	31.05.16
5	A	6A	Cocoa Pod Borer Project Fund	1	2014	30.05.16
6	A	6B	Cocoa Stabilisation Fund	1	2014	25.05.16
7	A	7	Cocoa Coconut Institute Limited of PNG	1	2012	25.04.14
8	A	8	Coffee Industry Corporation Limited	1	2012	17.02.14
9	A	8A	Coffee Industry Fund	1	2012	17.02.14
10	A	8B	Patana No. 61 Limited	1	2012	17.02.14
11	A	9	Government Printing Office	1	2012	31.03.16
12	A	10	Independence Fellowship Trust	1	2014	12.05.15
13	A	12	Industrial Centers Development Corporation	1	2013	17.11.15
14	A	13	Internal Revenue Commission	1	New Inclusion	
15	A	17	Legal Training Institute	1	2013	11.02.16
16	A	18	Mineral Resources Authority	1	2011	13.04.15
17	A	19	National Agriculture Quarantine and Inspection Authority	1	2014	06.06.16
18	A	21	National AIDS Council Secretariat	1	2012	22.04.15
19	A	22	National Broadcasting Corporation	1	2013	16.05.16
20	A	23	National Capital District Commission	1	2012	04.05.15
21	A	23A	National Capital District Botanical Enterprises Ltd	1	2012	04.05.15
22	A	23B	Port Moresby City Development Enterprises Ltd	1	2012	04.05.15
23	A	23C	Port Moresby Nature Park Limited	1	2013	04.05.16
24	A	24	National Cultural Commission	1	2012	27.05.16
25	A	26	National Fisheries Authority	1	2013	21.04.16
26	A	28	National Housing Corporation	1	2010	31.03.14
27	A	31	National Museum and Art Gallery	1	2013	16.05.16
28	A	32	National Narcotics Bureau	1	2012	22.09.14
29	A	34	National Road Safety Council	1	2014	17.02.16
30	A	38	National Youth Commission	1	2011	26.03.13
31	A	39	Oil Palm Industry Corporation	1	2010	28.06.13
32	A	40	Ombudsman Commission of Papua New Guinea	1	2013	27.03.15
33	A	42	Papua New Guinea Accident Investigation Commission	1	New Inclusion	

No.	Section	Para. No.	Entity	No. of Audits	Last Report Issued	Date of Report
34	A	43	Papua New Guinea Immigration and Citizenship Service Authority	1	2013	01.11.15
35	A	44	Papua New Guinea Forest Authority	1	2012	19.02.16
36	A	45	Papua New Guinea Institute of Medical Research	1	2013	23.04.15
37	A	46	Papua New Guinea Institute of Public Administration	1	2011	31.10.14
38	A	47	Papua New Guinea Maritime College	1	2013	20.10.15
39	A	48	Papua New Guinea National Institute of Standards and Industrial Technology	1	2013	27.10.15
40	A	49	Papua New Guinea Sports Foundation	1	2004	31.10.13
41	A	50	Papua New Guinea University Of Technology	1	2012	03.12.15
42	A	50A	National Analytical and Testing Services Ltd	1	2011	04.04.16
43	A	50B	Unitech Development & Consultancy Company Ltd	1	2013	22.10.15
44	A	51	Parliamentary Members Retirement Benefits Fund	1	2014	30.05.15
45	A	52	Public Curator Of PNG	1	2012	30.11.15
46	A	53	Security Industries Authority	1	2011	28.04.15
47	A	54	Small Business Development Corporation	1	2012	02.11.15
48	A	56	University of Goroka	1	2013	19.11.15
49	A	56A	Unigor Consultancy Limited	1	2013	30.11.15
50	A	57	University of Natural Resources & Environment (Vudal)	1	2013	26.03.15
51	A	58	University of PNG	1	2012	16.02.16
52	A	58A	Unisave Limited	1	2011	25.08.14
53	A	58B	Univentures Limited	1	2011	24.06.14
54	A	59	Water PNG	1	2013	15.02.16
55	B	63	Livestock Development Corporation Limited	1	2009	31.10.12
56	B	66	National Airports Corporation Limited	1	2010	08.10.12
57	B	66A	Airport City Development Limited	1	New Inclusion	
58	B	70	PNG DataCo Limited	1	New Inclusion	
				58		

Schedule 'B'

STATUS OF AUDITS IN ARREARS (2014 AND PRIOR YEARS)

(i) AUDITS SUBSTANTIALLY COMPLETED

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	3	Border Development Authority	2013	1
2	A	5	Climate Change and Development Authority	2012	1
3	A	7	Cocoa Coconut Institute Limited of PNG	2013	1
4	A	9	Government Printing Office	2013	1
5	A	13	Internal Revenue Commission	2014	1
6	A	16A	General Business Trust	2014	1
7	A	16B	PNG Dams Limited	2013 & 2014	2
8	A	16C	Port Moresby Private Hospital Limited	2013 & 2014	2
9	A	18	Mineral Resources Authority	2012	1
10	A	21	National AIDS Council Secretariat	2013 & 2014	2
11	A	24	National Cultural Commission	2013	1
12	A	28	National Housing Corporation	2011	1
13	A	29	National Information and Communication Technology Authority (NICTA)	2013 & 2014	2
14	A	39	Oil Palm Industry Corporation	2011	1
15	A	40	Ombudsman Commission of Papua New Guinea	2014	1
16	A	41	Pacific Games (2015) Authority	2014	1
17	A	45	PNG Institute of Medical Research	2014	1
18	A	46	Papua New Guinea Institute of Public Administration	2012 & 2013	2
19	A	53	Security Industries Authority	2012 - 2014	3
20	A	56	University of Goroka	2014	1
21	A	57	University of Natural Resources and Environment (Vudal)	2014	1
22	B	61	Air Niugini Limited	2014	1
23	B	66	National Airports Corporation Limited	2011	1
24	B	70	PNG DataCo Limited	2014	1
25	B	73	Telikom PNG Limited	2014	1
					32

(ii) AUDITS IN PROGRESS

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	8	Coffee Industry Corporation Limited	2013	1
2	A	8A	Coffee Industry Fund	2013	1
3	A	8B	Patana No. 61 Limited	2013	1
4	A	18	Mineral Resources Authority	2013 & 2014	2
5	A	22	National Broadcasting Corporation	2014	1
6	A	23	National Capital District Commission	2013 & 2014	2
7	A	26	National Fisheries Authority	2014	1
8	A	28	National Housing Corporation	2012	1
9	A	42	Papua New Guinea Accident Investigation Commission	2011 & 2012	2
10	A	44	Papua New Guinea Forest Authority	2013	1
11	A	49	Papua New Guinea Sports Foundation	2005 - 2013	9
12	A	50	Papua New Guinea University of Technology	2013	1

No.	Section	Para. No.	Entity	Year	No. of Audits
13	A	50A	National Analytical and Testing Services Limited	2012 & 2013	2
14	A	58	University of Papua New Guinea	2013	1
15	A	59	Water PNG	2014	1
16	B	64	Mineral Resources Development Company Limited	2012 - 2014	3
17	B	73B	Kalang Advertising Limited	2014	1
					31

(iii) AUDITS TO COMMENCE SHORTLY

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	38	National Youth Commission	2012 & 2013	2
2	A	52	Public Curator of Papua New Guinea	2013	1
3	A	54	Small Business Development Corporation	2013	1
4	A	58	University of Papua New Guinea	2014	1
					5

(iv) FINANCIAL STATEMENTS NOT SUBMITTED

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	3	Border Development Authority	2014	1
2	A	3A	Papua New Guinea Maritime Transport Limited	2013 & 2014	2
3	A	5	Climate Change and Development Authority	2013 & 2014	2
4	A	7	Cocoa Coconut Institute Limited of PNG	2014	1
5	A	8	Coffee Industry Corporation Limited	2014	1
6	A	8A	Coffee Industry Fund	2014	1
7	A	8B	Patana No. 61 Limited	2014	1
8	A	9	Government Printing Office	2014	1
9	A	12	Industrial Centers Development Corporation	2014	1
10	A	17	Legal Training Institute	2014	1
11	A	23A	National Capital District Botanical Enterprises Limited	2013 & 2014	2
12	A	23B	Port Moresby City Development Enterprises Limited	2013 & 2014	2
13	A	23C	Port Moresby Nature Park Limited	2014	1
14	A	24	National Cultural Commission	2014	1
15	A	28	National Housing Corporation	2013 & 2014	2
16	A	31	National Museum and Art Gallery	2014	1
17	A	32	National Narcotics Bureau	2013 & 2014	2
18	A	38	National Youth Commission	2014	1
19	A	39	Oil Palm Industry Corporation	2012 - 2014	3
20	A	42	Papua New Guinea Accident Investigation Commission	2013 & 2014	2
21	A	43	Papua New Guinea Immigration and Citizenship Service Authority	2014	1
22	A	44	Papua New Guinea Forest Authority	2014	1
23	A	46	Papua New Guinea Institute of Public Administration	2014	1
24	A	47	Papua New Guinea Maritime College	2014	1
25	A	48	Papua New Guinea National Institute of Standards and Industrial Technology	2014	1
26	A	49	Papua New Guinea Sports Foundation	2014	1
27	A	50	Papua New Guinea University of Technology	2014	1
28	A	50A	National Analytical and Testing Services Limited	2014	1

No.	Section	Para. No.	Entity	Year	No. of Audits
29	A	50B	Unitech Development and Consultancy Company Limited	2014	1
30	A	52	Public Curator of Papua New Guinea	2014	1
31	A	54	Small Business Development Corporation	2014	1
32	A	56A	Unigor Consultancy Limited	2014	1
33	A	58A	Unisave Limited	2012 - 2014	3
34	A	58B	Univentures Limited	2012 - 2014	3
35	B	63	Livestock Development Corporation Limited	2010 - 2014	5
36	B	66	National Airports Corporation Limited	2012 - 2014	3
37	B	66A	Airport City Development Limited	2012 - 2014	3
					58

Schedule 'C'

LONG OUTSTANDING FINANCIAL STATEMENTS (2014 & PRIOR YEARS)

(i) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN ONE YEAR

No.	Section	Para. No.	Entity	No. of Audits
1	A	3	Border Development Authority	1
2	A	7	Cocoa Coconut Institute Limited of PNG	1
3	A	8	Coffee Industry Corporation Limited	1
4	A	8A	Coffee Industry Fund	1
5	A	8B	Patana No. 61 Limited	1
6	A	9	Government Printing Office	1
7	A	12	Industrial Centres Development Corporation	1
8	A	17	Legal Training Institute	1
9	A	23C	Port Moresby Nature Park Limited	1
10	A	24	National Cultural Commission	1
11	A	31	National Museum and Art Gallery	1
12	A	38	National Youth Commission	1
13	A	43	Papua New Guinea Immigration and Citizenship Service Authority	1
14	A	44	Papua New Guinea Forest Authority	1
15	A	46	Papua New Guinea Institute of Public Administration	1
16	A	47	Papua New Guinea Maritime College	1
17	A	48	Papua New Guinea National Institute of Standards and Industrial Technology	1
18	A	49	Papua New Guinea Sports Foundation	1
19	A	50	Papua New Guinea University of Technology	1
20	A	50A	National Analytical and Testing Services Limited.	1
21	A	50B	Unitech Development and Consultancy Company Limited	1
22	A	52	Public Curator of Papua New Guinea	1
23	A	54	Small Business Development Corporation	1
24	A	56A	Unigor Consultancy Limited	1
				24

(ii) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN TWO (2) YEARS

No.	Section	Para. No.	Entity	No. of Audits
1	A	3A	Papua New Guinea Maritime Transport Limited	2
2	A	5	Climate Change and Development Authority	2
3	A	23A	National Capital District Botanical Enterprises Limited	2
4	A	23B	Port Moresby City Development Enterprises Limited	2
5	A	28	National Housing Corporation	2
6	A	32	National Narcotics Bureau	2
7	A	42	Papua New Guinea Accident Investigation Commission	2
				14

(iii) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN THREE (3) YEARS

No.	Section	Para. No.	Entity	No. of Audits
1	A	39	Oil Palm Industry Corporation	3
2	A	58A	Unisave Limited	3
3	A	58B	Univentures Limited	3
4	B	66	National Airports Corporation Limited	3
5	B	66A	Airport City Development Limited	3
				15

(iv) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN FOUR (4) YEARS

No.	Section	Para. No.	Entity	No. of Audits

(v) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN FIVE (5) YEARS

No.	Section	Para. No.	Entity	No. of Audits
1	B	63	Livestock Development Corporation Limited	5
				5

Schedule 'D'

NON OPERATIONAL ENTITIES AND OTHERS

(i) OTHERS – NATONAL GOVERNMENT SHAREHOLDINGS IN OTHER COMPANIES

No.	Section	Para. No.	Entity	Remarks
1	C	75	Bougainville Copper Limited	2015 Audit Report Completed.
2	C	76	Gogol Reforestation Company Limited	Audited Financial Statement for 2010 - 2015 not Submitted
3	C	77	Ok Tedi Mining Limited	Audited Financial Statement for 2015 not Submitted
4	C	78	PNG Sustainable Development Program Limited	Audited Financial Statement for 2012- 2015 not Submitted

Schedule 'E'

**AUDIT IN AREARS (2014 AND PRIOR YEARS) COMPLETED DURING
2015/2016 AUDIT CYCLE**

2014 AUDITS - COMPLETED DURING 2015/2016

No.	Section	Para. No.	Entity	No. of Audits
1	A	4	Civil Aviation Safety Authority of Papua New Guinea	1
2	A	6	Cocoa Board of Papua New Guinea	1
3	A	6A	Cocoa Pod Borer Project Fund	1
4	A	6B	Cocoa Stabilization Fund	1
5	A	16	Kumul Consolidated Holdings	1
6	A	19	National Agriculture Quarantine and Inspection Authority	1
7	A	27	National Gaming Control Board	1
8	A	27A	National Gaming Control Board Community Benefit Fund Trust	1
9	A	34	National Road Safety Council	1
10	A	35	National Roads Authority	1
11	A	37	National Volunteer Service	1
12	A	51	Parliamentary Members Retirement Benefits Fund	1
13	A	55	Tourism Promotion Authority	1
14	B	65	Motor Vehicles Insurance Limited	1
15	B	67	NCD Water and Sewerage Limited (Eda Ranu)	1
16	B	68	Papua New Guinea Ports Corporation Limited	1
17	B	71	PNG Power Limited	1
18	B	73A	DATEC (PNG) Limited	1
19	B	73C	PNG Directories Limited	1
				19

2013 AUDITS - COMPLETED DURING 2015/2016

No.	Section	Para. No.	Entity	No. of Audits
1	A	4	Civil Aviation Safety Authority of Papua New Guinea	1
2	A	6A	Cocoa Pod Borer Project Fund	1
3	A	12	Industrial Centres Development Corporation	1
4	A	16	Kumul Consolidated Holdings	1
5	A	16A	General Business Trust	1
6	A	17	Legal Training Institute	1
7	A	22	National Broadcasting Corporation	1
8	A	23C	Port Moresby Nature Park Limited	1
9	A	26	National Fisheries Authority	1
10	A	31	National Museum and Art Gallery	1
11	A	41	Pacific Games (2015) Authority	1
12	A	43	Papua New Guinea Immigration and Citizenship Service Authority	1
13	A	47	Papua New Guinea Maritime College	1
14	A	48	Papua New Guinea National Institute of Standards and Industrial Technology	1
15	A	50B	Unitech Development and Consultancy Company Ltd	1
16	A	56	University of Goroka	1
17	A	56A	Unigor Consultancy Limited	1
18	A	59	Water PNG	1

No.	Section	Para. No.	Entity	No. of Audits
19	B	65	Motor Vehicles Insurance Limited	1
20	B	71	PNG Power Limited	1
21	B	73	Telikom PNG Limited	1
22	B	73B	Kalang Advertising Limited	1
23	B	73C	PNG Directories Limited	1
				23

2012 AUDITS - COMPLETED DURING 2015/2016

No.	Section	Para. No.	Entity	No. of Audits
1	A	3	Border Development Authority	1
2	A	3A	Papua New Guinea Maritime Transport Limited	1
3	A	9	Government Printing Office	1
4	A	12	Industrial Centres Development Corporation	1
5	A	23C	Port Moresby Nature Park Limited	1
6	A	24	National Cultural Commission	1
7	A	26	National Fisheries Authority	1
8	A	29	National Information and Communication Technology Authority (NICTA)	1
9	A	41	Pacific Games (2015) Authority	1
10	A	43	Papua New Guinea Immigration and Citizenship Service Authority	1
11	A	44	Papua New Guinea Forest Authority	1
12	A	48	Papua New Guinea National Institute of Standards and Industrial Technology	1
13	A	50	Papua New Guinea University of Technology	1
14	A	52	Public Curator of Papua New Guinea	1
15	A	54	Small Business Development Corporation	1
16	A	56A	Unigor Consultancy Limited	1
17	A	58	University of Papua New Guinea	1
18	B	65	Motor Vehicles Insurance Limited	1
				18

2011 AUDITS - COMPLETED DURING 2015/2016

No.	Section	Para. No.	Entity	No. of Audits
1	A	3A	Papua New Guinea Maritime Transport Limited	1
2	A	5	Climate Change and Development Authority	1
3	A	44	Papua New Guinea Forest Authority	1
4	A	48	Papua New Guinea National Institute of Standards and Industrial Technology	1
5	A	50	Papua New Guinea University of Technology	1
6	A	50A	National Analytical and Testing Services Limited	1
7	A	56A	Unigor Consultancy Limited	1
8	A	58	University of Papua New Guinea	1
				8

2010 AUDITS - COMPLETED DURING 2015/2016

No.	Section	Para. No.	Entity	No. of Audits
1	A	44	Papua New Guinea Forest Authority	1
2	A	56A	Unigor Consultancy Limited	1
3	A	58	University of Papua New Guinea	1
				3

2009 AUDITS - COMPLETED DURING 2015/2016

No.	Section	Para. No.	Entity	No. of Audits
1	A	58	University of Papua New Guinea	1
				1