



Part 3

Report of the Auditor-General 2014

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

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



Part 3

Report of the Auditor-General 2014

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

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



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

31 July 2015

The Honourable Theodore Zurenuoc, MP

Speaker of the National Parliament

Parliament House

WAIGANI

National Capital District

Dear Mr. Speaker

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

The Part III 2014 Report covers the financial year ending 2014. This Report embodies the results of audits of each of the Accounts of Provincial Governments, Local-level Governments, their Business Arms and Statutory Corporations, Provincial Authorities, Trust Funds and Hospital Boards.

Yours sincerely,

PHILIP NAUGA

Auditor-General

Level 6
TISA Investment Haus
Kumul Avenue, NCD
P.O. Box 423, WAIGANI, NCD
Papua New Guinea

Table of Contents

FOREWORD	1
1. ROLE OF THE AUDITOR-GENERAL AND AUDIT MANDATE	3
1.1 Role of the Auditor-General.....	3
1.2 Mandate of the Auditor-General	3
2. AUDIT AND DELIVERY OF GOVERNMENT PROGRAMS.....	5
3. SCOPE OF AUDIT	6
3.1 Introduction	6
3.2 Appointment of an Agent Auditor	6
3.3 Dispensation of Audits.....	6
4. RESULTS OF THE AUDITS OF FINANCIAL STATEMENTS	8
4.1 Audit Opinion	8
4.2 Financial Statements of Provincial and Local-level Governments	8
4.3 Financial Statements of Hospital Boards and Provincial Health Authorities	14
4.4 Financial Statements of Business Arms and Subsidiary Corporations	15
4.5 Financial Statements of Provincial Authorities	15
4.6 The Role of the Treasury Offices	15
4.7 Other Audits	16
4.8 Audit Fees.....	16
5. CONTROL ENVIRONMENT.....	17
5.1 Introduction	17
5.2 Responsibilities of Management	17
5.3 Responsibility of the Auditor-General	17
5.4 Details of Control Issues	18
5.5 Conclusion	22
6. RESULTS OF AUDITS PER PROVINCE	24
6.1 BOUGAINVILLE AUTONOMOUS GOVERNMENT	24
6.2 CENTRAL PROVINCE	38
6.3 EAST NEW BRITAIN PROVINCE	43
6.4 EAST SEPIK PROVINCE.....	56
6.5 EASTERN HIGHLANDS PROVINCE	70
6.6 ENGA PROVINCE.....	81
6.7 FLY RIVER PROVINCE	95
6.8 GULF PROVINCE	112
6.9 HELA PROVINCE	120
6.10 JIWAKA PROVINCE	121
6.11 MADANG PROVINCE.....	122

6.12	MANUS PROVINCE	132
6.13	MILNE BAY PROVINCE.....	134
6.14	MOROBE PROVINCE.....	148
6.15	NEW IRELAND PROVINCE	157
6.16	ORO PROVINCE	168
6.17	SANDAUN PROVINCE	180
6.18	SIMBU PROVINCE	190
6.19	SOUTHERN HIGHLANDS PROVINCE	196
6.20	WEST NEW BRITAIN PROVINCE.....	206
6.21	WESTERN HIGHLANDS PROVINCE	222
7.	LEGAL FRAMEWORKS	233
7.1	Organic Law on Provincial Governments and Local-level Governments	233
7.2	Provincial Governments and Local-level Governments	233
7.3	Hospital Boards and Provincial Health Authorities	233
7.4	Business Arms and Subsidiary Corporations	234
7.5	Provincial Authorities	234
7.6	Other Audits	234
7.7	Dispensation of Audits	234
8.	STATUS OF FINANCIAL STATEMENTS	236
8.1	Provincial Government	236
8.2	Local-level Government.....	237
8.3	Hospital Boards	238
8.4	Business Arms.....	239
8.5	Provincial Authorities	242
8.6	Trusts and Funds	243

FOREWORD

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

- Part I of my Report deals with the Public Accounts of Papua New Guinea;
- Part II of the Report deals with National Government Departments;
- Part III (this Part) of my 2014 Report deals with audits of the Provincial Governments, their Public Bodies and Subsidiary Corporations, Local-level Governments, Provincial Authorities, Hospital Boards and Trust Funds. With effect from 1996 an audit opinion on the financial statements of each Provincial Government and Urban Local-level Government is being issued in accordance with the requirements of the *Organic Law on Provincial Governments and Local-level Governments 1995*; and
- Finally, Public Bodies and Subsidiaries, National Government-owned Companies and National Government's shareholdings in Other Companies are covered in Part IV of my Report.

Part III Report

Readers of this Report should note that this Part III Report covers financial years 2014 and some previous year's financial statements submitted subsequently. This Report covers the audit of entities - Provincial Governments, Urban Local-level Governments, Hospitals and Business Arms and Authorities and Trust Funds.

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

This Report provides a summary of significant internal control weaknesses identified, and types of audit opinions expressed in the audits. Major financial and accounting issues which require remedial action to be taken by the Provincial and Local-level Governments, Hospitals and government-owned businesses have been summarised in this part of my Report. These issues have been taken up with the respective Provincial Administrators or Executive Management in our Management Letters.

As required, audited financial statements together with the audit opinions were also provided to the relevant Minister(s) and to the Department of Provincial and Local-level Government Affairs for tabling in the Parliament.

Making this Report publicly available

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

1. ROLE OF THE AUDITOR-GENERAL AND AUDIT MANDATE

1.1 Role of the Auditor-General

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

Section 113 of the *Organic Law* requires the Auditor-General to establish a Provincial Audit Service and appoint a Provincial Auditor and additional officers in each Province. At the time of this Report, no such Provincial Audit Services have been established in any of the Provinces. Presently, the Office operates Regional Audit Offices in Port Moresby (Southern), Kavieng (NGI), Mount Hagen (Highlands), Lae (Momase) and Goroka. The decision not to establish provincial offices is due to budgetary limitations confronted by the PNG Auditor-General's Office (AGO). These constraints greatly affect our resources and capability to service audit clients based in the regions.

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

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

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

However, it has been the policy of this Office to engage into discussions with Provincial Governments and Local-level Governments on general matters in relation to accounting systems, internal controls and administrative procedures, and to provide documentation in that regard from resources available in the AGO. In providing such advice or information it is the practice that the responsibility for the executive decision making remains with the Provincial Government or Local-level Government concerned.

1.2 Mandate of the Auditor-General

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

- Whether the financial statements, to which the report relates, are based on proper accounts and records;
- Whether the financial statements are in agreement with the accounts and records and whether they show fairly the financial operations for the period;

- Whether the receipt and payment and investment of moneys and the acquisition and disposal of assets during the year have been in accordance with the *Public Finances (Management) Act 1995 (PFMA)*; and
- Such other matters arising out of the financial statements, to which the report relates, as the Auditor-General considers should be reported.

To meet these requirements I perform financial attest and regularity/compliance audits. The main objective of the attest audit is to express an opinion on the fairness of the financial statements, including compliance to disclosure requirements such as the format of the financial statements issued under Finance Instructions. Regularity audits are performed with the main objective of ascertaining that the expenditure had been applied for the purposes for which they had been authorised and, secondly, that the expenditure conforms to the authority which governs it.

In compliance with Part IV of the *Audit Act*, my Office is performing both attest and regularity audits concurrently and is responsible for **438** audits of different entities as shown in the table below:

ENTITY	No
Provincial Governments	21
Local-level Governments	321
Hospital Boards	19
Business Arms	60
Provincial Authorities	12
Trusts and Funds	5
TOTAL	438

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

I have tried my best to undertake current audits resulting in this Report for 2014 being produced. However, my office has continued to experience considerable difficulties in carrying out timely audits due to a number of factors including:

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

My Office has been adversely affected by the difficulties noted above. Nonetheless, my Office endeavors to improve on the past performance, catch up on the backlog of audits and strives to constantly deliver quality output.

2. AUDIT AND DELIVERY OF GOVERNMENT PROGRAMS

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

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

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

In addition, my audit findings that have been repeatedly highlighted 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.

3. SCOPE OF AUDIT

3.1 Introduction

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

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

All audits were planned and performed in accordance with the International Standards on Auditing as promulgated by the International Federation of Accountants to obtain reasonable assurance whether the financial statements are free of material misstatement. The audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

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

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

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

3.2 Appointment of an Agent Auditor

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

3.3 Dispensation of Audits

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

Due to the delays in the conduct of the audits, I have decided to apply the provisions of the *Audit Act* that allow me to dispense the audits. Details of audits dispensed are presented on Section 7.7 of this Report.

4. RESULTS OF THE AUDITS OF FINANCIAL STATEMENTS

4.1 Audit Opinion

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

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

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

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

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

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

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

4.2 Financial Statements of Provincial and Local-level Governments

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

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

Other factors affecting the poor level of financial management include:

- Lack of experience and the competency of Provincial Treasury and accounting personnel in the provinces;
- Considerable abuse and diversion of government money that has gone unpunished for a long period of time;
- Absence of regular monitoring and review by the Department of Finance on the work of the Provincial/District Treasury, together with timely corrective action;
- Lack of coordination and communication, for example Provincial/District Treasurers not advising the Administrators on matters relating to the financial status of the Province; and
- A reduced incentive for efficient management of funding due to the Provincial/District Treasury being in control of processing but the Administrator being responsible for the outcome.

During this audit cycle my Office finalised and issued 15 audit reports to the Provincial Governments and 20 to Urban Local-level Governments. Details of these are presented in Section 8.1, Table 1 and Section 8.2, and Table 3 respectively.

There are currently 321 Local-level Governments around the country (not including the Local-level Governments of the Autonomous Region of Bougainville) as shown in Table 2 of Section 8.2. Of these, there are 290 Rural Local-level Governments and 31 Urban Local-level Governments in existence.

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

I have been in the position to carry out the audits of some of the major Urban Local-level Governments as they are located in the main headquarters of the Provinces. For some Urban Local-level Governments audit of financial statements were conducted for two to three years because of a backlog of audit in arrears. The results of controls testing are reported under Chapter 6 of this report under the respective Province headings.

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

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

4.2.1 Statement 'A' - Government's Account Balances

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

Common problems associated with the audit of this Statement were:

- Bank confirmations for the bank accounts and Interest Bearing Deposit (IBD) Certificates were usually not provided to confirm the closing bank and investment balances;
- The cash position was also incomplete as it did not include the unspent funds transferred from the Provincial Treasury operating account to Provincial Government operating account, and were treated as expenditure as at year-end and balance of short-term investments held by the Government;
- Opening balances could not be confirmed as correct as these balances did not agree to the corresponding closing balances from the previous year; and
- There were adjustments made to opening or closing balances without any supporting documents provided.

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

4.2.2 Statement 'B' - Summary of Receipts and Payments

This statement basically is the Operating Account and is similar to a Profit and Loss account as in commercial practice. Statement 'B' is intended to show the summary of receipts actually received in Statement 'J' and expenditure actually incurred in Statement 'K'.

Tracing figures from Statements 'J' and 'K' to this statement in almost all audits showed material difference relating to either expenses or revenue. Another frequent error was an omission of revenue and expenditure related to Staffing Grant and Teacher Salaries and Allowances. This occurred as a result of these salaries and allowances being controlled and processed by the Department of Finance. Nevertheless, revenue and expenses arising from Staffing Grant and Teacher Salaries and Allowances should have been accounted for by the Provincial Government's system.

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

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

This statement shows trust funds revenues actually received and expenditure actually paid. The most common error that frequently resulted in material overstatement was the inclusion of the National Government Agencies' trust accounts. These trust accounts however, did not belong to the Provincial Government and, as such, should have been excluded from this statement. Consequently, the closing balances shown in the statement could not be relied upon. In addition, breaches of the *PFMA* were likely to have occurred due to payments made from the trust accounts or revenue collected not being in accordance with the Trust Instruments.

4.2.4 Statement 'D' - Sources and Application of Funds

This is a summary cash flow statement showing sources of revenue and where these funds were applied. The statement also shows reconciliation of changes in bank balances to the net

movement of the cash flow statement. In all instances this Statement could not be confirmed as correct and complete due to audit observations regarding materially incorrect Statements 'B', 'J' and 'K'.

4.2.5 Statement 'E'- Financial Investments

This statement details term deposits, treasury notes, debentures and similar instruments held by the Government. Provincial and Local-level Governments did not maintain investment registers to record details of investments. There were instances where revenue was recorded arising from either interest or disposal of these investments, however, no records were made available to auditors. Consequently, I could not ensure accuracy of this statement.

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

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

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

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

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

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

4.2.7 Statement 'G'- Statement of Lending

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

4.2.8 Statement 'H'- Statement of Borrowings

This is a schedule of all funds borrowed or loaned. Liabilities or financial obligations to outside organisations outstanding at the end of the financial year are not brought into account; however, they are required to be recorded in this statement. In the absence of proper records

or registers maintained by the Provincial Governments in relation to these matters, I was unable to confirm the accuracy of this statement.

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

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

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

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

The omission of the actual receipts pertaining to estimated Public Servants and Teaching Services Commission Salaries and Allowances, which are retained and administered by the Department of Finance on behalf of the Provincial Government, were usually not obtained and posted to the revenue ledgers.

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

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

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

4.2.12 Appendix 1

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

4.2.13 Appendix 2

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

4.2.14 Appendix 3

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

4.2.15 Appendix 4

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

4.2.16 Appendix 5

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

4.2.17 Appendix 6

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

4.2.18 Other Issues

Submission of Financial Statements

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

At the time of this Report there were four 2013 and seventeen 2014 financial statements yet to be submitted by the Provincial Governments for audit. Summary is given in Table 1 of Section 8.1.

Presentation of Financial Statements

In addition to the annual financial statements, comprising Statements from 'A' to 'K' and six Appendices, the accounts are accompanied by the Chief Accountable Officer's Statement and the Council Executive Officer's Statement on the financial operation of the Government for the fiscal year ended.

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

Another common error was a presentation error that resulted in material misstatement. In a number of financial statements presented by the Provincial Governments, the amounts in

Statements from 'A' to 'K' were incorrectly presented in amounts of 'thousands' instead of the original amounts.

4.3 Financial Statements of Hospital Boards and Provincial Health Authorities

During the last audit cycle I have issued 17 audit reports to Hospital Boards, Table 4 of Section 8.3 details the status of the audit reports as at 31 December 2014.

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

I am pleased to report that a number of Hospitals received qualified audit opinions compared to past years. There were notable improvements in the area of corporate governance, budgetary controls and payments of wages and salaries compared to previous period. Hospital management is significantly improving each year because of implementation of audit recommendations.

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

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

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

Common problems with the hospitals' financial statements were:

- The records of medical supplies, accounts receivables and payables, capital commitments and contingent liabilities, were either non-existent or inadequate;
- Accounting records or asset registers were not maintained to record the details of the assets. Consequently, I was not able to verify the completeness, existence, accuracy and valuation of the fixed assets at year end;
- Opening balances of cash at bank could not be confirmed as correct as these balances did not agree to the corresponding closing balances from the previous year;
- No advance registers were maintained. Travel advances and subsistence were frequently not acquitted. Therefore, this constituted a limitation of scope as I could not ascertain the value of the advances and also whether advances were actually utilised for the intended purposes;
- In several cases, there was no appointment of financial delegates to approve expenditure;
- In several Hospitals the Board members were not duly appointed and sworn in, in accordance with Section 6 of the *Public Hospital Act 1994*;

- Payment of gratuities in the absence of employment contracts; and
- Overtime payments to employees with approval from the Chief Executive Officer or appropriate authorities.

4.4 Financial Statements of Business Arms and Subsidiary Corporations

All Provincial Governments had established business arms and have direct or indirect investments in subsidiary corporations and companies. At the time of writing this Report in July 2015 there were approximately 60 known entities as provided in Table 5 of Section 8.4 and Table 6. However, as reported in my previous reports, the full extent of the Provincial Governments' investments therein, or the exact details of these business arms and their subsidiary corporations and companies, could not be fully established due to the lack of adequate information forthcoming from the Provincial Governments or the failure to maintain proper investment records and registers. My Office was unable to determine whether some entities were still in operation, defunct, or liquidated. For many years I have been pursuing this information with the respective Provincial Governments, their business arms and relevant authorities.

As reported in my previous reports, the entities have failed to submit their financial statements on a timely basis. Financial statements and audit fees have remained outstanding for many years in some cases, as shown in Section 8.4 Table 5. Consequently, audit of such financial statements could not be conducted despite my repeated requests.

4.5 Financial Statements of Provincial Authorities

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

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

As at the time of writing this Report the status of audits relating to the Provincial Authorities are summarised in Section 8.5, Table 7 and Table 8.

4.6 The Role of the Treasury Offices

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

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

A Provincial/District Treasury is an accounting organisation established under Section 112 of the *Organic Law* located at the province area. The Provincial District Treasurers' functions are to ensure that all financial transactions undertaken by the P&LLGs out of public moneys are managed properly. These moneys are to be released strictly in accordance with law and contribute to the effective delivery of services to the community. Treasurers from time to time

may also oversight functions such as banking, postal, and other services. The Secretary of Finance is tasked to oversee the affairs of these Treasury Offices.

The AGO has the responsibility to examine the financial statements and the accounts and records of the P&LLGs. For the last several years the AGO has reported and concluded that material errors, uncertainties and lack of adequate records existed in Provincial/District Treasuries that resulted in the overall financial position and results of operations that were not reliable. As a result, the AGO continued to report an inability to form an opinion on the P&LLG's financial statements. The situation has not improved much in 2014 as well.

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

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

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

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

4.7 Other Audits

Trusts and Funds

My audit responsibilities also include the audits of Special Purpose Funds and Trusts established by Provincial Governments. The audit of these Funds and Trusts is organised in a similar manner as the audit of business arms. Previously, I have reported that management of these funds and trusts have failed to furnish financial statements on a timely basis and as such, I was unable to carry out the respective audits on a timely basis. Management of these funds and Trusts have also not communicated to my Office to confirm the current status of these organisations. Details are presented in Section 8.6, Table 9 and Table 10.

4.8 Audit Fees

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

5. CONTROL ENVIRONMENT

5.1 Introduction

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

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

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

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

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

5.2 Responsibilities of Management

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

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

5.3 Responsibility of the Auditor-General

My audits are performed in accordance with the International Standards on Auditing as promulgated by the International Federation of Accountants and are designed to provide reasonable assurance that a financial report taken as a whole is free from material misstatement. Reasonable assurance is a concept relating to the accumulation of the audit evidence necessary for the auditor to conclude that there are no material misstatements in the financial report taken as a whole. Reasonable assurance relates to the whole audit process.

5.4 Details of Control Issues

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

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

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

5.4.1 Corporate Governance

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

The results of the audits identified:

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

5.4.2 Internal Audit

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

From the AGO perspective, internal audit is an important component of the system of internal controls. Because of similarities in the nature and scope of activities performed by internal and external auditors, especially in the public sector, there are significant efficiencies to be

achieved if external auditors are able to rely on the work of internal auditors. An effective internal audit program should facilitate external audit to place greater reliance on the work of internal audit, thereby making better use of overall audit resources.

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

5.4.3 Appropriation and Budget Management

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

Our audits disclosed that controls in agencies relating to the management of appropriations were generally inadequate. Weaknesses noted related to:

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

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

5.4.4 Revenue and Receivables

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

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

In a similar manner, General Hospitals collect income from patient fees and gifts and donations. Over the last several years, management of hospitals have not ensured that

revenues were collected promptly and that the rates of fees, charges, and imposts were reviewed annually. In addition, there was no compliance to procedures pertaining to compiling of collector statements, thereby undermining the integrity of the revenue collections.

Other common problems across all entities were:

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

5.4.5 Purchases and Payments

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

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

Other significant issues were:

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

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

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

5.4.6 Human Resource Management

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

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

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

Common problem identified with Public Hospitals was that acting appointees on contract positions were incorrectly claiming gratuity payments. Also, recreational leave fare payments to officers and their families had no birth and student concession certificates attached for their legal dependents for legitimacy and validity. Instances were also noted of leave tickets being refunded through a travel agent after withholding commission plus processing fee.

5.4.7 Cash Management

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

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

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

5.4.8 Assets Management

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

The maintenance of a reliable asset register that includes adequate information about assets acquired and disposed of, depreciation and asset reconciliations with periodical stocktakes is a

prerequisite to effective asset management. Regular reconciliations of the asset register with the entity's financial systems will help ensure the timely and accurate recognition of asset items and facilitate their physical control.

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

5.4.9 Trust Accounts Management

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

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

5.5 Conclusion

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

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

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

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

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

Weakness in financial management and corrupt practices legitimise bad governance and diverts funding and energy away from development plans and achievement of national goals. Poor financial management, coupled with misuse of public money, has contributed to decline in service delivery to the public.

6. RESULTS OF AUDITS PER PROVINCE

6.1 BOUGAINVILLE AUTONOMOUS GOVERNMENT

6.1.1 Introduction

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

6.1.2 Autonomous Bougainville Government

The Autonomous Bougainville Government submitted its financial statements for the financial years ending 31 December 2012 and 2013. Fieldwork associated with audit of the accounts and records were completed with the Management Letters issued and the Disclaimer Opinion reports issued to the Ministers concerned. Issues identified with the financial statements and the control environments are summarised in the paragraphs below.

6.1.2.1 Comments on Financial Statements –2013

My reports to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* on the financial statements of the Autonomous Bougainville Government for the years ended 31 December 2012 and 2013 were issued in May 2015. The reports contained similar Disclaimer Opinions, hence only the 2013 report is reproduced as follows:

“Basis for Disclaimer of Opinion

Disclosure Errors

I noted the following disclosure errors which could have material effect on the accuracy and completeness of the Autonomous Bougainville Government’s account balances and consequently, its financial position as at 31 December 2013:

Cash Balances

The fund balance of K168,959,765 shown in Statement ‘A’ is inaccurate and unreliable in view of the following observations:

- The accumulative Trust Fund balance of K148,988,087 reported in Statement ‘A’ also included inactive-carry forward balances totalling K554,512. Further, not all National and Provincial sanctioned Trust Fund Account balances were disclosed to accurately reflect the trust fund closing balance at year end; and
- The errors, omissions and material misstatements revealed on related Statement ‘C’ had affected the accuracy of Autonomous Bougainville Government cash flows as shown in Statement ‘D’ - Sources and Applications of Funds of K242,350,871 and K178,199,088 respectively;

Investments

Net Investments relating to Business Arms noted in previous audits were not reported in Statement 'F' and included in the Fund Balance. Further, investment registers, certificates and management representations were not provided for my review and confirmation of the accuracy of the nil balance reported in the statement.

Assets

Appendix 4 to the financial statements did not disclose any details or balances as at 31 December 2013. I noted however, the Autonomous Bougainville Government acquired assets during the year totaling K2,213,528 which were not disclosed in the financial statements nor the fixed assets register.

Advances

Appendix 6 to the financial statements disclosed un-acquitted travel and cash advances dating back to 2009 as K14,675,145 against the transaction records of K14,941,484. Consequently, the accuracy and completeness of this appendix could not be confirmed as correct and reliable.

Other Records and Registers

- The lack of effective control procedures and management representations including relevant registers rendered a limitation of scope to performing the appropriate audit tests to confirm the accuracy of the nil balances disclosed in Statements 'E', 'F', 'G', 'H', 'I', and Appendices 1 and 5; and
- Appendices 2 and 3 to the financial statements are intended to show the details and balances of the Debtors and Receivables and Inventories as at year end. These appendices were not included nor the balances disclosed in the financial statements for my review.

Disclaimer Audit Opinion

Because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and consequently I am unable to express an opinion on the financial statements of Autonomous Bougainville Government for the year ended 31 December 2013."

6.1.2.2 Control Environment - 2013

The Management Letters relating to the audit of the accounts and records for the years ended 31 December 2012 and 2013 were issued in November 2014. The letters contained similar issues, hence only the 2013 Management Letter is reproduced as follows.

Corporate Governance

Corporate governance was greatly lacking in that the Autonomous Bougainville Government did not have in place a Corporate Plan with clearly identified corporate goals, objectives and strategies to enhance effective service delivery. Internal Audit Unit and Audit Committee functions were not established at the date of my audit in November 2014 and budgetary activities were not guided by any Development or Corporate Plan.

I was verbally advised however, that due to transitional period being experienced the Autonomous Bougainville Government was not in a position to have in place a proper and workable Corporate Plan with other associated plans.

Appropriation and Budgetary Management

The Autonomous Bougainville Government's 2013 revenue and expenditure budget was reported as K390,773,518. Complete documentation of the budgetary process was poor, hence, key controlling documents such as the Appropriation Acts, Ministerial approvals, and Warrant Authorities, supporting documents relating to budget formulation, implementation and performance reviews, were either not maintained or incomplete. The lack of a corporate plan had impacted proper budget formulation, direction and control of the resources to achieve corporate goals and objectives.

Cash Management

Prudent cash management practices are essential to reflect the Bougainville Government's cash position or alternatively the fund balance at any given time and to enable prudent cash management decisions.

The Autonomous Bougainville Government maintained two bank accounts namely, the Autonomous Bougainville Government Operating Account and Autonomous Bougainville Government Grant Account with two separate PGAS cashbooks to conduct its financial transactions for Grant and Internal Revenues respectively. The application of improper bank reconciliation procedures however, had resulted in bank and cashbook balances unreconciled at yearend. Further, there were significant reconciling items that had been outstanding for years but were not identified and corrected resulting in the distortion of the accuracy of the cashbook and fund balances.

Revenue Management

Effective revenue management with adequate documentation of sources and procedures relevant for planning and collection of the entire potential revenue ensures that potential revenue is collected intact.

I was not able to obtain absolute assurance on the effectiveness of the internal controls relating to revenue management in view of the following control weaknesses:

- Autonomous Bougainville Government did not have in place proper revenue management policy guidelines, procedures and control registers to facilitate budget formulation and to review actuals against budgeted targets; and
- I noted instances of collector statements and official receipts not properly maintained. For instance, twenty five collector statements and receipts totalling K791,881 were not in the file provided for review.

Procurement and Payment Procedures

Paid Accounts

Effective and prudent procurement management ensures quality service delivery given the limited resources. I was not able to obtain absolute assurance on the integrity of the internal controls relating to expenditure management in view of the following control weaknesses:

- Financial Delegates' specimen signatures and instrument of appointment for the year 2013 were not provided to confirm financial ceilings and signatures of Section 32 Officers;
- Twenty-nine payments totaling K369,906 were not supported with completion or status reports to ensure satisfactory completion of tasks performed;

- Tenancy Agreements provide assurance that rental payments are correct and genuine. However, I was not able to ascertain the validity and appropriateness of rental payments totalling K175,650 in the absence of any authentic tenancy agreements;
- Supporting vouchers for payments totalling K1,713,308 were not available for my inspection to ensure the payments made were genuine and appropriate; and
- Adequate maintenance of a quotation register provides assurance that goods and services acquired were of the best quality and cheapest prices comparatively. Autonomous Bougainville Government however, did not maintain a quotation register on payments totalling K401,803. I was not able to ascertain whether goods and services acquired were of the best quality at the cheapest prices available.

Capital Works and Maintenance Expenditures

Effective and prudent capital works and maintenance expenditure management give assurance of quality service delivery. I was not able to obtain assurance that capital works and maintenance expenditures incurred were proper and in accordance with the standard procedures and processes in view of the following concerns:

- Major Contractual payments could not be verified to the BSTB or CSTB approved contract documents as these were not provided for my verification;
- Minor contracts at a total cost of K552,018 awarded to various contractors lacked evidence of required written quotations from potential suppliers. The Certificate of Inexpediency (COIs) were used instead, without any valid reasons to by-pass best procurement practices;
- Procurement of 26 motor vehicles at a total cost of K2,999,101 which are categorized as “Major procurement” per Finance Management Manual were not supported with ABGSTB/BEC approvals;
- A contract awarded to a contractor, Bio systems Limited Group worth K2,200,000 could not be reconciled to the transaction details or actual expenditure of K2,541,332. The contractor was however, paid in excess by K341,332; and
- The review of procurement procedures and records revealed that crucial procurement documents including certified copies of all BSTB/CSTB meeting minutes and resolutions, contract agreements, scoping and technical evaluation reports, and Tender Box and quotation registers.

Grants and Subsidies

Existence of effective grants and subsidies management system provides assurance that lump-sum funds released to agencies, organisations, groups and associations, and individuals were properly accounted for and applied on intended purposes.

The Autonomous Bougainville Government had disbursed grants and subsidies to various recipients during the year totalling K6,864,729. I noted however, that there were no Policy guidelines for proper management and control of grants and subsidies in place. Consequently accountability reports or acquittals from recipients were not available, if any, for my review.

Human Resource Management

Effective Human Resource Management is essential to improve service delivery. Competent and highly motivated personnel can perform their duties diligently and provide quality service:

- Casual wages totalling over K577,000 could not be verified against the casual staff listings or personnel records.
- The requested personal files for the contract employees of Autonomous Bougainville Government were not provided for my verification. In addition, I noted fifteen expired employment contracts stated as “pending” subject to renewal and/or termination.
- Employee personnel files were not properly maintained with personal records, pay & salary variations records/advice, and other compulsory records.

Asset Management

Effective asset management ensures proper accountability of public assets, preventing fraudulent use of assets and thereby contribute toward better service delivery:

- The Autonomous Bougainville Government did not properly maintain a comprehensive Assets Register to properly account for all assets purchased and/or disposed during the year under review as well as those of the previous years. Consequently, assets purchased during the year totalling K2,213,528 have not been recorded and therefore, may not have been accounted for.
- I noted however, that the Autonomous Bougainville Government has taken positive steps as reported in the previous report with the introduction of a Motor Vehicle Policy which was endorsed and in use at the time of the audit, and the Housing Policy which was still in draft stage. Practical implementation of the policy guidelines to improving the status of the assets management however, remains an issue as noted above.

Advance Management

An adequately maintained advance registers and acquittal vouchers provide assurance that advance management system is effective.

The Autonomous Bougainville Government did maintain an advance register for financial year 2013. However, lack of adequate policy guidelines and updated control registers had resulted in poor control and monitoring of advances during the year. Consequently, excessive cash and travel advances totalling K2,033,299 and K601,718 respectively were neither registered nor acquitted at yearend.

Trust Account Management

Trust Accounts are established and operated as directed by the Finance Minister or any other authoritative laws. Trust Instruments provide in detail the functions and application of the Trust Funds. The Autonomous Bougainville Government operated a total of eighteen trusts, ten non-bank Trust Accounts and eight bank Trust Accounts with closing balances of K1,171,414 and K54,489,386 respectively. Trust Instruments were generally intact however, the following discrepancies were noted:

- Funds totalling K20,428,345 from the Bougainville Restoration and Development Grant Trust Account were expended on airline tickets, accommodation, hire cars, cash advance, travelling allowance, sitting allowance, wages and overtime, purchase of motor vehicles and other assets which are deemed contrary to the purposes of the trust instruments - the impact projects;
- Funds totalling K2,800,000 were transferred from the Bougainville Restoration and Development Grant Trust Account to ABG Mining Department Trust Account and ABG Operating Account in 2013 without any formal and proper approval from the Secretary, Department of Finance; and

- In four instances, payments totalling K684,782 were made contrary to the purposes of the trust instruments. I noted for instance, a payment of cash advance to an officer totalling K153,000 for hiring of vehicles, venue and travelling allowance which were in direct breach of trust instrument hence, deemed illegal.

Investments

- Effective management policy guidelines and control registers were not adequately developed and maintained to properly manage and account for Commercial Investments. Consequently, I could not rely on data presented from such weak and high risk control environments;
- Following the Bougainville Executive Council approval for a 50/50 % Joint Venture partnership with Hakau Investment Limited, the Autonomous Bougainville Government paid a sum of K5million out of a total approved cost of K9,404,116 as a first installment for the purchase of MV CHEBU. However, the total cost and net value of investments held by the Bougainville Government could not be established in the absence of Investment Registers, Certificates of shareholders and other supporting documents. Further, the investment was not disclosed in the financial statements as investment of the Autonomous Bougainville Government as at 31 December 2013; and
- I have reported in my previous years' reports on various issues with the Bougainville Resource Capacity Building Trust Account and on the accounting for monies totalling K20 million of which K4 million was invested in CDA Finance and Investments Ltd. The status of this investment as at 31 December 2013 could not be established in the absence of proper investment registers, certificates of shareholdings and other supporting documents.

6.1.2.3 Management Response

The above observations on the financial statements and internal control weaknesses for the year 2013 had been communicated by way of a Management Letter to the then Acting Chief Secretary and management together with implications and recommendations for improvements. I have however, not received the responses to the Management Letter as at the time of preparing this Report.

6.1.2.4 Status of Financial Statements

Annual Financial Statements for 2014 were not prepared and presented to me at the time of preparation of this Report. However, field audit relating to the internal control system had been completed and the results were being evaluated.

6.1.3 Buka Urban Local-level Government

The Buka Urban Local-level Government (BULLG) submitted its draft financial statements for the financial year ending 31 December 2011. Field work associated with audit of the accounts and records was completed with the Management Letter issued and a Disclaimer Opinion report issued to the Ministers concerned. Issues identified with the financial statements and the control environments are summarised in the paragraphs below.

6.1.3.1 Comments on Financial Statements – 2011

My report to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* on the financial statements of the Buka Urban Local-level Government

for the year ended 31 December 2011 was issued in May 2015. The report contained a Disclaimer Audit Opinion as reproduced below:

“Basis for Disclaimer Opinion

Presentation Errors

Finance Instructions 5/2000 issued under Section 117 of the *Public Finances (Management) Act, 1995* state the prescribed format for the preparation and presentation of the financial statements for Provincial and Local-level Governments. The prescribed format requires among others the following details:

- President’s statements on the ULLG Budget Performance;
- Council Executive Officer’s statement on the ULLG Financial Operations
- Description of the Government Accounting System; and
- Financial Statements incorporating Statements ‘A’ to ‘K’, Notes to and forming part of the financial statements and Appendices 1 to 6.

The financial statements of Buka Urban Local-level Government for the year ended 31 December 2011 were presented in a form of a Balance Sheet and Profit and Loss Statement. Further, the financial statements did not contain the District Administrator’s Statement for the year under review. Consequently, financial statements of Buka ULLG did not comply with the prescribed format and therefore, deemed inappropriate and misleading.

Disclosure Errors

I noted the following disclosure errors which have material effect on the accuracy and completeness of the Buka ULLG account balances and consequently, the financial position of the Local level Government as at 31 December, 2011:

Cash Balances

Buka ULLG operated an account called ‘Cash Sales Clearing Account’ to record receipts of revenue which was delayed for banking at the year-end beside the Urban Council General/Operating Account and an Asset Replacement Account. The account had a closing balance of K11,861 at year-end. The Urban LLG also had cash on hand totalling K7,040 in respect of the Operating Account at year-end.

I was unable to express an opinion on the accuracy of the cash at bank balances and consequently, on the financial position as at 31 December 2011 due to lack of relevant documentation and accurate and proper maintenance of the cashbooks.

Receipts and Payments

The Council reported in its consolidated statement of cash receipts and payments total revenue and expenditure of K1,026,529 and K1,184,948 respectively with an operating deficit of K158,419.

However, in the absence of a properly maintained cashbook and appropriate ledgers to record all cash transactions including opening and closing cash balances, I was unable to verify the accuracy of the receipts and payments and consequently, the accuracy of the operating deficit as at 31 December 2011.

Assets Management

The Buka ULLG financial report showed value of assets as K256,387. The ULLG did maintain its assets register however, had not been updated. Consequently, I was unable to verify the completeness and accuracy of the assets owned and under the custody of the ULLG as at 31 December 2011.

Disclaimer Audit Opinion

Because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and consequently, I was unable to express an opinion on the financial report of Buka ULLG for the year ended 31 December 2011.”

6.1.3.2 Control Environment - 2011

The Management Letter relating to the audit of the accounts and records for the year ended 31 December 2011 was issued in March 2015. Issues contained in the management letter are reproduced as follows.

Corporate Governance

- The Buka ULLG did not have a Corporate Plan in place with long term objectives, priorities and targets that would have taken into account the requirements of its stakeholders and the needs of the communities it serves. I was verbally advised that there had never been any Corporate Plan for the Buka ULLG until 2014 when they did their first five year Corporate Plan(2013 – 2017).
- The Buka ULLG Board met only twice which is less than the required four meetings per annum. The meeting minutes including names of the board members have been provided. However, no proper appointment instruments for the board members were sighted to verify the legality of attendance of meetings and if so, whether they were paid any stipends or sitting allowances.

Appropriation and Budgetary Management

The Buka ULLG did not exercise proper control in ensuring that expenditure level was maintained within budget parameters and those variances were properly discussed and authorised as summarised below:

- The Buka ULLG reported its annual budget appropriation estimates as K9,116,000 against its actual revenue and expenditure of K1,026,529 and K1,184,948 respectively. I was not provided evidence including the monthly and quarterly budget reviews and relevant Appropriation Act duly certified by the Minister for Finance for my review; and
- The ULLG had not maintained any form of commitment control ledgers to ensure that commitments and payments were within the budget; funds were available to cover commitments and expenditure on authorisation; lack of funds were noted early for timely corrective actions; and that expenditures were committed to the correct activities.

Cash Management

Prudent cash management practices are essential to reflect the cash position or alternatively the fund balance at any given time and to enable better cash management decisions.

The Buka ULLG had not maintained proper documentation including lack of proper maintenance of its cashbooks to sufficiently support and verify accuracy and completeness of its account balances at yearend.

Revenue Management

Effective revenue management with adequate documentation of sources and procedures relevant for planning and collection of all potential revenue ensures that revenue is collected as budgeted, intact and properly accounted for.

- The Buka ULLG had failed to ensure that internal revenues were collected and banked intact. Internal revenue were short collected and daily cash collections were allowed to be used by the collectors to be reimbursed at the later date without proper approval and documentation;
- The ULLG had failed to take timely appropriate measures to recover debts resulting in over 98% its total receivables of K392,107 remained outstanding for over 90 days; and
- As reported in my previous reports, the Buka ULLG had paid as first installment on the quoted price of K440,000 an amount of K149,200 to a contractor, Bougainville Building Developers, in 2009 for the import of kit homes from China to build two institutional houses in Buka Town without any written agreement in place to safeguard itself from risks of loss or misappropriation of money. The purported contractor had since failed to deliver the homes, but the ULLG failed to take timely measures to recover the payment until 2014 when it entered into an agreement with the individual for monthly repayments to recover the cash paid.

Procurement and Payment Procedures

Paid Accounts

Effective and prudent procurement management ensures quality service delivery. I was not able to obtain absolute assurance on the integrity of the internal controls relating to expenditure management in view of the following control weaknesses:

- The instrument for the appointment of Financial Delegates was not sighted to verify the authenticity of the officers compiling, certifying and approving expenditures for payment;
- Office and residential rental expenses totalling K56,895 lacked proper documentations including invoices, lease agreements and approved rental rates. Further, payments for rental accommodation were made direct to staff tax-free who then paid the landlord in cash in violation of the salaries and wages tax laws; and
- Payment of 30% commission for waste disposal and debt collection services noted as improper in the absence proper contractual arrangement.

Human Resource Management

Effective Human Resource Management is essential to improve service delivery. Competent and highly motivated personnel can perform their duties diligently and provide quality service.

- The Buka ULLG did not operate a proper and orderly records system to properly manage historical data relating to salary and employment of its staff. Further, the ULLG did not have contracts of employment for its management and executive staff; and
- The ULLG had failed to remit its Group Tax and staff superannuation deductions on a timely manner resulting in undue huge tax liability of K157,813 and unpaid superannuation deductions of K24,615 at yearend.

Asset Management

Effective asset management ensures proper accountability of public assets, preventing fraudulent use of assets and there by contribute toward better service delivery.

The Buka ULLG did not provide evidence to indicate that periodic stocktakes were conducted to physically verify and determine the existence, conditions and value of fixed assets held and under ownership and custody of the ULLG. Further, I sighted no evidence of Board of Survey (BOS) sales listing to confirm if assets were disposed through BOS as tendering processes and procedures were not properly followed and record keeping was very poor.

Advance Management

An adequately maintained advance registers and acquittal vouchers provide assurance that advance management system is effective.

Unacquitted staff advances had increased by K11,107 from prior year balance to K37,130 at yearend. I was not provided evidence to indicate that the ULLG had maintained an advance register or had attempted any recovery actions on the defaulters.

6.1.3.3 Management Response

The above observations on the financial statements and internal control weaknesses for the year 2011 had been communicated by way of a Management Letter to the Buka Town Manageress together with risk implications and recommendations for improvements. I have however, not received the responses to the Management Letter as at the time of preparing this Report.

6.1.3.4 Status of Financial Statements

The Buka ULLG annual financial statements for the years ended 31 December 2012, 2013 and 2014 were not prepared and presented to me at the time of preparation of this Report. However, field audits relating to the internal control system were scheduled to commence shortly in the absence of the financial statements.

6.1.4 Buka General Hospital Board

Field work associated with audit of the internal control environment for the years 2011 and 2012 were completed without the financial statements and management letters issued subsequently. Issues identified with the control environment were similar throughout hence, only 2012 issues are summarized in the paragraphs below:

6.1.4.1 Control Environment - 2012

The Management Letters relating to the audit of the control environment for the years ended 31 December 2011 and 2012 were issued in April 2015. The letters contained similar issues hence, only the 2012 Management Letter is reproduced as follows.

Corporate Governance

I noted the following control weaknesses on Corporate Governance:

- The Hospital did have a revised five year Corporate Plan (2012 – 2016) incorporating short term and long term goals and objectives together with relevant priorities and targets taking into account needs of its stakeholders:
- The Buka General Hospital had taken steps to establishing an Internal Audit Unit in the hospital. However, the Internal Auditor position was yet to be occupied hence still vacant. The National Department of Health is responsible for the internal audit of the Hospital however; no internal audits were conducted both in 2011 and 2012 on the accounts and records of the Hospital; and
- As mentioned in my previous reports, the Buka General Hospital had no Board in place since 1991/1992 when the Hospital services were re-established on Sohano Island at the height of the Bougainville crisis.

Appropriation and Budgetary Management

The Buka General Hospital's original appropriation of K2,944,400 against the actual expenditure of K3,356,057 had a net overspend of K411,657. I noted that the Hospital Board had failed to properly and adequately formulate its estimates of revenues and expenditures for the year under review as required by the *Public Finance (Management) Act, 1995*. Further, there were no monthly or quarterly budgetary reviews conducted by the Hospital during the year.

Cash Management

Prudent cash management practices are essential to reflect the cash position or alternatively the fund balance at any given time and to enable better cash management decisions.

The Buka General Hospital had an effective cashbook and bank reconciliation records for the year under review. The Hospital had prepared its monthly bank reconciliations statements for both the Operating and Trust Accounts during the year in compliance to mandatory requirements.

Revenue Management

Effective revenue management with adequate documentation of sources and procedures relevant for planning and collection of the entire potential revenue ensures that potential revenue is collected intact.

- I noted improvements in the management of the Hospital's revenues including banking of cash and segregation of duties and commend the management in that regard.
- Receipts of Grants received from Department of Health could not be verified in the absence of Cash Fund Certificates (CFC) as the Cash Fund Certificates (CFC) files were not made available for my verification.

Procurement and Payment Procedures

Paid Accounts

Effective and prudent procurement management ensures quality service delivery. I was not able to obtain absolute assurance on the integrity of the internal controls relating to expenditure management in view of the following control weaknesses:

- Payments totalling more than K347,780 made for operational materials and supplies were not supported with the required quotations where applicable nor delivery dockets and/or consignment notes. Consequently, I could not ascertain if the payments were genuine and if the goods have actually been delivered to or confirmed to have been received by the Hospital's purchasing officers although invoices were sighted;
- Routine maintenance payments totalling K64,260 were not supported with Maintenance Request forms from respective sections nor any delivery dockets and proper receipts on all goods purchased to confirm that all materials bought had been correctly received; and
- Further, tenancy agreements together with invoices relating to payment of accommodation rentals totalling K18,880 for number of doctors and other contract officers had not been sighted. As such, I could not determine if the payments made to the respective landlords were correct and genuine.

Human Resource Management

Effective Human Resource Management is essential to improve service delivery. Competent and highly motivated personnel can perform their duties diligently and provide quality service:

- Personal files were not updated or lacked personal records such as Salaries and Wages Declaration forms; Statutory Declaration; or copies of Educational Qualification; Birth and Marriage Certificates.
- Further, no fortnightly payroll reconciliations were done to certify the correctness of the payrolls.

Asset Management

Effective asset management ensures proper accountability of public assets and prevention of fraudulent use of assets.

- The Buka General Hospital did maintain an asset register. I noted however, the register was not updated with additions and/or disposals, if any, during the year resulting in recording the prior year assets totaling K181,063 erroneously record as purchases for 2012 with a total assets at yearend as K7,791,336. Consequently, accuracy and completeness of additions and disposal of assets during the year could not be confirmed.
- The Hospital owned extensive portfolios of fixed assets including properties and residential buildings, vehicles and various biomedical and static equipment; furniture, office equipment and white goods. However, there was no evidence to indicate that Hospital had conducted periodic stocktake of its assets to ensure existence, ownership and valuation of assets and for appropriate and reliable management information and decisions.

Advance Management

An adequately maintained advance registers and acquittal provide assurance that advance management system is effective.

Review of records and related documents pertaining to the management of advances revealed that the Buka General Hospital did not maintain any advance register during the year under review. As such, I could not obtain absolute assurance that un-acquitted cash and travel advances totalling K33,681 during the year were complete and properly accounted for.

6.1.4.2 Management Response

The above observations on internal control environment for the year 2012 had been communicated by way of a Management Letter to the Hospital's Chief Executive Officer and management together with implications and recommendations for improvements. I have however, not received the responses to the Management Letter at the time of preparing this Report.

6.1.4.3 Status of Financial Statements

The Buka General Hospital Board submitted its financial statements for the years ended 31 December, 2011 and 2012 in February, 2015 after the completion of the interim audit of the control environment for the two years.

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements for the Hospital Board for the years 2011 and 2012 were completed together with the audit of the control environment for the years 2013 and 2014 and the results were being evaluated.

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

6.1.5 Business Arms

The Autonomous Government had number of business arms as reported in my previous year reports. The status of these business arms however remained the same as at the time of preparation of this Report in July 2015 as re-stated below:

6.1.5.1 South Bougainville Engineering

This entity last submitted its annual financial statements for financial year 2004. Since then I was yet to receive Annual Financial Statements for years 2005 to 2014. I was therefore not able to conduct audits and report on the status of this entity's affairs including financial position.

6.1.5.2 North Solomon Marine Corporation

This entity last submitted its annual financial statements for financial year 1992. Since then I was yet to receive Annual Financial Statements for years 1993 to 2014. I was therefore not able to conduct audits and report on the status of this entity's affairs including financial position.

6.1.5.3 Bougainville Restoration and Development Authority

This entity has never submitted financial statements for audit since its inception. I was therefore not able to perform any audit and report on the status of this entity's affairs including financial position.

6.2 CENTRAL PROVINCE

6.2.1 Introduction

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

6.2.2 Central Provincial Government

The financial statements for the years ended 31 December 2013 were submitted however not 2014. I attempted to conduct an interim audit on the accounts and records for 2014 and a final audit for 2013 in March 2015 but was unsuccessful. The reason given in writing by the Provincial Administrator and the Provincial Treasurer was that the data in the computer was crashed or spoiled therefore it could not produce the reports requested for audit. A further attempt made at the Information Technology Division of the Department of Finance Head Office at Waigani was also unsuccessful due to the lack of back up data for the Provincial Government. The audits have not commenced at the time of writing this report.

6.2.2.1 Status of Financial Statements

At the time of preparing this Report, the Central Provincial Government had not submitted its financial statements for the year ended 31 December, 2014 for my inspection and audit.

6.2.3 Motu Koita Assembly

The *Motu Koita Assembly Act 2007* provided for the establishment of a local government for the Motu Koita people. The purpose of the Act was to enable the Motu Koita people to participate actively and meaningfully in the development of the National Capital District.

The relevant sections of the *Organic Law* require the Assembly to submit its financial statements and its accounts and records to be audited by the Auditor-General of Papua New Guinea.

6.2.3.1 Status of Financial Statements

Since its inception, the Motu Koita Assembly (MKA) had not prepared its financial statements for the years 2007 to 2014. The audit of the accounts and records and the related control environment for the financial year ended 31 December 2014 could not be conducted due to lack of cooperation from the officers and non-availability of the necessary records. Consequently I was unable to comment on the financial status and the management of the funds and the affairs of Motu Koita Assembly for the year under review.

The audits of the accounts and records and the related control environment for the year 2014 will be scheduled to commence at their new location as they have moved from Sir Hubert Murray Stadium at Konedobu.

6.2.4 Port Moresby General Hospital Board

The Port Moresby General Hospital had submitted its financial statements for the financial years ending 31 December 2011 and 2012. Field work associated with the audit of the accounts and records for these financial years were completed with the Management Letters issued to the Chief Executive Officer of the Hospital. The audit reports could not be prepared due to financial statements misplaced during the relocation of the Provincial Government Audit Division to the ground floor of the Tisa Haus, Waigani. They will be done and issued when the financial statements are located or copies obtained from the Hospital and will be included in the 2015 Part 3 Report. The paragraphs below detail issues identified with the control environment. The control environment contained similar issues, therefore only the 2012 issues are reported as follows:

6.2.4.1 Control Environment

Corporate Governance

The Hospital's Corporate Plan 2010 – 2015 was not officially launched due to the death of the Chairman of the Hospital Board. There was a failure of board members to reach a quorum in a board meeting to accept the Corporate Plan as an official document at the time of audit.

Two board meetings minutes provided were not signed and certified by the Board Chairman and the Chief Executive Officer. No record of sitting allowances and attendance were provided for my examination.

There was a serious lack of internal audit on the accounts of the Hospital during the year under review to ensure that the control mechanisms instituted were operational and effective.

Appropriation and Budget Management

The Hospital's budgets, appropriation and actual receipts against actual expenditures revealed the following concerns:

- Port Moresby General Hospital's Budget Appropriation of K52,053,100 compared to its actual expenditure of K57,225,974 had revealed a net overspending K5,172,874. I was not provided an explanation for the over-expenditure; and
- The formulation of the annual budget estimates of revenues and expenditures and the accounting for government grants and Hospital fees were lacking.

I was not able to ascertain the Hospital funds had been properly accounted for due to the Hospital's inability to keep proper records such as a cashbook, revenue and expenditure ledgers and supporting documents.

K30,211,712 consisting of salaries and allowances for Hospital staff members were budgeted and paid through the Department Of Finance of which no payroll reconciliation of the actual spending was provided for my audit examination.

Cash Management

- The Hospital operated four different bank accounts and they were: Operating, Trust, Special Project and Operation Open Heart accounts. The performance of periodic bank reconciliations was very poor for all bank accounts.
- Proper record keeping and safe guarding of bank statements, cashbooks and general ledgers and other related records was very poor. Locked shelves should be built or purchased to keep such vital records.
- I noted a bank account for “Donations” operated by an individual for and on behalf of the Port Moresby General Hospital. Full disclosure of information, details and records relating to the account however, was not available for my review. Consequently, I was unable to verify the validity and appropriateness of bank account being operated by persons other than management of the Port Moresby General Hospital; and
- Deposit slips were not sighted or attached to the collector statements to verify whether cash collected had been deposited intact. Consequently, instances of unexplained variances were noted of cash per the collector statements and the cash deposit book records.

Revenue Management

- Cash collected and recorded on collector statements could not be confirmed to deposit slips as deposit slips were not attached on each collector statement;
- Collector statements and deposit books had unexplained variances. Consequently, neither of the recorded amounts could be independently verified to the revenue ledgers indicating cash collected could have been stolen, borrowed or were used for other unknown purposes; and
- Payment of suppliers’ invoices was noted to have been actioned by the cash office upon request by senior officers of the accounts, as well as other operational managers.

Procurement and Payment Procedures

Review of the procurement procedures and the payment of accounts revealed the following matters:

- Formal appointment instruments of financial delegates (Section 32 Officers) were not provided to confirm the legality of the appointments. Consequently, I was unable to confirm the legality and appropriateness of persons who had acted in those positions and/or examined, certified and approved claims during the year;
- Payments to contractors totalling K1,726,702 were not approved by the Hospital Board. The related records including the authorised requisition, contract agreements, and inspection and completion reports were not available for my inspection;
- It was noted that payment vouchers totalling K1,604,747 paid out of the Special Project Account to certain contractors were missing in the file; and
- Nine payments worth over K230,000 were seen to have been missing from the payment file and payments totalling K148,325 lacked proper approval by relevant Section 32 Officers.

Human Resource Management

Examination of the payroll systems, personnel files and related records revealed the following matters:

- From the sample of officers selected, personal files of ten officers were not updated and lacked personal records including salaries and wages declaration forms, statutory declarations, certificates of educational qualification, birth certificates, marriage certificates, and other related documents;
- Payroll register for pay numbers 2, 13 and 26 revealed that pay variations were made however I could not confirm to the underlying records, such as permanent variation advices or notation forms. The personal files and salary history cards need to be updated appropriately to support salary adjustments due to promotions, performance appraisals etc.; and
- No fortnightly payroll reconciliations were done to certify the correctness of the payrolls.

Asset Management

- Review of the hospital's fixed assets register revealed that separate assets registers were provided for different categories of assets such as static plant, furniture, etc. but were not complete in many aspects;
- Shortage in skilled manpower was noted in the area of assets management as one officer was responsible for the update and inspection of all assets of the hospital;
- The updated property listing that was provided did not show realistic market prices for the properties nor were titles for portions of land and buildings or related documents provided for my examination;
- During assets inspection in July 2014, two hospital vehicles were not captured in the vehicle register and were bearing private number plates instead of Government Z-plates as required. Also other assets purchased totalling K104,000 could not be verified due to the lack of an audit trail to one of the separate registers; and
- No stocktake of all the assets were done to ensure controls were effective and assets were properly managed.

Advance Management

The hospital did not maintain salary and travel advances registers with the supporting documents. As such I was unable to confirm advance payments totalling K42,479 that were paid out as travel, cash and salary advances, and whether these were acquitted.

6.2.4.2 Management Response

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

6.2.4.3 Status of Financial Statements

At the time of preparing this Report, the Board had not submitted its financial statements for the years ended 31 December 2013 and 2014 for my inspection and audit. The audits of the financial statements will commence as soon as possible when submitted to bring the audits to current.

6.2.5 Business Arms

6.2.5.1 Central Province Transport Authority (CPTA)

The Authority had submitted its financial statements for the years ended 31 December 2007, 2008 and 2009. The fieldwork associated with the examination of the financial statements and the audit of the accounts and records had been completed and the Management Letters issued. At the time of preparing this Report, my report to the Ministers for Inter-Government Relations, the Treasury and the Finance respectively under the *Organic Law* on the financial statements of the Authority were being finalised.

6.2.5.2 Control Environment

Control environment matters relating to 2007 to 2009 were reported in my Part 3 2011 – 2013 Report. The control environment for 2010 onwards will be reported in my 2015 Part 3 Report when the audits which we have commenced in June 2015 have been completed.

6.2.5.3 Management Response

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

6.2.5.4 Status of Financial Statements

At the time of preparing this Report, the authority had not submitted its financial statements for the years ended 31 December 2011, 2012, 2013 and 2014 for my inspection and audit.

The audits of the accounts and records and the related control environment for 2010 have commenced in June 2015.

6.3 EAST NEW BRITAIN PROVINCE

6.3.1 Introduction

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

6.3.2 East New Britain Provincial Government

The East New Britain Provincial Government submitted its financial statements for the financial year ending 31 December 2014. Field work associated with audit of the accounts and records were completed with the Management Letter issued and the audit opinion report was issued to the ministers concern. The audit report was issued with a Qualified Audit Opinion. The paragraphs below detail issues identified with the financial statements and the control environment.

6.3.2.1 Financial Statements - 2014

My report to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* was issued on the 29 April 2015. The report was a Qualified Audit Opinion as reproduced below.

“Qualification

Cash Balances

I noted the disclosure errors which could have material effect on the accuracy and completeness of the East New Britain Provincial Government account balances and consequently, the financial position of the Provincial Government as at 31 December 2014:

- The East New Britain Provincial Government cash and bank balance of K21,541,238 included an old operating account balance of K4,422,292. The old operating account balance merely represented an un-reconciled cashbook balance at the time when the account was closed and was not supported by actual cash balance held in bank account as this operating account was dormant since 2009;
- There were material reconciling items identified in the bank reconciliation statements of the Provincial Government operating account relating to receipts and expenditure that were not adjusted in the cashbook and respective revenue and expenditure ledgers and disclosed in Statements ‘J’ and ‘K’ which also affected the bank and cashbook balances at year end;
- The balance of the Provincial revenue fund of K23,291,046 could not be confirmed as correct due to errors and material misstatements of the operating surplus as discussed under the paragraph on receipts and payments for the year ended 31 December, 2014;
- The independent bank confirmation and Statement ‘E’ showed the Provincial Government’s financial investment in Interest Bearing Deposit (IBD) as K62,293

with interest at year end. The balance of the financial investment however, had not been disclosed in Statement 'A'.

Receipts and Payments

The East New Britain Provincial Government reported its total revenue and expenditures as K144,811,343 and K130,397,907 respectively with an operating surplus of K14,413,436 (Statement 'B'). The accuracy of the revenue and expenditure and therefore, the correctness of the operating surplus as at 31 December 2014 could not be confirmed due to the following issues:

- The total revenue of K144,811,343 included adjustments of stale cheques totalling K97,808 written back to the cashbooks and treated as revenue for the current year. The stale cheques should have been excluded from the actual receipts for the year and disclosed in the Notes to that effect as these are not actual receipts for the current year.
- The receipts and expenditure relating to Provincial Special Intervention Program (PSIP) funds totalling K8,641,045 respectively had not been disclosed in this Statement as PSIP funds were budgeted for and taken up in the National Government Agencies Database and administered through the Provincial Treasury operating account.

Investments

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

- The investments of the Provincial Government totalling K2,689,252 represented by shares held in East New Britain Development Corporation valued at K2,159,139 and K530,113 in Barakopo Plantation Development Corporation. In the absence of the audited financial statements of the investment companies as well as the investment register and other related records required to be held by the Provincial Government, I was unable to verify the accuracy, completeness, existence and ownership of the above reported investments balance at year end;
- The Provincial Government had received and accounted for dividends totalling K72,833 from Gazelle International Hotel. Though the proceeds were adequately reported in the relevant statement, the details including the principal investment with the company were not disclosed in Statements 'E' or 'F'; and
- As stated in my previous years audit report, the Provincial Government paid K5,500,000 to a Fishery Project Developer, New Britain Resources Development Company as initial part payment to acquire its fifty-one percent shareholding with the company. The National Fisheries Authority was to have issued twenty fishing licenses under the project agreement. I observed however, the fishing licenses and share certificates have not been obtained due to legal proceedings by the National Fisheries Authority against the project developer, the Provincial Government and the State. I was not able to ascertain whether the Provincial Government's investment was still viable in view of the legal issues surrounding the fishery project.

Trust Accounts

The East New Britain Provincial Government had operated twelve non-bank trust accounts with a total overdrawn closing balance of K1,749,808 as at 31 December 2014. Included were the inactive accounts balances totalling K1,027,389 that continued to be brought forward from prior years. I was not provided evidence of Trust Instruments and other related documents to ascertain legality, validity and the appropriateness of the transactions effected through the trust accounts during the year.

Qualified Audit Opinion

In my opinion, except for the matters described in the Basis for Qualified Audit Opinion paragraphs, the financial statements for the East New Britain Provincial Government financial statements for the year ended 31 December 2014:

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

6.3.2.2 Control Environment - 2014

Appropriation and Budget Management

The East New Britain Provincial Government approved estimates of revenue and expenditure for the year ended 31 December 2014 was K186,961,600 and consisted of National Government grants of K161,961,600 and internal revenues of K25,000,000.

I observed from the postings of the appropriations presented as initial and current appropriations in the expenditure ledger reports, the initial and current appropriations for Division 288 (grants) as K182,438,600 and K162,961,600 while the report for Division 716 showed the initial and current appropriations as K45,683,310 and K45,000,000.

The overall totals of the initial and current appropriations for both Divisions exceeds the approved original budget appropriations of K161,961,600 and K25,000,000. There were also two instances of transfers of funds of K100,000 and K150,000 from expenditure votes 716.1100.9151.143 and 716.1100.1159.135 respectively to trust fund suspense account (801/1) by way of journal entry. Funds could only be transferred between vote items by raising journal entries only with the approval of the Secretary for Treasury and therefore, such transfers represents a breach of the *Annual Appropriation Act*.

Revenue Management

Review of the East New Britain Provincial Government's revenue management processes identified there were inordinate delays in banking of revenue collections ranging from one day to eleven days. The issue indicated serious weaknesses in controls over collection and banking of revenues. Such weaknesses might expose the Provincial Government to misappropriation of public moneys and fraudulent activities.

Cash Management

The Office of the Provincial Administrator maintained and operated a bank account titled 'Administrative Expense Account'. I was not provided sufficient evidence to confirm the legal existence and operation of this account. Further, the Provincial Treasury Office confirmed there had been no acquittals with relevant supporting documents provided when submitting claims to replenish funds into the account.

Procurement and Payment Procedures

The audit review and test of procurement and payment procedures on selected sample of payments had identified weaknesses and breakdown of internal controls as follows:

- Section 32 officers who approve Requisitions for Expenditure (FF3) continued to fail to disclose their designation and financial limits to approve expenditure. Further, I observed the acting Advisor for Division of Finance and Revenue and acting Director for Parliamentary Services had approved payments of K65,236 and K13,440 in excess of their designated financial limits of K25,000 and K10,000 respectively;
- In two instances, payments totalling K400,349 were made without any proper endorsement/contract agreements by PEC/APC;
- In twelve instances, payment vouchers with relevant supporting documents relating to expenditures incurred totalling K624,022 were missing from files. Consequently, I am unable to ascertain the validity as well as proper authorisation of the claims presented for payment; and
- Payments totalling K839,995 lacked proper and valid supporting documentations to justify the validity and genuineness of the payments.

Grants and Subsidies

No proper monitoring guidelines or mechanisms were in place to monitor, control and obtain accountability reports from recipients of grants and subsidies from the Provincial Government for the year totalling K17,928,759 nor were there records to indicate that the Provincial Government had sought these reports.

Salaries and Allowances

My review of the Provincial Assembly Members Payrolls revealed the Provincial Governor was paid his entitlements as per the Salaries and Remuneration Commission Determination on a fortnightly basis, tax free. The Senior Officers of the East New Britain Provincial Administration were also recipients of monthly vehicle allowances of K4,000, free of tax.

Assets Control

The East New Britain Provincial Government had reported its fixed assets as K46,576,137 as at 31 December 2014. I did however; observe that the closing value of fixed assets disclosed in 2013 financial year was K413,939,736 while the purportedly updated fixed assets register had the value reduced to K46,576,137 in 2014. There were no schedules or other explanations provided to substantiate the reduction to the value of fixed assets totalling K367,363,599. Furthermore, purchases during the year totalling K1,675,446 had not been recorded in the updated fixed assets register. Consequently, I was unable to verify the completeness and accuracy of the value of assets owned and under the custody of the East New Britain Provincial Government for the year ended 31 December 2014.

Advances Management

Appendix 6 to the financial statements disclosed payments of travelling allowances and cash advances totalling K393,571 to officers remained unacquitted at year end. My review of the PGAS outstanding advances reports revealed twenty instances of payment of travelling allowances and cash advances totalling K77,692 dating back to 2009 had not been acquitted nor disclosed in the Appendix. Further, the reported unacquitted advances of K393,571 could not be agreed to the total outstanding advances of K466,906

per the schedules. Consequently, I was unable to rely on the completeness and accuracy of total un-acquitted advances disclosed in the Appendix to the financial statement.

6.3.2.3 Management Response

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

6.3.3 Kokopo/Vunamami Urban Local Level Government

The Kokopo/Vunamami Urban Local Level Government (ULLG) submitted its financial statements for the years ending 31 December 2012 and 2013. Fieldwork associated with audit of the financial statements and accounts and records were completed with the Management Letters issued and the audit opinion reports were also issued to the ministers concern. The audit reports were issued with Disclaimer of Audit Opinion. The issues identified with the financial statements and the control environment were similar hence, only the 2013 issues are reproduced below:

6.3.3.1 Financial Statements – 2012 and 2013

My reports to the Ministers concerned and other relevant bodies in accordance with relevant provisions of *the Organic Law on Provincial Governments and Local Level Governments* and the *Audit Act* on the financial statements of the Kokopo/Vunamami ULLG for the years ended 31 December 2012 and 2013 were issued in May 2015. These reports contained similar Disclaimer of Opinion, hence only the 2013 report is reproduced as follows:

“Basis for Disclaimer Opinion

Disclosure Errors

I noted the disclosure errors which could have material effect on the accuracy and completeness on the Kokopo/Vunamami Urban Local Level Government account balances and consequently, the financial position of the Urban Local Level Government as at 31 December 2013.

Cash Balances

The Kokopo/Vunamami Urban Local Level Government cash and bank balance of K498,991 could not be confirmed as correct due to errors and material misstatement of operating surplus as discussed under the paragraph on receipts and payments as well as other unadjusted reconcilable items noted in the bank reconciliation statement for the year ended 31 December, 2013. Further, the accumulated opening fund balance of K154,030 stated in Note 3 to the financial statement is misleading as it was the closing cash balance stated in 2011 and as such, did not agree with the 2012 closing balance of K217,688.

Receipts and Payments

Statement ‘B’ presented total revenue and expenditure as K2,280,120 and K1,995,218 respectively with an operating surplus of K284,903. The total expenditure and therefore, the resulting operating surplus are inaccurate, misleading and materially misstated due to omission of a PGAS payment totalling K3,600. Consequently, I am unable to verify the

accuracy of the receipts and payments and therefore, the accuracy of the operating surplus for the year ended 31 December 2013.

Debtors and Receivables

The 'Nil' balance of debtors and receivables reported in Appendix 2 is inaccurate and misleading in view of the Debtors scheduled balance in respect of land rates, trading licenses and sanitation and garbage charges of K746,147 at year end. The Appendix however, had stated thus, *"there is a large amount of outstanding still to be collected but the information is not available to be captured in this report"*.

Fixed Assets

The value of fixed assets of K701,312 disclosed in Appendix 4 to the financial statements is inaccurate and misleading in view of the following observations:

- The value of assets disclosed is the brought forward balance from 2011 and as such, did not reflect complete and accurate information on additions and/or disposals during the year and those of the prior years;
- The Kokopo/Vunamami Urban Local Level Government did not maintain a proper assets register with updated details of additions and/or disposal during the year. Consequently, additions during the year totalling K186,064 had not been recorded and properly accounted for; and
- Appendix 3 to the financial statements did not disclose any information or values in relation to stocks of inventories held by the Urban Local Level Government as at 31 December, 2013. Further, I was not provided for my satisfaction evidence to indicate that stock-takes were done to confirm the completeness and existence all assets and inventories owned and under the custody of the Urban Local Level Government.

Advances

Appendix 6 to the financial statements showed un-acquitted cash and travel advances as K84,109 which was effectively a prior year un-acquitted balance. Relevant Note to the financial statements stated the opening and closing balance as K79,530 at yearend while the PGAS advance register reported a balance of K48,080. Due to errors and inconsistencies noted above, no reliance could be placed on the completeness and accuracy of the total outstanding advances shown in this Appendix.

Other Records and Registers

Several other documentation corroborating the financial statements, such as the registers of investments, inventory, debtors, borrowings and losses and deficiencies were not available. Consequently, I could not ascertain the existence, completeness and accuracy of these items in the financial statements.

Disclaimer 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 to provide a basis for an audit opinion and consequently, I was unable to express an opinion on the Kokopo/Vunamami Urban Local Level Government financial statements for the year ended 31 December 2013."

6.3.3.2 Control Environment - 2013

Corporate Governance

The Kokopo/Vunamami ULLG did not maintain proper records of minutes of meetings held by the ULLG Assembly and Finance Executive Committee during the year. Consequently, financial implications and resolutions, if any, could not be ascertained.

Revenue Management

Review of the Kokopo/Vunamami ULLG's revenue management processes identified there were inordinate delays in banking of revenue collections for up to fifteen days.

Appropriation and Budget Management

The Kokopo/Vunamami ULLG reported its annual revised budget estimates for expenditure and revenue as K3,234,961 and K3,084,667 respectively. I was not provided evidence including the Appropriation Act of 2013 or a certified revised budget and other relevant quarterly budget review documents to suggest that the original as well as the revised budgets were duly sanctioned and certified prior to implementation.

Advances Management

I observed a serious lack of proper monitoring and recovery exercises on travel and cash advances resulting in substantial amounts dating several years back, remained unacquitted as at 31 December 2013 nor the ULLG maintained a proper and updated advance register during the year.

Payment of Accounts

- Section 32 Officers failed to provide complete and accurate information such as their delegated financial limit and the date of approval for purposes of approval and authorization of Requisition for Expenditure (FF3);
- The owners of trucks hired for removal of garbage were paid a total of K455,158. I could not ascertain the genuineness of these payments in the absence of appropriate documentation such as formal contract agreements. I noted further that invoices for general cleaning and grass cutting work had originated from the Urban Local Level Government rather than the service providers; and
- A payment of K15,000 to a third party for beautification works carried out by the second party was inappropriate and irregular, nor the payment supported with evidence of a bank confirmation report that the money was actually transferred to the account of the second party or the service provider. Further, I sighted no evidence to suggest that the service provider had requested the cheque to be drawn in favour of the third party.

6.3.3.3 Management Response

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

6.3.3.4 Status of Financial Statements

At the time of preparing this Report, the Kokopo/Vunamami ULLG had not submitted its financial statements for the year ended 31 December 2014 for my inspection and audit.

6.3.4 Rabaul Urban Local Level Government

The Rabaul Urban Local Level Government (ULLG) submitted its financial statements for the years ended 31 December, 2012 and 2013. Fieldwork associated with audit of the financial statements and accounts and records was completed with the Management Letter issued and the audit opinion report also issued to the Ministers concern. The audit reports were issued with Disclaimer of Audit Opinions. The paragraphs below detail issues identified with the financial statements and control environment.

6.3.4.1 Financial Statements – 2012 and 2013

My reports to the Ministers concerned and other relevant bodies under the *Organic Law and Audit Act* on the Rabaul ULLG's financial statements for the year ended 31 December 2012 and 2013 were issued in May 2015. The Reports contained similar Disclaimer of Opinion, hence only the 2013 is reproduced as follows:

“Basis for Disclaimer Opinion

Presentation Error

Finance Instruction 5/2000 issued under Section 117 of the *Public Finances (Management) Act 1995* prescribed format for preparation and presentation of the financial statements for Local Level Governments. The financial statements of Rabaul Urban Local Level Government for the year ended 31 December, 2013 did not fully comply with the formats prescribed by Finance Instructions in that the Mayor and the District Administrator's statements did not give an overview of the financial performance of the Urban Local level Government operating account and the fairness of the statements presented for the 2013 financial year. Instead, their statement gave an overview of the financial performance for the DSIP/DSG accounts which is contradictory to the financial information presented in the financial statements.

Disclosure Errors

I noted the following disclosure errors which could have material effect on the accuracy and completeness of the Rabaul Urban Local Level Government Account balances and consequently, the financial position of the Urban local level Government as at 31 December 2013.

Cash Balances

The Rabaul Urban Local Level Government cash and bank balance of K400,278 could not be confirmed as correct due to an accounting error in the trial balance resulting in a difference of K99,045. There were also other significant reconciling items identified in the bank reconciliation statements that should have been adjusted in the cashbook and respective revenue and expenditure ledgers and disclosed in Statements 'J' and 'K' which also affected the bank and cash balances at year end.

Commitments and Arrears

The Appendix 1 of the financial statements showed outstanding commitments and arrears as K15,000 against the PGAS record of “Nil” balance as at 31 December, 2013. Furthermore, Note 12 to the financial statements stated expenditure commitment and arrears closing balance as K303,797. Consequently, the accuracy of this Appendix could not be confirmed as correct and reliable due to inconsistencies noted as well as lack of supporting schedules.

Debtors and Receivables

The Appendix 2 of the financial statements showed the summary of debtors and receivables with “Nil” closing balance supposedly having paid or received in full an opening balance of K207,645 during the year. The aged receivables summary showed total outstanding debtors as K239,182. Effectively, the prior year information was disclosed in the current Appendix. The inconsistencies noted thus rendered the “Nil” closing balance at year end inaccurate and unreliable.

Assets

The fixed assets at historical cost of K1,899,556 disclosed in Appendix 4 of the financial statements is inaccurate and unreliable as it is inconsistent with the fixed asset register record of K1,865,576. Consequently, I am unable to verify the completeness of the value of assets owned and under the custody of the Rabaul Urban Local Level Government as at 31 December, 2013.

Advances

Appendix 6 to the financial statements disclosed un-acquitted travel and cash advances as K31,523 against the PGAS advances register balance of K23,930 as at 31 December, 2013. Consequently, the accuracy and completeness of this Appendix could not be confirmed as correct and reliable.

Other Records and Registers

Several other documentations corroborating the financial statements, such as the registers of investment, inventory, debtor and borrowings, and losses and deficiencies were not available. I could not ascertain the existence, completeness and accuracy of these items 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 and consequently, I was unable to express an opinion on the Rabaul Urban Local Level Government financial statements for the year ended 31 December 2013.”

6.3.4.2 Control Environment - 2013

Corporate Governance

The Rabaul ULLG did not have a Corporate Plan in place that established long term objectives, priorities and targets that would have taken into account the requirements of its stakeholders and the needs of the communities it serves. No such documents were provided for my review.

Appropriation and Budget Management

The Rabaul ULLG reported its total revenue and expenditure estimates of K2,143,900 per the unsigned budget documents. Review of postings in the expenditure ledgers revealed Initial and Current Appropriation as K2,143,900 and K2,192,850 respectively. However, neither of the appropriations were consistent with the Mayor's Statement amount of K2,192,850. Further, I was not provided evidence including the relevant Appropriation Act or a certified revised budget and other relevant quarterly budget review documents to suggest that the original as well as the revised budgets were duly sanctioned and certified prior to implementation.

Payment of Accounts

- The Town Manager was paid a vehicle allowance of K2,000 per month totalling K18,000 for the year tax-free. I was not provided explanations as to why the allowance could not be taxed nor could I ascertain whether the payment of vehicle allowances were budgeted for as these were catered for by the Provincial Government Operating Account; and
- Payments to private contractors, groups and individuals for minor maintenance works, general town cleaning and grass cutting undertaken during the year were not supported with appropriate documentation such as formal contract agreements or pre-qualified listings of contractors or groups and individuals that have been duly approved. I noted further that invoices for general cleaning and grass cutting work had originated from the Urban Local Level Government rather than the service providers.

6.3.4.3 Management Response

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

6.3.4.4 Status of Financial Statements

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

6.3.5 Nonga Base Hospital

The Nonga Base Hospital Board submitted its financial statements for the years ending 31 December 2012 and 2013. Fieldwork associated with audit of the financial statements and accounts and records were completed with the Management Letters issued and the audit opinions were also issued to the Ministers concerned. The audit reports were issued with Disclaimer of Audit Opinion. The paragraphs below detail issues identified with the financial statements and the control environment.

6.3.5.1 Financial Statements – 2012 and 2013

My reports to the Ministers concerned under the *Public Hospitals Act* and the *Audit Act* on the financial statements of the Nonga Base Hospital for the years ended 31 December 2012 and 2013 were issued in May 2015. These reports contained similar Disclaimer of Opinions, hence only the 2013 report is reproduced as follows:

“Basis for Disclaimer of Opinion**Disclosure Errors**

I noted the disclosure errors which could have material effect on the accuracy and completeness on the Nonga Base Hospital account balances and consequently, the financial position of the Hospital as at 31 December, 2013.

- There was limitation of scope arising from material misstatement of cash balances due to errors and omissions of receipts and payments in the Operating and Hospital Fees Trust Accounts cashbooks thus, resulting in reconciling differences with the bank balances. Consequently, I was unable to verify the accuracy of the combined excess of receipts over expenditure of K1,777,472 disclosed in the financial statements;
- The assets register maintained by Nonga Base Hospital was incomplete and had not been updated to account for all assets held under ownership of the Hospital. In the absence of a complete and detailed assets register and records, I was unable to verify the completeness, existence and value of all fixed assets owned and in the custody of the Hospital at year end;
- The Nonga Base Hospital did not maintain adequate inventory records nor had an effective system and procedures in place to ensure important inventories were safeguarded and properly accounted for.

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 and consequently, I was unable to express an opinion on the Nonga Base Hospital financial statements for the year ended 31 December 2013.”

6.3.5.2 Control Environment - 2013**Budget Management**

- Funds totalling K1,708,396 were transferred from the Hospital Operating Account into the Hospital Fees Trust Account based on the previous approval granted by the Chairman of the Hospital Board dated 31 October, 2012. The funds were used among others, to purchase two motor vehicles totalling K284,789 which were not budgeted for in the 2013 budget appropriation. However, in the absence of the relevant board meeting minutes, I could not determine whether or not the purchase of vehicles were sanctioned by the Hospital Board; and
- As stated in my previous years’ audit report, Nonga Base Hospital had expended over K125,000 on purchase of computers and property rentals during the year out of funds from the Hospital Fees Trust Account which did not fall within the categories of expenditure as set out in Section 2(c)(i) to (iv) of the Revised Hospital Fees Trust Account Instrument of 22 June, 1998.

Revenue Management

The statement of receipts and payments for the Hospital Operating Account and Hospital Fees Trust Account showed combined revenue receipts for the year ended 31 December 2013 as K17,607,914. The Hospital did not maintain proper revenue heads and/or codes nor operated a computerised accounting system to ensure that all revenue received are

accurately accounted for and recorded into the revenue ledgers. As such, the accuracy of actual revenues received could not be confirmed.

Advances Management

Nonga Base Hospital lacked proper monitoring and recovery exercises on travelling allowances, salary and cash advances totalling K80,818 dating back to 2008 that had not been acquitted as at 31 December 2013. I had further noted instances of payments of travelling allowances and cash advances to officers totalling K1,356 that had not been recorded in the advances register.

Payment of Accounts

- Nonga Base Hospital had made excessive expenditures on salaries and overtime totalling K352,639 due to payments for Industrial Health Awards and Overtime for Allied Health Workers, Laboratory Technicians officers under the Corporate Services Division; and
- Nonga Base Hospital payments to suppliers totalling K83,118 without obtaining the required three written quotations from suppliers.

6.3.5.3 Management Response

I have noted the responses provided by the Hospital to my audit queries and hope to see some improvements as indicated in my subsequent audits.

6.3.5.4 Status of Financial Statements

At the time of preparing this Report, the financial statements for the year ended 31 December 2014 had been submitted and arrangements were being made to commence the audit shortly.

6.3.6 Business Arms

6.3.6.1 Gazelle Restoration Authority

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

The Gazelle Restoration Authority submitted its financial statements for the year ended 31 December 2013. Fieldwork associated with audit of the accounts and records was completed with the Management Letter issued and the audit opinion report issued to the ministers concerned.

6.3.6.2 Financial Statements – 2013

My Report to the Ministers concerned and other relevant bodies under Section 16(3C) of the *Audit Act, 1989* (as amended) on the Gazelle Restoration Authority's financial statements for the year ended 31 December 2013 was issued in April 2015. The Report was an unqualified audit opinion, but had an Emphasis of Matter:

“Emphasis of Matter

I draw attention to Note 9 of the financial statements which indicates the Authority incurred a net loss of K2,176,274 during the year ended 31 December, 2013. This, along with the other matters as described in Note 1(b), indicates the existence of a material uncertainty that may cast significant doubt about the Authority’s ability to continue as a going concern.”

6.3.6.3 Management Response

Management had not responded to my Audit Management Letter queries. Consequently, I was not advised of any improvement at the time of preparing this Report.

6.3.6.4 Status of Financial Statements

At the time of preparing this Report, the Gazelle Restoration Authority had not submitted its financial statements for the year ended 31 December, 2014 for my inspection and audit.

6.4 EAST SEPIK PROVINCE

6.4.1 Introduction

The East Sepik Provincial Government, Wewak Urban Local-level Government and Wewak General Hospital are audited every year, with or without financial statements. Other LLGs and Business Arms of the PG & LLGs within the Province could not be audited due to manpower and financial constraints faced by my Office and the lack of records and logistical support from the respective Governments.

6.4.2 East Sepik Provincial Government

The East Sepik Provincial Government (ESPG) submitted its financial statements for the financial year ending 31 December 2013. Fieldwork associated with the audit of the accounts and records were completed with the Management Letter issued and the audit opinion report issued to the Ministers concerned. The audit report was issued with Disclaimer of Audit Opinion. The paragraphs below detail issues identified with the financial statements and the control environment.

6.4.2.1 Comments on Financial Statements – 2013

My report to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* was issued in May 2015. The report was a Disclaimer Opinion as reproduced below:

“Basis for Disclaimer Opinion

Cash Balances

I was unable to express an opinion on the accuracy of the cash at the bank balances and consequently, on the financial position of the East Sepik Provincial Government as at 31 December 2013 due to the following reasons:

- The fund balance of K79,843,640 reported in the Statement could not be confirmed as correct due to inherited errors carried forward from previous years were not corrected in the current year's accounts;
- A significant difference of K2,217,413 between the bank balances against cashbook balances and the related bank statements. Although this difference was explained in note 6.3 of the financial statements, in the absence of bank reconciliation statements for all the bank accounts I was unable to establish and verify the cause of the differences noted. Further, I was unable to ascertain the accuracy and completeness of the balances disclosed in Statements 'A' and notes 3 and 6;
- Four of the seven trust fund balances totalling K1,727,370 included in the fund balances were mere cashbook balances. I noted that these were incorrectly disclosed in Statement 'A';
- I noted the differences of K11,910 and (K36,733) between note 6.1 and Statement 'C' relating to Provincial Minor Works and Storm Water Drainage Project accounts respectively which affected the fund balance in Statement 'A'; and
- I was not provided the full twelve months of bank reconciliations statements for all the bank accounts operated by Provincial Government, and as such I was unable to ascertain the completeness and accuracy of the cash balances disclosed in Statement 'A' and note 6 of the financial statements.

Receipts and Payments

I was unable to verify the completeness and accuracy of the receipts of K168,335,731, payments of K117,299,051 and the subsequent surplus of K51,036,679 in Statement 'B' and the related Statements 'J' and 'K' due to the underlying records pertaining to the TMS 55 report on Staffing and Teacher's salaries grants of K64,377,460 disclosed in Statements 'B', 'J' and 'K' were not provided for my examination.

Assets

The Provincial Government did not update its asset registers during the year although significant amounts of money had been spent on the purchase of assets in the current and prior years. In the absence of a complete and up-dated asset register and annual stocktakes, I was unable to confirm the existence, completeness and value of assets owned by the East Sepik Provincial Government.

Investments

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

Disclaimer of Audit Opinion

Because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and consequently I was unable to express an opinion on the financial statements of the East Sepik Provincial Government for the financial year ended 31 December 2013.

Other Matters

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

- the East Sepik Provincial Government did not maintain proper accounts and records and has consequently breached Section 68(1) of the *Public Finances (Management) Act, 1995*;
- the receipts and payments and investment of moneys and the acquisition and disposal of assets during the period covered by the financial statements have not been in accordance with the *Public Finances (Management) Act, 1995* and *Organic Law on Provincial Governments and Local-level Governments*; and
- the East Sepik Provincial Government did not have a five year corporate plan and has consequently breached the *Public Service General Order No. 8.11.*"

6.4.2.2 Control Environment – 2013

Corporate Governance

The East Sepik Provincial Government did not have a Corporate Plan that outlined its long-term objectives, set priorities, targets and requirements of its stakeholders. In the absence of such plans and other related documents, I was unable to establish whether the quarterly meetings had been conducted to appraise and assess the activities in the Province.

PEC Meeting Minutes

I was not provided with the 2013 Provincial Executive Council (PEC) and Provincial Assembly meeting minutes and resolutions for my review. As such I was unable to determine important issues affecting the Province.

Internal Audit

The Internal Audit Section was not functioning within the Provincial Government Administration. There had not been any audit plan covering major activities of the Provincial Government. Hence, no internal audit report was produce for the period under review and prior years as well.

Appropriation and Budget Management

The Appropriation and Budget Management of 2013 for the Provincial Government was noted to be effective except for the following matters:

- The current appropriation of K157,111,079 against actual expenditure of K117,299,051 resulted in under expenditure by K39,812,029. This variance was due to public servants and the teacher's salary expenditure incurred by the national agencies directly not properly taken up in the books and disclosed in the financial statements;
- Internal revenue actually collected and recorded was K6.3 million against the budget of K17.7 million which indicated that internal revenues had not been adequately collected for the Province; and
- Large sums of funds had been transferred out from various vote items of the grant account without proper authorisation to different suppliers.

Cash Management

Bank Reconciliations for the Provincial Government's operating and the grant accounts as at 31 December 2013 were not produced for my examination. As such, I was unable to determine the funds used in 2013 despite closing balances obtained from both bank statements and cashbook balances.

Revenue Management

Delays in banking, collectors statements compiled were not checked by senior officers in the Accounts, and no segregation of revenue functions was noted.

Procurement Procedures and Payments

Procurement Management

My review on the procurement process observed by the East Sepik Provincial Government noted the following irregularities:

- Formal Appointment Instruments regarding the approved financial delegates and their limits, requisition officers, certifying officers, examining officers were not furnished to me. Without the formal appointment instrument, I was unable to ascertain whether proper procurement process and procedures were adhered to in processing all the claims of expenditures made in 2013;
- The Instruments establishing the Provincial Supply and Tenders Board (PSTB), Meeting Minutes and Resolutions of Meetings convened by the Board, registers maintained to record all tenders invited, quotations received, contracts awarded and

Certificates of Inexpediency issued were not made available to me, which clearly reflected the PSTB did not function as an effective authority. As such, I was unable to ascertain whether proper tender procedures were adhered to in awarding projects of tenderable values to contractors; and

- Various contractors and suppliers were given contracts and services during the year. I was unable to verify the completion stages of the various projects due to the absence of proper status, progress and completion reports for the given projects.

Paid Accounts

The following discrepancies were noted from the samples selected, tested and analysed from the respective expenditure ledgers:

- A total amount of K420,406 paid in eighteen instances of operational expenses lacked three necessary quotations, no delivery dockets for goods purchased and few instances of payments that were selected for testing had no paid vouchers available to confirm the expenses;
- A payment of K56,307 paid to a company for hire of an excavator was not supported by signed daily hours-sheet to verify the actual hours charged;
- I noted there were three split payments made giving rise to K176,000 paid to a company on instruction from the Provincial Treasurer for processing although the Examining Officer had queried the claim; and
- Paid vouchers and records relating to three instances of payments totalling K66,509 were not provided for my examination.

Grants and Subsidies

No proper monitoring guidelines or mechanisms were formally established to monitor, control and obtain accountability reports from recipients of grants and subsidies from the Provincial Government for the year totaling K6.2 million. The Local-level Government grants would be audited separately as they supposed to provide financial statements.

Capital Works and Maintenance

Review of records and details of the capital works and maintenance of the Provincial Government revealed that eighteen instances of major and minor works contracts totalling over K2.3 million paid to various contractors had the following discrepancies:

- I was not provided with Supplies and Tenders Board minutes and resolutions to confirm whether major capital works had been awarded through proper processes;
- In the absence of engagements contracts on file I was unable to confirm the terms and references relating to major capital works that were done during the year; and
- I was not provided with the progress reports, Certificate of Compliance for contracts awarded to various contractors for major infrastructure construction. As such I was unable to confirm whether the works, including road and building maintenance, had been done in accordance with required standards and worth the cost.

Human Resource Management

I noted the following issues under the Salaries and Wages:

- Employment contracts for the senior officers were not available for my examination during the time of audit. I was informed by the Human Resource Advisor that the employment contracts were not renewed over the last three years due to the continuous turnover of the Provincial Administrator's position;

- In two instances of casual wages payments totalling K11,200 wage receipt listings were not sighted to confirm the actual payment of the wage by respective employees;
- Two instances of overtime payments totalling K17,000 were not supported with overtime request forms; and
- More than eight instances of payments totalling K621,041 for recreation leave fares paid to public servants were done without appropriate supporting documents such as birth certificates, and/or concessions for the legal dependents that were claimed.

Assets Management

There was no evidence to show that the Provincial Government has adhered to proper asset management procedures where I noted the following weaknesses:

- A comprehensive fixed assets register, if there was any maintained, was not provided to me for my examinations and, as such, I was not able to ascertain the additions, disposals, conditions and value of fixed assets owned by the Provincial Government;
- There was no evidence to confirm that physical stock takes were done; and
- In the absence of the fixed assets register and the supporting documents I was unable to verify twelve motor vehicles and other assets purchased in 2013 totalling more than K2 million.

Advance Management

My review on the advances management revealed the following concerns:

- The advance register maintained had revealed total unacquitted travel and cash advances of more than K9.0 million of which more than K1.8 million was from 2013 and prior years. Unacquitted advances had been an ongoing issue reported in prior years where no remedial actions had been taken to minimise the issue;
- Payment vouchers totalling more than K933,273 paid in forty-two instances for cash advances to individuals under the grant account still remained unacquitted. The cash advances ranged from more than K10,000 to K200,000 had been literally paid to individuals without proper control measures instituted to manage the advances;
- No quotations and invoices had been sighted in payment vouchers except written memos with unjustified break down of calculated costs;
- Additional cash advances were paid while previous advances still remained outstanding;
- Proper procurement management processes had been abused where more than K2.0 million paid to a company that did not have a travel and logistics agreement; and
- A MOU was signed between the Provincial Administration and a representative of the same travel and logistics agent in 2014 where certain logistics services were to be provided. This had not been the case as there were services provided outside the MOU and excessive fees charged on handling, administration and storage.

Trust Accounts Management

Marienberg College Trust Account

There was no evidence of financial records exist to show a lot of transactions in millions from Provincial Government Grant Account paid to the College's Trust Fund Account over the years including the current year except a cashbook closing balance of K7,244,760 was sighted.

Provincial Works 3 Trust Account

The Provincial Works 3 trust account bank reconciliations were not done and maintained except the closing balance of K17,070,099 represented from the bank statement and a cashbook closing balance of K17,091,894 provided as at December 2013.

Storm Water Drainage Trust Account

Bank statements relating to this trust account was not sighted except the cash book showed a closing balance of K2,742,946. I had attempted to obtain bank reconciliation records and bank statements were not successful.

6.4.2.3 Management Response

The aforementioned observations on the financial statements and internal control weaknesses for the period under review had been identified and communicated to the East Sepik Provincial Administrator and Management. I highlighted the impacts of these observations and made recommendations for management considerations to take possible improvements. I have subsequently not received any responses to the Management Letter as at the time of preparing this Report.

6.4.2.4 Status of Financial Statements

At the time of writing this Report in July 2015, the East Sepik Provincial Government has submitted its 2014 financial statements where field audit has been completed and Management Letters are being finalised. This will be reported in my 2015 Part 3 Report.

6.4.3 Wewak Urban Local-level Government

The Wewak Urban Local-level Government (ULLG) did not submit its financial statements for the years ended 31 December 2012 and 2013. Interim audits on the internal control environments for the two years were conducted with Management Letters issued to the ULLG concerned. The control environment issues were common throughout hence, only 2013 is reproduced below:

6.4.3.1 Control Environment - 2013

Corporate Governance

Corporate Plan

The Wewak ULLG did not provide a Corporate Plan that establishes long-term objectives, set priorities and targets to take into account the requirements of its stakeholders. The Government had been plagued by several critical management problems such as carrying excess manpower for which it is unable to fund and significant under collection of potential internal revenues.

Work of Internal Audit

I noted that the Internal Audit Inspector who was engaged to assist the Wewak ULLG had been paid a sum of K7,000 and a further K3,000 invoice was submitted and paid. Such action has resulted in double dipping by a public servant who was rightfully performing his duties and responsibilities as an Internal Auditor of the Province.

Appropriation and Budget Management

I noted the following issues as reported below:

- The Appropriation Bill No. 01/2013 was not signed by the Chairman of the Wewak District Joint District Planning and Budget Priority Committee;
- Budgeted revenue for 2013 was K3,259,200 while the actual money received from the National Government and internally generated as per the Revenue Account Summary was K1,329,914, resulting in under-collection of K1,929,285. Significant under-collections were noted in Land Rates, Market Fees, Garbage and Sanitation and Trade Store Licenses;
- I was not provided with copies of actual Cash Fund Certificates from the National Government through the Provincial Treasury to confirm the amount of grants received. As such, the National Grant of K495,411 received under the Village and LLG Service Grant could not be confirmed as accurate; and
- Due to the lack of a Corporate Plan I was not able to review budget performance to confirm whether the budget had any social and economic impacts.

Revenue Management

Revenue sources and management procedures should be adequately documented to ensure all potential revenue is effectively collected. Wewak ULLG did not adopt revenue management policies or devise revenue control mechanisms to capture the potential revenues for the year. I was not able to obtain absolute assurance on the monitoring and collection of potential revenues and proper banking procedures.

Payment and Procurement Procedures

Prudent expenditure management is essential in order to enhance service delivery. I was not able to obtain absolute assurance on the integrity of the internal controls relating to expenditure management in view of the following control weaknesses:

- The appointment instruments pertaining to Section 32, Certifying, Examiner and Requisition Officers were not provided for my review;
- Proper procedures had not been followed where most of the claims were paid without appropriate Financial Delegates' approval. The same weaknesses were also reported in my previous reports, however no corrective actions had been taken;
- From the samples tested, there were six paid vouchers missing totalling K44,100 that clearly reflects the management's failure in maintaining important financial records; and
- No claims, commitment, cheque payments, invoice or quotation registers had been maintained.

Cash Management

Proper cash management practices are essential to reflect the cash position or alternatively the fund balance at any point in time and to enable management makes sound decisions. I was not able to obtain absolute assurance on the integrity of the internal controls relating to cash management in view of the following control weaknesses:

- Full twelve monthly bank reconciliations for 2013 were not prepared. As such, I was not able to perform any further testing due to scope limitation; and
- The cash collected during the day at the Cash Office was kept in a money bag. Due to the susceptibility of cash to theft, it is advisable that daily cash be kept in a safe box with a secured lock and promptly banked the following day.

Human Resource Management

My review of the related records and accounts on payment of salaries, wages and allowances revealed the following weaknesses:

- No Establishment Register with the related personal files was maintained for all employees of the Wewak ULLG. As such, I was unable to confirm the number of employees employed in 2013 and the total wages and allowances paid to employees and assembly members respectively;
- There was no casual listing maintained to confirm the number of casuals employed or for how long;
- No attendance register and list of Assembly members and their specimen signatures had been maintained where the attendance to all meeting held could be established; and
- Few selected personal files for employees requested were not provided for my examination.

Asset Management

Examination of the asset management practices exercised revealed the following issues:

- No schedule of additions and disposals to summarise purchase and sales of fixed assets for 2013. The opening balance of fixed assets was not carried forward appropriately from prior year as there was no summary schedule prepared in prior year; and
- The asset register was not maintained effectively and updated appropriately. The register did not contain vital details of assets such as cost, quantity or serial numbers.

Advance Management

A review of advance registers, expenditures ledgers and other related records revealed the following issues:

- No proper advance register was maintained by the Wewak ULLG for the effective advance management practices. As such, I was not able to confirm the disclosed outstanding advances; and
- No evidence was sighted to indicate that reminder notices and other course of actions had been taken by management to recoup long outstanding advances.

6.4.3.2 Management Response

The aforementioned observations on the internal control weaknesses for the periods under review had been identified and communicated to the Wewak ULLG and Management. I highlighted the impacts of these observations and made recommendations for management considerations to make improvements. I have however not received any response to this Management Letter as at the time of preparing this Report.

6.4.3.3 Status of Financial Statements

At the time of writing this Report in July 2015, the Wewak ULLG had not submitted its financial statements for the financial years ended 31 December 2009 to 2014 for my inspection and audit.

6.4.4 Wewak General Hospital

The Wewak General Hospital submitted its financial statements for the years ended 31 December 2012 and 2013. Fieldworks associated with the audits of the accounts and records were completed with the Management Letters issued and the audit opinion reports issued to the Ministers concerned. The audit reports were issued with a Disclaimer of Audit Opinions. The issues identified with the financial statements and the control environments were similar hence, only the 2013 issues are reproduced.

6.4.4.1 Financial Statements – 2013

My reports to the Ministers for Health and Finance respectively under the *Public Hospital Act* and the *Audit Act* were issued in May 2015. The reports contained similar was a Disclaimer Opinion, hence only the 2013 report is reproduced below:

“Basis for Disclaimer Opinion

Presentation

Finance Instructions 2/2004 issued under Section 117 of the *Public Finances (Management) Act 1995* state the prescribed format for the preparation and presentation of the financial statements for Public Bodies. Wewak General Hospital Financial Statements compiled for the year ended 31 December 2013 complied with the requirements of the Finance Instruction, except for the following errors noted in the statements presented included:

- Lacked foreword report or statement on the overall performance of the Hospital during the year by the Hospitals’ Board Chairman and the Chief Executive Officer;
- Lacked statement of changes in net cash assets and nor schedules of capital assets and liabilities attached;
- Fund Appropriation was incorrectly presented in the front pages of the financial statements;
- Consolidated statement was incorrectly presented as a continuation from the paragraphs after fund appropriation; and
- Accumulated funds should be on a separate page in front showing movement of funds during the year which are being represented by cash at bank. I noted that it was incorrectly presented at the back before the notes to and forming part of the financial statements.

Disclosure Errors

The disclosures on the financial statements provided for examination had errors and omissions as stated below:

- There was limitation of scope arising from bank balances due to the inability of the Hospital to maintain proper cashbooks, ledgers and timely performing bank reconciliations for all accounts. Also, there were inherited errors carried forward from previous years which were not corrected in the current year’s accounts. Consequently, I was unable to verify the accuracy and completeness of the consolidated closing bank balances of K1,045,863 disclosed in the financial statements;
- I was unable to confirm the accuracy and completeness of the total receipts and payments and the net results disclosed in the income and expenditure statements of both operating and trust accounts and the subsequent consolidated statements due to revenues received and expenditures incurred were not adequately recorded in the cashbooks and respective ledgers; and

- The revenue and expenditure component of the salaries and allowances paid through the Concept Payroll System for 2013 were not captured and reported in the financial statements.

Disclaimer of Audit Opinion

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

Other Matters

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

- Wewak General Hospital has not prepared and submitted their financial statements to the Minister and the Auditor-General prior to 30 June for the year ending 31 December 2013, resulting in breach of Section 63 (2) and 63 (4) of the *Public Finances (Management) Act 1995*; and
- The Chief Executive Officer is required by the section 3 (c) of the Trust Instrument to furnish annual estimates of revenue and expenditure to the First Assistant Secretary, Loans Revenue Division, Department of Treasury and Corporate Affairs every June for the following year. This requirement has not been complied with. ”

6.4.4.2 Control Environment - 2013

Corporate Governance

The Hospital had in place a Corporate Plan for 2013 and associated Action Plans. There was however, no review and evaluation mechanism in place to show whether the Hospital Board and management actually implemented the corporate plan through annual budgets, monitoring implementation and evaluation of outcomes against corporate plan's key result areas.

Appropriation and Budget Management

The following matters were noted:

- An approved annual estimate of revenue and expenditure was not prepared for the Hospital Fees Trust Account for 2013 as required from the Hospital Fees Trust Instrument;
- Expenditure ledgers maintained on excel spreadsheet revealed that ledgers were not maintained adequately so as to give a total expenditure figure at year end. Also there were instances of over expenditures on vote items incurred during the year.
- Expenditure incurred under construction, renovation and improvement totalled K266,231 as per the financial statements had not been budgeted for and the authority for such payment could not be sighted.

Cash Management

The following weaknesses had been observed on the cash management:

- The cash balances from the two accounts could not be ascertained as correct due to unresolved issues arising from prior audits which the Management of the Hospital is yet to take corrective measures and subsequently affecting the closing balances;
- The closing cashbook balance of the operating account at 31 December 2012 was K4,006,281 which should have been the opening cashbook balance for 2013. Instead, the opening cashbook balance was taken up incorrectly as K3,930,902 resulting in an unexplained difference of K75,379; and
- The monthly bank reconciliation statements were not checked and certified by a senior officer for accuracy.

Revenue Management

My examination on the available records revealed the following weaknesses:

- Grants per Cash Fund Certificates (CFC) totaling K3,996,300 reported in the consolidation statement did not agree to the credits in the bank statements totalling K4,298,600 resulting in a difference of K302,300. Due to non-maintenance of CFC ledgers, I was not able to confirm the total receipt of National Government Grants received by the Hospital;
- Other income of K148,230 reported in the statement could not be verified against any revenue ledger due to non-maintenance of revenue ledgers;
- Both the CFC grants and other income were received by way of direct bank deposits, however, were not brought to account in the revenue or cashbook ledgers by way of passing journal entries or issuing official receipts;
- The hospital did not systematically maintain revenue ledgers to account for revenues collected from hospital fees and others. As a result, I was not able to determine how the user pay fees of K111,064 and miscellaneous income of K551,921 reported in the consolidated statement were arrived at;
- No control mechanisms were set up to ensure daily collections were immediately banked intact and there was no abuse and misuse of such collections by the officers. As a result, delays in daily banking ranged from two days to thirty days. Cash collections were retained for too long and this has enabled officers to borrow from the collections resulting in under banking of monies. Two such instances were noted where amounts totalling K609 was under-banked;
- Cash from fees collection were used/borrowed by senior officers during the year without properly accounting for them. These monies were not refunded or acquitted by the responsible officers causing delays in banking/under banking and further understating the cash balance and the revenue figure. This habit of borrowing has been an ongoing tradition for the hospital and this is seen to be in total breach of the provisions of the Trust Instrument and the *Public Finances (Management) Act*.
- No register or proper records were maintained to ensure names of borrowers, amount borrowed and dates borrowed and repaid were recorded and followed up to ensure these monies were repaid. This is abuse and misuse of public monies;
- A register of official receipts book was not maintained by the Hospital. Further, properly designed pre-numbered official receipts were not issued to patients at time of collection. Instead, cash register generated receipts were used and the information on it appeared to have been faded in all receipt summaries sighted. There is non-existence of audit trail in collection, banking and accounting for these monies causing great difficulty in tracing these collections to available schedules in the absence of the ledgers. This situation is conducive for loss of collections of monies;

- Daily unbanked cash collections are kept in a Cabinet drawer although there was a safe in the Revenue Office; and
- There was no evidence to indicate that the Hospital has maintained debtor's records or ledgers to record and follow up and collect promptly all monies due to the Hospital.

Procurement Procedures and Payments

The audit review of procurement and payment practices at Wewak General Hospital revealed a total breakdown in the system of controls relating to procurement and payment procedures as highlighted below:

- Copies of appointment instrument of all financial delegates were provided for my review but their specimen signatures were not held at the Accounts Section where examination and certification of claims are done and made available for examination and verification against payments. As such I was unable to verify the validity of all payments made during the year;
- Segregation of duties of examining, certifying, and approving of claims and payments were not properly conducted. It was noted that the Section 32 Officer (CEO) and Financial Delegate (DCS) had signed for approval of the payments on the Requisition for Expenditure (FF3) and General Expenses Form (FF4). Examination and certification of claims to determine the legitimacy were not properly conducted as most claims were never signed by the examining and certifying officers;
- The Hospital paid K153,093 to *Shalom Hire Car* on cheque number 8148 on 15/8/2013 as "write off of vehicle due to damage whilst on duty travel". This payment was noted to be extravagant and a complete disregard for economy given the nature of the transaction. The damage to the hired vehicle was done when the Finance Manager under the influence of liquor ran into a tree and the incident happened after hours. This is personal liability and the Hospital should not have been liable to meet the cost of this damage;
- Cash cheque number 7243 was raised for K2,000 on March 2013 in respect of 'reimbursement of money used to buy new computer'. No explanation was provided as to whom the cheque was paid to or to who the computer was given to. This amounts to misuse of public money; and
- Payment of K135,659 was made to Southern Cross Pumps on cheque number 7333 on March 2013. It was noted that proper procurement procedures were not followed and lacked supporting documentation.

Human Resource Management

The following lapses had been noted on human resources management:

- Personnel files and payroll records were not properly locked and kept in a secure place to ensure confidentiality. Access to confidential information was unrestricted as the files were kept in an open space which is accessible by anyone;
- Payroll reconciliations were not completed promptly to verify the accuracy of the payroll;
- Anomalies relating to calculation and payment of gratuities noted in my prior year 2012 audit remained unresolved at the time of audit in October 2014;
- The Human Resource section of the Hospital had failed to comply with the policies relating to payment of gratuity to senior medical officers. As a result, two sets of gratuities were paid, one under the contract and another under the National Doctors Award (NDA). One instance was noted where a Chief Executive Officer was paid K45,881 in total gratuities;

- Total actual salary paid through the Hospital Concept Payroll System from the National Department of Health could not be ascertained due to the lack of records; and
- The Chief Executive Officer had approved and paid himself K15,000 being his advance for vehicle allowance under the National Doctor's Award to a hire car company and SDMA of K10,000 respectively on the same date. These allowances were supposed to be paid fortnightly and deemed for tax deductions accordingly. I noted the payments to be improper.

Asset Management

There was no evidence to show that the Hospital had adhered to the best practices of asset management. I noted the following weaknesses:

- No comprehensive fixed assets register was provided to me for examination as such I was unable to ascertain the additions, serial numbers, conditions and values of total fixed assets owned by the Hospital;
- In the absence of a comprehensive fixed assets register I was unable to verify assets purchased during the year totalling K444,350;
- There was no evidence to confirm that physical stocktakes were done;
- A review of expenditure reports indicated that white and brown goods were purchased for officers who were in rented accommodation. Most of these items were not included in the listing provided;
- Title and ownership documents for land and buildings were not provided for my examination;
- All classes of assets including vehicles were not covered by a general insurance policy to protect these items against the liability of theft, fire and loss; and
- No listing of assets was provided to me as such I was unable to do a physical verification of assets to confirm their existence.

Advance Management

The Hospital Management had failed to comply with the procedures stipulated under the Finance Management Manual by not maintaining any advances registers to record all payments and acquittal of advances together with any follow up actions taken to ensure all advances paid were properly acquitted. As such I was unable to confirm the acquittal of advances totalling K134,860 paid to officers during the year.

Trust Accounts Management

Examination on trust accounts with its related records revealed the following issues:

- In contrary to Section 2 (c) of the Trust Instrument where payments made from the Trust Account were not in line with the Trust Instrument. They were sitting and stipend allowances for Hospital Board Members, airfares for medical officers escorting patients, wages for Nursing Officers on Arrest Plan and payments related to assorted drinks for sale at the hospital;
- Section 3 (c) of the Trust Instrument was not adhered to for proper estimate of revenue and expenditure compiled and reported to the First Assistant Secretary, Loans and Revenue Division, Department of Treasury and Corporate Affairs as required; and

- Section 1 (b) (iii) of the Trust Instrument was not adhered to where proceeds from disposal of assets of the hospital were not credited to the trust account.

6.4.4.3 Management Response

The above observations on the financial statements and internal control weaknesses for the year 2013 had been communicated by way of a Management Letter to the Chief Executive Officer of Wewak General Hospital together with implications and recommendations for improvements. I have however, not received the responses to the Management Letter as at the time of preparing this Report.

6.4.4.4 Status of Financial Statements

At the time of writing this Report in July 2015, the Wewak General Hospital had submitted its financial statements for the financial year ended 31 December 2014 where field audit relating to the internal control system had been completed and the results were being evaluated. This will be reported in my 2015 Part 3 Report.

6.4.5 Business Arms

The East Sepik Provincial Government had a number of business arms including Sepik Coffee and shares held with South Sea Tuna. Records pertaining to these investments were not made available for my examination and as such I was unable to comment on their activities.

6.5 EASTERN HIGHLANDS PROVINCE

6.5.1 Introduction

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

6.5.2 Eastern Highlands Provincial Government

The Eastern Highlands Provincial Government had submitted its Financial Statements for 2013 while 2014 Financial Statements were not available for my inspection and audit. The field work associated with the audit of the Financial Statements for 2013 and the interim audit of the control environment for 2014 had been completed with the management letters issued. The audit opinion report for 2013 was issued to the Ministers concerned and other relevant bodies. The internal control issues were common in both years hence, the paragraph below details the issues identified with 2013 financial statement and internal control weaknesses for 2014

6.5.2.1 Financial Statements – 2013

My Report to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* was issued in July 2015. The report was a Disclaimer of Opinion as reproduced below:

“Basis for Disclaimer Opinion

Presentation of Financial Statements

There was improvement in the presentation and disclosures of the 2013 financial statements and as a result figures from ledgers were correctly shown in the trial balance and the related statements. However, a number of these balances could not be verified against the underlying accounts and records as stated below.

Cash Balances

I was unable to express an opinion on the accuracy of the cash at bank and trust account balances and consequently, on the financial position of the Eastern Highlands Provincial Government as at 31 December 2013 due to the following reasons:

- The cash balance in Statement ‘A’ should be verified to the bank accounts and the cashbooks reconciled balances as at 31 December 2013 for the accounts operated by the Provincial Government. My examination of the grant and the internal revenue accounts revealed a significant amount of K86,702,439 remained to be reconciled between the two records. Previous years reconciling items were still outstanding at the time of audit. As such, the fund balance of K22,801,863 had been significantly distorted and could not be confirmed;
- The Trust Fund balance totalling K222,236 could not be verified against the underlying accounts and records. The same figure was disclosed in the 2011 and 2012 financial statements. My previous report on the errors and inconsistencies on the trust account balances were not adjusted; and

- The bank balance of K22,801,863 agreed to Note 6.1 to the accounts. However negative K398,354 in Note 6.1 described as 'other accounts' could not be verified to the source records and the same figure was disclosed in the 2011 and 2012 financial statements. It appeared this figure had been used as carried forward balancing figure to balance Statement 'A'.

Receipts and Payments

I was unable to verify the accuracy of the receipts and payments and subsequently the accuracy of the operating surplus of K16,907,402 in Statement 'B' and the related Statements 'J' and 'K' due to un-reconciled items reported under cash balances above. Therefore, the cashbooks, ledgers and subsequently financial statements, particularly Statements 'A', 'B', 'J' and 'K' had not been updated to determine the correct receipts, payments and the closing balance for the year 2013.

Assets

The value of assets owned by the Provincial Government at the end of the year had not been disclosed in Appendix 4 as is required. However, assets totalling K3,264,135 purchased during the year were not recorded in the asset register. In the absence of a complete assets register and annual stock-takes, I was unable to confirm the completeness and value of assets owned by the Eastern Highlands Provincial Government as at 31 December 2013.

Advances

Appendix 6 of the financial statements showed un-acquitted advances of K900,787. Appropriate actions should be taken to ensure outstanding advances are promptly acquitted.

Disclaimer of Audit Opinion

Because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and consequently I was unable to express an opinion on the financial statements of the Eastern Highlands Provincial Government for the year ended 31 December 2013."

6.5.2.2 Control Environment - 2014

Corporate Governance

The Provincial Government had a Corporate Plan, Integrated Provincial Plan and Five-Year Development Plan which had been completed and launched. There was adequate coverage in the areas of financial, asset management, information technology, risk management, divisional operating plans and human resource. However, based on the Disclaimer of Audit Opinion on the Financial Statements and the control environment issues raised to date, the Key Result Areas (KRA) had proven to have not been successfully implemented.

Work of Internal Audit

The only audit done in 2014 was for the Daulo District DSIP and DSG. The audits completed prior to 2013 were: Asaroka High School, Eastern Highlands Provincial Government (EHPG) Revenues, Provincial Education Division, Goroka Urban LLG and EHPG Development Project (2006-2008). Evidence of any actions taken by management with these reports was not sighted.

Staffing in the Internal Audit Unit was inadequate. The unit needed to be properly resourced with adequate manpower and funding and equipment for it to perform effectively.

Appropriation and Budget Management

The Provincial Government appropriated a budget of K273,767,800. Budgetary results at yearend revealed a shortfall in revenue by K217,427,285 and under expenditure by K203,230,152. The Provincial Government did not obtain data from the central agencies, such as the Department of Finance, or fully account for its funds. As a result it could not reconcile the differences disclosed. A significant amount concerns the public servants and teachers salary receipts and payments.

Revenue and Receivables

Proper documented guidelines, policies and procedures were not in place within the different revenue collection areas to enable them to be effective. Unlike previous years there was significant decline over collection of its internal revenue. The only areas of improvements were made in collection of Liquor Licenses, Provincial Road Charges, Provincial Livestock and Provincial Aquiculture (Fisheries). The division still lacked adequate resources, such as appropriate personnel, office equipment and working furniture, for its effective operation.

Procurement Procedures

Provincial Supply and Tenders Board

The instrument establishing the Provincial Supply and Tenders Board (PSTB) and detailed status reports of contracts awarded for various projects undertaken during the year were not provided for my examination.

Paid Accounts

Examination of selected payment vouchers to ensure compliance with the Financial Instructions contained in the Financial Management Manual revealed the following anomalies:

- A payment totalling K45,000 paid on cheque number 33194 to Niu Age Lawyers being legal bills for Eastern Highlands Provincial Government was noted. However, this payment lacked the contract agreement and detailed supporting documentation. As such I could not ascertain the validity of this payment.
- A payment of K160,910 made to Maniko Builders and Suppliers on cheque number 33369 being maintenance to Airport Terminal Toilet was noted in the audit. However, progress reports and completion certificate was not sighted in confirmation of the projects satisfactory completion.
- A total of K20,000 was paid on cheque number 33296 to Asukenato Service Station for supply of fuel and lubricants on 19 December 2014. The invoice provided by the supplier of fuel and lubricant had no details of dates of fuel consumed, liters obtained, plate number of vehicle or the division or department involved, and the amount of fuel consumed. As such I could not verify the validity of this payment.

Cash Management

Cash Balances

Examination of cashbooks, bank accounts and bank reconciliations statements with the related records revealed that:

- The bank reconciliation statements for the Grant and the Internal Revenue Accounts revealed a number of significant reconciling items totalling K104,799,712 that related to previous as well as the current years that had not been cleared as at 31 December 2014. The outstanding reconciliation items should be identified and cleared promptly in order to maintain a reliable cashbook balance at any given point in time. Bank reconciliation not promptly undertaken posed a risk of fraudulent activities and distorts the cashbook balance.

Grants and Subsidies

Examination of the expenditure ledgers from both National and Provincial accounts revealed that grants totalling K4,411,950 were paid to various recipients. Local-level Governments do provide accountability reports through their financial statements. However, it was not known how the other grant recipients (individual and non-profit organisations) provided their expenditure reports to the Provincial Government.

Goroka Market Development

I continued to note payments made for the purpose of the Goroka Market Development. A total of K10 million was paid on cheque number 21590 on 17 October 2014. My queries as to whether Goroka Market Development Fund was a trust fund and the financial and physical report had not been provided.

Asset Management

General Assets

A review of the procurement of assets, the maintenance of asset registers and control practices revealed the following weaknesses:

- The Financial Management Manual requires assets registers to be maintained under the following classifications: land and building; furniture and fitting; office equipment; motor vehicles; marine vessels; plant and machinery; and tools and equipment. These requirements had not been fully complied with by the Government in a centralised and coordinated manner; and
- The Provincial Government had not been updating its asset register at the time of audit; therefore it was not provided for my examination. As such assets purchased during the year totalling K3,461,396 could not be verified against the register.

Motor Vehicles

In the absence of an updated vehicle register, I could not ascertain the number and the type of vehicles owned by the Government. I had noted the following weaknesses in the control procedures:

- No proper log books had been maintained to record the usage of vehicles on a daily basis;
- Maintenance of vehicles had been done on ad-hoc basis by various auto-repairs without proper control; and

- Fuel was at times purchased by cash, by advance payments and by credit arrangements. I did not observe any control procedures in place in terms of authorisation, monitoring of vehicle usage, fuel consumption and method of payments.

A proper policy guideline should be made to effectively manage the Government vehicles.

Trust Account Management

The Trust Fund balance totalling K222,236 could not be verified against the underlying accounts and records. The same figure was disclosed in the 2011, 2012 and 2013 financial statements. My previous report on the errors and inconsistencies on the trust account balances had not been adjusted.

Human Resource Management

Examination of the payrolls for both the national and provincial and the personal files revealed the following shortcomings:

- I noted a total expenditure of K5,583,619 paid out during the year relating to salaries, allowance, wages, overtime, leave fares and MPs allowances. However, at the time of audit, a complete staffing grant expenditure report and payroll summary reports had not been provided for my examination.

6.5.2.3 Management Response

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

6.5.2.4 Status of Financial Statements

The financial statements for the year ended 31 December 2014 had not been submitted for my inspection and audit.

6.5.3 Goroka Urban Local-level Government

The Goroka Urban Local-level Government (ULLG) had submitted its Financial Statements for 2012 and 2013 while 2014 Financial Statements were not available for my inspection and audit. The field work associated with the audit of the Financial Statements for 2012 and 2013 and the interim audit of the control environment for 2014 had been completed and management letters issued. The audit opinion reports for 2012 and 2013 were issued to the Ministers concerned and other relevant bodies. The issues relating to financial statements and internal controls were common throughout hence, the paragraphs below detail the issues identified with 2013 financial statements and internal controls weaknesses for 2014.

6.5.3.1 Financial Statements – 2012 and 2013

My audit opinion reports on the Goroka ULLG for 2012 and 2013 to the Ministers concerned and other relevant bodies under the *Audit Act* and the *Organic Law* were issued. The reports contained similar Disclaimer of Opinions hence, only the 2013 report is produced below:

“Basis for Disclaimer Opinion**Cash Balances**

I was unable to express an opinion on the accuracy of the cash at bank balance of K45,677 and consequently, on the financial position of Goroka ULLG as at 31 December 2013 due to the following reasons:

- The opening balance for the year was not in agreement with the closing balance for the previous financial year; and
- Reconciling items of revenue and expenditure which have accumulated from prior years have not been cleared.

Disclaimer of Opinion

Because of the significance of the matters referred to in the Basis of Disclaimer Opinion, I was not able to obtain sufficient appropriate evidence and consequently, I was unable to express an opinion on the Goroka ULLG Financial Statements for the year ended 31 December 2013.”

6.5.3.2 Control Environment - 2014**Corporate Governance**

Goroka ULLG did not have a Corporate Plan in place at the time of my audit review. Despite my recommendations since 2006, no actions had been taken nor any deliberations made up until the time of this Report. Without a Corporate Plan, the Goroka ULLG budget lacked direction and guidance; and annual budgets are not formulated with an intention to achieve corporate goals set down in the Corporate Plan.

Work of Internal Audit

No internal audits were done on the accounts of Goroka Urban LLG. The Provincial Government is responsible for the internal audit of the entities such as the LLG's, however, during the year 2014 there was no internal audit conducted to ensure that the control mechanism instituted was operational and effective.

Appropriation and Budget Management

The Goroka Urban LLG's budget against its actual spending had revealed that a revised total budget of K4,400,000 against a total spending of K3,207,077 had revealed an underspending of K1,192,923. The underspent component of K1.1 million was due to uncollected budgeted funds. The Urban LLG's budgeted grants and internal revenue had been under-collected by more than K770,000. It was revealed that the major component of the under collections was the scaling down of the LLG support grants from K500,000 to K100,000 as well as rollover funds of K652,600 from the prior year (2013) which had not been received from the Department of Finance through the Provincial Government in 2014.

Revenue and Receivables

My review of the revenue records and controls relating to revenue of the ULLG revealed the following:

- No client registers or ledger cards had been maintained manually at different revenue generating centres to record individual client details to monitor billings, collections and debtor's arrears;

- A computerised system was currently used for water rates, land rates and other municipal services. Functions of monitoring the client database, billing, collecting and issuing credit notices are performed using the system. The system has some limitations as well as benefits. Limitations include: an inability to generate a complete client listing with annual applicable rates for each item of revenue, making it impossible to compute potential revenue due and that what was due to be collected was actually collected. The system also does not facilitate data backup for offsite storage. This exposes Goroka ULLG to risks of permanent data loss if any form of disaster occurs to the computers;
- The Goroka ULLG did not have a complete list of title holders of all state land in the township of Goroka. No supporting documentation was available to confirm that the ULLG complied with my recommendations in previous Audit Management Letters to take this matter up with the Department of Lands and National Housing Corporation. This was necessary to identify the title holders that will enable Goroka ULLG to bill actual property owners instead of tenants who sometimes move locations regularly to avoid paying rates; and the latest land valuation report from the Department of Lands was not available therefore, old rates were used. I noted from available records that a sum of K12 million was outstanding from debtors as at 31 December 2014. The Debtors ledger was not provided for my examination. As such, I was unable to confirm the accuracy of the total amount of outstanding monies due from debtors of the ULLG as at 31 December 2014.

Procurement Procedures

The following issues were noted on procurement procedures and payment of accounts:

- Reimbursements of POSF entitlements totalling K59,210 were made. However, I was unable to justify such payments in the absence of proper documents.
- There were no proper receipts and delivery dockets for the stationery and other supplies purchased at a cost of K29,351. In the absence of such records it was not known if the goods had actually been delivered or received by the LLG.
- Advance payments totalling K54,907 made for fuel to a company named Gabiga Investments Limited was noted. However, no fuel log book or register containing details of the usage of fuel by the ULLG's was maintained. As such I was unable to confirm if there had been any form of controls placed to monitor usage of fuel.

Cash Management

Examination of cashbooks, bank accounts and bank reconciliations statements with the related records revealed the following findings:

- Dishonored cheques reported as K48,514.25 shown in schedule 2 had most of the amounts brought forward from 2008 to 2013, while audit was unable to establish why these figures had been carried forward. Consequently, such outstanding items should have been cleared off after updating the respective amounts to the cashbook.
- Other items shown in schedule 6 have a total amount of K36,735.80 of which K34,100 were other debit items (brought forward from 2008) on the bank statement. These were supposed to be updated onto the cashbook and should have been cleared off the bank reconciliations.

Audit inspections on Goroka Town Sewerage Upgrade Project Account and related documents revealed that the Government of PNG through the Public Improvement Program (PIP) had allocated a total of K9 million for the project. This saw K1m received in 2008 and spent on preparatory activities in relation to the project from 2008 to 2009. Additional funding had been given to the ULLG over the years and up to 2014 which had

added up to more than K7.4 million as shown on the cashbook and bank statement records. K2m (of the total allocated K9m) paid to the Project account in 2014 by the EHPG had been dishonoured for unknown reasons by ANZ Bank Limited in EHP and it still remained dishonoured at the time (31 March 2015) of this audit.

The cashbook and bank statement records as at 31 December 2014 that a total amount of more than K8 million had been received and more than K7.9 million were spent, while K71,667.76 was the closing bank statement balance at year end of 2014.

However, accounting books and records relating to this Trust Account that were requested were not submitted on time as such I was unable to comment if proper procurement processes had been adhered to in the management of this trust fund.

Asset Management

Goroka ULLG's fixed assets register provided to audit did not show the comprehensive records of all the assets and equipment owned by the LLG including their total value and also no periodical stocktake of assets were conducted. Consequently, I was unable to ascertain the existence, custody, condition and value of assets of the ULLG as at 31 December 2014.

6.5.3.3 Management Response

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

6.5.3.4 Status of Financial Statements

The financial statements for 2014 had not been received by my Office at the time of writing this Report in July 2015.

6.5.4 Eastern Highlands Provincial Health Authority

The Eastern Highlands Provincial Health Authority had submitted its financial statements for 2012 and 2013. The field work associated with the audit of the financial statements had been completed with Management Letters and Audit Opinions issued.

6.5.4.1 Financial Statements– 2012 and 2013

My reports to the Ministers for Health, the Treasury and the Finance respectively under the *Public Hospitals Act* and the *Audit Act* on the financial statements of the Health Authority for the years ended 31 December 2012 and 2013 was issued in June 2015. The reports contained similar Qualified Audit Opinions hence, only the 2013 report is produced below:

“Qualification

Assets

Fixed assets acquired during the year if any were not recorded in the register thus reflecting a general lack of proper maintenance of the fixed assets register.

Qualified Opinion

In my opinion, except for the effects of the matters described in the qualification paragraph above, the financial statements of Goroka Provincial Health Authority for the year ended 31 December 2013:

- Give a true and fair view of the financial position and the results of its operations for the year then ended in accordance with the Finance Instructions; and
- With exception of instances of non-compliance described under Assets, the financial statements have been prepared in accordance with the *PFMA*.”

6.5.4.2 Control Environment - 2013

There were internal control weaknesses identified in the accounts, records and processes as follows:

Corporate Governance

The Eastern Highlands Provincial Health Authority had developed a Five-Year Health Implementation Strategic Plan in 2011 for the period ranging from 2012- 2016 that established long term objectives, set priorities and targets and took into account the requirements of stakeholders. The newly merged entity had no Annual Activity Plan (AAP) and Corporate Plan to measure the performance and better achievements of overall objectives on an annual basis for the past three years of operation as the Eastern Highlands Provincial Health Authority since its amalgamation in 2012.

Some weaknesses identified were as follows:

- The situational SWOT analysis indicated that EHPHA had poor health indicator and health sector needs overhauling of the current health system to meet the health needs of our rural majority and urban disadvantaged;
- The Health sector has poor health indicators as revealed by the Demographic Health Survey 2011. The death rate of EHPHA is 733/100,000 which is the worst in the region and second to Afghanistan in the global scene; and
- The curative health service delivery which drives the core function of EHPHA and one of the very important KRAs in delivering the Health Care is incomplete in all clinical areas. All the clinical areas to be completed.

Work of Internal Audit

The Eastern Highlands Provincial Health Authority did not have an Internal Audit Unit during the 2013 financial year. As a result no internal audit was done on the accounts of Goroka Hospital. The internal audit was normally done by the Internal Audit Unit from the Department of Health. However, during the year 2012 to 2013 no audit was conducted to ensure control mechanisms instituted were operational and effective.

Revenue and Receivables

Examination of revenue balances and records revealed the following findings:

- Total government grants paid directly by Finance during the year amounted to K36,316,255;
- Cash Fund Certificates (CFC) files were not properly maintained by serial code and date of issue and also CFCs were noted missing. As such audit cannot verify and confirm actual grants received during the year;

- An amount of K920,000 was transferred from operational account to trust account. No authority was sighted for this transfer and also no funds should be transferred from the operational account to the trust account except for funds available at the lapse of the financial year;
- Clinton Foundation donation amount of K290,308 taken up in the operating account was incorrect as all revenues other than grant funds should be taken up in the Hospital trust account. Furthermore, the donation income figure lacked source documentation;
- Grant funds released through CFC issued and transferred through the bank was updated in the cashbook but was not receipted as all forms of revenue collected should be receipted as source document to recognise actual revenue collected;
- Summaries of user fee collections were not furnished to confirm completeness of total user fees and other internal revenues as reported and that independent checks on daily collections, receipting and banking were not evident; and
- There were undue delays in banking of internal revenue collections as evidenced by a limited number of banking instances.

Procurement Procedures

A review of procurement procedures observed by the Eastern Highlands Provincial Health Authority during the year under review and examination of selected paid vouchers resulted in the following observation:

- A register was not maintained to register verbal and written quotations obtained;
- All General Expense vouchers were not examined and certified by a duly appointed accounting officer to ensure completeness and accuracy in the claims raised for payment; and
- Due care in filing and maintenance of records was not observed where payment vouchers were not properly filed in cheques number sequence and stored negligently and unorganised.

The Eastern Highlands Provincial Health Authority spent in goods and services a total of K10,035,066 comprising K6,468,372 and K3,566,694 from the Operational Account and Trust Account respectively during the year. A randomly selected sample of fifty payment vouchers totalling K3,860,148 tests checked noted the following matters:

- Due care was not taken in posting data into the attaché cashbooks and ledgers resulting in instances of figures per the ledgers not agreeing with figures per the vouchers. This further result in inflating expenditures in the financial statement; and
- The hospital paid accommodation rentals for doctors and senior contract officers. In most instances, tenancy lease agreements for rentals paid for staff and officers were not provided as such audit was unable to ensure the correctness of the rental amounts stated in the invoice.

Cash Management

Bank reconciliations performed for both the Operating and Fees Trust fund accounts for the year revealed that monthly reconciliations were satisfactorily done. Both bank balances were reported on the financial statements under the statement of accumulated funds.

EHPHA operating and trust bank balances of K65,515.63, K1,344,498.24 and K1,279,036.83 were reconciled to the cashbook balance of K65,315, K573,425 and K1,300,964 respectively.

Asset Management

Review of asset management revealed the following findings:

- A comprehensive fixed asset register was maintained. However, additional assets purchased were not updated in this register;
- There was no evidence provided to suggest that there was any physical stocktake of assets was undertaken to ensure the existence and condition of assets owned; and
- A centralised assets register of both the EHPHA and the Hospital Board was not developed. Since the inception of the Provincial Health Authority, EHPHA had added and increased the number of assets which must be monitored in a centralised monitoring system.

Human Resource Management

Review of personnel emoluments revealed the following matter:

- The EHPHA lacked competent personnel to process and provide an Alesco computerised payroll reports for my analytical review of salary and wages payments during the year totalling K30,415,864. Consequently, I was unable to verify salaries and wages paid during the year.

6.5.4.3 Management Response

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

6.5.4.4 Status of Financial Statements

At the time of preparing this Report, the Eastern Highlands Provincial Health Authority had not submitted its financial statements for the year ended 31 December, 2014 for my inspection and audit.

6.6 ENGA PROVINCE

6.6.1 Introduction

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

6.6.2 Enga Provincial Government

The Enga Provincial Government had submitted its financial statements for 2013 while 2014 financial statements were not available for audit. The field work associated with the audit of the financial statements for 2013 and an interim audit of the control environment for 2014 had been completed with Management Letters issued. The audit opinion report for 2013 was a Disclaimer of Opinion and was issued to the Ministers concerned. The internal control issues were common in both years hence, the paragraph below details the issues identified with 2013 financial statements and internal control weaknesses for 2014.

6.6.2.1 Financial Statements - 2013

My report to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* was issued in May 2015. The report was a Disclaimer of Opinion as reproduced below:

“Basis for Disclaimer Opinion

Cash Balances

I was unable to express an opinion on the accuracy of the cash at bank and trust account balances totalling K10,357,825 and consequently on the financial position of Enga Provincial Government as at 31 December, 2013 due to:

- Errors and material limitation of scope expressed in my previous audit opinion regarding the Revenue Fund balance.
- I was unable to confirm the prior year adjustment of K14,558 reflected in *Note 3* due to no source documents.
- The Other Account balance of K500,662 as reported in the bank balances of Statement 'A' was a brought forward stagnant amount and there were no records and accounts provided as a result I was not able to confirm the accuracy and completeness of this amount.
- I was unable to verify and confirm the accuracy and completeness of the bank balance of K10,357,825 due to substantial reconciling items remained uncleared in the bank reconciliation for the month of December 2013.
- I was unable to confirm the accuracy and completeness of the trust fund balance of K880,735 as no records and accounts were furnished for my examination. Also the nine trust accounts reported in Statement 'C' were noted to be inactive with the same balances being repeatedly carried forward.

Receipts and Payments

I was unable to verify the accuracy of the receipts of K155,289,516 and payments of K148,065,291 and the subsequent operating surplus of K7,224,225 in Statement 'B' and the related Statements 'J' and 'K' due to:

- a) Actual Revenue as reported in Statements 'B' and 'J' totalled to K155,289,516 while the Revenue Summary totalled K72,383,853 resulting to a difference of K82,905,663.
- b) The TMS 55 report on staffing and teacher's salaries grants was disclosed in Statements 'B', 'J' and 'K' however underlying records were not provided to confirm this report;
- c) Total Internal Revenue as per Statement 'J' total of K46,104,848 did not agree to the Internal Revenue Summary totalled K3,921,494 resulting to a difference of K42,183,354.
- d) Total expenditure of K148,065,291 as per Statement 'K' did not agree to the expenditure summary reflected total actual expenditure of K108,242,982 resulting to a difference of K39,822,309.
- e) There were significant reconciling items pertaining to revenue and expenditure that were not adjusted and posted to the cashbook, respective ledgers and Statements 'B', 'J' and 'K'.

Investments

In the absence of Investment registers and other related records I was unable to establish the number of Investments held by the provincial government the money value of these investments as the Financial Statements 'E' and 'F' presented did not indicate short and long term investments (if any) held by the Provincial Government as at 31 December, 2013.

Further, the Financial Statements and other related information on the Provincial Government Investments Arms such as the Mineral Resource Enga and other business activities except for Enga Children's Fund have not been submitted for my examination. This matter has been outstanding as noted previously and nothing has been done to address this issue to date.

Assets

Good asset management was not practiced and in the absence of a complete assets register and annual stock-takes, I am unable to confirm the completeness and value of all assets owned by the Enga Provincial Government as at 31 December, 2013 which included motor vehicles as there was also lack of control over the Provincial Government Fleet of Vehicles. Further, assets worth of K2,472,737 purchased in 2013 were not fully recorded in the assets register and disclosed in Appendix 4 to the financial statement.

Advances

My examination of the records revealed that advances totalling K8,819,701 was paid in 2013 however, in the absence of an advance register I was unable to determine the total acquitted and the outstanding advances as at 31 December, 2013. Consequently I was unable to confirm the un-acquitted advances of K3,389,789 reported.

Disclaimer for Audit Opinion

Because of the significance of the matters described under the basis of a disclaimer opinion above, I was not able to obtain sufficient appropriate audit evidence and

consequently I was unable to express an opinion on the financial statements of the Enga Provincial Government for the year ended 31 December, 2013.”

Other Matters

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

- the Enga Provincial Government did not maintain proper accounts and records and has consequently breached Section 68(1) of the *Public Finances (Management) Act, 1995*;
- the receipts and payments and investment of moneys and the acquisition and disposal of assets during the period covered by the financial statements have not been in accordance with the *Public Finances (Management) Act, 1995* and *Organic Law on Provincial Governments and Local-level Governments*; and
- the Enga Provincial Government did not have a five (5) year corporate plan and has consequently breached the *Public Service General Order No. 8.11*

6.6.2.2 Control Environment - 2014

Corporate Governance

The Corporate Plan for Enga Provincial Government was not provided for my examination. Therefore, I was unable to establish if the Corporate Plan and its goals and objectives (with an emphasis on effective and efficient corporate management) focused on major key areas and development initiatives. The following are some significant matters as noted:

- Appropriate internal controls were not in place for identifying associated risk and barriers to achieving objectives such as offering new services and adapting to changes occurring within the organisation, economic and regulatory environment;
- There was lack of communication between the Provincial Government and Urban LLG management in discussing major issues and changes that had significant effect on the organisation;
- Adequate process of performing periodic revenue reviews to identify major factors affecting internal revenue collections was lacking;
- Management did not demonstrate a commitment to providing sufficient accounting, financial and IT personnel to keep pace with the growth and changing working environment of the organisation; and
- There was no evidence sighted to suggest that management gives appropriate attention to internal controls, including regularly educating and communicating the importance of internal controls to employees.

Internal Audit Unit

An Internal Audit Unit existed within the Provincial Government Administration and was noted to be functioning. A review of its operations revealed that the internal audit unit produced six audit reports and four investigation reports during the year under review. I noted that all the investigation reports including audit report into Sir Tei Secondary School (2013 and 2012) and Maip/Mulitaka LLG (2013) revealed serious allegations of maladministration, mismanagement, misappropriation, lack of proper accountability, corruption and fraudulent practices. However, no evidence of any actions taken by the Management with regards to these reports was sighted.

Appropriation and Budget Management

Appropriation and budget management for 2014 for the Provincial Government was noted to be effective except expenditures were paid out of incorrect vote items and Other Operational Expense vote item 135 was grossly used to fund the exhausted vote items. Thus the purpose for funds allocated to this vote item has been overcommitted which is in breach of budgetary control practice. I noted that expenditures such as travel and cash advances, wages, fuel, accommodation, vehicle hire, etc. had been paid out of vote item 135.

Revenue

The following noted observations caused the provided statements to be misleading and not reliable:

- There was no record provided for the Royalties proceeds of K3,700,000 and Royalties from Mineral Resource Enga (MRE) of K12,200,000 reflected in the revenue ledger;
- Records and accounts relating to EPG Housing Rental, Sale of EPG Assets, Sale of Cultural Center Products, Liquor Licensing and Sundry Income collections were not submitted for my inspection. In the absence of these records, I could not ascertain whether these operations adhered to established rules and regulations and whether all receipts or fees collected were properly accounted for and banked intact;
- The duties of the officers responsible for revenue collection, monitoring, review and reporting were not properly defined. No formal document was furnished and as such I was unable to ascertain whether all revenues collected were brought to account and were appropriately verified and confirmed by designated officers;
- There was no segregation of duties on the collection and banking of revenue receipts as only a single officer performed these duties. Without the segregation of duties and lack of independent checks, funds collected could be stolen or misappropriated;
- Monies from internal collections were not banked promptly. Delays in banking ranging from one to nineteen working days were noted. This consequently increases the potential risk of theft and other fraudulent activities; and
- Safe custody of cash was not applied as cash was locked in ordinary drawers. The safe which was supposed to be used for custody of public moneys was not utilised and left idle in a different room which only the Certifying Officer had the key to the door.

Provincial Supplies and Tenders Board

Section 40 of the *PFMA* prescribes that goods, works and services with a value greater than K300,000 are to be purchased through a public tender process as it provides the government with the best chance of obtaining a “value for money” outcome. In contrary to this Section of the Act I was unable to ascertain whether the function of the Provincial Supply and Tenders Board was in existence since no records were provided although requested. These records should include Instrument of Appointment of the Provincial Supply and Tenders Board members, Minutes of board meetings held during the year, Register of Certificates of Inexpediency issued, Registers of Tenders invited, Quotations Received and Contracts Awarded.

Capital Works and Maintenance

My examination of records and accounts in relation to Capital Works and Maintenance Program on seventy-five instances totalling K13,606,348.56 revealed the following matters:

- There were no formal engagements or approval by the Provincial Works and Transport Services (PWTS) on certain projects. In addition, I was unable to ascertain whether the function of the Provincial Supply and Tenders Board was in existence during the year under review as no records and accounts were furnished for audit confirmation;
- Relevant documents in support of a substantial amount of payments expended under the capital works and maintenance program or works contract engagements were either not in order or not provided. Consequently I was unable to verify and confirm the extent of compliance to proper contract engagements, approval and endorsement from the Provincial Executive Council, satisfying Provincial Supply and Tenders Board requirements and physical verification performed by the Technical Division for proof of services provided;
- Although various contractors were engaged I was unable to verify whether these contractors had the necessary experience and expertise to undertake the given projects due to unavailability of the updated Pre-Qualification Register;
- A priority list of minor and major works projects/contracts for year 2014 and those carried forward from year 2013 and previous years were not provided for my examination. As a result I could not ascertain the number of projects carried out in 2014 and those carried forward from year 2013 and previous years. Further, I noted that the use of Certificates of Inexpediency (COI) was frequent when approving projects undertaken by Enga Provincial Administration. The frequent use of COI can be viewed as bypassing the tendering process in approving major projects; and
- Progressive/Status reports and inspections reports of projects and contract works could not be obtained as all project files were not submitted as requested. As such I could not ascertain the extent of coverage of projects and/or physically confirm the existence of projects.

Procurement Procedural Management and Paid Accounts

The following deficiencies were observed:

- A register was not maintained to record verbal and written quotations obtained;
- Purchases of goods and services were executed on the basis of quotations without official suppliers invoice. In the absence of suppliers invoices, I was unable to verify whether or not the invoices were checked against goods received and any deficiencies noted were communicated to management;
- Payments totalling K336,562 did not have three quotations. The required number of written quotations obtained from prospective suppliers was not complied with in respect of payments with values exceeding K5,000 but less than K100,000;
- Payment vouchers totaling K7,838,285 were missing and were not available for my examination;
- Instances of payments totalling K311,000 and K575,000 paid for legal and consultancy fees respectively had no necessary supporting documents including PSTB deliberations and endorsement on the engagement of these firms;
- Instances of ten payments totalling K140,742 related to reimbursement of personal expenses approved for payment which had no prior approval of such commitments and in most instances lacked proper documentation to confirm the genuineness of the expenses incurred;

- Expenditure incurred totalling K1,344,014 on transport and fuel costs during the year where no motor vehicle register was used to monitor the movement of the administration's vehicles and the fuel ceilings for economical usage;
- Total expenditure of K1,086,730 paid for private vehicle hires in 2014 where three written quotations were not obtained to consider a best economical price and receipts not attached to confirm receipt of payments made;
- Instances of outstanding payments to various organisations and individuals for claims totalling K1,621,432 had no evidence to suggest standard criteria was used to determine validity of claims; and
- Instances of rental expenses totalling K161,832 were paid during the year under review. Tenancy Agreements between the landlords and the provincial government were not sighted in file for all rental payments made. In the absence of the contract agreements I could not confirm the accuracy and validity of the rentals paid.

Grants and Subsidies

A review of grants and subsidies to various organisations revealed the following observations:

- Grants, subsidies and financial assistance totalling K68,287,105 was paid to various recipients. I was unable to verify and confirm whether the anticipated programs were carried out with the given grants due to the absence of accountability reports; and
- The provincial government does not have an established criterion to control, monitor and assess the expenditure of grants, subsidies and financial assistance disbursed to various recipients. Apart from established government institutions there were funds disbursed to business houses, individuals and other various organisations which I could not ascertain whether there was an established criteria by way of a committee to oversee the management of such funds

Cash Management

The following weaknesses were observed:

- The operating account showed a closing bank balance of K6,858,596 and an un-reconciled cashbook balance of K1,402,352 respectively as at 31 December 2014. Examination of related records revealed significant reconciling items of cheques on the bank statements not in the cashbook of K221,305 while other items of K2,754,832 and a list of un-presented cheques totalling K3,245,201 respectively have not been identified and cleared off to reflect a realistic cash balance position;
- The grant account showed a closing bank balance of K70,177,541 and a reconciled cashbook balance of K24,923,604 respectively as at 31 December 2014. A review of the related records revealed significant reconciling items of debits in the bank statement not in the cashbook of K2,152 while a list of un-presented cheques of K43,306,089 respectively have not been identified and cleared off accordingly to reflect a realistic cash balance; and
- Stale cheques dating back to 2010 were not cancelled and written off as well as not adjusted in the cashbook thus inflating expenditure accordingly.

Advances Management

Advances totalling K5,166,864 remained unacquitted as at the yearend 31 December, 2014. A review of records and related documents pertaining to the management of advances revealed the following matters:

- Serious concerns were noted pertaining to instances of substantial and additional advances issued to advance holders in spite of prior advances remaining unacquitted thus rendering a direct breach and violation of advance policy and acquittal procedures. Records of reminders sent or action taken to recover outstanding advances were not provided to audit;
- Cash and duty travel advance acquittal forms had no supporting documents such as boarding passes and/or copies of duty travel airline tickets, invoices/receipts for accommodation and hire car advances and invoices/receipts for other miscellaneous advances; and
- A significant amount of cash was being handled by the paying officer as cash advances and as such, is exposed to high risk of money being stolen, robbed and used for purposes other than intended for.

Assets Management

Examination of the asset management practices exercised by the Provincial Government revealed the following matters:

- An updated comprehensive asset register capturing additions and disposals for the year under review has not been furnished for my examination consequently; I was not able to verify the completeness and existence of assets own by EPG as at 31 December, 2014;
- An extensive portfolio of fixed assets has not been effectively managed nor appropriately safeguarded against theft, fire or vandalism through appointment of custodians or taking insurance; and
- A register for monitoring the costs involved in running the provincial government fixed assets including fleets, office equipment and maintenance of residential properties was not maintained.

Human Resource Management

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

- Valid employment contracts senior officers were not sighted in their respective selected personnel files;
- The personnel files and salary history cards had not been updated appropriately to support salary adjustments due to promotions, performance appraisals and others. Documents such as performance appraisals, permanent and temporary variations forms, over time forms and others were not available on file in some instances to support the salary variations;
- Leave registers (if any) maintained by the Human Resource Division was not furnished for my examination. Further, perusal of over thirty-eight personal files revealed that leave cards were not regularly updated; and
- There was no fortnightly payroll reconciliation done to certify the correctness of the payrolls.

6.6.2.3 Management Response

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

6.6.2.4 Status of Financial Statements

At the time of preparing this Report in July 2015, the Enga Provincial Government has not submitted its financial statements for the year ended 31 December 2014 for my inspection and audit.

6.6.3 Wabag Urban Local-level Government

The Wabag Urban Local-level Government (WULLG) had submitted its financial statements for the year ended 31 December, 2012. Field work associated with audit of accounts and records and the examination of financial statements for 2012 and audit of the internal control environment for 2013 were completed with the Management Letter issued. The paragraphs below detail the internal control issues identified:

6.6.3.1 Financial Statements – 2012

The financial statement for WULLG for the year-ended 31 December 2012 was misplaced during the course of audit and attempts to obtain copy from the client were unsuccessful as such I have not reported to the Ministers concerned and will not report in this Report. However, I will report in my future report to Parliament on the results of the audit of 2012 financial statements as soon as the financial statements are located.

6.6.3.2 Control Environment - 2013

Corporate Governance

The WULLG had no Corporate Plan in place which indicates poor governance and lack of policy development coupled with the inability to set priorities and targets, and monitor its achievements to take corrective actions would have limited the ULLG's ability to be able to measure its achievements and failures for the period.

Internal Audit

The Internal Audit Unit of Wabag Provincial Administration had failed one of its responsibilities and duties by not conducting any audit into the routine operations of the ULLG during the year in order to highlight deficiencies for management to take corrective actions in a timely manner.

Appropriation and Budget Management

My review of WULLG's budget against its actual spending had showed a total revised appropriation of K647,600 against total spending of K488,968.55. This has amounted to an underspend amount of K158,631.45. I noted that receipts totalling to K371,874 were collected during November and December 2013 that may have caused the non-implementation/underspending during 2013. Also, the anticipated internal revenue for 2013 amounting to K11,000 were not collected as planned due to lack of necessary logistics, manpower, etc.

Revenue and Receivables

The ULLG was only concentrating on collecting its internal revenues mainly from trading licenses while other potential areas of collection points have been largely ignored. The non-collection of the internal revenue is attributable to:

- Land Rates - Local businesses in town being reluctant to pay; and

- Revenue Clerk - The town for the last few years did not have a revenue clerk to collect revenue internally on a full-time basis.

Procurement Procedures and Paid Accounts

Audit inspection into the payment of accounts and procurement management of the WULLG revealed that the ULLG had expended a total of K488,968.55 during 2013. However, attempts to verify selected samples of payments were unsuccessful as almost all the payment vouchers for 2013 were not filed in a central location or in a file.

- Thirty-seven paid vouchers totalling to K219,857.62 were missing and not available for inspection. It was noted that more than half of the missing paid vouchers were in relation to contract payments (cash cheques) for general cleaning of the town/wards valuing to K137,444. This showed that the WULLG has no filing system in place to properly file original source documents as payment vouchers and other documents so as to safeguard its records against damage/loss; and
- Due to the collapsed system of controls and missing paid vouchers, documentary evidence could not be tested for adequacy, irregularities and whether procurement was done economically and efficiently.

Cash Management

WULLG did not perform the monthly bank reconciliations during the year under review. This poses the threat to running into overdraft, not detecting unauthorised debits/credits to the bank account and or manipulation of the cashbook with the intent of theft or fraud. In the absence of the bank reconciliations I was unable to ascertain the correct yearend reconciled cashbook balance.

Advance Management

The advances register said to have been maintained manually was not furnished for my inspection. Consequently I was unable to confirm the advances of K84,444 paid during the year and the subsequent acquittals by advance holders. Further, I have not sighted copies of correspondences or reminders sent to advance holders to notify them of the outstanding advances and further actions taken by management (if any).

Asset Management

An assets register said to have been manually maintained was not furnished for my inspection. In the absence of the comprehensive assets register I was unable to ascertain the existence, custody, condition and value of assets owned by the WULLG as at 31 December 2013. Further, the ULLG had not conducted its annual stocktake of assets.

6.6.3.3 Management Response

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

6.6.3.4 Status of Financial Statements

At the time of writing this Report in July 2015, the Wabag ULLG had not submitted its financial statements for the years ended 31 December 2013 and 2014 for my inspection and audit.

6.6.4 Wabag General Hospital

The audits of the 2012, 2013 and 2014 financial statements, accounts and records had been completed and the audit reports were issued to the Ministers concerned. The three years audit reports were issued with Disclaimer of Opinions and the internal control issues were common throughout therefore, only the 2014 audit findings are reported in the following paragraphs.

6.6.4.1 Financial Statements - 2014

My report to the Ministers for Health and Finance respectively under the *Public Hospital Act* and the *Audit Act* and the *Organic Law* was issued in May 2015. The report was a Disclaimer of Opinion and as reproduced below:

“Basis for Disclaimer of Opinion

Presentation

Finance Instruction 2/2004 issued under Section 117 of the *PFMA* state the prescribed format for the preparation and presentation of the financial statements for public bodies. The financial statements of Wabag General Hospital for the periods ending 31 December, 2012, 2013 and 2014 did not contain the Schedule of Capital Assets and Liabilities, Contingent Liabilities and Debtors as attachments forming part of the notes to the financial statements. Consequently, the financial statements were not presented in the prescribed format.

Disclosure Errors

I was unable to confirm the accuracy of the financial statements of Wabag General Hospital for the year ended 31 December, 2014 due to the following issues:

- My reports for the prior years (31 December 2011, 2012 and 2013) were a disclaimer of opinion. I was unable to satisfy myself as to the accuracy and completeness of the opening balances of cash at bank due to errors expressed in my previous reports. I was unable to quantify the effects of the material misstatements on the opening balances that might have a bearing on the balances reported.
- The accumulated fund brought forward balance of K2,469,100 did not agree to the 2013 closing balance of K2,109,172 resulting in a difference of K359,928. Consequently, I was unable to confirm the accuracy and completeness of the balance disclosed in this statement.
- I noted that the cash at bank of K1,023,078 and K422,963 for operating and trust accounts respectively disclosed in the statement of accumulated funds were year end bank statement figures and not reconciled cashbook balances as such I was unable to ascertain the accuracy and completeness of the cash at bank balances presented. Further, I was unable to verify the balance of K118,919 being for adjustment for understatement of accumulated funds due to non-availability of source documents.
- Grants were not fully captured in the books of accounts and subsequently reported in the financial statements resulting in revenue understated by K441,939. Consequently, I was unable to verify the accuracy and completeness of the revenue reported in the financial statements.
- I was unable to confirm the accuracy and completeness of salaries of K8,378,700 paid directly by National Department of Health reported in the financial statement due to no source documents substantiating the amount stated.

Disclaimer of Audit Opinion

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

6.6.4.2 Control Environment**Appropriation and Budget Management**

My review of the appropriation and budget management noted that salaries and allowances of K8,378,700 was budgeted for and paid directly through Department of Finance and was reported in the financial statements. In the absence of the payroll reconciliation of the actual spending against the budgeted I was unable to confirm the actual salaries paid were as per the budget. I further noted that the hospital has not furnished its annual estimates of internal revenue and expenditure to the First Assistant Secretary, Loans and Revenue Division, Department of Treasury and Corporate Affairs every June for the following year for the past three years.

Corporate Plan

A corporate plan is an overall management document that establishes a generic outline of what an organisation wants to achieve in a certain timeframe. I observed that the hospital had no corporate plan in place for the past two years including the year under review. Without a corporate plan or strategic plan an organisation would not fully tap into current opportunities and create progressive change overtime.

Internal Audit

I noted that no internal audits were conducted on the accounts and operations of the Hospital in the past two years including the year under review. The Internal Audit function was lacking in keeping pace with the modern concept of internal audit as an independent appraisal activity within an organisation for the review of accounting, financial and other operations as a vital service to management to enable informed decisions to be made.

Revenue

My examination of the records pertaining to revenue management noted the following matters of concern;

- The hospital did not maintain files for Cash Fund Certificates (CFC) to collate and substantiate the grants received from the National Government and recorded in the books of accounts; and
- Collectors’ statements were not compiled for daily revenue takings and as such I could not establish segregation of duties in cash collection, receipting and depositing of monies along with the accountability of cash. Further, cash collection and recording done by cashiers and checked by OIC-Revenue, had not been independently confirmed by the Director Corporate Service or the Accountant before and after deposits were done.

Procurement Procedures

Review of the procurement procedures and payments revealed the following weaknesses:

- Appointment instruments by management were not sighted to confirm the appointment of financial delegates who have examined, certified and approved claims and their approved limitations (for Section 32 Officers). In the absence of formal appointment instruments, I was unable to confirm the validity of persons who have acted on those positions in 2014;
- Instances of payments totalling K551,244 had no three quotations. Also, travel payments totalling K12,461 were not being acquitted with boarding passes, ticket butt and hotel receipts;
- Lease agreements were not sighted for rentals related to doctors' accommodation and the listings for all rental properties. Total rental expenses incurred in 2011 without the lease agreement was K557,878;and
- Control over the movement of motor vehicles and usage of fuel was lacking and as such the transport and fuel expense had escalated. It was noted that fuel expenses totalling K245,416 were paid without proper reconciliation of the claims made by the suppliers. Further, the hospital did not maintain a fuel and motor vehicle register to monitor the movement of hospital vehicles and the fuel ceilings for economical usage.

Capital Works and Maintenance

My examination of records pertaining to capital works and maintenance noted that a total of K474,288.14 made as routine maintenance during the year under review. I noted on twenty instances of payments totalling K325,898 the following issues:

- Job request forms were not signed by the relevant employees which validates assignment of repair, maintenance and even construction jobs;
- Most of the contractors engaged had no profiles which will confirm the area of their expertise and whether they are qualified or recognised;
- Project scoping and valuation were carried out by certified officials (Enga Provincial Works). However, contract agreements did not show in detail timeframe of project and cost breakdown of the contract; and
- Most contractors engaged were not fully resourced to carry contracts for the hospital. In fact, they then hire vehicles and other equipment's to perform service and then invoice the hire.

Due to the issues noted above I could not ascertain whether proper tender process where being adopted and projects undertaken have completed and have met all the requirements by the hospital.

Cashbook and Bank Accounts

My examination of the records pertaining to the cashbooks and bank reconciliations noted that the hospital did not adequately maintain the cashbooks of both the operating and trust accounts and the monthly bank reconciliations were not reviewed, checked and signed by the senior responsible person hence, lacked segregation of duties which is necessary for control purposes. Further, un-reconciling items were not adjusted back in the respective cashbooks.

Advances Management

Review of the advance register maintained during the year revealed that travel advances of K330,073 and cash advances of K14,187 both remained unacquitted as at year end. Further, no evidential documentation was sighted for reminder notices to advance holders to acquit travelling and other allowances.

Asset Management

The review of the registers, ledgers and the related records revealed the following:

- The Hospital has an extensive portfolio of fixed assets that had not been effectively managed nor appropriately safeguarded against theft, fire or vandalism through appointment of custodians or taking out insurance;
- There was no evidence provided to suggest that there was any physical stocktake of assets undertaken during the year; and
- An asset register was not adequately maintained to record all fixed assets, including any purchases and disposal of assets, for the entity.

6.6.4.3 Management Response

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

6.6.5 Business Arms

6.6.5.1 Enga Children's Trust Fund

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

6.6.5.2 The Functions of the Fund Trustee

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

6.6.5.3 Status of Financial Statement

At the time of writing this Report in July 2015, the field work associated with the inspection and audit of the accounts and records and the examination of the financial statements for the Fund Trustee for the years ended 31 December 2012 and 2013 had been completed and Management Letters issued but the signed financial statements together with the management letter responses were not submitted by the Fund Trustee to issue the opinion reports, despite numerous requests.

The Enga Children's Fund Trustee had submitted its financial statements for the year ended 31 December 2014 for my inspection and audit. The field audit associated with the inspection of the accounts and records and the assessment of the internal control environment will commence shortly.

6.6.6 Pogera District Development Authority

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

6.6.6.1 The Functions of the Authority

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

6.6.6.2 Status of Financial Statement

At the time of writing this Report in July 2015, the field work associated with the inspection and audit of the accounts and records and the examination of the financial statements for the Authority for the years ended 31 December 2009, 2010 and 2011 had been completed and Management Letters issued. The Authority has responded to the management letter issues and together with the adjusted financial statements was submitted for my opinion report.

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

6.7 FLY RIVER PROVINCE

6.7.1 Introduction

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

6.7.2 Fly River Provincial Government

The Fly River Provincial Government had submitted its financial statements for the year ended 31 December 2013. Fieldwork associated with audit of the financial statements and accounts and records was completed with the Management Letter issued and the audit opinion report was issued to the Ministers concerned.

6.7.2.1 Comments on Financial Statements – 2013

My report for the year 2013 to the Ministers concerned and other relevant bodies under the *Audit Act* and the *Organic Law* was issued in April 2015. The report contained a Disclaimer of Audit Opinion as reproduced below:

“Basis for Disclaimer Opinion

Disclosure Errors

I noted the following disclosure errors which could have material effect on the accuracy and completeness of the Provincial Government’s account balances and consequently, its financial position as at 31 December 2013:

Cash Balances

- The Provincial Fund balance of K12,868,776 was not accurately represented by the reconciled cashbook balance of K17,713,194 resulting in an unexplained variance of K4,844,418. The cashbooks and ledger balances disclosed in the financial statements were materially misstated as a result. As such, I could not ascertain the accuracy of the account balances and consequently, the financial position of the Provincial Government as at 31 December 2013.
- The accumulated opening Provincial Revenue Fund balance of K129,568,443 stated in Note 3 to the financial statements did not agree to the 2012 closing balance of K203,683,930. Further, this balance contained inherited errors brought forward from prior years.

Receipts and Payments

The statement presented showed total revenue and expenditure of K170,784,452 and K144,009,969 respectively with excess revenue K26,774,483. I was unable to verify the accuracy of the receipts and consequently, the operating surplus as at 31 December 2013 due to revenues not posted to cashbook and revenue ledgers.

Investments

As reported in my past reports, the Fly River Provincial Government did not disclose any balance of Direct Investments, Capital Contributions, Equity Options and Rights held by the Provincial Government as at 31st December, 2013. The financial statements footnote stated however, that the Provincial Government had Investments in OKTML, Ramu Sugar Ltd (noted as closed in 2010), MROT2, 10% Equity and Forest Export Levy. I was unable to ascertain the accuracy of these investments in the absence of Investment Registers, Certificates and management representation.

Assets

The Fly River Provincial Government did not disclose any details or balances of fixed assets as at 31 December 2013. I have however, noted that the Provincial Government had acquired assets during the year at a total cost of over K3,045,220 which were not recorded in the fixed assets register nor disclosed in the financial statements. Consequently, the reported nil balance was erroneous and unreliable.

Advances

The Fly River Provincial Government disclosed total unacquitted advances as at 31 December 2013 as K12,225,915 which did not include the prior years' opening balance of K1,476,240. The omission of prior years' advances had resulted in the material misstatement of the balance of outstanding advances at yearend.

Disclaimer Opinion

Because of the significance of the matters referred to in the Basis of Disclaimer Opinion, I was not been able to obtain sufficient appropriate evidence and consequently, I was unable to express an opinion on the Provincial Government's financial statements for the year ended 31 December 2013.

Other Matters

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

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

6.7.2.2 Control Environment - 2013

The Management Letter relating to the audit of the accounts and records for the year ended 31 December 2013 was issued in April, 2015. Issues contained in the Management Letter are reproduced as follows.

Corporate Governance

Quality and effective delivery of basic goods and services depends on prudent corporate governance which includes an appropriate formulation and implementation of a corporate plan with clearly identified goals and objectives. The following observations were made in relation to the corporate governance issues:

- The Fly River Provincial Government's five year Corporate Plan 2011 – 2015 highlighted eight Key Result Areas (KRA) of Internal Management, Coordination and Direction; Mobilisation of Support Services in Decision Making Processes; Finance, Budget Management and Implementation; Effective Human Resources Management and Training; Physical Assets Management; Performance Management and Technical Information Management System; Local Level Government Support; and Cross Cutting Issues (Gender, HIV, Disaster and Emergency). Except for the other KRAs, the Provincial Government did have in place its policy guidelines on Physical Assets Management and Cross Cutting Issues, and ward level project planning, implementation, monitoring and performance evaluations were done;
- Appointment records of Provincial Assembly and Provincial Executive Council (PEC) members as well as meeting minutes were incomplete and poorly maintained. Consequently, I could not comment on the effectiveness of the Provincial Assembly and PEC and whether affairs of the Province were appropriately deliberated on during the year under review;
- The Fly River Provincial Government had expended funds totalling K395,000 during the year on the operations of the Internal Audit Unit. The Unit however, had not produced any reports to justify the expenditure or as evidence of its effectiveness during the year; and
- As reported in my previous reports, the Fly River Provincial Government has yet to establish an Audit Committee in the Province, a requirement under *Section 9 of the Public Finance (Management) Act, 1995*. I was not provided any recent evidence to indicate that the Provincial Administration had pursued the matter with the Department of Finance.

Appropriation and Budget Management

A certified Annual Appropriation Act 2013 authorised the Fly River Provincial Government revenue and expenditure budget estimate of K234,191,200. I have however, noted the following observations:

- National Government Grant revenues could not be reliably confirmed in the absence of a complete set of Warrant Authorities, Cash Fund Certificates and bank statements;
- Management failed to monitor budget performance as evidenced by lack of budget reviews consistent with its corporate plan goals and strategies;
- The Fly River Provincial Government had transferred into the FRPG Grant Account (K31,011,084) and Treasury Operating Account (K5,000,000) funds totalling (K36,011,084) for Non CMCA in trust with the Department of Mineral Policy and Geo Hazard Management. These transfers were not appropriated for in the Provincial budget. Further, I was not provided evidence of Trust Instrument on Non-CMCA, if any, for verification, nor were there any list of projects which were supposedly funded by the transferred funds; and
- The Provincial Government had illegally transferred from non-CMCA in trust (K36,011,084) and Treasury Operating Account (K4,500,000) funds totalling (K40,511,084) (2012 - K7,558,000) into the Fly River Provincial Operating Account

without any approval from the Secretary, Department of Finance and also without any supporting documents and transfer instruments.

Cash Management

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

- The closing bank and cashbook balances of K4,288,690 and K71,630, and K16,872,493 and K44,482,440 reported in the respective accounts were not reconciled due to the application of wrong bank reconciliation procedures;
- The monthly bank reconciliations were not checked and certified by the Provincial Treasurer as a correct copy; and
- Significant reconcilable items parked in the supporting schedules had been outstanding for years thus distorting the real cashbook and account balances. These items had not been identified and cleared consistent with the relevant Financial Instructions.

Revenue Management

Review of collection and banking procedures revealed the following issues:

- Delays in banking were noted for up to sixty three working days; and
- Segregation of incompatible duties of revenue collection, receipting, preparing collector statements, prepare deposits, banking and posting into the PGAS cashbook and revenue ledgers and custody of keys to the main door and cupboard containing cash continued to be lacking.

Procurement and Payment Procedures

Effective and prudent procurement management ensures quality service delivery. I was not able to obtain absolute assurance on the integrity of the internal controls relating to expenditure management in view of the following control weaknesses:

Paid Accounts

- Supporting documentation in account of thirty seven payments totalling K3,015,605 were not provided for my examination. Consequently, I could not confirm the propriety and legality of these expenditures;
- In twenty nine instances, payments totalling K2,147,980 which had only FF3 and FF4 attached without supporting documents or the payments were duly certified by Senior Certifying Officer in direct breach of PFMA and PFMM;
- Three instances of payments totalling K51,088 made to individuals were not supported with valid invoices and/or appropriate quotations;
- Rental payments totalling K67,320 were not supported with the rental agreements. Lease agreements for rentals were not provided for my review despite repeated request;
- A payment of K50,000 to Modilon Building Maintenance and Design Ltd for the damage of a vehicle on hire by the Provincial Administration in Port Moresby. I noted that the vehicle was owned by a certain individual and not the payee. Further,

payment was processed under pressure from the management and without the evidence of a Police Traffic/Accident Report or an authenticated quotation on the cost of damage;

- Payments totalling K1,470,400 were not supported with the valid contract agreements, work inspection and status reports and certificate of completion reports;
- Payments totalling K1,000,000 made to a construction company, Fly Care Foundation. I did not sight evidence nor provided one to indicate that the entity was a reputable construction company with registered company name and other IPA required documents. Further, no proper invoices or contract document for the construction were provided; and
- A contractually agreed full and single payment totalling K195,000 made to a contractor, Domari Builders, was stated as being 80% of the contract agreement in the supporting documents and finance forms (FF3 and FF4) which could have resulted in an illegal over payment and misuse of public funds.

Provincial Supply and Tenders Board

As reported in my previous years' reports, I was not provided evidence of Appointment Instruments establishing the Provincial Supply and Tender Board (PSTB). Meeting Minutes were not signed nor the Control Registers for tenders invited, quotations received, contracts awarded and certificate of inexpediency issued were maintained. Consequently, I was unable to ascertain whether there was a legally appointed Board in place and the meetings conducted were legal.

Capital Works and Maintenance

My review and examination of documents on capital works and maintenance expenditure of K17,000,000 revealed the following anomalies:

- As reported in my previous years' reports, I was not provided evidence of appointment instruments establishing the Provincial Supply and Tender Board (PSTB). Meeting minutes were not signed nor the control registers for tenders invited, quotations received, contracts awarded and certificate of inexpediency issued were maintained. Consequently, I was unable to ascertain whether there was a legally appointed Board in place and the meetings conducted were legal; and
- Major contracts of over K3,000,000 totalling K17,286,017 were awarded to different contractors/service providers without the CSTB approvals or any proper contract agreements in place. Payments were however, made direct to the contractors as a one-off payments or as split payments of K500,000 arguably to avoid CSTB processes. Further, these expenditures were not budgeted for in the 2013 budget appropriations.

Grants and Subsidies

The Fly River Provincial Government had expended over K9,998,000 on grants and subsidies to public authorities, organizations and agencies during the year. I have not sighted evidence to suggest that there had been a proper policy guidelines and accountability procedures in place for effective control and monitoring of the public funds disbursed.

Human Resource Management

My review of the sampled personal files, payrolls and other related records revealed the following concerns:

- Employment contracts for several officers were not renewed to effect formal contractual employment in the Public Service. The officers were however, on pay roll for over three to four years after the expiry of their employment contracts;
- The Fly River Provincial Government had expended over K3,810,700 during 2013 financial year on salaries and wages for both permanent and casual employees numbering 255 persons. Personal files for the employees on the Provincial Government payroll were never maintained. As such, I could not verify whether proper recruitment processes have been adhered to and that correct pay rates have been applied in computing salaries and wages; and
- Payroll print outs for over 90% of the pay periods during the year were not available while a CD records of only a single pay period was maintained. Further, there had not been any payroll reconciliations conducted for the entire financial year.

Assets Management

The Fly River Provincial Administration did not maintain a comprehensive assets register on assets purchased and disposed during the year as well as those of the previous years. Consequently, additions during the year ended 31 December 2013 at a total cost of K3,045,219 had not been recorded and therefore not accounted for.

Advances Management

The Fly River Provincial Administration did maintain an advances register. My examination and review of advances management procedures however, revealed the following matters:

- Advances totalling K12,363,383 per the expenditure ledgers were paid during the year of which a total of K12,225,915 remained un-acquitted at the time of the audit thus, indicating a very serious lack of advance control management by the Provincial Administration; and
- The substantive test of ninety-two cash and travelling advances totalling K2,268,829 revealed no acquittals at all, and that no evidence was in sight to indicate whether any reminder notices and other appropriate actions were taken by management to recoup the outstanding advances.

Trust Accounts Management

The Fly River Provincial Government operated a total of five trust accounts without bank accounts. The trust accounts Provincial Government Accounting System (PGAS) ledgers had an accumulated closing balance of K143,474,150. However, in the absence of trust instruments I could not ascertain whether these trust accounts relate to Fly River Provincial Government and also the purpose for their establishment.

6.7.2.3 Management Responses

The above observations on the financial statements and internal control weaknesses for the year 2013 had been communicated by way of a Management Letter to the Provincial Administrator and Management together with implications and recommendations for improvements in April 2015. I have however, not received the responses to the Management Letter as at the time of preparing this Report in July 2015.

6.7.2.4 Status of Financial Statements

The Fly River Provincial Government did not submit its financial statements for the year ended 31 December 2014 for my inspection and audit at the time of preparing this Report

in July 2015. However, the interim audit of the accounts and records was scheduled to commence shortly in the absence of the financial statements.

6.7.3 Daru Urban Local-level Government

The Daru Urban Local-level Government (ULLG) had submitted its financial statements for the financial years ended 31 December 2011, 2012 and 2013. Fieldwork associated with audit of the financial statements and the accounts and records for the three years had been completed and the Management Letters issued. My reports to the Ministers concerned were issued with Disclaimer of Audit Opinions. Issues identified with the financial statements and the control environments are restated in the paragraphs below.

6.7.3.1 Comments on Financial Statements – 2011 to 2013

My reports to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* on the financial statements of the Daru ULLG for the years ended 31 December 2011, 2012 and 2013 were issued in May 2015. The reports contained similar Disclaimer Opinions, hence only the 2013 report is reproduced as follows.

“Basis for Disclaimer Opinion

Disclosure Errors

I noted the following disclosure errors which could have material effect on the accuracy and completeness of the Daru Urban Local level Government account balances and consequently, the financial position of the Local level Government as at 31 December 2013.

Cash Balances

The Daru Urban Local Level Government overdrawn cash and bank balance of K153,675 is inaccurate in view of the comments made in relation to bank reconciliation which impacted the accuracy and reliability of the reported bank balance.

Receipts and Payments

Statement ‘B’ to the financial statements showed total revenue and expenditure as K785,235 and K755,554 respectively with an operating surplus of K29,681. The total revenue and therefore, the resulting operating surplus are unreliable due to inclusion of ‘former years’ appropriation amounts totalling K30,000 which were not actual cash for the year under review and that necessary and complete records were not maintained to confirm if all internal revenues had been accounted for.

Other Disclosures

I was unable to express an opinion on the accuracy and reliability of the nil balance disclosures of other statements relating to investments, lending and borrowings, as well as appendices relating to commitments and arrears, debtors and receivables, assets and inventories, losses & deficiencies and cash advances in the absence of related records and registers.

Disclaimer Opinion

Because of the significance of the matters referred to in the Basis of Disclaimer Opinion, I was not been able to obtain sufficient appropriate evidence and consequently, I was

unable to express an opinion on the financial statements of Daru ULLG for the year ended 31 December 2013.

Other Matters

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

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

6.7.3.2 Control Environment - 2013

The Management Letters on the audit of the financial statements and the accounts and records for the years ended 31 December 2011, 2012 and 2013 contained similar issues hence, only the 2013 issues are reproduced as follows:

Corporate Governance

- I was advised that the Planning Division of the Provincial Administration had undertaken the task of compiling a five-year Corporate Plan for the LLGs in South Fly District. However, at the time of the completion of my audit in mid-September 2014 no such document had been provided for my review;
- The Fly River Provincial Government is responsible for the internal audit of the Daru ULLG. However, no internal audits were done on the accounts of ULLG; and
- Daru ULLG Assembly Board meeting minutes and resolutions were not made available for my review. As such, I was unable to determine whether there had been any proper meetings conducted during year.

Appropriation and Budget Management

The Daru ULLG reported its annual revenue and expenditure budget estimates as K1,876,800. I was not provided evidence to suggest that the budget was duly sanctioned and certified prior to implementation. Further, I did not sight any records of quarterly or monthly budget reviews to indicate that the budget was implemented according to the approved appropriation.

Cash Management

Review of bank account and reconciliations revealed that monthly reconciliations were done, however following issues had been noted:

- Unpresented cheques amounting to K123,098 reported on the reconciliation statements could not be confirmed to their details/listings; and
- All the other outstanding items reported in the main schedules of the bank reconciliation statements totalling K262,021 were accumulated balances carried forward from prior years dating back to 2008.

Revenue Management

- The National Government grants received by the Daru ULLG were stated as K785,235 as opposed to the Cash Fund Certificate (CFCs) and bank statements record of K765,050. The ULLG did not provide explanation for the variance of K20,185;
- Internal revenue for 2013 was budgeted at K87,000. The ULLG had however only managed to collect K12,685 mainly from trading licenses and market fees, while no trace of collection, receipting, recording and banking were sighted for gaming fees, and garbage collection; and
- The ULLG had allowed an illegal practice of cash lending within the cash office by staff of the District Treasury Office during the year under review.

Procurement and Payment Procedures

Audit tests on payments for accuracy and completeness revealed the following control weaknesses:

Paid Accounts

- The ULLG had expended over K164,700 on operational items, maintenance and stationery. Validity of these payments could not be confirmed in the absence of paid invoices, required quotations and other related records;
- Payments for hire cars totalling K57,250 lacked proper attachments of work plans and details of purposes for the hires; and
- Twelve payments totalling K78,220 for administrative and maintenance services were not supported with proper completion reports and time sheet attachments to indicate the extent and actual work done.

Grants and Subsidies

The Daru ULLG had expended over K59,000 (2012 - K85,020) as grants and subsidies to sporting groups, churches, youth groups, individuals and associations. I have not sighted evidence to suggest that there had been a proper policy guidelines and accountability procedures in place for effective control and monitoring of the public funds disbursed during the year.

Human Resource Management

- The Daru ULLG's staff establishment records and personal files for employees were not maintained and as a result, I was unable to determine the appropriateness and accuracy of wages paid to staff totalling K15,150. As such I could not confirm the staff strength of both the casuals and permanent public servants. Further, it was not possible to determine whether or not formalities of employment were adhered to in recruitment of casuals; and
- Sitting and entertainment allowances for executive council/board members totalling over K15,000 not supported with a list/record of executive council/board members to verify allowances paid.

Assets Management

Daru ULLG did not maintain a comprehensive fixed assets register to record details of assets owned purchased and/or disposed of during the year. Further, various assets including, buildings, land, and computer and equipment had no records.

Advances Management

The advance register was never sighted, thus I was unable to confirm with acquittals for duty travels. Further, attestation of transaction records had revealed that the ULLG had expended over K32,500 (2012 – K25,397) as advances during the year. Further, these advances had not been acquitted with proper receipts or related documents. As such it was not possible to determine if such monies paid had been used for their intended purposes.

6.7.3.3 Management Responses

The above observations on the financial statements and internal control weaknesses for the year 2013 had been communicated by way of a Management Letter to the Town Manager in April 2015 together with implications and recommendations for improvements. I have however, not received the responses to the Management Letter as at the time of preparing this Report in July 2015.

6.7.3.4 Status of Financial Statements

The Daru ULLG did not submit its financial statements for the year ended 31 December 2014 for my inspection and audit at the time of preparing this Report in July 2015. However, the interim audit of the accounts and records was scheduled to commence shortly in the absence of the financial statements.

6.7.4 Kiunga Urban Local-level Government

The Kiunga Urban Local-level Government (ULLG) had submitted its financial statements for the financial years ended 31 December 2011, 2012 and 2013. Fieldwork associated with audit of the financial statements and the accounts and records for the three years had been completed and the Management Letters issued. My reports to the Ministers concerned were issued with Disclaimer of Audit Opinions. Issues identified with the financial statements and the control environments are restated in the paragraphs below.

6.7.4.1 Comments on Financial Statements – 2011 to 2013

My reports to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* on the financial statements of the Kiunga ULLG for the years ended 31 December 2011, 2012 and 2013 were issued in May 2015. The reports contained similar Disclaimer Opinions, hence only the 2013 report is reproduced as follows.

“Basis for Disclaimer Opinion

Disclosure Errors

I noted the following disclosure errors which could have material effect on the accuracy and completeness of the Kiunga Urban Local-level Government account balances and consequently, the financial position of the Local level Government as at 31 December 2013.

Cash Balances

The Kiunga Urban Local-level Government overdrawn cash and bank balance of K1,530,581 was inaccurate and unreliable as it was an unreconciled balance coupled with significant outstanding reconciling items which also included prior years items not cleared at year end thereby distorting the real cashbook balance. Further, the balance could not be confirmed as correct in the absence of a properly updated cash book, bank reconciliation statements and the bank statement records. The brought forward overdrawn fund balance of K1,037,257 used in *Note 3* to the financial statements also contained inherited errors brought forward from prior years.

Receipts and Payments

Statement 'B' presented total revenue and expenditure as K6,100 and K499,424 respectively with an operating deficit of K493,324. The total receipts and the resulting operating deficit for the year are unreliable and could not be confirmed as correct due to the National Government Grant revenues not posted to the PGAS system nor the revenue ledgers and cash book and therefore, not reported at all in the statements.

Fixed Assets

Appendix 4 to the financial statements stated a total cost of fixed asset at year end as nil. Review of the payment records revealed however, purchases during the year totalling K14,560 which were never recorded due to non-maintenance of an asset register and therefore, not disclosed in the related appendix. As such the nil appendices presented were incorrect and misleading.

Advances

Note 17 to the financial statements disclosed unacquitted advance as at 31 December, 2013 as K25,777. Review of ledgers however, noted additional amounts totalling K5,000 had not been recorded hence, not disclosed. Consequently, the balance disclosed was unreliable and misleading.

Other Disclosures

I was unable to express an opinion on the accuracy and reliability of the nil balance disclosures of other statements relating to investments, lending and borrowings, loans guaranteed as well as appendices relating to commitments and arrears, inventories, and losses and deficiencies in the absence of related records and registers. Except for the fixed assets, the ULLG had however, provided written confirmations on the reported nil balances.

Disclaimer Opinion

Because of the significance of the matters referred to in the Basis for Disclaimer Opinion, I was not been able to obtain sufficient appropriate evidence and consequently, I am unable to express an opinion on the financial statements of Kiunga ULLG for the year ended 31 December 2013.

Other Matters

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

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

6.7.4.2 Control Environment 2013

The Management Letters on the audit of the financial statements and the accounts and records for the years ended 31 December 2011, 2012 and 2013 contained similar issues hence, only the 2013 issues are reproduced as follows:

Corporate Governance

- The Kiunga ULLG did not have a properly designed Corporate Plan or a Five Year Urban Development Plan in place with long-term objectives, priorities and targets taking into account the requirements of its stakeholders nor the associated activity plans in place towards achieving its stated goals;
- The ULLG held no formal Assembly meetings during the financial year under review; and
- There were no regular internal audits conducted by the Internal Audit Unit of the Provincial Government into the routine operations of the ULLG during the year under review.

Appropriation and Budget Management

The Kiunga ULLG Appropriation Act, No. 01 of 2012 authorised the ULLG’s annual revenue and expenditure budget estimates of K1,566,600. I did not sight any records of quarterly or monthly budget reviews to indicate that the budget was implemented according to the approved appropriation.

Cash Management

I noted a serious breakdown in the internal controls over daily collections and banking of monies at the cash office. The following weaknesses were noted:

- Collection and banking of internal revenues lacked segregation of duties and independent scrutiny of records. Further, instances of undue delays in banking of cash for up to forty days were noted;
- Schedules to the bank reconciliation statement showed significant outstanding reconciling items which also included prior years items dating back to 2011 not cleared at year end thereby distorting the real cashbook balance;
- The year-end unreconciled bank and cash book balances of K715,491 and K1,530,581 (overdraft) respectively were the same balances shown in the bank reconciliation statements as reconciled balances. In effect, no proper bank reconciliations were done to reconcile the cash book and bank balances at yearend; and

- Cash books maintained were never updated on a timely manner nor maintained systematically with regards to the receipting of revenues. This had led to a continuous overdraft cash book running balances throughout the year.

Revenue Management

Examination of the revenue ledgers and other records revealed the following matters:

- The year to date actual collection in internal revenue was K6,100 against an estimation of K105,000 resulting in a net under collection of K98,900. Significant under collections were noted in all main internal revenue sources; and
- The inflow of the National and Provincial Government grants continued to be lagging and inconsistent resulting in the Urban Local-level Government resorting to the use of cash from internal revenues on wages, fuel and stationeries without properly accounting for the cash used.

Procurement and Payment Procedures

Paid Accounts

Audit review and tests on procurement and payments procedures revealed the following matters:

- Instances of payments for reimbursements totalling K29,000 did not have supporting documents such as receipts and other source attachments to substantiate claims;
- Payments totalling K16,587 as overtime did not have supporting written evidences to indicate that prior approval of neither the District Administrator nor the Town Manager. Further, instances of payments calculation not certified by the appropriate certifying officers; and
- Payments for the provision of security services totalling K10,000 were not supported with any formal contract or engagement documentation.

Capital Works and Maintenance

The Urban Local-level Government did not have any major capital works and maintenance during the year. Review of couple of minor works however, revealed that the ULLG had expended over K10,300 for fencing contract and K57,966 on town cleaning services during the year under-review. The expenditures however, did not have any evidence of formal approvals or the engagement notice or a contract nor were status reports of work done provided for confirmation.

Grants and Subsidies

The Kiunga ULLG had expended over K22,200 as financial assistance to individuals, small scale businesses and women groups. I did not sight evidence to suggest that there had been a proper policy guidelines and accountability procedures in place for effective control and monitoring of the public funds disbursed thus exposing the ULLG to the risk of misapplication of the funds.

Human Resource Management

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

- Payments of casual wages totalling K63,799 had no evidence of employees signing off wages sheets to indicate actual receipt of pays;

- Payments totalling K10,000 to a councilor as “service entitlements” could not be confirmed to the relevant SRC Determinations should these be paid as ex-gratia payments; and
- Payments totalling K16,587 were made as overtime without written evidences to indicate that prior approval of either the District Administrator or the Town Manager were obtained. Further, there were instances of payments calculated but not certified by the appropriate Certifying Officers.

Assets Management

- The Kiunga ULLG did not maintain a properly updated fixed assets register during the year under review. As a result, assets purchased during the year totalling K14,560 (2012 - K7,349) were not recorded in the assets register; and
- Further, no periodic stock-take of the ULLG assets and inventories were conducted during the year or in the previous years.

Advances Management

- The Kiunga ULLG did not have an advance register nor were acquittal files sighted. As a result, processed and procured cash advances of over K25,700 (2012 - K45,330) had remained unacquitted as at 31 December 2013; and
- There was no evidence to suggest that all advances paid in previous years had been acquitted and that reminder notices and other actions had been taken by management to recoup long outstanding advances.

6.7.4.3 Management Responses

The above observations on the financial statements and internal control weaknesses for the year 2013 had been communicated by way of a Management Letter to the Town Manager together with implications and recommendations for improvements in April 2015. I have however, not received the responses to the Management Letter as at the time of preparing this Report in July 2015.

6.7.4.4 Status of Financial Statements

The Kiunga ULLG did not submit its financial statements for the year ended 31 December 2014 for my inspection and audit at the time of preparing this Report in July 2015. However, the interim audit of the accounts and records was scheduled to commence shortly in the absence of the financial statements.

6.7.5 Daru General Hospital Board

The Daru General Hospital Board did not submit its financial statements for the financial years ending 31 December 2011, 2012 and 2013. Fieldwork associated with the audit of the accounts and records for the three years were completed in the absence of the financial statements with the Management Letters issued in June 2015.

6.7.5.1 Control Environment - 2013

The Management Letters on the audit of the accounts and records for the years ended 31 December 2011, 2012 and 2013 contained similar issues hence, only the 2013 issues are reproduced as follows:

Corporate Governance

Review of the records relating to the corporate governance issues revealed the following concerns:

- I was advised that prior to 2013 and up to the time of the audit in August/September 2014, the Daru General Hospital did not have a Corporate Plan with long-term objectives and set priorities and targets. I have however, sighted a draft five-year Strategic Implementation Plan from 2012 to 2016 still in the process of being finalised;
- As reported in my previous reports, the Daru General Hospital had no formal Board in place in 2013 due to the expiry of the terms of its members prior to 2010. As such, there were no board meetings conducted nor minutes kept. Records have indicated however, in spite of this the Hospital had paid stipends and allowances of more than K223,227 to certain individuals. Validity of these payments could not be confirmed in the absence of any formal meeting minutes or other evidence to indicate attendance of members; and
- The National Department of Health was responsible for the internal audit of the hospital. However, no internal audit was conducted during the year to ensure that the control mechanism instituted was operational and effective.

Appropriation and Budget Management

Audit review of the Hospital's budgets/ appropriation and actual receipts against actual expenditures revealed the following issues:

- The Hospital had failed in its responsibility to properly account for government grants and hospital fees and the formulation of its annual budget estimates; and
- Review of the Cash Funds Certificates (CFC) revealed that the National Department of Health had released and remitted annual grants to the hospital totalling K542,700 in August, 2013. However, I was not able to ascertain if these funds were properly accounted for and disclosed in the absence of revenue ledgers and the financial statements.

Cash Management

- The Daru General Hospital Board had ceased the fees trust account in the years prior to 2013 and operated only one (operating) account for both the fees and the operational account transactions with a single cash book; and
- The Hospital did not prepare nor maintained its bank reconciliation for the year 2013 in violation of the *Public Finance Management Act 1995*.

Revenue Management

Except for the National Government grants, the internal revenues were poorly managed as highlighted below:

- Cash collected and recorded on collector statements could not be confirmed to deposit slips and receipts as these documents were not attached to collector statements or sighted;
- Segregation of duties relating to collection, recording and banking of daily fees collection were continued to be performed by one or two individuals;

- Revenue ledgers were not maintained to confirm if daily cash collections had been recorded. Further there had been no counter independent checks and certification of the cash collections by the DFA or the Accountant prior to and after deposits were done; and
- Payment of suppliers invoices were also noted to have been entertained by the revenue office thus making payments from day's cash collections without properly recording them. Further, borrowing of cash by staff of the hospital on various occasions without proper records had been noted.

Procurement and Payment Procedures

My audit tests on payments for accuracy and completeness revealed the following control weaknesses:

Paid Accounts

Audit examination of paid vouchers and related records revealed the following issues:

- Formal appointment instruments were not available to confirm the appointment of financial delegates who have examined, certified and approved claims and their approved limitations (for Section 32 Officers). In the absence of formal appointment instruments, I was unable to confirm the validity of persons who have acted in those positions;
- Tenancy agreements together with invoices relating to payment of accommodation rentals for doctors and other contract officers had not been sighted. As such I was unable to determine if the payments to landlords were valid;
- Over 50% of the paid vouchers selected for audit testing had been missing or were not on file, indicating a very poor filing system being maintained by the Hospital;
- Validity of payments totalling K154,286 for travel and subsistence could not be confirmed in the absence of required quotations in the case of accommodation and vehicle hire; ticket butt/boarding passes or receipts and invoices; and
- Twelve instances of routine maintenance payments totalling K299,277 lacked supporting documents including maintenance request forms and delivery dockets and proper receipts to confirm that all materials bought had been received.

Human Resource Management

My review of payrolls, personnel files and related records revealed unsatisfactory outcomes as detailed below:

- Personal files on officers and hospital staff were not updated and lacked necessary personal records such as Salaries and Wages Declaration forms, Statutory Declaration forms, copy of Educational Qualifications, Birth Certificates, Married Certificates, copy of letter of application by the applicant, Letter of offer from the HRM division/NDOH, and Letter of acceptance from the acceptable and suitable applicant. Consequently, I could not ascertain the appropriateness and legality of the employment of those sampled for audit checks;
- Payroll records were either incomplete or not maintained for legal purposes including audit nor were there any fortnightly payroll reconciliations done to certify the correctness of the payrolls; and

- Supporting documents such as performance appraisals, permanent and temporary variations forms, overtime forms etc. were not available on file to support the salary variations.

Assets Management

Daru General Hospital did maintain an asset register however not updated on a timely manner with details of the assets. Further, there was no evidence to indicate that Daru General Hospital had conducted periodic stock-take of its assets to ensure existence and condition of the assets.

Advances Management

Payments of travel advances totalling K63,075 had remained unacquitted at year end. No supporting documents had been sighted to confirm the purpose of travel. Further, additional advances were however, granted to advance holders despite their unacquitted advances.

6.7.5.2 Management Responses

The above observations on the internal control weaknesses for the year 2013 had been communicated by way of a Management Letter to the acting Chief Executive Officer together with implications and recommendations for improvements in July 2015. I had however, not received the responses to the Management Letter as at the time of preparing this Report in July 2015.

6.7.5.3 Status of Financial Statements

The Daru General Hospital did not submit its financial statements for the year ended 31 December 2014 for my inspection and audit at the time of preparing this Report in July 2015. However, the interim audit of the accounts and records was scheduled to commence shortly in the absence of the financial statements.

6.8 GULF PROVINCE

6.8.1 Introduction

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

6.8.2 Gulf Provincial Government

The audits of the internal control environment for Gulf Provincial Government for the financial years 2010, 2011 and 2012 were completed without the financial statements and the results of these audits were reported in my 2011 – 2013 Part 3 Report to Parliament in July 2014. The Provincial Government had since submitted these financial statements together with the financial statements for 2013 and 2014 and the field work associated with the audit of the accounts and records and the examination of the financial statements for the years 2010 through to 2014 had been completed and Management Letters issued. The audit opinion reports for 2010 to 2012 were issued to the Ministers concerned whilst the audit opinion reports for 2013 and 2014 were still being finalized at the time of preparing this Report.

The issues identified relating to the financial statements for the first three years and the internal control weaknesses were common throughout hence, the paragraphs below detail the issues identified with 2012 financial statements and internal control weaknesses for 2014.

6.8.2.1 Comments on Financial Statements – 2010 to 2012

My reports to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* on the financial statements of the Gulf Provincial Government for the years ended 31 December 2010, 2011 and 2012 were issued in May 2015. The reports contained similar Disclaimer Opinions, hence only the 2012 report is reproduced as follows:

“Basis for Disclaimer Opinion

Presentation Errors

Finance Instructions 4/2000 issued under *Section 117* of the *Public Finances (Management) Act, 1995* prescribes the format for the preparation and presentation of the financial statements for Provincial Governments.

The statements on the Gulf Provincial Government’s Budget and Financial Performance, the Structure of Gulf Provincial Government and Provincial Treasury and a Description of the Accounting System adopted by Gulf Provincial Government were not included in the financial statements as prescribed by the reporting format. Further, the set of financial statements provided were not signed and certified by the Provincial Administrator and the Provincial Treasurer. Consequently, the financial statements of Gulf Provincial Government for the year ended 31 December 2012 did not comply with the formats prescribed by Finance Instructions.

Disclosure Errors

The financial statements of Gulf Provincial Government for the year ended 31 December 2012 were inaccurate and misleading due to errors, omissions, inconsistencies and other observations as summarised below:

Cash Balances

I was unable to express an opinion on the accuracy of the cash at bank balance and consequently, on the financial position of Gulf Provincial Government as at 31 December 2012 due to the following reasons:

- Accumulated opening fund balance of K54,786,210 used in Note 3 computations is erroneous and misleading as it inherited material errors, omissions and misstatement of previous years. Consequently, the disclosure of this unreliable balance materially affected the accuracy of the fund balance;
- The net surplus balance of K26,040,240 used in Note 3 computations is unreliable in view of non-disclosure of internal revenue in Statement 'J' and grant revenue not posted to cashbook and revenue ledgers;
- Overdrawn trust fund balance of K17,969 was disclosed only in Statement "A" but not in Statement 'C' rendered the trust fund balance as misleading;
- The accuracy of the Gulf Provincial Government cash position or cash representation of the fund balance as at 31 December 2012 disclosed in Statement 'A' as K80,808,481 could not be confirmed in the absence of the year end bank reconciliations and bank statements; and
- Lack of effective control procedures and management representations resulted in audit scope limitations such that audit tests could not be conducted to review and confirm the accuracy of the nil balances disclosed in Statements 'E', 'F', 'G', 'H', 'I', and Appendices 1 to 6.

Receipts and Payments

I was unable to verify the accuracy of the receipts and payments of K20,959,819 and K47,000,158 respectively and consequently, the operating deficit of K26,040,339 as at 31 December 2012 due to receipts not disclosed in Statement 'J' and grant receipts not posted to cashbook and revenue ledgers.

Disclaimer Audit Opinion

Because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and consequently, I was unable to express an opinion on the financial statements of Gulf Provincial Government for the year ended 31 December 2012.

Other Matters

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

- Gulf Provincial Government did not maintain proper accounts and records and has consequently breached Section 68(1) of the *Public Finances (Management) Act, 1995*; and

- The receipts and payments and investment of moneys and the acquisition and disposal of assets during the period covered by the financial statements have not been in accordance with the *Public Finances (Management) Act, 1995* and *Organic Law on Provincial Governments and Local-level Governments*”.

6.8.2.2 Control Environment– 2014

The results of the audit of the control environment for the years 2010, 2011 and 2012 were reported in my 2013 Report in July 2014. The Management Letters relating to the audit of the accounts and records for the years ended 31 December 2013 and 2014 were issued in May 2015. The Management Letters contained similar issues hence, only the 2014 internal control issues are reproduced as follows.

Corporate Governance

- Gulf Provincial Government did maintain a blue print Vision 2020 for the period 2012 – 2020. However, the plan was not supported with a Corporate Plan as well as associated plans with clear phases of implementation and evaluation of performance in accordance with the strategic plan. A draft corporate plan for period 2015 – 2017 was available however, not approved and endorsed by the Provincial Assembly at the time of the audit.
- Further, there was no Provincial Management Team (PMT) meeting minute available to confirm the existence and effectiveness of the PMT enhancing the proper corporate governance and policy development and that annual budget was driven by the vision 2020 thus effectively implement and achieving the Key Result Areas.
- The PEC and Assembly Meeting minutes and resolutions were not provided for audit review due to lack of proper maintenance of these important documents. I was advised that there had been a high turnover of the Assembly Clerks since 2010 resulting in non-maintenance of these records.
- The Internal Audit Unit of Gulf Provincial Administration was effectively functioning. All five positions allocated in the Gulf Provincial Administration were filled with qualified staff with an increased budget support of K350,082 (2013 - K185,000) with actual total expenditure of K245,075 (2013 - K163,687) as per the PGAS summary. The Provincial Administration is commended for its commitment to the Unit. The Unit had however, only managed to complete and issue one report out of the ten planned for the year. I noted further that the Unit had over spent its budget on vehicle hire and fuel of K72,500 by K49,050 to K121,550 in 2014.

Appropriation and Budgetary Management

The Gulf Provincial Government’s 2014 Appropriation Act (No.1 of 2014) was passed by the Gulf Provincial Assembly on 9 January, 2014 authorising the estimates of revenue and expenditure of K121, 826,648 for the year ended 31 December 2014. Audit analysis of the implementation of budget results revealed the following matters:

- The Provincial Government had increased its expenditure budget by K13,307 to K119,004,538 per the PGAS summary. I was not provided evidence to indicate the certification and approval by the Treasury Minister on the revised budget.
- Revenue ledgers confirmed a total grant and internal revenues of K61,555,468 and K1,453,231 including the rollovers and TMS 55 respectively against the budgeted revenue of K114,227,148 and K7,599,500 indicating an under collection of K60,271,180.
- District Services Improvement Program (DSIP) funds are legally channeled direct to the District Treasuries and not to the Provincial Governments account (PGAS). I

noted however, that DSIP funds totalling K20,000,000 were erroneously taken up as provincial funds resulting in an undue overstatement of the provincial budget appropriations.

- It was noted that K50,000 was transferred from grant account into operating account which was a breach of *Public Finances (Management) Act, 1995* Section 24 (b) and Section 3 of the *Appropriation Act*.

Cash Management

Prudent cash management practices are essential to reflect the Provincial Government's cash position or alternatively the fund balance at any given time and to enable prudent cash management decisions. The Gulf Provincial Government maintained two bank accounts namely, the Gulf Provincial Government operating account and Gulf Provincial Government grant account with two separate PGAS cashbooks to conduct its financial transactions for internal revenues and grant respectively. The following issues had been noted:

- The application of improper bank reconciliation procedures however, had resulted in bank and cashbook balances un-reconciled at year end. Further, there were significant reconciling items that had been outstanding for years but were not identified and corrected resulting in the distortion of the accuracy of the cashbook and fund balances;
- The grant revenues received from the National Government were not posted to respective revenue ledgers and cashbook resulting in the overdrawn cashbook balance although the bank balance was favorable; and
- The revenue clearing account was operated outside the PGAS system to control internal revenues of the Provincial Government. All revenues were deposited in to this account and transferred from time to time to the Provincial Government operating account hence bank credits were not matched to tie up with PGAS cashbook deposits. Further, there was no bank reconciliation for this account which resulted in direct debits for bank charges and available closing balance not taken up in the bank reconciliation, if any. The overall fund balance may have been understated to that extend.

Revenue Management

Effective revenue management with adequate documentation of sources and procedures relevant for planning and collection of the entire potential revenue ensures that potential revenue is collected intact;

- Prompt banking of cash collections were not possible due to unavailability of banking services in Kerema Town.
- The National Government grant revenues per the PGAS revenue ledger for 2014 totalling K35,867,915 as against the bank statement total of K42,103,134 resulting in the revenue ledger amount and therefore, the cashbook balance understatement of K6,235,218. Further, the completeness of grant revenues could not be confirmed in the absence of complete warrant authorities.
- The Provincial Government had received a deposit totalling K446,601 comprised of MRDC royalties of K50,000 from Gulf Investment trust account, dividends of K6,458 from Melanesian Trustee and K390,143 from Gulf Technical Services for hire of heavy equipment. Supporting related documentation such as trust instrument, sharing agreement and share certificates on investments and trust related revenues and evidence of contractual agreements and policy for hire of equipment were not provided for my review and confirmation of these revenues.

- The deposit of K390,143 was noted as being a transferred fund from grant account to revenue clearing account which was erroneously recorded as revenue rather than a payment for hire of equipment. Furthermore, there was no policy in place to hire out the heavy equipment by the Provincial Government for purposes of earning extra revenue.

Procurement and Payment Procedures

Paid Accounts

Effective and prudent procurement management ensures quality service delivery given the limited resources. I was not able to obtain absolute assurance on the integrity of the internal controls relating to expenditure management in view of the following control weaknesses:

- Supporting vouchers relating to one hundred payments totalling K2,760,183 were missing. Consequently, the validity of these payments could not be ascertained.
- In eleven instances payments totalling K123,590 were not supported with the required written quotations.
- The Gulf Provincial Government had been funding the administrative cost for Gulf Economic Development Authority (GEDA) with a total cost of K100,000 (2013 - K150,000) and Paia Inlet Infrastructure Development Co. Ltd for K30,000 (2013 - K1,360,000). The accuracy and validity of these payments could not be confirmed in the absence of any supporting documents on these entities.

Capital Works and Maintenance Expenditures

Effective and prudent capital works and maintenance expenditure management give assurance of quality service delivery. Audit review of capital works and maintenance expenditures totalling K25,480,688 (2013 - K20,193,147) revealed the following discrepancies:

- The Provincial Government had seriously failed to maintain proper records of certified copies of PSTB meeting minutes and resolutions.
- The Gulf Provincial Government had no clear procurement policy guidelines in place for procurement of assets, office equipment, vehicles and heavy equipment.
- Supporting vouchers relating to forty two payments totalling K16,268,675 were missing. Consequently, audit could not ascertain the validity of these payments.
- In five instances payments totalling K1,149,265 did not have evidence of PSTB approvals. Furthermore, purchases of motor vehicles at a cost of K831,500 were not approved by the PSTB.
- I was not provided nor sighted evidence to indicate a proper approvals by the PSTB/CSTB for contracts awarded to the contractors, Construction 2006 Limited and Kikori Projects Co-ordination at a value of K3,866,551 and K4,003,370 respectively. Payments were however made to the contractors totalling K1,453,380.
- In two instances payments totalling K558,000 to Wil Investment Limited and Emmanuel Mai had no supporting evidence of a properly instituted consultancy agreement. Number of other consultants was also engaged by the Provincial Government without proper consultancy agreements in place.
- A contractor, Rhythm Consolidated (PNG) Ltd was paid in two installments totalling K5,000,000 as 50% of the contract value of approximately K10,000,000 in 2013 and further K2,215,400 as progressive and other related payments in 2014 purportedly for the Gulf Administration Office Complex. Payments to date totalling K7,215,400, a

significant 72% of the contract value could not be vouched to any tangible work done as at the date of the audit in May 2015, a clear case of misappropriation and misuse of public funds.

- Payments in three separate amounts totalling K1,661,000 paid as final and part payment of the contract amount of K1,177,000 to a contractor, Tamik Builders supposedly for a complete renovation of the Gulf Provincial Governor's State House. The payments however, could not be vouched to any actual work done as at the date of the audit in May 2015 and that the sum paid was over and above the contract amount, again a clear case of a misappropriation and misuse of public funds.

Grants and Subsidies

Existence of effective grants and subsidies management system provides assurance that lump-sum funds released to agencies, organisations, groups and associations, and individuals were properly accounted for and applied on intended purposes.

The audit examination of the expenditure ledgers revealed grants and subsidies totalling K9,907,192 (2013 - K7,406,116) were paid out to various entities and organisations including schools, Local-level Governments and individuals during the year from grant and non-grant votes. The Provincial Administration however, did not have any monitoring and accountability mechanisms in place to monitor and account for all financial assistance disbursed in the form of grants and subsidies during the year. Consequently, none of the recipients had acquitted funds provided to them by way of accountability reports to the Treasury and Provincial Administration.

Human Resource Management

Effective Human Resource Management is essential to improve service delivery. Competent and highly motivated personnel can perform their duties diligently and provide quality service:

- Employees personal files were poorly maintained, lacking necessary important information including completed tax declaration forms and other related records to accurately determine tax calculations. Consequently, in over tax deduction in number of officers and under tax in the assembly members' allowances.
- Number of payroll weaknesses noted including lack of regular payroll reconciliations, un-budgeted back payments in salaries and other allowances, over payment of salaries and allowances, lack of supporting vouchers for HDA back payments, irregular application of DMA, misapplication of Health Awards, payment of allowances to unattached officers, long secondment officers restored on payroll without following proper procedures, and noncompliance of General Orders 2,3,4, and 13.
- The Deputy Governor, PEC and Assembly Members were paid increased gross salaries during the year. Appropriateness and legality of these increases could not be confirmed in the absence of an appropriate SRC Determination Schedule and proper supporting documentation for calculation. Further, both the former and current PEC and Assembly members were paid unpaid wages and allowances backdated to the time they were on the PGAS payroll.
- Salaries and allowances due to the Assembly Members were unduly under-taxed due to the payroll officer's tax calculation oversight and application of incorrect tax rate.

Asset Management

Effective asset management ensures proper accountability of public assets, preventing fraudulent use of assets and there by contribute toward better service delivery. The Gulf Provincial Administration did maintain a fixed asset register during the year however,

not properly updated. Consequently, additions during the year totalling K214,754 (2013 - K634,455) had not been recorded in the register and may not have been properly accounted for. Further, no periodical stocktakes appeared to have been taken during the year.

Advance Management

An adequately maintained advance registers and acquittal vouchers provide assurance that advance management system is effective. The Gulf Provincial Administration did maintain a manual advance register for both travel and cash advances on advance ledgers for individuals. However, following matters were noted:

- The Provincial Government had spent a total of K8,445,327 (2013 K7,623,123) on travel and cash advances in 2014. Cash advances accounted for over 36% or K3,051,693; accommodation advances accounted for over 23% or K1,948,914 and vehicle hires accounted for over 19% or K1,603,906. The full extent of the outstanding advances at yearend could not be confirmed due to inadequacy of the manual registers and lack of summary listings.
- Advance holders including senior officers with outstanding advances were also noted to have been given subsequent advances during the year in direct violation of PFMA.

Investments

Investment records such as share certificates, investment registers and sharing agreements on the business arms of the Gulf Provincial Government as well as the details of cost of investments, including net worth of latest balance sheets relating to subsidiary entities such as Gulf Economic Development Authority (a fully owned subsidiary), Paia Inlet Infrastructure Development Co Ltd (86% owned by the Gulf Provincial Government while 14% is shared between Southern Highlands and Hela Provinces and Gulf Services Ltd with a single share held by Governor Havila Kavo as trustee) were not sighted or provided for my review at the time of the audit in May 2015.

6.8.2.3 Management Response

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

6.8.2.4 Status of Financial Statements

The financial statements for the Gulf Provincial Government years ended 2013 and 2014 were submitted in May 2015. Fieldwork associated with the audits of the accounts and records were completed and the Management Letters issued. My reports to the Ministers concerned were being finalised at the time of preparation of this Report in July, 2015.

6.8.3 Kerema Urban Local-level Government

6.8.3.1 Status of Financial Statements

The Kerema ULLG had not submitted its financial statements for the years ended 31 December 2010, 2011, 2012, 2013 and 2014 for my inspection and audit at the time of preparing this Report in July 2015.

6.8.4 Kerema General Hospital

The Kerema General Hospital had not submitted its financial statements for the year ended 31 December 2011 for my inspection and audit. Field work associated with the audit of accounts and records and assessment of internal control environment was not completed due to non-availability of the underlying records. Consequently, I was unable to comment on the controls surrounding the management of the financial affairs of the Hospital including receipts and disbursement of funds during the year.

6.8.4.1 Status of Financial Statements

The financial statements of the Hospital for the years ended 31 December 2012 and 2013 were submitted for my inspections and audits. Field work associated with the audit of the accounts and records and the examination of the financial statements were completed and the results were being evaluated at the time of preparing this Report in July 2015.

The Hospital has not submitted the financial statements for the year ended 31 December 2014 for my inspection and audit.

6.9 HELA PROVINCE

6.9.1 Introduction

The new Hela Province was created by the National Government through an Act of Parliament on 14 July, 2009. Hela was previously part of Southern Highlands Province and recently gained its provincial status on 17 May, 2012. The new province is yet to establish a Provincial Hospital.

6.9.2 Hela Provincial Government

6.9.2.1 Status of Financial Statements for 2013 and 2014

At the time of preparing this Report in July 2015, the Hela Provincial Government had not submitted its financial statements for the years ended 31 December 2014 and prior years to its inception for my inspections and audits.

When the financial statements are submitted, I will carry out a ‘One-Stop-Audit’ which will also include the Provincial Hospital and the Urban Local-level Government and report in my 2015 Part 3 Report.

6.10 JIWAKA PROVINCE

6.10.1 Introduction

The new Jiwaka Province was created by the National Government through an Act of Parliament on 14 July, 2009. Jiwaka was previously part of Western Highlands Province and recently gained its provincial status on 17 May, 2012. The new Province is yet to establish an Urban LLG and a Provincial Hospital.

6.10.2 Jiwaka Provincial Government

6.10.2.1 Status of Financial Statements for 2013 and 2014

At the time of writing this Report in July 2015, the Jiwaka Provincial Government had not submitted its financial statements for the years ended 31 December 2014 and prior years to its inception for my inspections and audits.

When the financial statements are submitted, I will carry out a ‘One-Stop-Audit’ which will also include the Provincial Hospital and the Urban Local-level Government and report in my 2015 Part 3 Report.

6.11 MADANG PROVINCE

6.11.1 Introduction

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

6.11.2 Madang Provincial Government

6.11.2.1 Status of Financial Statements

Madang Provincial Government had submitted its financial statements for the year ended 31 December 2014. Fieldwork associated with the audit of the financial statements and the accounts and records had been completed and the results were being evaluated at the time of preparing this report in July, 2015.

6.11.3 Madang Urban Local-level Government

The Madang Urban Local-level Government (ULLG) had submitted its financial statements for the year ended 31 December 2013. Fieldwork associated with audit of the financial statements and the accounts and records had been completed and the Management Letter issued. My report to the Ministers concerned was issued with a Disclaimer Audit Opinion. Issues identified with the financial statements and the control environments are restated in the paragraphs below.

6.11.3.1 Comments on Financial Statements – 2013

My report to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* on the financial statements of the Madang ULLG for the year ended 31 December 2013 was issued in April 2015. The report contained a Disclaimer of Audit Opinion as reproduced below:

“Basis for Disclaimer Opinion

Presentation Errors

Finance Instructions 5/2000 issued under Section 117 of the *Public Finances (Management) Act, 1995* state the prescribed format for the preparation and presentation of the financial statements for Local-level Governments. The prescribed format requires among others the following details:

- President’ statements on the Urban Local-level Government Budget Performance;
- Council Executive Officer’s statement on the Urban Local-level Government Financial Operations;
- Description of the Government Accounting System; and
- Financial Statements incorporating Statements ‘A’ to ‘K’, Notes to and forming part of the financial statements, and Appendices 1 to 6.

The financial statements of Madang Urban Local-level Government did not contain the District Administrator’s Statement for the year ended 31 December 2013.

Disclosure Errors

I noted the following disclosure errors which have material effect on the accuracy and completeness of the Madang Urban Local-level Government account balances and consequently, the financial position of the Local-level Government as at 31 December 2013:

Cash Balances

- The opening balances of the revenue and the trust funds in 2013 could not be ascertained as correct due to non-provision of financial statements for the years ended 31 December, 2011 and 2012 and material limitation of scope expressed in previous audit reports.
- Financial investments in various financial institutions, share investments with the Highlands Pacific Ltd and investment in Godowan Investment Limited were not disclosed in Note 7 of the Notes to and forming part of the Financial Statements and Statements 'E' and 'F'.

Receipts and Payments

- The debt collection system in place was not able to ensure that all the debts were collected effectively and efficiently. Although debtors ledgers were maintained, total outstanding debtors could not be determined at year end. The billing system maintained for sanitation and garbage and land rates was not able to generate an age analysis of debtors at year end. Further, debtors reports generated by this system had debtors balances with varying amounts which could not be relied on;
- An up to date register of Trading License fees was not maintained for the year 2013 nor was a proper database established. As a result, I was unable to verify the completeness of the reported revenue generated from Trading License Fees;
- Reconciling items relating to revenue and expenditure were not posted or adjusted to the respective revenue and expenditure ledgers and as such were not incorporated in the total revenue and expenditure balances;
- Market collections of over K140,000 were misapplied by business representative of the Assembly thus understating revenue from market fees; and
- Expenditures totalling K336,003 incurred and charged to the trust ledger was not included and reported in Statements 'B' and 'K'.

Investments

Financial information for investments of more than K200,000 in interest bearing deposits held with Finance Corporation Ltd and K100,000 with Mustard Seed Finance Company were not disclosed in Statements 'E' and 'F'. Consequently, I was not able to confirm the completeness and accuracy of the nil investments balance shown.

Creditors

Outstanding creditors of K706,426 as at 31 December, 2013 were not disclosed in Appendix 1 of the financial statements. This non-disclosure materially misstates this Appendix.

Debtors

Outstanding debtors totalling K29,295 representing accommodation rental, sanitation & garbage and land rates was not reported in Appendix 2 of the financial statements. This non-disclosure materially misstates this appendix.

Assets

Assets register maintained did not give a total value of all the assets owned by the Madang Urban Local-level Government including the purchases during the year totalling K191,056. In the absence of a complete asset register and annual stocktakes, I am unable to confirm the existence and completeness of assets owned by Madang Urban Local-level Government.

Advances

Appendix 6 disclosed an un-acquitted advance of K12,000 paid during the year. Prior years un-acquitted advances were not disclosed in this Appendix. The expenditure ledgers revealed advances totalling K106,180 paid during the year and remained outstanding. Advance payments were not managed and disclosed properly. As such, I was not able to confirm the correct un-acquitted advances as at year end.

Disclaimer of Audit Opinion

Because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and consequently I was unable to express an opinion on the financial statements of Madang Urban Local-level Government for the year ended 31 December 2013.

Other Matters

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

- Madang Urban Local-level Government did not maintain proper accounts and records and has consequently breached Section 68(1) of the *Public Finances (Management) Act, 1995*;
- the receipts and payments and investment of moneys and the acquisition and disposal of assets during the period covered by the financial statements have not been in accordance with the *Public Finances (Management) Act, 1995* and *Organic Law on Provincial Governments and Local-level Governments*; and
- two revenue heads for the Madang Urban Local-level Government was taken over by Godowan Investment Ltd. The financial report for this company was submitted for audit and it revealed that the company did not have other sources of revenue apart from the collections from these two revenue sources. Significant expenditures incurred by this company were for salaries and board allowances for staff and Board members. The company did not have adequate working capital and depending solely on the two revenue sources. Serious irregularities in the management of these funds and other assets of the business arm were noted in 2009 audit where 90% of the funds were diverted to pay salaries for officers who are also on the Council payroll resulting in a net loss but no actions taken to correct these irregularities”.

6.11.3.2 Control Environment – 2013

Corporate Governance

- The Madang Urban Local-level Government (ULLG) did not have a Corporate Plan in place with long term objectives, priorities and targets that would have taken into account the requirements of its stakeholders and the needs of the communities it serves as well as the associated plans on financial, asset management and human resources.
- There were no regular internal audits conducted by the Internal Audit Unit of the Provincial Government into the routine operations of the ULLG during the year under review. I was advised that audit service to the Local-level Government is only provided as and when required rather than a necessary and integral governance activity.

Appropriation and Budget Management

Prudently managed annual budgets driven by corporate plan goals could result in minimum wastage of limited resources thereby ensuring efficient service delivery. Further, annual budgets legitimately authorise collection and spending of public funds hence, legislative approvals was necessary to ensure actual implementation was restricted to approved limits and purposes.

The Madang ULLG 2013 approved budget was not provided for audit review. A draft budget estimate showed an anticipated revenue and expenditure of K3,327,600 for the fiscal year 2013. There were shortfalls in revenue collections with nil collections from number of revenue heads. Further, instances of expenditures noted to have been incurred out of incorrect expenditure vote items.

Cash Management

Prudent cash management practices are essential to reflect the Provincial Government's cash position or alternatively the fund balance at any given time as well as to enable prudent cash management decisions. I was not able to obtain reasonable assurance on the effectiveness of the internal controls relating to cash management due to following control weaknesses:

- Compatible functions of cash receipting, preparing collector statements and banking were all performed by a single person and not segregated;
- Instances of delays in banking of daily collections for up to a maximum of 40 days had resulted in under-banking of the collections; and
- The monthly bank reconciliation statements were not checked and certified as correct by a senior officer other than the one preparing it as a control measure and that reconciling items dating several years back were not identified and cleared.

Revenue Management

Effective revenue management with adequate documentation of sources and procedures relevant for planning and collection of revenue provides assurance that all potential revenues have been collected and applied with minimum wastage. I was not able to obtain reasonable assurance on the effectiveness of the internal controls relating to revenue management in view of the following control weaknesses:

- The MYOB accounting software adopted by the ULLG to manage all its accounts including its billing system and produce required financial reports was noted to be

unreliable. The system is not capable of generating debtors ledgers with accurate balances carried forward from prior years. The reports produced are either inaccurate or incomplete since MYOB software had not been merged with the replaced QuickBooks system to take on board the balances from the old system;

- Incompetency of the billing officers with the new billing system had resulted in lack of timely and reliable reports; and
- Market fees collections totalling K130,000 were used by a market valuation survey team engaged by the Madang ULLG without properly accounting for the cash through the normal PGAS system. I have noted these expenditures as a misuse of public money and abuse of power by a team leader.

Procurement and Payment Procedures

Effective and prudent procurement management ensures quality service delivery given the limited resources. I was not able to obtain absolute assurance on the integrity of the internal controls relating to expenditure management in view of the following control weaknesses:

Paid Accounts

- The ULLG did not maintain a quotation register for recording of both written and verbal quotes and that in almost all payments sighted, required written quotes were not obtained from various suppliers for comparison of the prices and ensuring value for money;
- A list of appointed financial delegates and their approval limit, Section 32 Officers and Requisitioning Officers and their specimen signatures as required by the Finance Manual were not maintained and provided for my examination;
- The ULLG had expended over K65,000 for the provision of legal services. Validity of these payments could not be ascertained in the absence of any formal agreements in place, and
- Payments totalling K88,000 for supply of fuel for the ULLG vehicles appeared excessive and a reflection of a lack of control in monitoring the vehicles and the usage of the fuel as genuine and for authorised vehicles only.

Capital Works and Maintenance

Effective and prudent capital works and maintenance expenditure management provides assurance of quality service delivery. I was not able to obtain assurance that capital works and maintenance expenditures incurred were proper and in accordance with the standard procedures and processes in view of the following concern.

The Madang ULLG had expended over K312,000 on various contractors and consultants during the year. Engagement of contractors and consultants by the ULLG could not be verified as duly sanctioned in the absence of documentary evidence of formal engagement agreements, contracts or adherence to proper procurement procedures.

Grants and Subsidies

The Madang ULLG had expended grants and subsidies totalling K54,100 to various youth and women groups and financial assistance totalling K41,330 to individual staff and Organisations during the year. In both instances, I was not provided a list of approved groups for review and that the ULLG had no proper policy in place for providing financial assistance.

Human Resource Management

Effective Human Resource Management is essential to improve service delivery. Competent and highly motivated personnel could perform their duties diligently and provide quality service:

- Salaries and wages declarations forms were not maintained properly in the employee personal files and as a result taxes were deducted based on four dependents; and
- Payrolls were not checked and verified by senior personnel prior to running the final payroll. Calculations for leave pays, final pays and overtime pays were automatically done by the system upon entry of information without ensuring the accuracy of the payroll prior to the processing of the payrolls.

Asset Management

Effective asset management ensures proper accountability of public assets, preventing fraudulent use of assets and thereby contributes toward better service delivery outcomes:

- The ULLG did maintain an asset register however, not consistently updated with details including additions and disposals during the year. Consequently, purchases during the year totalling K191,056 were not recorded in the register;
- There had not been any Board of Survey done to dispose out-dated asset items that were continued to be carried forward in the assets register;
- The ULLG had being leased out a property as a workshop building to a Surpass Ltd. I was not provided evidence to indicate that a proper and a formal lease agreement between the parties were in place; and
- The ULLG had been paying installments on amounts due to a Mr. James Yali on two properties. Following an award by a court-order, the properties were given away to Mr. Yali in exchange for amounts owed. I sighted no evidence to indicate that there had been a proper valuation done on the properties.

Advance Management

An adequately maintained advances registers and acquittal of vouchers provide assurance that advance management system is effective. The ULLG did not maintain advance registers and acquittal files nor was evidence provided to indicate reminder notices were made to officers for acquittals. Consequently, advances paid during the year totalling K106,180 had not been acquitted.

Investments

The available records revealed that the Madang ULLG has investments in several companies namely; Highlands Pacific Ltd, Godowan Investments Ltd, Fin Corp Ltd and Mustard Seed Ltd. The ULLG however, did not maintain an investment register during the year nor in the prior years. The details, including Kina value of the investments in these companies could not be confirmed in the absence of a properly maintained investment register and other related documents.

6.11.3.3 Management Response

The above observations on the financial statements and internal control weaknesses for the year 2013 had been communicated by way of a Management Letter to the Madang Town Manager together with implications and recommendations for improvements. I had however, not received the responses to the Management Letter as at the time of preparing this Report.

6.11.3.4 Status of Financial Statements

The Madang Urban Local-level Government did not submit its financial statements for the years ended 2011, 2012 and 2014 for my inspection and audit at the time of preparing this report in June 2015. Audit of internal control environment for 2014 accounts was scheduled to commence shortly without the financial statements.

6.11.4 Modilon General Hospital Board

The Modilon General Hospital Board did not submit its financial statements for the financial years ended 31 December 2013 and 2014. Results of the interim audit of the accounts and records for 2013 were reported in my 2011 – 2013 Report in July 2014. Fieldwork associated with the audit of the accounts and records for 2014 were completed in the absence of the financial statements and the Management Letter issued.

6.11.4.1 Control Environment

The Management Letter relating to the audit of the internal control environment for the year ended 31 December 2014 was issued in May 2015. Issues contained in the Management Letter are reproduced as follows.

Corporate Governance

Quality and effective delivery of basic health services depends on prudent corporate governance. The Modilon General Hospital had in place a five-year Corporate Plan (2010 -2015) with identified corporate goals, long-term objectives and strategies to enhance health service delivery. However, the 2014 Annual Strategic Implementation Plan or the periodic review reports, if any, were not provided for my review. As such, I could not satisfactorily comment on the hospitals performance though there were some achievements of the objectives, priorities and targets during the year.

Appropriation and Budget Management

Prudently managed annual budgets driven by corporate plan goals could result in minimum wastage of limited resources thereby ensuring efficient service delivery. Further, annual budgets legitimately authorise collection and spending of public funds hence, legislative approvals are necessary to ensure actual implementation is restricted to approved limits and purposes.

- The Modilon General Hospital's duly endorsed and approved initial budget appropriation as well as the periodical budget implementation review reports were not available for my review. The Department of Health appropriation document for hospital management services stated the Hospital's estimates of National Government grant receipts and corresponding expenditure of K18,430,400 for the year under review. As such, any review on the budget performance during the year was not possible; and

- The construction, renovation and improvement grants receipt of K5,000,000 was not reflected in the original budget appropriation. I could not confirm if grant receipt was taken up subsequently in the absence of any revised budget document.

Cash Management

Prudent cash management practices are essential to reflect the Provincial Government's cash position or alternatively the fund balance at any given time as well as to enable prudent cash management decisions. I was not able to obtain reasonable assurance on the effectiveness of the internal controls relating to cash management due to following control weaknesses:

- The Modilon General Hospital operated two bank accounts namely; Modilon General Hospital operating and trust fees account. Though the cashbooks were maintained, the bank reconciliations were not available at the time of audit. Consequently, I could not comment on the cash management operations of the two bank accounts operated by the Hospital, and
- The project funds received from the National Government through the operating account were transferred to the trust account and expended from the trust accounts. I could not satisfactorily comment on the management of the project fund as the expenditure of the project fund was not reported separately by way of a trust suspense ledger records.

Revenue Management

Effective revenue management with adequate documentation of sources and procedures relevant for planning and collection of revenue provides assurance that all potential revenues have been collected and applied with minimum wastage. I was not able to obtain reasonable assurance on the effectiveness of the internal controls relating to revenue management in view of the following control weaknesses:

- Patients fees collections were noted to be fairly accounted for and posted to the revenue ledgers. However, user fee cash collections were spent on hospital operations prior to banking and reimbursed to the trust account later on, a practice noted as improper and prone to abuse and misuse of cash;
- There were only two instances of banking of revenues during the entire two months of November and December 2014. Consequently, internal revenue collections for the month of December totalling K7,768 was under banked by K1,778;
- Collector statements for November and December were either not signed by the collector or the collection supervisor, an indication of weakness in ensuring accuracy and correctness in accounting for collection and banking of user fee collection and other revenue receipts; and
- I sighted no evidence to indicate that debtor's accounts reconciliations were done to account for the salary advances paid to the Hospital staff. Further, records of institutional housing rentals paid by tenants were not provided to establish whether all tenants were paying and if there were outstanding rentals owed to the hospital as at yearend.

Procurement and Payment Procedures

Effective and prudent procurement management ensures quality service delivery given the limited resources. I was not able to obtain absolute assurance on the integrity of the internal controls relating to expenditure management in view of the following control weaknesses:

Paid Accounts

- The Modilon General Hospital seriously did not adhere to a proper and standard procurement and payment procedures. As such, purchase requisition forms and claims with substantial amounts were paid without relevant approval, examination and certification by the Section 32 Officers and financial delegates prior to payments. I noted for instance, purchase requisition forms totalling K805,687 were not duly signed or authorised by the requisitioning officer; payments totalling K718,146 not examined by the examining officer; payments totalling K977,998 not certified by certifying officer; and payments totalling K697,861 not signed by the financial delegate;
- Cash payments for wages, allowances and gratuities totalling K772,242 were made payable to the paymaster rather than direct to the payees thereby creating opportunities for fraud and other irregular activities;
- Credit purchases of fuel and other items totalling K287,583 lacked proper internal control mechanism in place to monitor and control the credit activities;
- Payments for security and legal services rendered totalling K329,184 and K58,957 had no proper contract agreements in place. Consequently, validity of these payments could not be confirmed; and
- Payment vouchers totalling K1,734,973 were not furnished for my review and consequently validity of these payments could not be confirmed.

Capital Works and Maintenance

Effective and prudent capital works and maintenance expenditure management provides assurance of quality health service delivery. The Hospital had expended K2,062,182 on capital works and maintenance program during the year under review. The following matters were noted:

- A contractor was paid on five installments totalling K1,684,900 for the construction of a new theater building. Payment vouchers and related documents such as the inspection and progress reports were not available to confirm the validity of these payments; and
- Minor works contract expenditures totalling K377,282 were not supported with formal contract agreements and progress and inspection reports. Consequently, I could not comment whether or not minor works contracts have complied with the proper minor work engagements, approval and endorsement.

Human Resource Management

Examination of the payroll systems, personnel files and related records revealed the following matters:

- A significant volume of personnel emoluments including wages, overtime and contractual entitlements were processed and paid from funds appropriated for the operational activities and proceeds from the internal revenue collections outside of the Concept Payroll System;
- Despite one hundred and ten DPM approved positions, the hospital had twenty four officers remained unattached nor the officers confirmed to substantive positions as at the time of my audit in April 2015; and
- Though staff personnel files were generally kept in order, payroll and the complete Allesco generated reports were not available to counter-check and verify the information per the personnel files.

Asset Management

Effective assets management ensures proper accountability of public assets, preventing fraudulent use of assets and thereby contributes toward better health service delivery:

- The Modilon General Hospital did not maintain a fixed assets register during the year. Consequently, additions during the year totalling K266,332 had not been recorded in the register and may have not been properly accounted for. Further, no periodical stocktakes appeared to have been taken during the year; and
- Further, there was no transport fleet register maintained or a transport policy in place to monitor and control vehicle movement, usage and cost on fuel and maintenance related expenses.

Advance Management

An adequately maintained advance registers and acquittals provide assurance that advance management system is effective. However, following matters were noted:

The Hospital did not maintain cash and travel advances register nor the respective acquittal files. Consequently, advances paid during the year totalling K88,462 were not properly accounted for. Further, there was no evidence to indicate that the reminder notices were issued on outstanding acquittals or the recovery actions taken against defaulters.

6.11.4.2 Management Response

The above observations on the internal control weaknesses for 2014 had been communicated by way of a Management Letter to the Chief Executive Officer together with implications and recommendations for improvements. I had however, not received the responses to the Management Letter as at the time of preparing this Report in July 2015.

6.12 MANUS PROVINCE

6.12.1 Introduction

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

6.12.2 Manus Provincial Government

6.12.2.1 Status of Financial Statements

The Manus Provincial Government did not submit its annual financial statements for the year ended 31 December 2014 as at the time of preparation of this report in July 2015 for my review. The audit of the internal control environment however, has been scheduled to commence shortly in the absence of the financial statements.

6.12.3 Lorengau Urban Local-level Government

6.12.3.1 Status of Financial Statements

The Lorengau Urban Local-level Government did not submit its annual financial statements for the year ended 31 December 2014 as at the time of preparation of this report in June 2015 for my review. The audit of the internal control environment however, has been scheduled to commence shortly in the absence of the financial statements.

6.12.4 Lorengau Hospital Board

6.12.4.1 Status of Financial Statements

The Lorengau Hospital Board did not submit its annual financial statements for the years ended 31 December 2013 and 2014 as at the time of preparation of this Report in July 2015 for my review. The audits of the internal control environment however, are scheduled to commence shortly in the absence of the financial statements.

6.12.5 Business Arms

The Manus Provincial Government has a number of business arms as reported below.

6.12.5.1 Manus Fishing Corporation Ltd

The Corporation was established by the *Manus Fishing Corporation Act 2003* with the objective and functions as stipulated under the relevant Sections of the Act. The Corporation is 100% owned by the Provincial Government. The Corporation was said to have a fleet of two vessels, however, without any return to the Provincial Government. Documents such as share certificate or certificate of incorporation were not available for

my review. At the time of preparing this Report in July 2015 the company had not submitted any recent financial statements for audit.

6.12.5.2 Manus Shipping Authority

The Authority was established by the *Manus Provincial Shipping Authority Act 1994*. As reported in my previous reports the Authority was reported to have operated a fleet of three vessels. Out of these, only one vessel is said to be in operation since 2003. Profits from the operation are shared between the Provincial Government and the operator net of running costs. At the time of preparing this Report in July 2015 the Authority had not submitted any recent financial statements for audit.

6.12.5.3 Kei Beseu Kampani Ltd

As reported in my previous reports, the Manus Provincial Government holds 522 shares as a single majority shareholder at 34% while the various landowner groups share the balance of the shares in the entity. At the time of preparing this Report in July 2015 the company had not submitted its financial statements for the years ended 31 December 2011, 2012, 2013 and 2014 for audit.

6.12.5.4 Lorengau Hotel Ltd

As reported in my previous reports, the Lorengau Hotel Ltd was incorporated in October 1974 with the Manus Provincial Government share of 50% to 80% and the remaining balance shared between the Kei Beseu Kampani Ltd and the Local-level Governments. At the time of preparing this Report in July 2015 the company had not submitted its financial statements for the years ended 31 December 2011, 2012, 2013 and 2014 for audit.

6.13 MILNE BAY PROVINCE

6.13.1 Introduction

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

6.13.2 Milne Bay Provincial Government

The Milne Bay Provincial Government submitted its financial statements for the financial year ending 31 December 2013. Fieldwork associated with audit of the financial statements and accounts and records were completed and the audit opinion report was issued to the Ministers concerned. The audit report was issued with Disclaimer Audit Opinion. The internal control issues for 2013 were reported in the last report as such only the financial statement issues together with internal control environment of 2014 are reported below.

6.13.2.1 Financial Statements – 2013

My report to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* was issued in July 2015. The report was a Disclaimer Opinion as reproduced below:

“Basis for Disclaimer Opinion

Financial Statements

Presentation of Financial Statements

The draft financial statements furnished for my examination did not contain the signed statements of the Provincial Governor and Provincial Administrator. This includes the statement by the Provincial Administrator containing a Declaration or Representation that the Financial Statements presented were the true and fair representation of the Milne Bay Provincial Government’s financial performance during the year and its financial position as at the financial year ending 31 December 2013. Consequently, I was unable to confirm the financial statements in its entirety as a true and fair record of the state of affairs of the Milne Bay Provincial Government for the year then ended. Signed financial statements were not furnished although repeated requests were made.

Cash balances

I am unable to express an opinion on the accuracy of the cash at bank balance of K28,866,954 and consequently, on the financial position of Milne Bay Provincial Government as at 31 December 2013 due to:

- The accumulated opening revenue fund balance of K18,331,659 contained inherited errors brought forward from previous years. I was unable to satisfy myself as to the accuracy and completeness of the opening balances of cash at bank and accumulated funds due to evidence of adjustments made, in any, not made available for my examination;
- The comparison of the cashbooks and bank statement balances as at 31 December 2013 revealed a significant difference of K5,617,871 in bank statements which the

Provincial Government did not promptly adjust into the cash books and relevant ledgers. Consequently, I am unable to confirm the completeness and accuracy of the cash at bank balance of K28,866,954; and

- The total provincial funds in Statement 'A' are represented by the bank and investment balances. The Milne Bay Provincial Government had long term investments of K969,002 and guaranteed loan of K300,000 reflected in Statements 'F' and 'H' respectively. However, these were not disclosed in Statement 'A'. As such, I am unable to confirm the accuracy and completeness of the fund balance of K28,866,954 disclosed in Statement 'A'.

Investments

Milne Bay Provincial Government (MBPG) had invested K469,002 in Milne Bay Properties and K500,000 with Westpac on IBD which incurred interest of K33,627. The MBPG had not maintained an IBD register to monitor the movement of short term deposits and the share certificate of the investment in Milne Bay Properties were not furnished for my examination. In the absence of these documents I am unable to confirm the accuracy and completeness of these balances. Further, the interest of K33,627 rolled over together with the principle was not taken up as part of the investment and disclosed in this statement.

Receivables

Appendix 2 to the financial statements disclosed a balance of K142,078 as at 31 December 2013. I am unable to confirm this balance due to non-maintenance of debtor's register and related records. Also this was the same figure disclosed in the 2012 financial statements.

Assets

Appendix 4 to the financial statements disclosed assets totalling K101,095 as at 31 December 2013. I noted that this was the same figure disclosed in the 2012 financial statements. Further, additions and disposals of assets during the year totalling K573,762 and K8,287 respectively were not captured in the assets register and reported in this statement. In the absence of a complete and up-dated assets register and annual stocktakes, I am unable to confirm the existence and completeness of assets owned by the Milne Bay Provincial Government.

Advances

Appendix 6 to the financial statements disclosed outstanding advances of K366,541 as at 31 December 2013 however; this was the same figure in 2012. My review of the ledgers revealed that accumulated outstanding advances of K880,812 for the financial year 2013 was not taken up in Appendix 6. Consequently, I am not able to confirm the accuracy and completeness of the figures disclosed in this Statement.

Disclaimer Opinion

Because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and consequently I am unable to express an opinion on the financial statements of the Milne Bay Provincial Government for the year ended 31 December 2013.

Other Matters

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

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

6.13.2.2 Control Environment– 2014

Corporate Governance

The Milne Bay Provincial Government had its Corporate Plan covering for the 2014 to 2017 period as well as the Provincial Development Policies for the period 2006 to 2015. I was however, not provided with the documentation to indicate whether the provincial management team actually implemented the plan through annual budgets, monitoring implementation and evaluation of outcomes against key result areas.

Work of Internal Audit

The Internal Audit Unit was not fully equipped with appropriate resources, including manpower, lack of budget support and adequate staff, to enable effective performance of its responsibilities. The DPM approved structure providing for three auditors to be filled still remain vacant.

Appropriation and Budget Management

The original budget of K173,501,500 had not been certified by the Assembly Clerk. The revised budget which had been subsequently certified had increased upwards by K2,592,900 to K176,093,400. The actual expenditure of K122,821,505 resulted in the shortfall of expenditure by K53,271,595. The appropriation and the expenditure trend had implicated that the funds appropriated had not been fully sourced or programs had not been fully implemented during the year.

The salaries expenditure of K56,597,340 for the Public Servants and Teachers had exceeded the appropriated amount of K37,593,400 resulted in over expenditure by K19,003,940. The authority for such over expenditure had not been provided for my examination.

Cash Management

The Milne Bay Provincial Government maintained and operated two operating bank accounts and two separate cashbooks to conduct its financial transactions for National Government grant and internal revenues respectively. Audit inspection of these two bank accounts together with relevant key records reveals the following matters:

- Bank reconciliations prepared for the internal revenue account showing the cash position at the end of the month. However, other items in schedule 6 to the bank reconciliation statement could not be verified with supporting documents such as cancelled cheques to ascertain the accuracy of the amount disclosed. Cheques stated

as cancelled in the bank reconciliation were presented at the bank and did not appear in the cheques reconciliation listing (CRL);

- Bank reconciliations for the grant account for the months of August to December 2014 had not been done at the time of the audit in March 2015, therefore resulting in limiting the scope of audit on cash management; and
- All the bank reconciliations provided had not been certified by a senior officer to meet the requirement of validation and segregation of duties.

Revenue Management

The following weaknesses were observed:

- Review of revenue records had revealed significant shortfall in actual revenues against budget. The accumulated under collections of K35,393,291 from twenty-four internal revenue heads and six National Government grants. In the absence of effective revenue management policy guidelines and control procedures, I was unable to review and reliably establish the cause of the significant under collections;
- A total of K142,332 was disclosed in Notes 13 and Appendix 2 of 2013 financial statements indicated a positive sign. However, a related register was not provided to show the movement of debtors in 2014 and the remaining balance as at year end; and
- Delays in banking of daily collections for up to seven days including weekends thus, exposing public funds to theft and fraud.

Procurement Procedures

The following weaknesses were observed:

Paid Accounts

- The supporting documentation for eighteen different payments totalling K237,416 were not sighted amongst the files inspected;
- There were twenty instances of payments totalling K562,108 noted to be unsatisfactory as they had no delivery dockets, marriage and birth certificates attached to the payment vouchers to verify the authentication and actual receipt of the items purchased; and
- In the absence of updated copy of the approved Financial Delegates, I was unable to confirm whether the signatories were from the authorised financial officers who had executed the payments during the year.

Capital Works and Maintenance

- Payments totalling K3,831,800 paid to four contractors were not supported with Provincial Supply and Tenders Board(PSTB) meeting minutes and or contract documentation;
- Instances of payments totalling K24,948 paid to A1 Holding Ltd for hiring of backhoe had no related payment vouchers to confirm the expenses incurred; and
- Three meeting minutes were not signed off by the Chairperson and the Executive Officer to make it a legal document out from the total of seven PSTB meetings held during the year. As such, I was unable to determine on the matters relating to rendering procedures.

Grants and Subsidies

Examination of the expenditure records revealed grants and subsidies totalling K14,680,932 had been paid to various entities and organisations such as schools, Local-level Governments, District Treasuries and other implementing agencies during the year. All funds paid as grants and subsidies were in line with the Budget Appropriation, however K568,000 transferred as Empowering Women Program was not budgeted for and was in breach of the Appropriation Act. Further, most of the grants holders had not furnished the accountability reports back to the Treasury and the Provincial Administration, except for LLGs are required by law for them to provide financial statements for my audit separately.

Human Resources Management

Review of the staff establishment register revealed that there were seventeen unattached officers on the payroll and seventy-six funded positions remained vacant. Salary history cards in a few instances were hanging loose inside the files which can easily fall off and be displaced. Tax declaration forms were not sighted in some personal files.

Asset Management

A number of assets registers were maintained by the Provincial Administration. However, I was unable to establish the actual total assets owned at the end of the year as the assets registers had not been updated from prior years to current. Hence, purchases made during the year totalling K6,026 were not captured to reflect the correct balance. No periodic stocktakes had been taken during the year.

Advance Management

From the sample tested ten instances of advance payments totalling K10,943 were not acquitted.

Trust Account Management

The following weaknesses were observed:

- The Milne Bay Provincial Government operated a total of forty-five non-bank trust accounts in its PGAS system. Most of these trust accounts had been operated under the old BMS system and remained dormant for many years of which twelve of them had a total of K194,344 while ten are still active with a total balance of K627,065;
- Four non-bank trust accounts kept as clearing accounts should have had a nil balance at the end of the year, however they had a total of K27,165,891 remaining in the four accounts from which I could not establish the sources; and
- The Provincial Treasurer had identified the inactive trust accounts and made several attempts to obtain approval to remove them from the PGAS system but these attempts were not well responded to.

6.13.2.3 Management Response

The audit findings on the internal control weaknesses had been communicated to the Provincial Administrator with related risk impacts and recommendations for improvements. At the time of preparing this Report, I had however, not received responses to the Management Letter.

6.13.2.4 Status of Financial Statements

The Milne Bay Provincial Government did not submit its financial statements for 2014 for audit. However, the interim audit on the control environment had been completed in the absence of the financial statements and the Management Letter was issued as reported above.

6.13.3 Alotau Urban Local-level Government

The Alotau Urban Local-level Government (ULLG) had submitted its financial statements for 2013 for my inspection and audit. The fieldwork associated with the financial statements and accounts and records had been completed with Management Letters issued. The audit opinion report for 2013 was issued to the Ministers concerned and other relevant bodies.

6.13.3.1 Comments on Financial Statements – 2013

My report to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* was issued in May 2015. The report was a Qualified Opinion as reproduced below:

“Basis for Qualified Opinion

Financial Statements

Finance Instructions 5/2000 issued under Section 117 of the *Public Finances (Management) Act 1995* state the prescribed format for the preparation and presentation of the financial statements for Local-level Governments. The financial statements of Alotau ULLG for the year ended 31 December 2013 complied with the format prescribed by Finance Instruction 5/2000 except for the following:

- The financial statements did not contain the District Administrator’s Statements as per the prescribed format issued by Department of Finance and Treasury dated 7 July 2000.
- The Town Mayor and Town Managers Statements did not contain a representation that the Financial Statements presented was a true and fair representation of the financial position of ULLG as at financial year ending 31 December 2013.
- Statement ‘A’ was not signed by the Town Manager and Accountant accepting the balances as truly and fairly stated in the Statement.
- The table of contents did not contain page numbers. For ease of reference, table of contents should have page numbers so that users can navigate easily.
- The financial statements did not include the comparative balances for the 2012 financial year.

Cash balances and Receipts and Payments

Cash balances, receipts and payments reported in the financial statements have all agreed to the trial balance however, I noted that reconciling items totalling K7,302 and K52,506 respectively appeared in the bank reconciliation statement as at 31 December 2013 have not been adjusted in the cash book and respective ledgers, and as such, were not incorporated in the financial statements. Consequently, I was unable to verify the receipts and payments and the subsequent accumulated fund balance and its representation by the cash balance disclosed.

Investments

I was unable to establish investments if any, held by the ULLG and the money value of these investments as at 31 December 2013 in the absence of investment registers and other related records. Further, as reported in my previous reports investments in shares costing K30,000 held by Alotau ULLG in Oil Search Limited were not reflected in the financial statements. The management, in its response to the 2013 interim Audit Management Letter stated that the Alotau ULLG has 2,400 ordinary shares with Oil Search Limited and 245 Ordinary Shares with New Crest Mining. This information was not disclosed neither in Statement 'F' or the Notes to and forming part of the financial statements. Evidence of source documents pertaining to these shares held by the ULLG were not furnished for my examination.

Debtors

Appendix 2 to the financial statements showed a 'Nil' Report on Debtors of the Alotau ULLG. However, there were uncollected debts relating to trading licenses, land rates and garbage collection/disposal totalling K1,392,490 as at 31 December 2013 not disclosed in this Appendix. In the absence of debtors' ledgers and related records I was unable to ascertain the total value of debts due for the ULLG as at 31 December 2013.

Assets

Good asset management was not practiced and in the absence of a complete assets register and annual stock-takes. I was unable to confirm the existence, completeness and value of all assets owned by the ULLG as at 31 December 2013 which included motor vehicles as there was also lack of control over the fleet of vehicles. Further, assets worth of K33,892 purchased during the year were not captured in Appendix 4 to the financial statements.

Advances

My examination of the records revealed that advances totalling K37,922 were paid in 2013 however, in the absence of an updated advance register and acquittal files I was unable to determine the total acquitted and the outstanding advances as at 31 December 2013. Consequently I was unable to confirm the unacquitted advances of K35,205 disclosed in Appendix 6 to the financial statements.

Qualified Audit Opinion

In my opinion, except for the effects of the matters referred to in the qualification paragraphs above, the financial statements of the Alotau Local-level Government for the year ended 31 December 2013:

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

Other Matters

In accordance with the *Audit Act*, I have duty to report on significant matters arising out of the financial statements, to which the report relates. Alotau Urban Local-level Government did not fully maintain proper accounts and records and has consequently breached Section 68(1) of the *Public Finances (Management) Act, 1995*."

6.13.3.2 Control Environment– 2014**Corporate Governance**

The Alotau ULLG had developed a Corporate Plan however, it lapsed in 2012. The ULLG was working on its new plan at the time of the audit. The ULLG held only three meeting each by the ULLG Assembly and the Council Executive Committee. The meeting minutes were however, not duly signed.

Minutes of Council Meeting

There were two meetings held by two different groups. Firstly, the ULLG Assembly that is more legislative in nature and approves the budget while the other is the Council Executive Committee that deals with the day to day operation and management of the organisation.

There were three meetings held by the ULLG Assembly during the year. I have noted that the meeting numbers were not indicated on the meeting minutes and also the minutes were not signed by the Chairman and the Assembly Clerk to validate the minutes of the meetings held.

Work of Internal Audit

The Internal Audit Unit of Milne Bay Provincial Administration had continuously failed its obligation to conduct periodic internal audit checks into the routine operations of the Alotau ULLG despite previous audit recommendations advising internal audits to be conducted regularly.

Appropriation and Budget Management

The Alotau ULLG budget was approved on 10 January 2014 with an Appropriation of K2,297,000 for the provision of goods and services for the financial year commencing 1 January 2014.

Actual revenue received for the year as per the PGAS revenue ledgers was K1,666,992 as against the revised estimates total of K2,297,000 resulting in an under collection of revenue of K630,007. Shortfalls in internal revenue collections may either mean revenue estimates were unrealistic or efforts and resources were not directed towards the collection of the internal revenue.

Total revenue of K1,666, 992 was received while the total expenditure was K2,022,899 resulting in an over-expenditure of K355,907. The over expenditure incurred could have come from the accumulated fund as the current revenue was insufficient but within the limit of the total appropriation of K2, 297,000.

Cash Management

Review on the cashbook, monthly bank reconciliations and bank statements revealed that the bank balance was K1,017,998 against cash book balance of K283,015 with a difference of K734,983. This indicated that the periodic bank reconciliations were not done properly to ascertain correct cash balance. Further, unrepresented cheques dated back to May, July, September, October and November 2013 totalling K3,969 were not cleared as at the time of audit in March 2015.

Revenue Management

The audit revealed the following matters:

- A cash count and a review of the systems revealed great improvement in revenue collections and banking procedures;
- Debtors records were not maintained to account for all receivables;
- The total revenue of K1,447,359 from garbage collections, land rates and trading licenses fees were yet to be collected at the time of my examination. The debt recording system in use was deficient in that it could only show total cumulative amounts owed and not the yearly transactions; and
- I was unable to determine the balance of total bad debts in the absence of a bad debts listing.

Procurement Procedures

Paid Accounts

The audit revealed the following matters:

- Required quotations were not obtained prior to the purchases of goods and services;
- Payments totalling K95,720 for town cleaning and related activities lacked evidence to indicate whether payments were actually received by the service providers, particularly the individuals, and whether the correct and approved rates were applied; and
- Fuel expenses during the year amounted to K66,616. It was noted that no evidence of reconciliation or acquittals to ensure that only the authorised vehicles were refueled.

Grants and Subsidies

Payments totalling K24,623 as financial assistance, commitments, cash advances and pledges lacked proper policy in place for the selection criteria and for the purpose of providing assistance. Furthermore, no disbursement statements/accountability reports or acquittals were sighted for all those payments.

Assets Management

The Alotau ULLG had spent over K287,685 on assets during the year. It had, however, not maintained a proper asset register resulting in a number of assets not recorded in the register. The ULLG further did not conduct any physical stocktake of its assets to ensure existence and condition of the assets.

Advances Management

The Alotau ULLG did not maintain an advance register during the year. Examination of the records revealed a total of K55,195 paid as travel and cash advances to individuals during the year. Currently there were no procedures in place to follow up on unacquitted advances.

6.13.3.3 Management Response

The aforementioned observations on the financial statements and internal control weaknesses for the year under review had been communicated by way of a Management Letter to the Alotau Town Manager and Management together with risk implications and

recommendations for improvement. I however, did not receive any responses to the Management Letter as at the time of preparing this Report.

6.13.3.4 Status of Financial Statements

The Alotau ULLG submitted its 2014 financial statements in June 2015. The field audit was completed; the Management Letter and the audit report were in progress when this report was finalised. The audit findings of the financial statements will be reported in my Part 3 2015 report.

6.13.4 Milne Bay Provincial Health Authority

The Milne Bay Provincial Health Authority (PHA) had submitted its financial statements for 2013. The fieldwork associated with the audit of the financial statements and accounts and records had been completed with the Management Letter and Audit Opinion issued. The financial statements for 2014 were not made available during the time of audit in March 2015 but the interim audit was done and the Management Letter was issued.

6.13.4.1 Financial Statements – 2013

My report on the Milne Bay PHA for 2013 to the Ministers concerned and other relevant bodies under the *Audit Act* was issued. The report contained a Qualified Opinion and the report is reproduced as follows:

“Basis for Qualified Opinion

1. There was limitation of scope arising from:

- Inaccurate cash book balances as expressed in previous audit reports were not corrected in the current year’s books of accounts. The inability of the Hospital to maintain proper cash books and perform timely reconciliations of the bank accounts renders the cash book balances unreliable. Consequently, I am unable to verify the accuracy, reliability and completeness of the opening cash balances of K6,300,167 and K2,025,933 and closing cash balances of K8,654,860 and K1,533,933 for the operating and trust accounts respectively;
- Inconsistency and errors in the disclosure of bank balances, as such I was unable to verify the accuracy of the consolidated cash balance of K10,188,793 as shown in the statements.

Management had commented to the effect that it was going to review all respective balances and I intend to ascertain this in the audit of the subsequent financial statement; and

- Salaries and allowances paid by DoF to public servants of the Health Authority under item 111 had not been reported on the 2013 Statements. I noted that no payroll reconciliations were done to confirm the amount received and spent on item 111. Consequently, I was not able to ascertain the accuracy of the disclosures in the financial statements.

Management had acknowledged the above observation and expressed the need to work out a system to extract payroll reports from Department of Finance for financial reporting. I intend to confirm further actions taken in my subsequent audits.

2. Actual receipts of K2,705,319 and expenditures of K792,575 for trust account were not reported in the statement of receipts and payments for trust account and subsequent consolidated statement instead the appropriations of K2,255,000 and K2,747,000 were reported. In addition, internal revenue from Hospital fees totalling K460,319 were not reported in these statements. Consequently, I am unable to verify the disclosures in the financial statements for Milne Bay Health Authority.

Management had acknowledged the observation made and commented to make improvements. I intend to verify this in my subsequent audits.

3. I was not able to verify the completeness and accuracy of the fixed assets of K3,245,029 due to total value of assets such as land and buildings that the Health Authority owns not being captured in the fixed assets register and the subsequent schedule of capital assets in the financial statements. Further, the amount disclosed was the same figure reported in 2012 with no movement. However, I noted that assets totalling K1,196,656.88 purchased during 2013 were not recorded in the assets register and the subsequent schedule of capital assets.

4. I was not able to verify the completeness and accuracy of the liabilities of K579,643 disclosed in Note 9 to the financial statements due to no documentation provided and non-maintenance of respective ledgers and records. Also, the schedule showed no movement in the liabilities resulting in the same disclosure as in the prior year.

Management had responded to my audit queries sufficiently stating that it had instituted corrective measures to address issues highlighted and I intend to verify these in my subsequent audits.

Qualified Opinion

In my opinion, except for the effects of the matters described in the qualification paragraphs above, the financial statements of Milne Bay Provincial Health Authority for the year ended 31 December 2013:

- Give a true and fair view of the financial position and the results of its operations for the year then ended in accordance with the Finance Instructions; and
- With exception of instances of non-compliance described under Other Matters, the financial statements have been prepared in accordance with the *PFMA*.

Other Matters

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

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

6.13.4.2 Internal Control Environment– 2014

Corporate Governance

A review of the Corporate Plan 2013-2015 showed that the PHA has improved and have achieved a lot from its inception. However, there were few issues that have been ongoing as stated below:

- The monthly bank reconciliations for the operating and fees trust accounts have not been compiled for the years 2013 and 2014; and
- The Milne Bay PHA for the last two years had no policy on its assets. This was evident in the non-existence of an asset register or stocktake reports to verify the assets purchased over the years.

Work of Internal Audit

No internal audit was done on the accounts of Milne Bay PHA for 2014. The National Department of Health is responsible for the internal audit of the Provincial Health Authorities. However, the PHA had conducted an internal audit into the accounts for Kiriwina District Health 2013 and 2014 indicated a step forward in setting up its own internal audit section.

Appropriation and Budget Management

An approved budget copy of the PHA was not provided for my examination. Incomplete, duplicated ledgers and cash books plus the inaccessibility of the Attaché Accounting System for fees trust account and the transaction details could not be confirmed including comparisons of both budgeted and actual transactions done in 2014. This had limited the scope of audit on the review on the budgetary controls.

Cash Management

The Milne Bay PHA continued operating two bank accounts and their cash books. The operating account was used to control National and Provincial Government grants received while the fees trust was used to control internal revenues raised through hospital fees and other sources such as donations. Audit inspection of these two bank accounts together with relevant key records revealed the following matters:

- No monthly bank reconciliations were done for the operating account since 2013 due to the creation of new database and the limited PGAS knowledge of the accounts officers;
- The lack of bank reconciliations, coupled with duplication of PGAS cash books and transaction ledgers, etc. the operating cash book balance of K976,961 and the closing bank balance of K7,128,269 could not be relied upon as correct.
- While the fees trust account is managed using the Attaché Accounting Software attempts to retrieve the general ledgers and the cash book were not successful as the system files were lost during a system upgrade conducted by the PHA IT Division. I had however proceeded with the inspection through the analysis of the bank statement of the fees trust account and using professional judgment have sampled revenue and expenditure details for substantive testing; and
- The fees trust account cash book balance of K1,334,901 and the closing bank balance of K1,350,529 could not be relied upon as correct, in the absence of bank reconciliations, the cash books and transaction ledgers.

Procurement Procedures and Payment

Expenditure testings relating to the control environment in procurement for goods and services through the inspection of payment vouchers have revealed the following deficiencies:

- On eleven occasions, payments summing to K108,530 made were processed with less than the required three necessary quotations from suppliers; and
- A total of fourteen payments adding to K185,147 were not supplemented with delivery dockets to evidence the actual receipt of the items being procured.

Human Resources Management

An inspection done on personal files of contract officers revealed the following:

- The payroll reconciliations have not been conducted by the Human Resource Division so as to verify the amounts paid by the Department of Finance reflected in the TMS 55. This leaves an area for officers with ill-intent to tamper with the records and place ghost names on the payroll;
- Most overtime claims were not supported with duly approved overtime request forms; and
- Samples tested relating to recreational leave fares had no marriage, birth certificates, and student concession forms attached to verify the dependents stated on their leave applications.

Asset Management

My review on the management of assets concluded that there was no improvement relating to recording of assets purchased by the PHA. Stocktakes were not conducted nor was an assets register created or maintained manually or systematically. Through the analysis of transactions executed, it was revealed that the PHA had procured more than K580,593 worth of assets during the year but were not recorded.

Advance Management

The Accounts Section maintains the advances register and acquittals for advances. However, the following issues were noted:

- Two hundred and twenty-six payments totalling K58,250 could not be confirmed to the salary advances acquittal register as recouped;
- Of the general advances selected for testing, 80 payments summing to K169,272 were not recorded on the general advances register;
- Copies of reminder notices were sighted not in the file; and
- Salary advances were paid to officers without maintaining proper records and their repayment could not be ascertained.

6.13.4.3 Management Response

The above observations on the financial statements and internal control weaknesses for 2013 had been communicated by way of a Management Letter to the Chief Executive Officer of Milne Bay Provincial Health Authority together with risk implications and recommendations for improvements. I have since received the responses to the Management Letter. The responses to the 2014 Interim Management Letter however, were not received at the time of preparing this Report in July 2015.

6.13.4.4 Status of Financial Statements

The financial statements for 2014 was received in June 2015, field audit completed and the results were being evaluated at the time of preparing this Report in July 2015. My report to the Ministers concerned and other relevant bodies will be reported in the Part 3 2015 Report.

6.13.5 Business Arms

Relevant Section of the *Audit Act* provides for and extends my functions to audit the accounts and records of the Provincial Government Business Arms and other establishments.

I am aware of two business arms of the Milne Bay Provincial Government namely, Milne Bay Properties Ltd and Miba Microfinance Ltd. At the time of preparing this Report in July 2015, the business arms have not submitted any financial statements for my inspection and audit. Consequently, I was unable to comment on the operations and financial results of the entities.

6.14 MOROBE PROVINCE

6.14.1 Introduction

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

6.14.2 Morobe Provincial Government

The Morobe Provincial Government submitted its unsigned financial statements for the financial year ending 31 December 2014. Field work associated with audit of the financial statements and accounts and records were completed with the Management Letter issued and the audit opinion report was issued to the Ministers concerned. The audit report was issued with a Disclaimer of Audit Opinion. The paragraphs below detail issues identified with the financial statements and the control environment.

6.14.2.1 Financial Statements – 2014

My report for the year 2014 to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* was issued in June 2015. The report was a Disclaimer Opinion as reproduced below:

“Basis for Disclaimer Opinion

Presentation

The draft Financial Statements furnished did not contain the signed statements of the Provincial Governor and Provincial Administrator. This includes the statement by the Provincial Administrator containing a Declaration or Representation that the Financial Statements presented were the true and fair representation of the Morobe Provincial Government’s financial performance during the year and its financial position as at the financial year ending 31 December 2014. This constitutes a scope limitation and affects every statement of the financial statements. Consequently, I was unable to confirm the financial statements in its entirety as a true and fair record of the state of affairs of the Morobe Provincial Government for the year then ended. Signed financial statements were not furnished although repeated requests were made.

Furthermore, there was error in the presentation of the statements where the amounts disclosed were in ‘thousands’ (000) instead of the original amounts. These errors constitute a material effect on the balances disclosed in the financial statements.

Cash balances

I was unable to express an opinion on the accuracy of the cash at bank and trust account balances respectively and consequently, on the financial position of Morobe Provincial Government accumulated fund balance of K3,265,902 as at 31 December, 2014 due to:

- The fund balance of K3,265,902 did not agree with the cash at bank balance of K3,267,916 resulting in a difference of K2,014.
- I was unable to confirm the accuracy of the balance of the Provincial revenue fund of K3,265,902 due to errors and misstatements reported in my previous audit reports.

- The disclosure of trust account carryover balance without the detail transactions and the non-inclusion of other trust accounts with bank accounts namely Morobe Disaster and Emergency Services trust and the Morobe Sports Council trust accounts did not fully represent a complete statement of accounts for the Trusts. Therefore, I was unable to ascertain whether all trust accounts operated by the Provincial Government have been properly accounted for and disclosed in the financial statements.
- Note 6.3 to the accounts disclosed that the difference between the operating account balances as per the cashbook and the bank statement represents various reconciling items. These reconciling items have not been fully analyzed and taken up in the general ledger. To the extent of these reconciling items, the revenue, expenditure, cashbook balances and fund balance are either under or over stated. Consequently, I was unable to verify the completeness and accuracy of the balances disclosed in Statements 'B', 'J', 'K' and subsequently 'A'.
- The comparison of the cashbooks and bank statement balances as at 31 December 2014 revealed a significant difference of K14,389,458 in bank statements which the Provincial Government did not promptly adjusted into the cashbooks and relevant ledgers. Consequently, I am unable to confirm the accuracy of the cash at bank balance of K3,267,916.

Receipts and Payments

Revenue from five (5) revenue heads were incorrectly stated in Statement 'K' resulted in overstatement in revenue of K116,328. Further, significant reconciling items relating to revenue and expenditure appearing in the December bank reconciliation were not adjusted in the cashbooks and respective ledgers and as a result were not incorporated in the financial statements. Consequently, I was unable to verify the completeness and accuracy of the receipts of K241,055,975 and payments of K247,974,162 and subsequently, the operating deficit of K6,918,187 in Statements 'B', 'J' and 'K'.

Investments

Status of the Provincial Government own Business Arms, namely Kungie Holdings and Morobe Sustainable Investment are not known hence, a sum of K1,000,000 paid to Kungie Holdings in 2013 and K900,000 paid to Morobe Sustainable Investment in 2014 could not be ascertained. There was no investment register maintained to record details of investments or share certificates representing the number of shares acquired or a certificate of a holding company. Consequently, I was unable to ascertain the value of investments held by the Provincial Government.

Debtors

The Provincial Government in Appendix 2 of the financial statement did not show details of debtors owing money to the Provincial Government as at 31 December 2014. However, note 13 of the notes to and forming part of the financial statement showed a closing debtors balance of K97,160 which is a balance brought forward from 2013. In the absence of debtors ledgers I was unable to confirm this debt.

There were quite a number of debts due to the Provincial Government as reported in my 2013 Management Letter issued to the Provincial Administrator in April 2014 and has not been responded. The debts included sale of the properties including land and buildings, lease rental income and motor vehicles sold. As such, I am unable to ascertain the total debts due to the Provincial Government as at 31 December 2014.

Assets

Appendix 4 to the financial statements did not disclose a summary of assets of the Provincial Government while note 15 of the notes to and forming part of the financial statements showed a total of K6,440,147 which was the same figure reported in 2013. Assets of K2,884,000 amongst others were purchased in 2014. However, in the absence of a complete and up-dated asset register, I could not establish the additions in 2014.

Good asset management was not practiced and in the absence of a complete assets register and annual stock-takes, I was unable to confirm the existence, completeness, condition and value of all assets owned by the Morobe Provincial Government as at 31 December, 2014 which included motor vehicles as there was also lack of control over the Provincial Government fleet of vehicles.

Advance

The Provincial Government had failed to maintain a proper and comprehensive advances register. Consequently, I was unable to ascertain the total advances paid during the year and previous years and the total un-acquitted advances as at 31 December 2014. Total un-acquitted advances of K3,403,109 showed in Appendix 6 to the financial statements was a carried forward balance from 2013 and note 17 of the notes to and forming part of the accounts showed a different amount of K4,794,642 as un-acquitted advances, resulting in a variance of K1,391,533.

Disclaimer of Opinion

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

6.14.2.2 Control Environment

Corporate Governance

- Corporate Plan for the Morobe Provincial Government covering the period under review was not provided for my review. As a result, I was not able to ensure if Key Result Areas (KRA) were formulated and adequately addressed.
- The Internal Audit Unit (IAU) lacked appropriate human and necessary logistical resources to function effectively. The Province had large annual budgets of more than K371 million, a large geographical area, nine districts, thirty-two Local-level Governments and a number of educational and health institutions. The IAU needed proportionate support to carry out its functions.

The apparent lack of internal audit work into the routine areas of the Provincial Government operations had largely contributed to the major breakdown in internal controls and procedures required to be observed by management. However despite these constraints the IAU has performed well according to its 2014 annual work plans.

Appropriation and Budget Management

The funds of Morobe PG were not fully utilised for the purpose appropriated in the budget during the year. Funds remaining un-utilised at year end as per the expenditure ledgers amounted to K2,398,296. Also, substantial under collection of K7,461,416 in nine (9) Internal Revenue Heads as compared to actual collection and anticipated revenue. Further, I noted instances where expenditures totalling K2,046,742 were charged under incorrect expenditure votes.

Revenue and Receivables

Revenue

Examination of revenue records revealed that:

- A revenue register had not been maintained to record the details of revenues received from clients during the year. In the absence of a revenue register for revenues such as goods and services tax, mining royalties and various rentals of properties of the Morobe Provincial Government such as the Tower, I was not able to ensure the completeness of the total revenue reported in the Financial Statement;
- Mining royalties of K2,000,061 was paid by Morobe Mining to the Provincial Government per agreement should be representing 36% of total revenue earned by the mining company for the year. In the absence of documentary evidence I was unable to establish the amount received was appropriate and as per the agreement;
- The PGAS generated collector statements had not been checked and signed by both the Collector of Public Monies and Checking Officer to attest to the correctness of the postings against the manual collector statements or official receipts;
- Property rental receipts had been deposited directly into the Provincial Government bank account by clients as noted from the bank statements. However, in the absence of registers and lease agreements I could not determine whether correct amounts had been deposited and the receipts correctly accounted for in the books of the Provincial Government;
- Motor traffic registry files had not been properly maintained. There was limitation of scope of audit where detailed information about the vehicle registration, driver licensing and the related fees collected could not be ascertained. Further, collections for the Lae Motor Traffic Office had not been banked promptly. Delays ranged from two to eight days. In addition, significant under-banking of K227,407 were noted at Traffic Registry, and K177,466 of which related to the period from 2009 to 2013. These under-banking still remained unresolved as at 31 December 2014; and
- There had been no proper management, control and monitoring of liquor licensing and the collection of revenues due to the Provincial Government.

Debtors Ledgers

My review of the system in operation revealed that debtors ledgers were not maintained during the year and also previous years to record details of debtors owing money to the Provincial Government. Hence, no actions such as reminder notices were sent or legal actions taken to ensure the debts were paid. Due to lack of records of the debtors, I was not able to do an age analysis to identify long outstanding debts.

Procurement and Payment Procedures

Examination of selected payment vouchers revealed the following anomalies:

Paid Accounts

Apart from non-compliance with the required number of quotations prior to the purchase of goods and services and the non-maintenance of quotations register, other payments material in nature were incurred such as:

- Advance payments purportedly for travel warrants made to Prime Travel Service not only pay for airfares but included accommodation, vehicle hire and travel allowance, contradicting the Public Finances Management Manual;
- Excessive payments were noted for vehicle hire costs for the Governor and Deputy Governor's Office at K1,240,260 and Administration at K1,350,545. No proper control over hire of private vehicles and also usage of provincial government owned vehicles where vehicles were used on a 24 hours; 7 days basis thereby incurring considerable vehicle costs. Also private vehicles were hired for officers going on recreation leave where destinations were accessible by road and public transport;
- Engagement of Consulting firms, Security firms and suppliers of school materials were done without following proper procurement procedures. Amounts totalling K768,966, K525,224 and K929,649 for consulting firms, security firms and suppliers of school materials respectively were paid during the year in the absence of a contract agreements;
- Expenditure deliberately incurred out of incorrect votes especially vote item 135 during the year. These charges include; purchase of assets, travel warrants, vehicle hire, vehicle maintenance, utilities (power), accommodation warrants, office stationeries, cash advances, overtime and financial assistance, etc.

Capital Works and Maintenance

Proper monitoring and reporting system was lacking in managing project works and maintenances particularly in the Districts. Funds totalling K4,458,349 paid to District Treasuries for maintenance of schools, roads, bridges, airstrips and wharves and health facilities etc. was not monitored by the Provincial Works Unit to ensure that the funds paid were spent on the intended projects; and proper reports were submitted from the District works.

Individual project files and contract files were not maintained. Construction and maintenance of roads, bridges, buildings, installation of water supply, and fencing of residence were not individually filed.

Grants and Subsidies

The provincial government expended significant amount on grants and subsidies during the year under review. Accountability reports for grants and subsidies paid to recipients during the year were not provided for my examination. As such I was unable to establish that the grants paid were expended on the intended purpose. Further, I noted that these grants and subsidies were paid without having in place proper guidelines for granting these subsidies.

Human Resource Management

Examination of the payrolls for both the national and provincial and the personal files revealed the following shortcomings:

- No evidence was provided to show that the payroll reports for both national and provincial governments had been checked by human resource officers to ensure that there were no ghost employees and allowances were paid according to the approved pay rates and that all errors and omissions were corrected on time;
- A review of the personal files for selected employees indicated that the approved salary and wages tax declaration form which is the basis for deduction of fortnightly taxes, were not filed for some officers. Others filed were outdated. As a result fortnightly taxes were not deducted correctly; and
- Salary history cards from the provincial payroll selected had not been maintained in their personal files. Hence, their pay rates shown on the payroll could not be verified for their accuracy.

6.14.2.3 Management Responses

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

6.14.3 Lae Urban Local-level Government

The Lae Urban Local-level Government did not submit its financial statements for the years ended 31 December 2012 and 2013. Consequently, I was unable to comment on the financial status and the management of the funds for Lae ULLG. Interim audits on the internal control environments for both years were conducted with Management Letters issued respectively. The internal control issues identified were common throughout hence, only 2013 audit findings are reported below.

6.14.3.1 Control Environment - 2013

General Accounting and Reporting

The Accounting Software used by the U LLG was not fully utilised to produce required financial reports in uniform with the required Government Accounting Reports. The Software did not generate the cashbook for proper accounting and reporting. Resulting in the general ledgers and the trial balance were not produced on annual basis.

Corporate Governance

There was no evident to suggest that Lae Urban LLG had a Corporate Plan. This was evident by a non-availability of a Corporate Plan and Implementation Plans. Further, no regular internal audit checks were carried out by the Internal Audit Unit of the Provincial Government into the routine operations of the Urban Local Level Government during the year under review.

Revenue and Receivables

Revenue

The state of records kept by the Lae Urban LLG is below acceptable standards. Systems and processes had deteriorated to an extreme without an audit trail. The total income received during the years both internal revenue and grants were not known due to insufficient accounting records such as cashbooks, general ledgers and the trial balance. There were no evidence of stringent controls in place to monitor the business activities conducted in the city and to ensure that they are conducted in line with prevailing health rules and regulations and paying the necessary fees.

Fourteen shops operating within the main market and leased to tenants had a total monthly income of K5,555 however, no lease agreements were signed between Lae ULLG and the Tenants of the shops nor were the rental rates provided. No record of the rental income being collected by the Lae Urban Local Level Government from the tenants. It appeared that these tenants were operating without paying the rentals.

Collections and Banking

There was high turnover of cashiers at the main cash office however there was no permanent appointment of collector and cashier. There were no records of names of officers who were duly appointed as Collectors of Public Monies. There was no assurance that monies from all sources were collected by authorised collectors only. The Finance Manager and the Director, Corporate Services direct when and when not to bank for reason of cash flow problem and so to pay cash for salaries and wages for employees, thus resulting in delay in banking cash and cheque receipts by days ranging between three to sixty six days.

Collections for November and December, 2013 and continued to February 2014 were not banked and disappeared without trace. Copies of official receipts for six days collections in November only totalled K149,254 was available. Collections totalling K775,512 were not deposited and without trace. Reminder notices sent to the cashiers involved received no responses. No action has been taken to recover moneys. Collections from the main market totalling K4,671 collected on 20/2/2013 was not banked and without explanation. Rental cheques totalling K253,935 received from Riback Stevedores on 28/7/2014 was not banked. The cheque was held by a Senior Officer and not banked, reason being to cater for fortnightly staff salaries. No confirmation was sighted that the money was used for Salaries.

Debtors/Receivables

There was no assurance that system in operation was manageable and that debts were properly raised, recorded and accounted for. Recovery actions were not strictly monitored leaving huge outstanding debtors for a financial year. Records of other revenue heads were not maintained in the computer system nor were they provided for audit review. The statement of debtors as at 31 December, 2013 disclosed total debts of K21,593,763 comprising land tax K19,027,235 and sanitation and garbage K2,566,528.

Previous year sanitation and garbage debtor's balance as per the company control account was K2,138,563 whereas the aged balance showed K1,735,881 resulting in a unexplained difference of K402,682. The current year detailed listing of land tax debtors provided by the IT Section showed total land tax debtors as K14,886,044, however did not agree with the summary of land tax balance of K19,027,235 as shown above resulting in an unexplained difference of K4,141,191.

A cheque number 123148 for K34,000 paid to Divine Word University on 25/2/13 for Lucas Dubos's intended studies was not refunded back when the officer fail to go for studies.

A sum of K150,000 paid to Lae Urban LLG Women's Micro Credit Scheme by the then Lord Mayor and the Lae JDP & BPC in 2010 plus a K15,000 carried forward from 2008 under the scheme being loaned out to individuals under the Women's Micro Credit Scheme remained outstanding. At the time of the meeting in July 2011, 85% of the recipients have not yet repaid their loan. No records were made available for my examination and justify the completion of the loan.

Procurement and Payment Procedure

- There was no compliance with relevant laws to ensure effective administrative control over the operations of the Lae ULLG to promote economy, efficiency, effectiveness and prevention of fraud and wastage of public monies. The appointment of Section 32 officers, Requisitioning Officers, Financial Delegates, Examiners and Certifying Officers and Receiving Officers and their specimen signatures were not provided. Prescribed Finance Form are Requisition for Expenditure Form (FF3) and General Expenses and Claim Form (FF4) for all its requisitions and payments were not used. Quotations were not obtained from three reputable suppliers in order to determine the most economical purchase.
- Authority to use purchase orders was widely used by various purchasing points within the organisation without control. There is no properly control mechanism in place for purchasing, the delegated authority and the set limits in line with the relevant expenditure budget. The people signing purchase orders did not have their authority and signatures on file.
- No quotation register was maintained in order to trace to orders placed. There was no indication that supplier quotations and purchase orders acquired were selected on merit for purchases of goods and services, that proper selection processes was applied to select major Suppliers for larger purchases. There was no pre-qualified list of 'Approved Suppliers' being maintained either.
- The consulting firm engaged to assist the Finance Division in processing the backlog of accounts (financial statements) from 2012 to 2014 and training Accounts staff using Syspro Accounting Software had no formal contract with the Lae Urban LLG. Terms of reference for this engagement was not in place. To-date more than K290,383 was paid to the consultant however; financial statements for 2012 to 2014 were not prepared and presented to audit for examination.

Human Resource Management

Employees personal files and employment records were not maintained and up-dated. Selected personal files have indicated that salaries and wages tax declaration forms were not filed by most of the officers, while salary history cards were not maintained and kept intact in their personal files. Further there was no documentary evidence to show that payroll related accruals were checked and authorised and that analytical reviews for annual leave entitlements, long service leave entitlements, superannuation contributions, gross pay, payroll tax and employee deductions were regularly checked.

Cash Management

The cashbooks for the above bank accounts were not maintained nor were they prepared and furnished for audit review. The cash balances for each of these accounts were not available for verification, likewise the integrity and creditability of the financial affairs and the cash position of the Lae ULLG in the prevailing circumstances was not known. The cash balances reported in prior years contained grave errors and misstatements and that again has shown in the cash balances for 2012 and 2013. The bank reconciliation statements for both years were not provided for audit review nor were they prepared at all.

Trust Accounts

The trust accounts with bank accounts held and maintained to-date were not properly maintained and up-dated. Available records show two of the accounts have been closed however still shown. Status of these trust accounts cannot be established and confirmed. Accountable records and others such as the cashbooks and ledgers were not maintained.

Assets Management

Lae ULLG did not have a comprehensive fixed asset register showing details of assets owned and managed by the ULLG. A list of properties for both residential and commercial mostly on 99 year leases was provided however could not be verified with the actual lease agreement. There was no evidence that proper Board of Survey (BOS) was carried out during the year and prior years and any disposed during the years could not be established. Whilst any receipts on disposal of assets could not be established due to non-maintenance of records.

Advances Management

The Lae ULLG had not maintained an advances register during the year under review and prior years. Simple records of acquittal files had not been maintained for advances paid out and acquitted by officers upon their return. There was inadequate control over the payment, recording and acquittal of advances during the year and prior years.

6.14.3.2 Management Response

The aforementioned observations on the internal control weaknesses had been communicated to the Lae ULLG Management by way of a Management Letters together with risk implications and recommendations for improvement. However, I had not received any responses to the Management Letters as at the time of preparing this Report.

6.14.3.3 Status of Financial Statements

Status of the two years financial statements were inevitable, however problems associated with operating system and back logs of outstanding entries in both years accounts may not allow for an early preparation and presentation of the financial statements. The financial statements are still not prepared.

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

6.14.4 Angau (Lae) Memorial Hospital

6.14.4.1 Status of Financial Statements

The Angau Memorial Hospital had submitted its financial statements for the years ended 31 December 2012 and 2013 for audit. At the time of preparing this Report in July 2015, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements had been completed and the results were being evaluated. The financial statement for 2014 was awaited.

6.15 NEW IRELAND PROVINCE

6.15.1 Introduction

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

6.15.2 New Ireland Provincial Government

The New Ireland Provincial Government had not submitted its financial statements for the financial year ending 31 December 2014 to my Office for audit at the time of preparing this Report. An interim audit associated with audit of the accounts and records was completed without the financial statements and the Management Letter issued.

6.15.2.1 Financial Statements – 2014

The Annual Financial Statements for the financial year ending 31 December 2014 was not prepared and presented to my Office for audit at the time of preparing this Report. I will issue audit report to the Ministers concerned once the statements are submitted and audited. The paragraphs below detail issues identified with the control environment.

6.15.2.2 Control Environment – 2014

Corporate Governance

The New Ireland Provincial Government's five-year Corporate Plan 2008 to 2012 had lapsed at the end of 2012. The Corporate Plan focused on a number of major Key Result Areas (KRAs) with set targets and objectives. I was not provided evidence to suggest that there had been reviews done to assess and evaluate the implementation and achievements of goals and objectives of the Corporate Plan nor a new Corporate Plan had been developed incorporating the outcomes of the review conducted.

Work of Internal Audit

The Internal Audit Unit has a key administrative function that oversees the effectiveness of other functions and internal controls within the administration. An effective Internal Audit Unit provides absolute assurance and instills integrity in the internal controls that management established to rely on. As at the time of my audit inspection, the New Ireland Provincial Government did not have in place an Internal Audit Unit. That indicated a major control weakness – in essence the reliability of various management systems established to deliver basic services. I was not able to assess the effectiveness of its internal controls to obtain assurance as to whether I could rely on information provided from unmonitored sources.

Appropriation and Budget Management

The New Ireland Provincial Government approved annual appropriation for the financial year ended 31 December 2014 was K184,431,400. However, my review of the expenditure ledger reports revealed the annual appropriation presented as Initial Appropriation and Current Appropriations for Division 716 (Internal Revenue) totalled K63,210,700 and K63,297,600 respectively indicating there had been increases to the approved original appropriation of K184,431,400. However, I was not provided a revised

budget document to verify the accuracy of the increases to the approved annual appropriation.

Cash Management

Prudent cash management practices are essential to reflect the Provincial Government's cash position or alternatively the fund balance at any point in time and to enable management to make prudent cash management decisions. I was not able to establish the New Ireland Provincial Government's cash position as at 31 December 2014 due to distorted cashbook balances. The cashbook balances were affected by the accumulated accounting errors which had not been identified and adjusted in their respective accounting periods. Further, I observed the compilation of monthly bank reconciliations of the New Ireland Provincial Government operating account was in arrears and had been compiled only up to May 2014 as at the time of my audit inspection in May 2015.

Revenue Management

Effective revenue management with adequate documentation of sources and procedures relevant for planning and collection of the potential revenue ensures that potential revenue is collected intact. I was not able to obtain absolute assurance on the effectiveness of the internal controls relating to revenue management in view of the following control weaknesses:

- Significant under collection of revenue were revealed in analytical procedures I performed to compare actual results against budget targets. I observed the New Ireland Provincial Government fell short to collect internal revenues totalling K33,386,817 from its potential revenue of K63,210,700 and National Government Grants totalling K93,166,400. The late release of funds by the National Government has been one factor attributed in the shortfalls in grant revenues;
- Delays in banking of daily collections for up to three months noted in my review of collection and banking procedures indicates an important control weakness that needs immediate attention of responsible revenue managers and management; and
- I observed under banking of revenue collections from 2011 to March 2014 totalled K21,305 while the bank reconciliation statements showed Provincial Government revenue collections totalling K244,739 had been recorded in the cashbooks however, not banked. Further, there were revenue collections totalling K3,180 and K3,351 from Namatanai District Treasury Office and Provincial Treasury Office respectively that had also not been banked. Recovery and/or imposition of appropriate disciplinary action taken on person(s) responsible for under banking of revenue collections by responsible revenue managers and management were lacking.

Procurement and Payment Procedures

Prudent expenditure management is necessary in order to enhance effective service delivery. I was not able to obtain absolute assurance on the integrity of the internal controls relating to expenditure management in view of the following control weaknesses:

Payment of Accounts

- Formal instruments relating to appointment of Section 32 Officers, Authorised Requisitioning Officers (ARO), Financial Delegates as well as their delegated financial limits and specimen signatures were not maintained and held on file at the Provincial Treasury Office. I was not able to obtain assurance whether all expenditures incurred and paid were approved by duly appointed authorised officers;
- The Provincial Government paid total of K161,559 and K232,235 as reimbursement of monies borrowed from private firms and individuals respectively. I was not provided for my satisfaction appropriate evidence to suggest the borrowing of monies from private firms and individuals, on behalf of the Provincial Government was approved by the Provincial Administrator;
- I was not able to obtain assurance whether payments totalling K9,664,151 lacking certification of the duly appointed certifying officer were legitimate and appropriate;
- Outstanding claims from 2012 PNG Games totalling K75,745 lacking appropriate supporting documents were processed and paid without the processes of examination and certification of claims. I was not able to obtain assurance whether the payments made were genuine and appropriate;
- The Namatanai Joint District Planning and Budget Priority Committee (JDP&BPC) approved project funds totalling K600,000 were expended out of expenditure vote 715.2020.6807.135 and paid into Namatanai District Treasury Operating Account. In the absence of a revised budget, I was unable to ascertain whether the expenditure vote to which the expenditure was charged to was funded in 2014 for the intended purpose;
- I was not able to obtain absolute assurance whether the payment of K12,000 made to a merchandise retail shop for petroleum products was legitimate and appropriate; and
- Goods received notes and/or delivery dockets provide assurance that the correct quantity of goods ordered had been delivered and received in good condition. I was not able to ascertain the validity and appropriateness of payments of K1,195,700 for purchases of roofing irons and K1,194,706 for schools' rations that lacked support of goods received notes and/or delivery dockets;

Provincial Supply and Tenders Board

- The New Ireland Provincial Supply and Tenders Board did not have in place a permanent Tender Evaluation Committee to provide competent technical advice to the Board;
- The Public Works New Ireland Limited receives funds and participates in the management and implementation of capital works and maintenance projects on behalf of the New Ireland Provincial Government. I was not able to ascertain whether the payment of capital works and maintenance funds to Public Works New Ireland Limited totalling K4,279,000 were sanctioned and approved by the Provincial Supply and Tenders Board; and
- The New Ireland Development Corporation was reimbursed K4,500,000 in funds utilised on road constructions and K479,714 was paid to Brentbino Trading for a capital works contract. I was not able to determine whether the expenditures incurred were sanctioned and approved by the Provincial Supply and Tenders Board.

Consultancy Services

The New Ireland Provincial Government engaged the services of two Consultants attached with the Autonomy Secretariat and one with the Division of Planning. The Consultants are each paid monthly consultancy fees of K36,000 tax-free whilst the planning consultant is paid fortnightly based on an annual salary of K1,314,000.

I was not provided for my satisfaction evidence to suggest that the engagement of the Consultants were sanctioned and approved by the appropriate authorities such as the Consultancy Steering Committee of the Department of Personnel Management.

Human Resource Management

Two retrenched employees of the Provincial Government were paid their final entitlements totalling K138,787 from expenditure vote 287.2100.9101.135. I observed these payments had been inappropriately charged to vote item 135 and that the Retrenchment/Retirement Benefit Calculation Forms were neither signed nor stamped by a competent authority from the Department of Personnel Management. Further, my review of the Payroll Register for Pay No. 26/2014 revealed the two retrenched employees continued to appear in the payroll.

Asset Management

Effective asset management and usage would contribute to better service delivery. Proper asset control and monitoring would prevent fraudulent use of assets for personal gains, theft and reliable data would be available for relevant decisions regarding asset disposal and acquisition. I observed the assets register was not adequately maintained and lacked complete, accurate and descriptive information on all fixed assets purchased, owned and in the custody of the New Ireland Provincial Government as at 31 December 2014.

Advances Management

I observed serious lack of monitoring and recovery exercises on travelling allowances and cash advances resulting in excessive amounts of cash advances totalling K1,025,202 paid to officers during the year. I was not able to obtain assurance that the cash advances granted to officers were strictly utilised and legitimately expended for the intended purposes.

6.15.2.3 Management Response

The above observations had been communicated to the Provincial Administrator and the Management by way of a Management Letter together with risk implications and recommendations for improvement. However, I did not receive a response to the Management Letter at the time of preparing this Report.

6.15.2.4 Status of Financial Statements

At the time of preparing this Report, the New Ireland Provincial Government had not submitted its financial statements for the year ended 31 December 2014 for my inspection and audit.

6.15.3 Kavieng Urban Local-level Government

The Kavieng Urban Local-level Government (ULLG) submitted its financial statements for the years ended 31 December 2011 and 2012. Fieldwork associated with audit of the accounts and records were completed with the Management Letters issued and the audit opinion reports were also issued to the ministers concerned. The audit reports were issued with Disclaimer Audit Opinion. The paragraphs below detail issues identified with the financial statements and the control environment.

6.15.3.1 Financial Statements– 2011 and 2012

My Reports to the Ministers concerned and other relevant bodies in accordance with relevant provisions of *the Organic Law on Provincial Governments and Local Level Governments* and the *Audit Act* on the financial statements of the Kavieng ULLG for the years ended 31 December 2011 and 2012 were issued in May 2015. These Reports contained similar Disclaimer of Opinions, hence only the 2012 report is reproduced as follows:

“Basis for Disclaimer Opinion

Disclosure Errors

I noted the disclosure errors which could have material effect on the accuracy and completeness on the Kavieng Urban Local Level Government account balances and consequently, the financial position of the Urban Local Level Government as at 31 December 2012.

Cash Balances

- The Kavieng Urban Local Level Government cash and bank balance of K334,314 could not be confirmed as correct due to revenue fund opening balance of K101,962 not in agreement with the 2011 closing cash balance of K339,453 as shown in Note 3 to the accounts;
- There were material reconciling items in the operating account bank reconciliation statements relating to receipts and expenditure dating back to 2005 that should have been adjusted in the cashbook and posted to the respective revenue and expenditure ledgers and disclosed in Statements ‘J’ and ‘K’ which also affected the bank and cash balances at year end; and
- The Kavieng Urban Local Level Government revenue fund balance of K322,838 could not be confirmed as correct due to errors and material misstatement of operating surplus as discussed under the paragraphs on receipts and payments for the year ended 31 December 2012.

Receipts and Payments

Statement ‘B’ presented total revenue and expenditure of K939,258 and K718,382 respectively with an operating surplus of K220,876 as at 31 December, 2012. I am unable to confirm the accuracy of the revenue and expenditure therefore, the correctness of the reported operating surplus due to the following reasons:

- The total revenue of K939,258 included the 2011 brought forward unspent grants of K237,490 which should have been excluded from the actual receipts for the year and disclosed in the Notes to that effect as these receipts are not actual receipts for the current year; and

- Material reconciling items pertaining to receipts and expenditure dating back to 2005 were not adjusted in the cashbook and posted to the appropriate ledgers.

Assets

The value of fixed assets of K326,480 disclosed in Appendix 4 of the financial statements was materially misstated and unreliable as it only represented a brought forward balance from 2007 and did not include nor reflect costs of additions and disposals, if any, during the years 2008 to 2012. Further, the assets register was inadequately maintained to record complete and accurate information on all fixed assets owned and in the custody of the Urban Local Level Government. Consequently, I am unable to verify the completeness and accuracy of the reported value of fixed assets owned and under the custody of the Kavieng Urban Local Level Government as at 31 December 2012.

Disclaimer Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, I was not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion and consequently, I am unable to express an opinion on the Kavieng Urban Local Level Government financial statements for the year ended 31 December 2012”.

6.15.3.2 Control Environment– 2012

Corporate Governance

Effective service delivery depends entirely on prudent corporate governance. Adoption of a corporate plan with clearly identified goals and objectives enables good corporate planning and the directing and controlling of scarce resources in order to attain maximum output. Kavieng General Hospital did not have in place a corporate plan with clearly identified corporate goals, objectives and strategies to enhance service delivery.

Revenue Management

I was not able to obtain absolute assurance on the effectiveness of the internal controls exercised over the recording and accounting of revenues in view of the following control weaknesses:

- The revenue collections for Kavieng ULLG were not banked promptly and intact. I observed that substantial amounts of cash were retained unduly out of which operational expenses were met and in some cases, cash were paid as loans or advances to staff resulting in an unaccounted deficiency of K15,635 in one instance; and
- The safe custody of revenue collections was inadequate and unsatisfactory. I observed the revenue collections were stored away in a two drawer steel filing cabinet. The keys to the small lock installed to the filing cabinet were kept in the Town Manager’s office table drawer. The Town Manager had access to his office at all times.

Payment of Accounts

Prudent expenditure management is necessary in order to enhance effective service delivery. I was not able to obtain absolute assurance on the integrity of the internal controls relating to expenditure management in view of the following control weaknesses:

- Claims totalling K4,161 were processed for payment without the requisition for expenditure (FF3) being approved by the appropriate Section 32 Officer;
- Payment vouchers totalling K9,775 were not certified to determine the legitimacy of claims prior to processing payments;
- A payment of K20,000 was paid as financial assistance to Kavieng Logistics for mechanical maintenance of the two 100HP engines for MV Kavieng. The expenditure was sanctioned by the Chairman of Kavieng ULLG Executive Arm through a Decision No.04/2011 dated 18 May 2011. However, I could not determine the validity of this payment in view of the huge time gap between the date of the Decision 1 June 2012, the date when the claim was presented for payment;
- Payments totalling K57,417 were approved by respective Wards Chairmen and paid as financial assistances directly to individuals for their intended projects. Further, the Ward projects were not supported by relevant meeting minutes as evidence to indicate the request for project funds were deliberated upon and sanctioned by the respective Ward Development Committees and consequently endorsed by the Ward Chairman concerned for payment; and
- Payments totalling K39,735 made in respect of minor repairs and maintenance works lacked evidence of proper job request forms duly certified by the Works supervisor.

Advances Management

The Appendix 6 to the financial statements stated advances dating back to 2006 totalling K36,708 remained unacquitted as at 31 December 2012. As stated in my previous year audit reports, the un-acquitted advances include the payment of a cash advance of K26,560 to the Administrative Officer of New Ireland Provincial Police Headquarters dating back to 2009. I sighted no evidence to indicate the management of the Urban Local Level Government nor the Kavieng District Treasury Office had taken recovery action. Further, my review of the expenditure ledgers revealed sixteen payments of travelling allowances and cash advances to officers during the year totalling K29,067 had been recorded in the PGAS advances register.

6.15.3.3 Management Response

The above observations had been communicated to the District Administrator and the Management together with risk implications and recommendations for improvement. I have however, not received the responses to the Management Letter at the time of preparing this Report.

6.15.3.4 Status of Financial Statements

At the time of preparing this Report, the Kavieng ULLG had not submitted its financial statements for the years ended 31 December 2013 and 2014 for my inspection and audit.

6.15.4 Kavieng General Hospital

The Kavieng General Hospital had not submitted its financial statements for the financial years ending 31 December 2011, 2012, 2013 and 2014 respectively. In the absence of the financial statements, fieldwork associated with the interim audit of the accounts and records without the financial statements for the years ended 31 December 2011 and 2012 was undertaken and completed with the Management Letters issued accordingly.

6.15.4.1 Financial Statements – 2011 to 2014

The Kavieng General Hospital did not submit its financial statements for the years ending 31 December 2011 and 2012 for inspection and audit. The interim audits of the internal control system were however, completed and the Management Letters issued. The Management Letters contained similar issues, hence, only the 2012 issues are reproduced as follows:

6.15.4.2 Control Environment – 2012

Corporate Governance

Effective service delivery depends on prudent corporate governance. Adoption of a corporate plan with clearly identified goals and objectives enables good corporate planning and the directing and controlling of scarce resources in order to attain maximum output. The Kavieng General Hospital did not have in place a corporate plan with clearly identified corporate goals, objectives and strategies to enhance service delivery. I was not able to review procedures and mechanisms devised to facilitate effective service delivery to the people.

Work of Internal Audit

An effective Internal Audit Unit provides assurance and instills integrity in the internal controls that management established to rely on. The Kavieng General Hospital had no Internal Audit Unit in its structure and the National Department of Health is responsible for the internal audit function of the Hospital. There had been no internal audits undertaken for the years up to and including 2012. Consequently, I was not able to assess the effectiveness of its internal controls to obtain assurance as to whether I could rely on information provided from unmonitored sources.

Appropriation and Budget Management

I was not able to ascertain the extent to which the Kavieng General Hospital annual appropriation of K16,195,979 was implemented and achieved in view of the following control weaknesses:

- Complete documentation of the budgetary process was poor hence, key controlling documents such as the Appropriation Act and Budget Reviews for the Hospital operating account and as well as a budget estimate of projected revenues and corresponding expenditure for the Hospital Fees Trust Account were either not maintained or incomplete. I was not able to perform analytical procedures to determine actual performance of the annual budget as well as to confirm legal authorisation of the budget;
- The revenue and expenditure component of the salaries and allowances estimates of K7,678,431 administered through the Department of Finance Payroll System had not been taken up in the books of accounts of the Hospital; and
- The controls exercised over usage and management of allocated funds was lacking. I observed instances of payments totalling K85,525 were charged to vote items not funded for the intended purposes as well as expenditure relating to salary advances, overtime, higher duty allowances and travel and subsistence totalling K112,189 paid out from Hospital fees trust account. Further, I observed the expenditure recorded under the goods and services and capital formation programs had been materially misstated by K1,383,383 and K3,312,525 respectively.

Cash Management

There was limitation of scope arising from material misstatement of cash balances brought forward from prior years due to errors and omissions of receipts and payments in the Hospital operating account and Hospital fees trust account cashbooks thus, resulting in reconciling differences with the bank balances. Further, I observed the Kavieng General Hospital maintained and operated its Hospital operating account and Hospital fees trust bank accounts by using manual commitment ledgers and computerised cashbooks using the Microsoft Excel Program. Excel has limitations in its capacity to generate other financial reports such as revenue and expenditure statements, trial balance, periodic reports and bank reconciliations as it was not linked to the corresponding ledger accounts. Consequently, I was not able to ascertain the accuracy and completeness of the Hospital's combined reconciled cashbook balances of K1,731,622 and K43,506 as at 31 December 2012.

Revenue Management

I was not able to obtain absolute assurance on the effectiveness of the internal controls relating to revenue management in view of the following control weaknesses:

- The Kavieng General Hospital recorded grant receipts as K4,748,900. However, complete documentation of the grant receipts was lacking hence, key controlling documents such as bank statements and cash fund certificates (CFC's) were either not maintained or incomplete. Consequently, I am unable to verify the accuracy of grant receipts of K4,748,900 as at 31 December 2012;
- There was no segregation of duties involving the functions of revenue collection, recording, banking and safe custody of public monies as well as the lack of internal checks conducted by a competent authority to ensure all revenues collected are recorded and promptly banked intact. I observed the daily takings from 31 October 2014 to 3 November 2014 had not been banked and were retained in an unlocked drawer rather than a safe.
- Adequate maintenance of Tenancy/Lease Agreements relating to leasing of a hospital building to operate a canteen as well as other key documents containing complete and accurate records on revenues received from rental of institutional housing were lacking. Consequently, I am unable to ascertain whether the Hospital had collected all monies due from rent sources; and
- Kavieng General Hospital held short term investments in two Interest Bearing Deposit (IBD) accounts with Westpac Bank (PNG) Limited. I was not provided the Interest Bearing Deposit (IBD) certificates neither the bank statements to determine the principal investment amounts as well as interest earned on the investments as at 31 December 2012.

Debtors and Creditors

Kavieng General Hospital did not maintain proper debtors' and creditors' ledgers or registers to record and monitor revenues due from debtors as well as commitments and liabilities that had to be settled as and when due. In the absence of these records, I am unable to determine the existence as well as the balances of debtors and creditors outstanding as at 31 December 2012.

Payment of Accounts

Prudent expenditure management is necessary in order to enhance effective service delivery. I was not able to obtain absolute assurance on the integrity of the internal

controls relating to expenditure management in view of the following control weaknesses:

- Kavieng General Hospital had paid a total of K662,529 on overtime allowances, wages, travelling allowances, petty cash reimbursements, leave fares and salary advances. The respective transactions were recorded in the cashbook as to the Paymaster/Pay mistress whilst the cheques are written out as cash cheques rather than in the name of the each respective payee;
- Hospital staff claimed reimbursement of personal monies totalling K27,881 without evidence of obtaining prior approval of the Chief Executive Officer;
- Leave fares entitlements totalling K99,488 were paid directly to officers in breach of provisions of the Public Service General Orders;
- A former Chief Executive Officer on job attachment from Port Moresby General Hospital was paid living allowances totalling K26,757. I was not able to obtain assurance whether the payment lacking a formal letter of job attachment duly approved by the Secretary for Health was legitimate and appropriate;
- Payments for leased properties totalling K249,920 lacked key documents such as Tenancy Agreements, rental invoices and adequate file records maintained for each leased property; and
- A Medical Officer was paid housing allowance entitlements totalling K18,000 tax-free.

Human Resource Management

Effective Human Resource Management is essential to improve service delivery. I was not able to obtain absolute assurance relating to effective human resource management in view of the following weaknesses:

- Kavieng General Hospital did not maintain proper payroll records nor followed proper processes of remitting vital information on fortnightly pay variations to be processed through the Concept payroll system. Consequently, I am unable to establish the actual amount of expenditure incurred on Hospital staff salaries and allowances as at 31 December 2012;
- Complete and vital documentation such as the establishment register, updated casual employees listing, ALESCO payroll summaries and monthly payroll reports, salary advance register and contracts of employment for contract officers were lacking and as such were not provided for my review;
- Kavieng General Hospital had paid a total of K58,992 from the Hospital operating account funds on contractual entitlements such as gratuity, higher duty allowances, and vehicle allowances which should have been processed through the payroll system; and
- I was not able to obtain absolute assurance whether the Chief Executive Officer had granted approval to officers to work overtime to which payments of overtime allowances totalling K212,311 were made.

Assets Management

Effective asset management and usage would contribute to better health service delivery. Proper asset control and monitoring would prevent fraudulent use of assets for personal gains, theft and reliable data would be available for relevant decisions regarding asset disposal and acquisition. I observed the Kavieng General Hospital did not maintain a permanent assets register that should contain complete, accurate and descriptive

information on all fixed assets purchased from prior years up to and including 2012 that are owned and in the custody of the Hospital.

Advances Management

The controls exercised over recording, monitoring and recovery of advances was lacking. My review of expenditure records revealed the hospital had paid out K64,169 on travelling allowances, cash advances of K17,961 and salary advances of K32,200 with K114,330 in total. I observed the Kavieng General Hospital did not maintain a proper advances register and other relevant records such as acquittal files to ensure that all payments of advances such as travelling allowances, cash advances and salary advances are recorded and followed up for acquittal and recovery purposes.

6.15.4.3 Management Response

The above observations had been communicated to the Hospital's Chief Executive Officer and Management together with a risk implications and recommendations for improvement. I have however, not received the responses to the Management Letter at the time of preparing this Report.

6.15.4.4 Status of Financial Statements

At the time of preparing this Report, the Kavieng General Hospital had not submitted its financial statements for the years ending 31 December 2011, 2012, 2013 and 2014 for my inspection and audit. The interim audits for the years 2013 and 2014 were however, scheduled to commence shortly in the absence of the financial statements.

6.16 ORO PROVINCE

6.16.1 Introduction

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

6.16.2 Oro Provincial Government

The financial statements of Oro Provincial Government for the year ended 31 December 2014 was still being finalised at the time of the audit in March 2015. Fieldwork associated with the audit of the internal control environment however, was completed in the absence of the financial statements and the Management Letter was issued.

6.16.2.1 Control Environment - 2014

The Management Letter relating to the audit of the internal control environment for the year ended 31 December 2014 was issued in May 2015. Issues contained in the Management Letter are reproduced as follows.

Corporate Governance

Quality and effective delivery of basic goods and services depends on prudent corporate governance. Appropriate formulation and implementation of a corporate plan with clearly identified goals and objectives in order to direct, control and monitor the limited resources more meaningfully in order to achieve goals and objectives of the corporate plan. The following observations were made in relation to the corporate governance:

- Oro Provincial Government had in place a five-year Corporate Plan (2011-2015) with clearly identified corporate goals, long-term objectives and strategies to enhance service delivery. Further, there was evidence of quarterly meetings conducted to review and assess the activities against goals, sets priorities and targets of the corporate plan;
- The Provincial Assembly and Provincial Executive Council (PEC) meeting minutes were poorly maintained in that the records were incomplete and meeting minutes were not signed by the Chairman as true copies of the meetings conducted. Consequently, the frequency of the meetings held and appropriateness of the financial decisions reached could not be ascertained; and
- The Internal Audit function is a key administrative function that oversees the effectiveness of other functions and their internal controls and to ensure integrity and reliability of the internal control systems are maintained at all times. The Oro Provincial Government Internal Audit Unit and Audit Committee functions have been established and have been effectively performing their roles given the limited resources at their disposal.

Appropriation and Budget Management

Prudently managed annual budgets driven by corporate plan goals could result in minimum wastage of limited resources thereby ensuring efficient service delivery. Further, annual budgets legitimately authorise collection and spending of public funds

hence, legislative approvals are necessary to ensure actual implementation is restricted to approved limits and purposes.

The Appropriation Act of 2014 authorised the Oro Provincial Government's 2014 Revenue and Expenditure Budget of K99,263,800. Revenue was budgeted to comprise of internal revenue of K2,780,000, and National Grants of K82,089,400 and the 2013 Grant Rollover Funds of K14,394,400. The following observations were made with regards to budgetary control:

- Quarterly budget reviews were seen to be performed however several of the documents were not signed to indicate their authenticity and whether these have been sighted and approved by the management;
- There were instances of draw down of funds from other Sectors without proper approval;
- The Policy and Planning Division of the Provincial Administration were not provided PGAS print outs regularly and on a timely manner by Treasury for review and assessment; and
- Warrant Authorities and Cash Fund Certificates (CFCs) had lot of inconsistencies and deficiencies with breaks in between or lacked a proper filing system.

Cash Management

Prudent cash management practices are essential to reflect the Provincial Government's cash position or alternatively the fund balance at any given time as well as to enable prudent cash management decisions.

The Oro Provincial Government maintained two bank accounts namely, the Oro Provincial Government operating account and Oro Provincial Government grant account with related cashbooks to conduct its financial transactions for internal revenues and grants respectively. The monthly bank reconciliations were either incomplete, had not been duly certified or were never done to provide assurance that the cashbook and fund balances at yearend were reliable. Further, there were significant reconciling items that had been outstanding for years but were not identified and corrected resulting in the distortion of the accuracy of the cashbook and fund balances.

Revenue Management

Effective revenue management with adequate documentation of sources and procedures relevant for planning and collection of revenue provides assurance that all potential revenues have been collected and applied with minimum wastage. I was not able to obtain reasonable assurance on the effectiveness of the internal controls relating to revenue management in view of the following control weaknesses:

- Cancelled official receipts were not maintained for audit confirmation nor the receipt numbers recorded in the collector statements;
- Deficiencies of mismatch noted in cash amounts recorded and reflected in the collector statements and deposit slips; and
- Lack of segregation of incompatible duties for preparing collector statements, balancing and postings of amounts, and certifying of the prepared records to ensure accuracy of the stated amounts.

Procurement and Payment Procedures

Effective and prudent procurement management ensures quality service delivery given the limited resources. I was not able to obtain absolute assurance on the integrity of the

internal controls relating to expenditure management in view of the following control weaknesses:

Paid Accounts

- Payments totalling K25,254 notably to persons directly related to treasury staff. I observed these payments as being conflicts of interest resulting in the relatives of Treasury staff illegally benefiting directly from public funds in the absence of any supporting documentations;
- There were instances of payments totalling K878,329 to a Gee Hire Cars during the year under review. The relevance of the payments could not be established in the absence of any proper service agreement, or the evidence of nature of tasks performed; and
- Payments totalling K300,000 to Madean Integrated Ltd purportedly being for payment as per the PEC Decision 116/2013 did not have any evidence of the nature of payment, and a copy of the said PEC decision to ascertain validity, verification and assessment for legitimacy. Further, the release of funds and payments were not budgeted for in the initial budgetary provisions approved by the PEC and Assembly, and that the payments could not be seen to be tied to any projects nor any services rendered in the absence of related payment vouchers.

Capital Works and Maintenance

Effective and prudent capital works and maintenance expenditure management provides assurance of quality service delivery. I was not able to obtain assurance that capital works and maintenance expenditures incurred were proper and in accordance with the standard procedures and processes in view of the following concerns:

- The PSTB related records and registers including files and registers of PSTB members' details such as name, title, address and contacts; PSTB meeting minutes with resolutions and endorsements; and tender and contract files were not available for audit scrutiny; and
- Payments under vote item 225 totalling K554,625 for various capital works, projects and other major maintenance works were noted to have been diverted to general administration, cash advances, wages and taxes, fuel, hire cars, accommodation, transportation, and other outstanding bills which were unrelated to the capital works.

Grants and Subsidies

Existence of effective grants and subsidies management system provides assurance that lump-sum funds released to agencies, organisations, groups and associations, and individuals were properly accounted for and applied on intended purposes.

- The Oro Provincial Government had expended amounts totalling K458,641 as grants and subsidies to various organisations, Local-level Governments and agencies during the year. The Provincial Government however, did not have in place a monitoring and controlling mechanism to effectively monitor and obtain accountability reports including acquittals from the recipients to account for the funds disbursed. I was not able to ascertain the legitimacy of these that these expenditures.

Human Resource Management

Effective Human Resource Management is essential to improve service delivery. Competent and highly motivated personnel can perform their duties diligently and provide quality service.

- The salary variations could not be verified in the absence of related and valid supporting documents such as permanent variation advices;
- Fortnightly payroll reconciliations were not done to certify the correctness of the payrolls or the salaries were paid to persons actually in employment; and
- Employee personal files were not updated and/or lacked personal records such as salaries and wages declaration forms; statutory declarations; copy of educational qualification; birth and marriage certificates; letter of employment; letter of application; and letter of offer.

Asset Management

Effective asset management ensures proper accountability of public assets, preventing fraudulent use of assets and thereby contributes toward better service delivery outcomes.

The Oro Provincial Administration did not maintain a properly updated assets register with details of additions and/or disposals of fixed assets during the year as well as those of previous years. Consequently, assets at a total cost of K689,395 were not recorded and therefore, may not have been properly accounted for. Further, I sighted no evidence to indicate whether periodical stocktakes on all fixed assets were done during the year under review.

Advance Management

An adequately maintained advance registers and acquittal of vouchers provide assurance that advance management system is effective.

- The Oro Provincial Administration did not maintain advance registers nor was evidence provided to indicate reminder notices were issued to officers for acquittals;
- Cash and travel advances totalling K893,476 paid during the year were not recorded nor acquitted by holders thus indicating poor advance control management by the Oro Provincial Administration; and
- Additional advances totalling K156,263 were paid to officers in spite of non-acquittals of the prior advances in direct breach and violation of the advance policy and acquittal procedures.

6.16.2.2 Management Response

The above observations on the internal control environment for the year 2014 had been communicated by way of a Management Letter to the Provincial Administrator and Management together with risk implications and recommendations for improvements. I have however, not received the responses to the Management Letter at the time of preparing this Report.

6.16.2.3 Status of Financial Statements

The Oro Provincial Government did not submit its financial statements for the year ended 31 December 2014 at the time of preparation of this Report in July 2015.

6.16.3 Popondetta Urban Local-level Government

The Popondetta Urban Local-level Government (ULLG) did not submit its financial statements for the financial year ended 31 December 2011. However, fieldwork associated with audit of the internal control system had been completed and the Management Letter issued. The financial statements for the financial year ended 31

December 2012 were submitted and the audit of the accounts and records was completed with a Management Letter issued and a Disclaimer Audit Opinion report issued. Issues identified with the financial statements and the control environments are reproduced in the paragraphs below.

6.16.3.1 Comments on Financial Statements – 2012

My report to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* on the financial statements of the Popondetta ULLG for the year ended 31 December 2012 was issued in May 2015. The report contained a Disclaimer Audit Opinion as reproduced below.

“Basis for Disclaimer Opinion

Disclosure Errors

I noted the following disclosure errors which have material effect on the accuracy and completeness of the Popondetta Urban Local-level Government account balances and consequently, the financial position of the Local level Government as at 31 December, 2012:

Cash Balances

I am unable to express an opinion on the accuracy of the cash at bank and trust account balances and consequently, on the financial position of Popondetta Urban Local-level Government as at 31 December 2012 due to the following reasons:

- The overdraft bank balance of K800 as at 31 December, 2012 is an unreconciled amount which renders this statement unreliable. Further, I did not sight cashbook and bank statements to confirm the accuracy of respective balances;
- The trust fund overdraft opening balance of K500 is not in agreement with the 2011 closing balance. Further, Note 4.1 to the financial statements states thus, “*The trust Fund is materially distorted due to the accounting practice adopted in the treatment of unspent grants rolled over to the following year through a trust account with no bank account*”; and
- Material reconciling items pertaining to receipts and expenditure could not be substantiated in the absence of supporting schedules and sources.

Receipts and Payments

Transaction ledgers and cashbook records could not be retrieved after the roll-over in the subsequent year due to technical problems and therefore, not available for my confirmation of receipts and payments for the year. Consequently, I could not confirm nor verify the accuracy of the receipts and payments for the year ended 31 December 2012.

Assets

Despite my repeated recommendations in the previous audit reports, the Popondetta Urban Local-level Government did not establish nor maintain its assets register during the year. Further, values and details of assets owned and in the custody of the Urban Local-level Government had not been disclosed in the relevant appendix to the financial statements. This indicates a very poor assets management by the Urban Local-Level Government.

Advances

The Popondetta Urban Local-level Government did not maintain any form of advance register during the year under review. The extent and details of advances, if any, and the acquittals thereof were not disclosed in the relevant appendix to the financial statements. This indicates a very poor management of travel, salaries and cash advances by the Urban Local Level Government.

Disclaimer Opinion

Because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and consequently, I am unable to express an opinion on the financial report of Popondetta Urban Local-level Government for the year ended 31 December, 2012”.

6.16.3.2 Control Environment - 2012

The Management Letters on the internal control system for the years 2011 and 2012 contained similar issues hence; only the 2012 Management Letter is reproduced as follows:

Corporate Governance

- The Popondetta ULLG did not have a Corporate Plan in place with long term objectives, priorities and targets that would have taken into account the requirements of its stakeholders and the needs of the communities it serves as well as the associated plans on financial, asset management and human resources;
- Financial Executive Council Board meeting minutes and resolutions had not been maintained for my review. As such I could not ascertain issues discussed and whether or not formal resolutions had been passed. Further, I was not provided a list of the financial executive council board members and record of allowances paid during the year; and
- Internal audits of the Popondetta ULLG’s accounts and records were not conducted during the year under review. The Provincial Government Internal Audit Unit is responsible for the internal audit of the entities including the Popondetta ULLG.

Appropriation and Budgetary Management

- The annual budget documents together with transaction records were not available for my review. Consequently, I could not determine whether or not, the ULLG had a revenue and expenditure budget in place and whether it was duly sanctioned and effectively implemented during the year; and
- Cash Fund Certificates (CFCs) and ledger records pertaining to National Government Grants were not maintained to confirm the details and amounts received during the year.

Cash Management

Prudent cash management practices are essential to reflect the cash position or alternatively the fund balance at any given time and to enable better cash management decisions.

The Popondetta ULLG did not maintain proper documentation, including lack of accurate and proper maintenance of its bank statements and cashbooks to sufficiently support and verify the accuracy and completeness of its account balances at yearend.

Further, huge amounts including unpresented cheques reported in the bank reconciliation statements could not be confirmed as correct in the absence of supporting schedules and source documents.

Revenue Management

Effective revenue management with adequate documentation of sources and procedures relevant for planning and the collection of all potential revenue ensures that revenue is collected as budgetted and properly accounted for.

- The internal revenue collections were not banked promptly. I observed instances of delays in banking for up to a maximum of 38 days. Further, amounts purportedly collected could not be confirmed in the absence of relevant ledgers; and
- The total National Government grants received by the Popondetta ULLG had been reported as K523,800. I could not confirm the accuracy and completeness of the grants in the absence of ledger records and respective cash fund certificates.

Procurement and Payment Procedures

Effective and prudent procurement management ensures quality service delivery. I was not able to obtain absolute assurance on the integrity of the internal controls relating to expenditure management in view of the following control weaknesses:

- The Popondetta ULLG's expenditure for the year amounted to over K690,600 comprised of K523,600 from recurrent and K167,000 for the development expenditure. The accuracy and validity of these expenditures could not be verified in the absence of general ledgers and supporting paid vouchers and documents.

Human Resource Management

Effective Human Resource Management is essential to improve service delivery. Competent and highly motivated personnel can perform their duties diligently and provide quality service.

The Popondetta ULLG did not maintain staff establishment records nor provided personal files, if available, to confirm the number of casual employees and permanent public servants employed during the year. Further audit could not determine whether or not proper recruitment/employment processes were adhered to in the case of casual staff.

Asset Management

Effective asset management ensures proper accountability of public assets, preventing fraudulent use of assets and thereby contributes toward better service delivery.

The Popondetta ULLG did not have a comprehensive fixed assets register to record the details of assets that were owned, purchased, disposed of during the year. Records of various major assets including, buildings, land, and office equipment were not maintained. Further, I sighted no evidence to indicate if proper stocktakes were conducted to ensure physical existence and movement of assets during the year.

Advance Management

An adequately maintained advance register and acquittal vouchers provide assurance that the advance management system is effective.

Records relating to advances and acquittals during the year were not provided at the time of the audit, nor was it possible to determine the extent of advances paid out during the year due to the inability of the Provincial and District Treasury Systems Administrators, to effectively retrieve the expenditure transaction details at the time of the audit, except for the PGAS Summary.

6.16.3.3 Management Response

The above observations on the financial statements and internal control weaknesses for the year 2012 had been communicated by way of a Management Letter to the District Administrator together with risk implications and recommendations for improvements. I have however, not received the responses to the Management Letter as at the time of preparing this Report.

6.16.3.4 Status of Financial Statements

The Popondetta ULLG had submitted its annual financial statements for the year ended 31 December 2013 while financial statements for 2014 were not prepared and presented to me at the time of preparation of this Report. However, field audits relating to the financial statements audit and the internal control system for the respective years were scheduled to commence shortly.

6.16.4 Popondetta General Hospital Board

The Popondetta General Hospital Board had submitted its financial statements for the financial years ending 31 December 2011 and 2012. Fieldwork associated with the audit of the accounts and records were completed with the Management Letters and the Disclaimer Opinion reports issued. Issues identified with the financial statements and the control environments are summarised in the paragraphs below.

6.16.4.1 Comments on Financial Statements – 2011 and 2012

My reports to the Ministers concerned and other relevant bodies under the *Public Hospitals Act* and the *Audit Act* on the financial statements of the Hospital for the years ended 31 December 2011 and 2012 were issued in May 2015. The reports contained similar Disclaimer Opinions, hence only the 2012 report is reproduced as follows:

“Basis for Disclaimer Opinion

Presentation Errors

The Financial Instructions 02/2004 issued under Section 117 of the *Public Finances (Management) Act, 1995* state the prescribed format for the preparation and presentation of the financial statements for Non-Trading Public Bodies. The financial statements of Popondetta General Hospital for the year ended 31 December 2012 had the following presentation errors:

- The schedules required by the Financial Instructions including cash; appropriation; schedule of assets; liabilities; losses and deficiencies; receivables; unacquitted advances; and stores and inventory were not prepared and presented:
- The Declaration pertaining to fair presentation and acknowledgement of approval of the financial statements was only signed by the Chief Executive Officer without the endorsement of the Chairman of Hospital Board. Further, the financial statements did not contain a Statement of Management Representation, giving an overview or

summary of events that occurred during the year resulting in audit scope limitation and impacting fair presentation of every other statement of the financial statements.

Consequently, the financial statements of Popondetta General Hospital for the year ended 31 December 2012 were not presented in the format and details required by the Financial Instructions.

Disclosure Errors

I noted the following disclosure errors which have material effect on the accuracy and completeness of the Popondetta General Hospital's account balances and consequently, the financial position of the Hospital as at 31 December 2012.

The financial statement presented showed a consolidated revenue and expenditure of K26,897,225 and K10,519,400 respectively with a surplus of K16,377,825 for the year, and a closing cash balance of K16,378,225 represented by operating account cash balance of K2,808,744 and trust account balance of K13,569,629. The balances disclosed however, could not be confirmed as reliable in the absence of bank reconciliations.

The Hospital, at the time of my audit, advised that the Attaché software used for recording transactions and producing reports including bank reconciliation statements had encountered technical problems and automated reports of bank reconciliations were unable to be produced.

Consequently, the accuracy and completeness of the account balances could not be confirmed as reliable in the absence of necessary reports and records including bank reconciliations.

Disclaimer Opinion

Because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and consequently, I am unable to express an opinion on the financial statements of Popondetta General Hospital for the year ended 31 December 2012".

6.16.4.2 Control Environment - 2012

The Management Letters on the internal control system for the years 2011 and 2012 contained similar issues hence; only the 2012 Management Letter is reproduced as follows:

Corporate Governance

The Popondetta Hospital Board had in place a Five-Year Corporate/Development Plan (2011-2016) with clearly identified corporate goals, long-term objectives and strategies to enhance service delivery. There were evidence of quarterly meetings conducted to review and assess the activities against goals, sets priorities and targets of the corporate plan. I noted however, the following matters of interest:

- I noted in my 2011 audit that the Board had resolved to divert the Hospital's redevelopment funds totalling K70,000 toward an incomplete work by the Northern Province Restoration Authority and a further diversion of funds totalling of K52,332 to pay a contractor for the clearing of the Hospital's back yard.

I am of the view that the application of the Hospital's redevelopment projects funds on areas either not directly or related to was unwise and may not be in the best interest of the Hospital's goals and aspirations.

- The National Department of Health is responsible for the internal audit function of the Hospital. However, I sighted no evidence to suggest that internal audits of the accounts and records of the Hospital were conducted during the year to ensure that the control mechanism instituted was operational and effective.

Appropriation and Budgetary Management

The Popondetta General Hospital had its budget appropriation and actual receipts against expenditures of K10,724,900 against the budget and actual expenditures of K24,559,229 and K10,172,782 respectively. I noted the following issues:

- There were general over and under expenditures from various budgeted vote items resulting in an overall net under expenditure of K552,118 for the year. Expenditures however, were generally noted to be within the budget and that the under expenditures were largely due to the underfunded salary component; and
- The Hospital's internal revenue budget estimates were not included to determine if the internal revenue from patient fee income had been complete adequately collected and expended according to budget.

Cash Management

Prudent cash management practices are essential to reflect the cash position or alternatively the fund balance at any given time and to enable better cash management decisions.

Control weaknesses including delays in banking, lack of segregation of duties relating to collections and banking of revenues, posting functions, and missing supporting documents exposed cash to fraud, theft and abuse.

Revenue Management

Effective revenue management with adequate documentation of sources and procedures relevant for planning and collection of all potential revenue ensures that revenue is collected as budgeted, intact and properly accounted for.

- Instances of cash collections not independently checked to ensure completeness in recording and banking; and
- Cash Fund Certificates not properly maintained to vouch for the government grants received.

Procurement and Payment Procedures

Effective and prudent procurement management ensures quality service delivery. I was not able to obtain absolute assurance on the integrity of the internal controls relating to expenditure management in view of the following control weaknesses:

Paid Accounts

- Financial delegates, Section 32 Officers, Certifying Officers and Examiners were seen to be generally effectively observed. However, formal (written) appointment instruments were not sighted to confirm the appointment of the officers although the duties were performed by different officers.
- Written quotations and delivery notes on purchases of materials for routine maintenance were lacking.

Capital Works and Maintenance

The Hospital had secured a total of K10 million funding from the National Government in 2011 purposely for the redevelopment of the hospital together with staff accommodation. However, there were no evidence of major capital works done as at the time of audit in July 2014. I noted however, that a total of K20 million relating to the redevelopment programme was parked in the Hospital's fees trust account awaiting proper supply and tender processes, completion of architectural designs and other necessary formalities.

Human Resource Management

Effective Human Resource Management is essential to improve service delivery. Competent and highly motivated personnel can perform their duties diligently and provide quality service. I noted the following issues:

- Gratuity payments to contract officers could not be verified in the absence of their contract documents. I made similar observations in my previous reports with the Hospital's response thus, *"due to indecisiveness and constant changes on the format of the contract by the Doh & DPM, that the Hospital was not able to get the documents in order. The Doctors at the Hospital were bound by the National Doctors' Association (NDA) Agreement hence, were paid their awards and gratuities"*;
- A staff establishment register was not adequately maintained to indicate levels at which staffs were paid. I noted that most staff were paid their salaries at 2 to 3 grades above their positions;
- Proper control and monitoring of overtime claims was lacking as evidenced by a lack of documented and approved overtime requests; and
- Payments of staff recreational leaves were not supported with evidence of appropriate documents including birth certificates or concessions for dependents.

Asset Management

Effective asset management ensures proper accountability of public assets, preventing fraudulent use of assets and there by contribute toward better service delivery.

As reported in my previous reports, the Hospital did not maintain any comprehensive assets register during the year under review. Consequently, I could not ascertain whether the Hospital had adequately accounted for all fixed assets owned and under its custody during the year.

Advance Management

- Noted sixteen instances of payments for airfares, hotel accommodation, hire vehicles and cash advances totalling K69,200 not acquitted. Consequently, these advances could not be verified as genuine and whether or not these had been applied to the intended purposes; and
- Some improvements were noted however in the control and monitoring of cash and salary advances and acquittals thereof by the Hospital. This resulted in the recovery of the prior years salary advances of more than K500,000 with a balance of over K100,900 remained recoverable at the time of audit in July 2014. The Hospital had also ceased giving additional advances to officers since 2011 while fortnightly deductions were continuously being made through the Concept payroll.

6.16.4.3 Management Response

The above observations on the financial statements and internal control weaknesses for the year 2012 had been communicated by way of a Management Letter to the Hospital Chief Executive Officer together with risk implications and recommendations for improvements. I have however, not received the responses to the Management Letter as at the time of preparing this Report.

6.16.4.4 Status of Financial Statements

The Popondetta General Hospital Board did not submit its financial statements for the financial years ended 31 December 2013 and 2014 at the time of preparation of this Report in June 2015. However, field audits relating to the audit of the internal control system for both years were scheduled to commence shortly.

6.17 SANDAUN PROVINCE

6.17.1 Introduction

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

6.17.2 Sandaun Provincial Government

The Sandaun Provincial Government submitted its financial statements for the financial years ending 31 December 2013 and 2014. Fieldwork associated with audit of the accounts and records for both years were completed and the audit opinion reports were issued to the Ministers concerned. The audit reports were issued with Disclaimer Audit Opinions. The paragraphs below detail issues identified with the financial statements and the control environment.

6.17.2.1 Comments on Financial Statements - 2014

My reports to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* on the financial statements of the Sandaun Provincial Government for the years ended 31 December 2013 and 2014 were issued in May 2015 and July 2015 respectively. The reports contained similar Disclaimer Opinions hence; only 2014 report is reproduced as follows:

“Basis for Disclaimer Opinion

Cash balances

I was unable to express an opinion on the accuracy of the cash at bank and trust account balances and consequently, on the financial position of Sandaun Provincial Government as at 31 December 2014 due to:

- The fund balance of K6,608,269 could not be confirmed as correct due to inherited errors and material limitation of scope expressed in my previous audit reports.

Included in the revenue fund balance of K6,567,566 was an amount of K4,514,170 being for disposal of investments. I was unable to establish the disposal and verify the amount due to unavailability of source documents and supporting schedules. Consequently, I was unable to confirm the correctness of the revenue fund balance of K6,567,566;

- Although the operating deficit of K8,219,265 disclosed in note 3 agreed to the net effect of Statements ‘J’ and ‘K’, it did not agree to the operating deficit of K4,700,631 per Statement ‘B’, an understatement due to the TMS 55 report disclosed under revenue was understated by K3,518,633 resulting in the disclosing reference in note 3 misleading and unreliable;
- Statement ‘C’ was disclosed as ‘*Trust Funds without Bank Accounts*’, therefore the balance of K40,702 was incorrectly disclosed as part of the fund balance in Statement ‘A’;

- I was unable to confirm the bank balances of K770,807 and K7,910,340 for operating and grant accounts respectively due to the significant reconciling items parked in various supporting schedules of the bank reconciliation statements, had been outstanding for years back distorting real cash book balances. Such reconcilable items had been created due to accounting errors that had not been corrected in their respective years which accumulated and carried forward;
- A total bank balance of K6,608,269 in Statement 'A' did not agree to note 6.1 which was intended to disclose a reconciled balance; and
- Amongst the bank balances disclosed in note 6.1 were other accounts of K2,441,292 and PGGA unspent of K4,514,170. In the absence of source documents and supporting schedules I was unable to confirm these balances. Further, these balances had not reflected actual cash or bank balances and therefore note 6.1 and Statement 'A' were distorting.

Receipts and Payments

Statement 'B' presented total revenue of K108,528,423 and expenditure of K113,229,053 with deficit of K4,700,631. I was unable to verify the accuracy of the receipts and payments and subsequently the accuracy of the deficit as at 31 December 2014 due to:

- The Public Servants and Teachers' Salaries as per TMS 55 Report from the Department of Finance was understated by K3,518,633 under revenue resulting in understatement of operating deficit in Statement 'B'; and
- There were significant reconciling items from the bank reconciliation statements pertaining to receipts and expenditure that had not been adjusted in the cashbook and posted to the appropriate ledgers.

Investments

Long Term Investments had not been disclosed in Statement 'A', 'F' and note 8 of the financial statements. However; my review of the records noted that a company named West Sepik Investment Ltd incorporated with Investment Promotion Authority was solely owned by Sandaun Provincial Government. I noted that this investment had not been captured and reported in the financial statements of the Provincial Government rendering the related statements misleading and unreliable.

Assets

Good asset management had not been practiced and in the absence of a complete assets register and annual stock-takes, I was unable to confirm the existence, completeness and value of all assets owned by the Sandaun Provincial Government as at 31 December, 2014 which included motor vehicles as there had also been lack of control over the Provincial Government fleet of vehicles. Further, assets worth of K4,723,848 purchased in 2014 had not been fully recorded in the assets register and disclosed in Appendix 4 to the financial statement.

Advances

Appendix 6 disclosed total outstanding advances of K17,692,324 which agreed to the advance register whilst note 17 disclosed un-acquitted advances as K9,085,866 resulting in a difference of K8,606,458. Consequently, I was unable to confirm the completeness and accuracy of the un-acquitted advances disclosed in the financial statements.

Disclaimer Opinion

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

6.17.2.2 Significant Control Weaknesses

In accordance with the *Audit Act* and *Organic Law* I have duty to report on significant control issues arising out of the financial statements to which the report relates.

Corporate Governance

Corporate Plan

Sandaun Provincial Government had in place a Corporate Plan for the period 2012 to 2016 and Associated Action plans. However, there was no review and evaluation mechanism in place to show whether provincial management team actually implemented the corporate plan through annual budgets, monitoring implementation and evaluation of outcomes against corporate plan's key result areas.

Internal Audit

The Internal Audit Unit (IAU) did not have in place an annual audit plan for the 2014 fiscal year. This Unit was in dire need of qualified and competent personnel to assist the acting Chief Internal Auditor and necessary logistics and adequate budget allocation had not been in place to enable the Audit Unit to establish a workable audit plan and implement them effectively.

Revenue and Receivables

Revenue management by the provincial government had been poor in the collector statements had not been properly compiled and filed and no segregation of duties in collection, receipting, preparing collector statements, banking and recording in cash book and ledgers. Further, records for debtors of the provincial government had not been maintained during the year.

Procurement Procedures and Payments

Procurement Procedures

My review of the procurement procedures observed by the provincial government in procuring of goods and services during the year under review noted the following:

- The Provincial Supply and Tenders Board did not have in place a tender box and a tender register to register all tenders received. As such audit was not able to place any reliance on the overall procurement procedure involving calling for public tender, registering of tenders, selecting of tenderers, and awarding of contracts;
- Names and specimen signatures for Authorized Requisitioning Officers (ARO) were not provided for my verification. Hence their signatures on the requisitions for expenditure (FF3) forms could not be verified;
- Three (3) quotations were not obtained in almost all payment vouchers sighted nor did quotations register maintained;

- Recreational leave fares were paid to individuals instead of the airline and long outstanding leave fares were 100% encashed instead of 50%, further, a total of K139,000 was incurred being vehicle hire in lieu of recreation leave fares for officers who were going on leave;
- There was no control over the hire of vehicles where Hire Car Companies and individual vehicle owners were selected and engaged during the year resulting in excessive vehicle hire cost;
- I noted a total of K355,080 being paid to various suppliers during the year for the supply of fuel to Provincial Government vehicles. However, effective control mechanisms to monitor and reconcile fuel dockets issued and supplier invoices were lacking. In the absence of such control, I was not able to ensure if the fuel were supplied to genuine vehicles; and
- Payment of K134,100 as financial assistance to organizations, schools and individuals totalling I noted that there were no policies or established criteria in place to follow when paying these financial assistances as a control measure to ensure proper accountability. In the absence of the necessary controls, I was not able to ensure if these funds were applied for the intended purposes.

Grants and Subsidies

A review of the expenditure report showed payment of grants and subsidies totalling K2,606,800 during the year. These payments were made to various schools and Local Level Governments. However, accountability reports or acquittals for these grants and subsidies year were not provided as such I was unable to establish that the grants received were expended on the intended purpose. Further, there was no guideline in place to ensure these recipients report back to the paying authority as a control measure for proper accountability.

Capital Works and Maintenance

A review of an executable contracts signed between contractors and Provincial Government revealed that details such as approved and contract value of projects, time frame for start and completion of projects, allowances for variations and stages of project funds to be released to the contractors were not adequately and clearly provided in the contract.

I noted that tender box and a tender register were not maintained and there was no evidence of tender evaluations being made to award the contracts to the most economical contractor. Important documents such as bank guarantee or security letters and contract works insurance documents were not considered as evidenced by the payment of contractors soon after the contract was signed. Furthermore, effective project management was lacking, that maintenance of project files, contracts were either non-existence or defective in nature, work inspection and certification reports, certificate of completion, details of progressive contract payments were not sighted in almost all capital works.

Human Resource Management

My review of the human resource management and payroll revealed that:

- the Sandaun Provincial Administration did not have a Human Resources Development and Management Policies in place;

- the fortnightly payrolls received from Department of Finance were not reconciled with HR records to ensure correct salaries and allowances are paid. Without such checks any payroll fraud if executed would not be detected;
- instances of six (6) employment contracts expired in 2012 were not yet renewed at the time of this audit in 2015. I have not sighted one employment contract for a senior officer amongst the contract files provided for my inspection;
- accommodation allowance for the Deputy Governor was paid to him during the year in accordance to SRC Determination while he was living in rented accommodation where the Provincial Government was paying monthly rentals and power bills to the Landlord; and
- instances of overtime payments totalling K138,135 were not supported with documents such as written approval for overtime work by superiors showing names of officer's, details and duration of the work done.

6.17.2.3 Management Response

The above observations on the financial statements and internal control weaknesses had been communicated by way of a Management Letter to the Provincial Administrator and Management together with risk implications and recommendations for improvement. I have however, not received responses to the Management Letter as at the time of preparing this Report.

6.17.3 Vanimo Urban Local-level Government

The Vanimo Urban Local-level Government (ULLG) submitted its financial statements for the year ended 31 December 2013 while the 2012 financial statements were not made available at the time of audit. Fieldwork associated with audit of the financial statements for 2013 and an interim audit of the control environment for 2012 had been completed with the Management Letters issued. The audit opinion report for 2013 was issued to the Ministers concerned. The audit report was issued with a Disclaimer Audit Opinion. The paragraphs below detail issues identified with the financial statement and the control environment. The control environment issues were similar for 2012 and 2013, hence, only the 2013 issues are reproduced.

6.17.3.1 Financial Statements– 2013

My report to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* was issued in May 2015. The report was a Disclaimer Opinion as reproduced below:

“Basis for Disclaimer Opinion

Cash Balances

Although the fund balance of K386,714.00 was in agreement with the reconciled cashbook balance and the trial balance I was unable to express an opinion on the accuracy of the cash at bank balance and consequently, on the financial position of the Vanimo ULLG as at 31 December 2013 due to:

- There was limitation of scope arising from the disclaimed audit opinion on the 2011 accounts and the 2012 financial statements were not furnished for my examination.

Consequently, I was unable to confirm the accuracy and completeness of the opening and closing accumulated fund balances of K107,521 and K386,714 respectively; and

- There were significant reconciling items identified in the bank reconciliation statement of the operating account that had not been adjusted in the cashbook thus affected the balances at year end. Consequently, I was unable to confirm the completeness and accuracy of the receipts and payments and the year-end cash at bank balances disclosed in the financial statement.

Receipts and Payments

I was unable to confirm the receipts and payments of K892,311 and K613,118 respectively and the net surplus of K279,195 due to reconciling items identified in the bank reconciliation statement of the Vanimo ULLG operating account relating to receipts and expenditure that had not been adjusted in the cashbook and posted to respective revenue and expenditure ledgers.

Debtors

Debtor ledgers for uncollected debts in respect of all revenue heads had not been maintained during the year. Long outstanding debts had not been followed up and action taken for recovery of debts resulting in significant shortfall in revenue collection.

Assets

An asset register maintained was inadequate and stock takes of assets and inventories had not been carried out during the year. In the absence of a complete assets register and annual stock takes, I was unable to confirm the existence and completeness of assets owned by Vanimo ULLG as at 31 December 2013.

Advance

An advances register and acquittal files had not been maintained for recording of cash and travel advances. Consequently, I was not able to ensure the accuracy of the total advances paid during the year and established the total amount of un-acquitted advances at year end.

Disclaimer Opinion

Because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and consequently I was unable to express an opinion on the financial statements of the Vanimo ULLG for the year ended 31 December 2013.”

6.17.3.2 Control Environment

In accordance with the *Audit Act* and *Organic Law* I have duty to report on significant control issues arising out of the financial statements to which the report relates.

Corporate Governance

Corporate Plan

Vanimo ULLG did not have a Corporate or a five-year Urban Development Plan that establishes long-term objectives, set priorities and targets and takes into account the priorities of its stake holders.

Meeting Minutes

The minutes of meetings held during the year under review by the Financial Executive Council and the Vanimo ULLG Council had not been furnished for my examination. Consequently, I was unable to determine important financial decisions taken on the financial affairs of the operation of the ULLG.

Internal Audit

There were no regular internal audits being conducted by either the ULLG Finance Inspectors or the Internal Audit Division of the Sandaun Provincial Government into the routine operations of Vanimo ULLG for the year under review.

Appropriation and Budget Management

My review of the ULLG's budget appropriation and actual receipts noted that actual total receipts was K392,311 compared to an estimate of K977,353 resulting in a shortfall of K626,818. The internal revenue estimates under six revenue heads totaling K478,853 were not collected at all. These estimates for unrealistic revenues may have inflated the budget for the year then ended. Further, documents relating to budget performance reviews and evaluation and revised budgets if any, were not made available for my review.

Revenue Management

The ULLG did not put much effort into coordinating the activities involved in collecting of all outstanding debts and ensuring that all debts were reliably collected during the year. I noted that there were no documented systems or processes in place where officers could be directed to do their duties properly and effectively. As a result, I noted significant under collections in internal revenue as against the budgeted estimates.

Furthermore, I noted serious breakdown in the internal controls over daily collections of monies at the cash office as follows:

- Neither a formal appointment notice nor documentation was provided for confirmation of the appointment of the Receiver of Public Monies.
- There was no segregation of duties in the incompatible duties of revenue collection, banking and compiling of receiver statements. The functions performed had not been checked and attested by the District Treasury senior officers. Fraudulent activities exist in such situations may remain undetected for a long time.
- Monies from internal collections were not banked promptly. Delays in banking ranging from one to twenty-nine days were noted.

Payment of Accounts

My review and tests on procurement management procedures revealed the following matters:

- Payments totalling K16,300 were processed without being certified by the certifying officer.
- All of the payment vouchers sighted were not marked "*paid*" to avoid the possibility of double payment.
- The specimen signatures of the duly appointed Financial Delegates and Requisitioning Officers were not provided for my inspection. Consequently, I could not verify the signatures for Financial Delegates on the selected samples of paid vouchers.

6.17.3.3 Management Response

Management had not responded to my Audit Management Letter queries. Consequently, I was not advised of any improvement at the time of preparing this Report.

6.17.3.4 Status of Financial Statements

At the time of preparing this Report, the Vanimo ULLG had submitted its financial statements for the years ended 31 December 2012 and 2014 for my inspection and audit and arrangements were being made to commence these audits shortly.

6.17.4 Vanimo General Hospital

The Vanimo General Hospital submitted its financial statements for the years ended 31 December 2013 and 2014. Fieldwork associated with audit of the accounts and records and the examination of the financial statements were completed with the Management Letters issued and audit opinion reports were also issued to the Ministers concerned. The reports issued were Disclaimer of Opinions. The issues identified with the financial statement and the control environments were common throughout hence, only the 2014 issues are reproduced as follows.

6.17.4.1 Financial Statements – 2014

My reports to the Ministers concerned and other relevant bodies under the *Public Hospitals Act* and the *Audit Act* on the financial statements of the Vanimo General Hospital for the years ended 31 December 2013 and 2014 were issued in May 2015 and July 2015 respectively. The reports contained similar Disclaimer Opinions hence, only 2014 report is reproduced as follows:

“Basis for Disclaimer Opinion

Presentation

Finance Instructions 2/2004 issued under Section 117 of the *Public Finances (Management) Act 1995* state the prescribed format for the preparation and presentation of the financial statements for Public Bodies. The format in which the financial statements for Vanimo General Hospital were presented was not in accordance with the above requirement which did not include the disclosure of the Schedules of capital assets and liabilities. Further, the financial statements presented were rather the summary of monthly transactions of both the operating and trust accounts and their running balances.

Limitation of Scope

There was limitation of scope arising from bank balances due to:

- (a) Errors and material limitation of scope expressed in previous audit reports were not corrected and cleared in the current year's accounts and as such continued to affect the opening fund and bank balances reported in the 2014 statements; and
- (b) The inefficiency and inadequacy of the Hospital to maintain proper cashbooks and ledgers and perform timely bank reconciliations for both the operating and the trust accounts. Consequently, I was unable to verify the accuracy and completeness of the consolidated closing fund balance of K8,645,616 disclosed in the financial statements.

Receipts and payments disclosed in the statements of both the operating and trust accounts could not be verified as complete and accurate due to revenues received and expenditures incurred not appropriately recorded in the cashbooks and respective ledgers resulting in significant variances. Disclosure errors noted in the statements presented include:

a. Operating Account

- The CFC revenue was under stated by K425,700
- Other deposits were overstated by K2,075,185
- Travel & subsistence was understated by K2,025
- Adjusting entries relating to bank debits (fees & charges) of K28, 854 were not supported with a schedule and were not taken up in the cash book (CB), cash payment journal (CPJ) and general ledger (GL), etc.

b. Fees Trust Account

- Wages was understated by K10,980
- Rental of properties was understated by K42,259
- Other operational expenditure was understated by K27,509
- Plant, equipment & machinery was understated by K6,155
- Adjusting entries relating to bank debits (fees & charges) of K14,154 were not supported with a schedule and were not taken up in the CB, CPJ, GL, etc.

Furthermore, the reconciled bank balances of K1,916,686 and K6,728,930 for operating and trust accounts respectively were incorrect and had variances of K20,792 and K15,003 respectively.

Due to the significant errors noted in the financial statements and the related records I was unable to confirm that the figures disclosed in the financial statements reflect a true and fair representation of the hospital's financial operations and position.

Disclaimer Opinion

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

6.17.4.2 Control Environment

In accordance with the *Audit Act* and *Public Hospital Act* I have duty to report on significant control issues arising out of the financial statements to which the report relates.

Appropriation and Budget Management

The Vanimo General Hospital received a total of K11,777,900 (excluding salaries & allowances – K7, 500,400) as grants from the National Government and expended a total of K12,386,722 leaving a deficit of K608,822. I noted significant overspending under travel & subsistence, transport & fuel, and rental of property, routine maintenance, other operating expenses and training. Further, internal revenue collections and related expenditure transactions through the trust account were not controlled with proper budgets.

Payment of Accounts

My review of the procurement procedures and payments noted that:

- The duties of examination and certification of payments had been lacking in the procurement process. Requisitions were neither examined nor certified before the actual payments were raised and paid.
- Valid lease agreements between the hospital and the lessee had not been maintained for properties rented by the hospital for its medical staff.
- Expenditures relating to training & development were deemed appropriate as the trainings attained were relevant and vital to the hospital's operations. However, there was no staff training & development plan/policy in place to identify appropriate individuals and respective training needs and also specific agreements with the officers on training to serve the hospital for a specified period after the trainings.
- Paid vouchers relating to recreational leave fare paid totalling K122,988.10 had no marriage, birth certificates, and student concession forms attached to verify the dependents stated on their leave applications.

Assets Management

The hospital maintained assets register however; it was not adequately maintained as such I noted that the additions in 2014 had not been taken up in the register.

Advances Management

The controls exercised over recording, monitoring and recovery of advances was lacking. The Vaimo General Hospital had not maintained an advances register to ensure that all payments of advances such as travelling allowances, cash advances and salary advances were recorded and followed up for acquittal and recovery purposes.

6.17.4.3 Management Response

Hospital Management had not responded to my Audit Management Letter queries. Consequently, I was not advised of any improvements at the time of preparing this Report.

6.18 SIMBU PROVINCE

6.18.1 Introduction

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

6.18.2 Simbu Provincial Government

The Simbu Provincial Government submitted its financial statements for the financial year ending 31 December 2014. Field work associated with audit of the accounts and records were completed with the Management Letter issued and the Disclaimer Audit Opinion report was issued to the Ministers concerned. The paragraphs below detail issues identified with the financial statements and the control environment.

6.18.2.1 Comments on Financial Statements – 2014

My report to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* was issued in May 2015. The report was a Disclaimer Opinion as reproduced below:

“Basis for Disclaimer Opinion

Cash Balances

I was unable to express an opinion on the accuracy of the cash at bank balance and consequently, on the financial position of Simbu Provincial Government as at 31 December 2014 due to the following reasons:

- The cash representation of the Simbu Provincial Government accumulated overdrawn fund balance of K22,250,702 reported in Statement ‘A’ was the year-end un-reconciled closing cash book balance and therefore was incorrect and misleading. The appropriate balance should have been the year end reconciled bank balance, which would reflect the actual cash position;
- The accumulated overdrawn opening fund balance of K6,030,927 used in Note 3 computations contains inherited errors brought forward from previous years;
- The deficit balance of K6,413,580 from Statement ‘B’ used in Note 3 calculations was not reliable in view of audit observations made under Statements ‘J’ and ‘B’. Further, schedule 7 of the grant account bank reconciliations for the month of December 2014 showed grant revenues from the Department of Finance totalling K18,252,164 were not posted to the cash book and revenue ledgers respectively. Hence, the revenues were understated by that amount; and
- The overdrawn closing trust fund of K9,806,195 disclosed in Statement ‘A’ was inaccurate and misleading in view of the audit analyzed an actual cash balance of K5,050,692 existed as closing balance.

6.18.2.2 Control Environment

The Management Letter relating to the audit of the accounts and records for 2014 was issued. The Management Letter contained the following issues as reproduced below:

Corporate Governance

Corporate governance was greatly lacking in that minutes of the Provincial Assembly and Provincial Executive Council meetings were not available. Budgetary activities were not guided by any Development or Corporate Plan and the Internal Audit Unit was not operating effectively in monitoring the internal controls of the Simbu Provincial Administration. I further noted that the Provincial Government has not had an independent Audit Committee to oversee the activities of the Internal Audit Unit.

Appropriation and Budget Management

The Officer in Charge of budgeting and planning was not cooperative in providing the required records and responding to audit queries. As such there was a limitation in the scope of audit on the budgetary controls of the Simbu Provincial Administration.

Budget officers failed to advise Provincial Treasury to update their cashbooks on grant revenues when warrant authorities were received from the Department of Treasury. Consequently grant revenues for the period totaling K18,252,164 received through the bank account were not posted to the respective revenue ledgers and the cashbook.

Cash Management

The Simbu Provincial Government maintained and operated two operating bank accounts and two separate cashbooks to conduct its financial transactions for Grant and Internal Revenues respectively. There were indications of poor cash management in view of significant overdrawn cashbook balances for both accounts, although the banks had credit balances throughout the year.

Review of the Bank Reconciliation Statement together with source records revealed that the bank and cashbook balances reconciliations were done but not following the correct bank reconciliation procedures. Therefore both cashbook and bank balances as at year end remained unreconciled.

Revenue Management

An audit review of internal controls relating to revenue collection, banking, receipting and posting in the revenue ledgers and cashbooks revealed that internal controls have improved and are generally effective. However, minor issues such as grant revenues totaling K18,252,164 received through the bank account were neither receipted nor journalized and posted to the cashbook and respective revenue ledgers.

Procurement and Payment Procedures

Payment of Accounts

Examination of related sample records including expenditure ledgers and paid vouchers revealed the following matters:

- A sample of payment vouchers selected for audit were not provided, a register was not maintained to register verbal and written quotations obtained and purchases were made without obtaining three written quotes;

- A consultancy fee of K20,000 was paid to a consultant for preparing a PIP Project Submission. The Contract Agreement, however, was not sighted and as such I could not ascertain the validity of this payment. Another consultant was paid K10,000 without the Section 32 officer's approval; and
- A payment of K199,200 was made to the Principal Advisor, DPI under his name for the reimbursement for efficiency cost involved to secure funding from National Planning in 2011. He was supposed to be performing his normal public service job. However, I could not see a document from the Simbu Provincial Administration authorizing him on his engagement for such a payment.

Provincial Supply and Tenders Board

The instrument establishing the Provincial Supply and Tenders Board (PSTB), resolutions of meetings convened by the Board during the year, and registers maintained to record all tenders invited, quotations received, contracts awarded and Certificates of Inexpediency issued were not provided for my examination.

In reviewing contract payments, minor works contract agreements and certificate of completion were not sighted. Project prices offered by different bidders for the KogeSegimaNomane road rehabilitation project of K8,100,000 were not stated on the meeting minute and I was not able to assess how the successful bidder was selected.

Capital Works and Maintenance

A total of K12,623,375 was incurred on capital works and maintenance projects during the year. The examination of related payments revealed the following observations:

- Five payment vouchers totalling K1,800,000 were missing from the files inspected. Therefore the propriety and legality of these expenditures could not be established;
- Funds totalling K4,499,080 were paid to a construction company being for YauweMoses Secondary School building construction. No completion certificate was sighted and the mobilization costs of 50 percent (K2,499,465) was paid up front instead of 10 percent (K449,908) of the total contract value as required;
- Total of eleven payments totaling K1,756,020 paid to individual contractors were not supported with Minor Works Contract Agreements and Certificates of Completion;
- Payment totaling K700,000 on cheque number 11745 was made payable to a road construction company for Kundiawa Town road sealing phase 2. The actual vouchers were missing, however, I was reliably informed that the contractor got the payment but did not seal the town road so the matter was now before the Court between the Simbu Provincial Government and the contractor; and
- Constant supervision and monitoring of projects by the Technical Services Division were lacking. I was unable to confirm the status of all the projects in progress and completed due to the lack of required capital works and maintenance related records.

Grants and Subsidies

No proper monitoring guidelines or mechanisms were formally established to monitor, control and obtain accountability reports from recipients of grants and subsidies from the Provincial Government for the year totalling K4,322,472.

Human Resource Management

Personnel files of employees had not been maintained appropriately and lacked personal records and information such as performance appraisals, permanent and temporary variation forms, and salaries and wages declaration forms. Without all the vital records available, I was not able to confirm the variations in salaries paid during the year. Similar situations had been reported in my previous Management Letters and have not been responded to.

Asset Management

The assets of Simbu Provincial Government had not been reported in Appendix 4 of the financial statements. Expenditure ledgers showed assets totaling K2,139,572 were purchased during 2014 financial year. In the absence of a centralized comprehensive assets register I could not confirm the existence of these assets.

Advance Management

A nil Appendix 6 was disclosed in the financial statements. Simbu Provincial Government did not provide advance registers for cash, travel, accommodation and vehicle hires during the 2014 financial year including prior years. However expenditure ledgers showed various advances totalling K9,466,235 were paid during the year but how many advances were not acquitted could not be ascertained.

6.18.2.3 Management Response

The aforementioned observations on the financial statements and internal control weaknesses for the year 2014 had been identified and communicated to the Simbu Provincial Administrator and Management. I have highlighted the impacts of these observations and made recommendations for management considerations and improvements however, I have not received responses to the Management Letter as at the time of preparing this report.

6.18.3 Kundiawa Urban Local-level Government

The Kundiawa Urban Local-level Government (ULLG) had not submitted its financial statements for the financial years ending 31 December 2011, 2012, 2013 and 2014. Consequently an interim audit on the accounts and records for 2011 was completed and a management letter was issued. No response was received from the Kundiawa ULLG management. Control environment audit findings were reported in the Part 3 Report of the Auditor-General 2011-2013.

Interim audits for 2012 and 2013 commenced in May 2014 but could not be completed due to the Kundiawa ULLG and the Kundiawa – Gembogl District Treasury management and staff not cooperating and not providing the required records requested for audit. However, a Situational Report was done and issued to the concerned agencies to assist the two entities to improve their performances.

6.18.4 Kundiawa General Hospital Board

The Kundiawa General Hospital submitted its financial statements for the financial years ending 31 December 2013 and 2014. Field work associated with the audit of the accounts and records was completed with the Management Letter issued and Qualified Audit

Opinion reports were issued to the Ministers concerned. The paragraphs below detailed issues identified with the financial statements and the control environment.

6.18.4.1 Comments on Financial Statements – 2013 and 2014

My reports to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* for the years 2013 and 2014 were issued. The Qualified Opinion reports issued contained similar issues, hence only the 2014 report is reproduced as follows:

Disclosure Errors

The disclosure errors noted in the statements presented included:

- Although the accumulated fund balance totalling K5,710,259 was disclosed in the consolidated report of receipts and payments, the reporting format requires a separate disclosure statement of the fund balances. This statement should show opening fund balance, movement of funds during the year and the closing fund balance. The fund balance would then be represented by accumulated reconciled cash and bank balances;
- The balances reported in the financial statement however, were not supported with explanatory notes showing how account balances were consolidated;
- In the operating account the adjusting balance of K472,634 used in computing the cash at end of year balance of K503,985 could not be traced to its source; and
- Balances reported in the financial statement however, were not supported with explanatory notes showing how account balances were consolidated.

6.18.4.2 Control Environment

The Management Letters relating to the accounts and records for the years 2013 and 2014 were issued. The Management Letters contained similar issues hence; only 2014 issues are reproduced as follows:

Corporate Governance

The Department of Health has oversight functions for all public hospitals, including the Sir Joseph Nombri Memorial Kundiawa General Hospital. In spite of this, no internal audit was undertaken by the Department to review internal controls and procedures in relation to financial matters. The Internal Auditors position approved by the Department of Personnel Management under the current structure is vacant hence, needs to be filled urgently.

Appropriation and Budget Management

The actual expenditure of K22,270,032 exceeded the budgeted appropriation of K19,480,600, therefore resulted in over expenditure by K2,789,432. The approval of such over expenditure by the competent authority was not provided for my examination.

Human Resource Management

Personal files of eight officers were not updated; therefore I could not confirm whether recruitment procedures were followed, salaries were correctly paid at their position grades, or whether leave and other entitlements were correctly determined.

Asset Management

An asset register maintained showed a closing accumulated asset value of K8,727,900. The register was almost complete and accurate except for a few assets that lack necessary information such as model and serial numbers, useful life, date of purchase and physical location.

Advance Management

An advance register with the related records were not provided for my examination. As such I was not able to assess the advance management aspects of the hospital.

6.18.4.3 Management Response

Management Letters issued had not been responded to by the Hospital Management when this report was prepared in July 2015.

6.19 SOUTHERN HIGHLANDS PROVINCE

6.19.1 Introduction

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

6.19.2 Southern Highlands Provincial Government

The Southern Highlands Provincial Government submitted its financial statements for the financial year ending 31 December 2013. Fieldwork associated with audit of the accounts and records were completed with the Management Letter issued and the audit opinion report issued to the Ministers concerned. The paragraphs below detail issues identified with the financial statements and the control environment.

6.19.2.1 Comments on Financial Statements – 2013

My report to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* was issued in May 2015. The report was a Disclaimer Opinion as reproduced below:

“Basis for Disclaimer Opinion

Presentation Error

The Governor’s Statement on the Provincial Budget Performance was not signed. The total actual collections of K249,019,200 from national government grant reported in the Governor’s statement could not be confirmed to the grant revenue ledgers, cashbook and Financial Statements ‘B’ and ‘J’ respectively, thus understating its revenue and overall Provincial fund balance in Statement ‘A’. This has been a recurring problem from prior years. Further, I noted that the comparative figures for 2012 financial year were not disclosed in Statements ‘B’, ‘J’ and ‘K’ which is not in compliance with the reporting requirements.

Disclosure Errors

Cash Balances

I was unable to express an opinion on the accuracy of the cash at bank and trust account balances and consequently, on the financial position of the Southern Highlands Provincial Government as at 31 December 2013 due to:

- Incorrect carried forward fund balances and other material errors and limitation of scope expressed in my previous audit reports. I was unable to quantify the effects of the material misstatements on the opening balances that might have a bearing on the balance of K493,152,497 in Statement ‘A’ and in note 3 and 4 to the financial statements. 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 2013;
- A prior year’s adjustment of K213,601,040 was disclosed in note 3 to the accounts. I was unable to confirm this balance due to schedules and records pertaining to the computation of this balance was not provided for my examination;

- The provincial government failed to perform monthly bank reconciliations for grant account for the year under review and prior years and the bank reconciliation statements for operating account had significant reconciling item brought forward from prior years which were never corrected and adjusted back into the cashbooks and the respective ledgers. In the absence of proper bank reconciliations and reconciling items not adjusted in the respective ledgers and cashbooks I was unable to confirm the overdrawn cash balance of K493,152,497 disclosed in Statement 'A' and note 6 to the financial statements; and
- I noted that the trust fund balance of K7,390 which relates to court and police bails and child maintenance was a brought forward balance from previous years was incorrectly taken up in Statement 'A' and note 4. Provincial Trust Ledgers revealed no movement of funds during the year under review.

Receipts and Payments

Statements 'B', 'J' and 'K' showed total receipts of K53,255,525 and payments of K185,453,373 and an operating deficit of K143,738,221. I was unable to confirm accuracy and reliability of these balances due to:

- The Southern Highlands Provincial Government has not recorded in its cashbooks and revenue ledgers the grants received from national government and the internal revenues from natural resources benefit receipts and subsequently were not reported in Statements 'B' and 'J' which also materially affected the balances disclosed in Statements 'A' and 'D'. This has been a continuous problem which have been highlighted in my previous years reports;
- Staffing and Teacher's salaries grants of K73,875,400 disclosed in the financial Statements 'B', 'J' and 'K' was noted to be budget figure and could not be confirmed to actual figures expended from Department of Finance salaries section due to unavailability of the TMS 55 Report. As such, I was not able to establish the actual from budgeted figures; and
- I noted that no bank reconciliations were done for the grant account since it was established in 2010 resulting in the cashbooks not being adjusted which have led to significant understatement of revenue and expenditure ledgers and causing the cashbook to operate in unrealistic balance.

Investments

The Provincial Government did not report any Investments in Statements 'E' and 'F' of the financial statements. However, I have repeatedly reported in my previous reports that Provincial Government had IBD of K2 million held with BSP and holds K60,000 investments in shares with SHP and Gulf Energy accruing interest at 60% and K100,000 investments in shares with Kaupena Coffee Exports accruing interest at 60% per annum. In the absence of an investment register and other related documents I was not able to establish the numbers and value of investments held by the Provincial Government. Further, interest received if any related to these investments were not disclosed in Statement 'B' and 'J'. I have reported this observation in my 2008 to 2013 management letters but no explanation was given.

Assets

Good assets management was not practiced and in the absence of a complete assets register and annual stocktakes, I was unable to confirm the existence, custody, condition and value of assets owned by the Southern Highlands Provincial Government as at 31 December 2013 which included motor vehicles as there was also lack of control over the Provincial Government fleet of vehicles. I was also unable to trace assets totalling

K1,483,127 purchased during the year to the assets register as no assets register was maintained. Appendix 4 continued to show 'nil' balance.

Advances

Appendix 6 revealed total unacquitted advances of K1,821,181 as at 31 December 2013. However, the expenditure ledgers revealed the travel and cash advances totalling K3,256,009 were expended during the year. In the absence of proper accountability I could not confirm the unacquitted total stated and also confirm whether prior year's outstanding advances have been duly acquitted.

Disclaimer Opinion

Because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and consequently I am unable to express an opinion on the financial statements of the Southern Highlands Provincial Government for the year ended 31 December 2013."

6.19.2.2 Control Environment

In accordance with the *Audit Act* and *Organic Law* I have duty to report on significant control issues arising out of the financial statements to which the report relates.

Corporate Governance

The Provincial Government may have a Corporate Plan but this was not made available for my examination. The Corporate Plan should encompass and establish long-term objectives, set priorities and targets and take into account the requirements of its stakeholders. The associated plans that need to be established to support the Corporate Plan should also be established. These plans are: financial, asset management, human resource, information technology, risk management, and divisional operating plans.

Work of Internal Audit

The Internal Audit Unit completed one report in 2013 and it revealed serious allegations of maladministration, mismanagement, misappropriation, lack of proper accountability, corruption and fraudulent practices. However, I did not sight evidence of any actions taken by management with regards to this report.

Appropriation and Budget Management

The budget for Southern Highlands Province was not appropriately captured in the ledgers of provincial government accounting system (PGAS) resulting in both original and revised appropriations not correspond to the amounts shown in the ledgers. Both appropriations, original of K304,056,900 and revised of K304,056,900 did not correspond to the amounts shown in the ledgers of K230,731,000 and K235,711,800 respectively. There were weaknesses in posting entries to the computer, lack of proper controls and monitoring.

Revenue and Receivables

National Government grants and internal revenues were not fully accounted for in the books of the Provincial Government, hence significant revenue shortfalls were noted in both sources of income as compared to the budgeted revenue.

There was no segregation of duties by officers on the collection and banking of receipts. Instances of delays in banking ranging from 8 to 33 days were noted. The cash office did not have a safe to store the daily collections. The Revenue Division lacks adequate resources such as office equipment, working furniture and appropriate people for collecting revenue for the Province.

Procurement and Payment Procedures

Payment of Accounts

- A total of K8,673,500 was expensed on Consultancy and Legal fees during 2013 however, contract agreements and PSTB documents were not made available for my examination. Consequently, I was not able to establish the genuineness and the validity of the claims paid;
- There were instances where reimbursements of personal expenses totalling K735,672 were paid out, however prior approval of such commitments was not evident and in most instances lacked proper documentation to confirm the validity of the claims. It was not normal for the Provincial staff to spend large amounts of personnel monies on behalf of the Provincial Government to claim reimbursements and it is not a normal course of business in the Government Sector;
- Nineteen instances of payments totalling K186,011 relating to fuel purchase were not supported with proper documentations such as supplier invoices showing details of vehicles that collected fuel, date, liters of fuels supplied and officer that collected fuel and the relevant approvals. In addition, four instances of advance payments on fuel totalling K38,000 indicating arrangement with suppliers, however there were no evidence of records such as reconciliation on fuel consumption, dates, persons that collected fuel etc.;
- Payments as financial assistances to individual totalling K2,338,936 were made; however evidence of any standard criteria being followed in determining the eligibility of claims received were not sighted;
- Expenditure totalling K7,465,431 for hire cars from individuals (private vehicle hire) lacked adequate supporting documents such as three written quotations, invoices and reason for hire to substantiate the payments. I noted that there was no evidence of any controls established to ensure that all request for private hires were submitted to the appropriate administration authority for approval prior to engagements;
- A total payment of K1,207,801 was made for hotel accommodation and K353,386 for office stationeries during the year under review. I noted that under both expenditure items there were instances of payments not supported with comparative written quotations from other service providers and no proper source documentation such as supplier invoices showing details of services rendered;
- Rental agreements were not made available to confirm the genuineness and validity of the rentals of K362,072 paid during 2013; and
- A cheque worth of K3 million was paid to Pacific Legal Group as payment for investment. I was unable to establish the genuineness and validity of this payment due to no PSTB, PEC decision and no contract agreement between the SHPG and the Company and also no reports of investment opportunities made available for my examination.

Procurement Management

- The instrument establishing the Provincial Supply and Tenders Board, meeting minutes and resolutions of meetings convened by the Board during the year and registers maintained to record all tenders invited, quotations received, contracts awarded and Certificates of Inexpediency issued were not made available, which

indicates that the Provincial Supply and Tenders Board did not function as an effective authority.

- Various contractors and suppliers were awarded contracts and services during the year. However, completion stage could not be properly verified due to absence of proper status, progressive and completion reports for each of the projects awarded to various contractors. I noted that there was lack of proper supervision, monitoring and reporting by the provincial engineers.

Capital Works and Maintenance

- The Provincial Government incurred total expenditure of K38,322,533 on the capital works and maintenance program. These expenditures were incurred in new constructions and maintenance of existing infrastructures such as roads, bridges, electricity, and buildings. A number of contractors were engaged in the above activities however I was unable to verify the details of these expenditures due to non-cooperation of relevant officers on the ground to provide information requested.

Grants and Subsidies

Grants totalling K5,179,400 were paid to various recipients during the year. However, accountability reports from the grant recipients were not provided for examination, although requested.

Human Resource Management

The Staff Establishment Register for the permanent and casual employees under both Divisions 277 and 705 were not made available. The register acts as a guide to the organisation on the number and levels of positions approved by competent authorities. Without the register, it was difficult to determine what positions were filled and what positions were still vacant. As such, I was unable to determine whether employees on the organisation's payroll are bona fide and the positions that they held were approved by the Department of Personnel Management. Similar situations reported in our previous Management Letters have not been responded to.

6.19.2.3 Management Response

Management had not responded to the matters raised in my Audit Management Letter for 2013. Consequently, I was not advised of any improvement at the time of preparing this Report in July, 2015.

6.19.2.4 Status of Financial Statements

At the time of preparing this Report in July 2015, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements for the year ended 31 December 2014 had been completed and the results were being evaluated.

6.19.3 Mendi Urban Local-level Government

An interim audit of Mendi Urban Local-level Government (ULLG) had been conducted without the financial statements for the years ended 31 December 2012 and 2013 and the Management Letters were issued thereafter.

6.19.3.1 Control Environment

The interim Management Letters relating to the accounts and records of the Urban Local-level Government for the years ended 31 December 2012 and 2013 contained similar issues hence; only 2013 issues are reproduced below:

Work of Internal Audit

The Internal Audit Unit of Southern Highlands Provincial Administration had failed one of its responsibilities and duties by not conducting any audit into the routine operations of the ULLG during the year under review so that weaknesses or deficiencies could be reported to management on a timely basis for corrective actions to be taken.

Appropriation and Budget Management

Review of the revenue and expenditure budget and related documents noted that the ULLG had not maintained the revenue and expenditure ledgers. As such I was unable to ascertain the total revenue collected and total expenditure made during the two years and also whether the revenue collected and expenditure made were within the approved budget.

Revenue and Receivables

Internal Revenue Matters

A review of controls surrounding the revenue management and record keeping revealed the following shortcomings:

- Revenue Ledgers had not been maintained during the two years to record revenue received;
- No segregation of duties in relation to the collection, receipting and banking of Public Monies;
- No proper receipts and tickets had been issued especially in the Market Gate Collections;
- There had been delays in the banking of collections and furthermore, some monies had not been banked at all; and
- The ULLG had no safe to safely keep the daily collections for banking the next day.

Consequently, I was unable to ascertain the total revenue received by the ULLG for the years under review and also whether all revenue collected had been banked and accounted for in the books.

Debtors

I had examined the records relating to debtors and noted that there were no debtors ledgers maintained during the two years to record debts due to the ULLG.

In the absence of the appropriate debtors' ledgers, I was not able to ascertain the total debts due from debtors, if any, as at 31 December 2013.

Procurement and Payment Procedures

The ULLG had not maintained the expenditure ledgers and the files and records for paid vouchers maintained were improper and incomplete. In the absence of these important

documents I was unable to ascertain and establish the procurement and payments procedures adhered to by the Mendi ULLG.

Cash Management

Two bank accounts had been operated by the ULLG during the year under review. These were the Mendi ULLG operating account for National Government funds and the Mendi market trust account for market takings. I was unable to perform any audit checks and also to ascertain the cash balances of the ULLG as at 31 December 2013 due to no cashbooks and bank reconciliations for both accounts being furnished for my review.

Advance Management

The Mendi ULLG had not complied with the advance management process and procedures in the Finance Management Manual by not maintaining the advance register and acquittal files for the period under review. In the absence of an advance register I was unable to establish the total advances made and acquitted and total outstanding for the period under review.

Asset Management

The Mendi ULLG had not maintained an assets register during the year and also had not conducted annual stock take of assets of the ULLG and as such, I was unable to ascertain the existence, custody, condition and value of assets owned by the Mendi ULLG as at 31 December 2013. Further, I could not ascertain whether the ULLG purchased some assets during the year due to no records kept by the Mendi ULLG.

Human Resource Management

I noted that the Mendi ULLG never maintained a proper staff establishment register at all for the period under review and the previous years as well. In the absence of the staff establishment register I was unable to identify the total number of permanent and casual staff and their pay rates respectively.

Further, in the absence of proper expenditure ledger records, payroll, wages sheets and related documents I was unable to ascertain salary/wages paid and the persons to whom the salary/wages was paid to.

6.19.3.2 Management Response

Management had not responded to the matters raised in my Audit Management Letters for 2013. Consequently, I was not advised of any improvement at the time of preparing this Report in July 2015.

6.19.3.3 Status of Financial Statements

At the time of writing this Report in July 2015, the Mendi ULLG had not submitted its financial statements for the years ended 31 December 2010, 2011, 2012, 2013 and 2014 for my inspection and audit.

6.19.4 Mendi General Hospital Board

The Mendi Hospital Board submitted its financial statements for the years ended 31 December 2013 and 2014. Fieldwork associated with audit of the accounts and records

and the examination of the financial statements were completed with the Management Letters issued and the audit opinion reports were also issued to the Ministers concerned.

6.19.4.1 Comments on Financial Statements – 2014

My reports for the years 2013 and 2014 under the *Public Hospital Act* and the *Audit Act* were issued in June 2015. The reports contained Qualified Opinions. The Reports contained similar issues hence; only 2014 issues are reproduced below:

“Basis for Qualified Opinion

Presentation Errors

Finance Instruction 2/2004 issued under Section 117 of the *Public Finances (Management) Act 1995* states the prescribed format for the preparation and presentation of the financial statements for Public Bodies. Mendi General Hospital's financial statements for the year-ended 31 December, 2014 were presented in the prescribed format, except the schedules of assets and liabilities, contingent liabilities and debtors as attachments forming part of the notes to the financial statement were not shown. In addition, the financial year 2014 and the comparative year 2013 were not shown in all the statements which were misleading.

Disclosure Errors

My review of the financial statements noted the following disclosure errors:

- The fund balance of K10,440,643 could not be confirmed as correct due to inherited errors carried forward from previous years which were not corrected in the current year's accounts;
- I was unable to confirm the accuracy and completeness of salaries of K3,381,600 paid directly by National Department of Health reported in the financial statement due to non-availability of the TMS report from the department and payroll reconciliation; and
- In the absence of a complete assets register and annual stock-takes, I am unable to confirm the completeness and value of all assets including land and buildings owned by Mendi General Hospital as at 31 December, 2014. Further, assets worth of K280,000 purchased in 2014 were not fully recorded in the assets register and reported.

Qualified Opinion

In my opinion, except for the effects of the matters referred to in the qualification paragraphs above, the financial statements of Mendi General Hospital for the year ended 31 December 2014:

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

Other Matters

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

- The hospital incorrectly paid sitting allowances and board stipends to two public servants who were members of the board is a breach of Section 3 of the *Boards (Fees and Allowances) Act 1955* which clearly defines that public servants are not entitled to such remuneration; and
- The Chief Executive Officer is required by the Trust Instrument to furnish annual estimates of revenue and expenditure to the First Assistant Secretary, Loans Revenue Division, Department of Treasury and Corporate Affairs every June for the following year. This requirement has not been complied with.”

6.19.4.2 Control Environment

The Management Letters relating to the audit of the accounts and records for the years ended 31 December 2013 and 2014 contained similar issues hence only 2014 issues are reproduced below:

Appropriation and Budget Management

The Mendi General Hospital received a total of K4,154,977 (excluding Salaries and Allowances - K9,318,600) as grants from the National Government and expended a total of K4,284,813 leaving a deficit of K533,632. I noted significant overspending in Other Operating Expenses which have doubled the original budgetary appropriation and also expenditure in overtime, operational materials and supplies and training. Further, internal revenue collections and related expenditure transactions through the trust account were not controlled with proper budgets.

Procurement Procedures

My review of the procurement procedures and payments noted that:

- Formal appointment instruments for financial delegates, who have examined, certified and approved claims and their approved limitations (for Section 32 Officers) were not made available for my examination. In the absence of formal appointment instruments, I was unable to confirm the validity of persons who have acted on those positions during the year;
- Significant payments made to various suppliers and service providers lacked procurement documentation such as written request, three quotations, supplier invoices and delivery notes. Further, expenditures related to travel and subsistence had not been acquitted with proper supporting documents;
- Payments totalling K34,182 for medical equipment was made to an individual instead of a reputable supplier approved by the Department of Health. Consequently, I was unable to establish the validity of the products purchased;
- Birth certificates or concessions for more than four dependents and/or students under eighteen years of age for each of the family were not sighted on three instances of claims for recreation leave fares; and
- I noted that two public servants who were appointed members of the board have been paid stipends and sitting allowances.

Assets Management

The Hospital maintained a comprehensive fixed assets register which had a total value of more than K3million. The review of the registers, ledgers and the related records revealed the following:

- The assets register lacked vital information such as the dates of purchases for the assets that had been bought or disposed since 2009 up to current (2014) and values of motor vehicles including biomedical equipment bought by the Hospital together with those that had been donated had not been recorded. Also, values of land and buildings which are owned by the Hospital have yet to be valued (by professional valuers) and to be recorded in the comprehensive assets register;
- The comprehensive assets register had not been constantly updated to capture the additions and disposal during the year. Instances of assets totalling K280,000 purchased during the year were noted to have not been recorded; and
- Proper stocktakes on all the assets had not been undertaken to ensure controls were effective and these assets had been properly managed.

Human Resource Management

Review of the payrolls, personal files and related records revealed that the payrolls obtained from the Department of Personal Management (DPM) were incomplete and as such timely reconciliation of payroll was not possible. I noted that the personal section had not been checking with DPM constantly to ensure complete payrolls were received. Consequently, I was not able to confirm the salaries and allowances paid directly by the department of Finance. The TMS report was not sighted.

6.19.4.3 Management Response

Management had not responded to the matters raised in my Audit Management Letter. Consequently, I was not advised of any improvement at the time of preparing this Report in July 2015.

6.20 WEST NEW BRITAIN PROVINCE

6.20.1 Introduction

The West New Britain Provincial Government (WNBPG), Kimbe Urban Local-level Government, Kimbe General Hospital and New Britain Palm Oil Trust are audited every year, with or without financial statements. Other LLGs and the Business Arms of the Provincial Government could not be fully audited due to manpower and financial constraints faced by my Office and the lack of records and logistical support from the respective Governments.

6.20.2 West New Britain Provincial Government

The 2013 Audit Management Letter and Audit Opinion have been completed and issued in May 2015, with the audit opinion being a 'Disclaimer'. The paragraphs below detail issues identified with the financial statement and the control environment.

6.20.2.1 Comments on Financial Statements – 2013

My report to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* on the financial statements of the West New Britain Provincial Government for the year ended 31 December 2013 was issued in May 2015. The report contained a Disclaimer Opinion and is reproduced as follows:

“Basis for Disclaimer Opinion

Cash Balances

I am unable to express an opinion on the accuracy of the cash at bank including trust account balances and consequently, on the financial position of West New Britain Provincial Government as at 31 December 2013 due to the following reasons:

- The West New Britain Provincial Government total fund balance of K21,315,909 was not in agreement with the purportedly reconciled closing cash balances of K20,044,970 disclosed in Note 6.1 to the accounts resulting in an unexplained difference, an over-statement of K1,270,939 at year end;
- The closing cash and bank balance of K20,044,970 also included a cashbook balance of K799,769 relating to the old WNBPG Operating Account described as 'Provincial Government Revenue Fund'. The reported account is not supported by actual cash balances held in bank, and
- The total trust fund balance of K5,076,322 in Statement 'C' is not in agreement with Note 4 to the financial statements balance of K5,062,061 having included an adjusted balance in trust account of K14,261. The accompanying explanatory notes provided in Note 4.1 to the financial statements stated thus, 'the trust fund is materially distorted due to the accounting practice adopted in the treatment of unspent grants rolled over to the following year through a trust account with no bank account.

Receipts and Payments

The West New Britain Provincial Government has reported its total revenue and expenditure as K95,300,398 and K95,855,870 respectively with an operating deficit of K555,472 as at 31 December 2013. I am unable to confirm the accuracy of the revenue and expenditure and therefore, the correctness of the operating deficit as at 31 December 2013 due to the following reasons:

- There were errors and inconsistencies noted in Statements 'J' and 'K' which affected this Statement;
- There were material reconciling items identified in the bank reconciliation statements of the WNB Provincial Government Operating Account and WNB Revenue Fund Account relating to receipts and expenditure that were not adjusted in the cashbooks and the revenue and expenditure ledgers and disclosed in Statements 'J' and 'K' with consequent effects in Statements 'B' and the cash balances reported in Statement 'A'.

Investments

The West New Britain Provincial Government did not disclose balances and details of its short term or long term investments, if any, in Statements 'E' and 'F' respectively held at year end. I am aware however, that the West New Britain Provincial Government as a Trustee of New Britain Palm Oil Limited Trust Deed No.01 and 02 holds investments in term deposits with Bank South Pacific and Westpac Banking Corporation. Further, the Provincial Government also holds different investments under business arms namely; Cape Hollman Corporation, West New Britain Development Corporation, West Farm Resources Limited and Mokmok Development Corporation. In the absence of the audited financial statements of the investment companies as well as the investment register and other related records to be held by the Provincial Government, I am unable to ascertain the status and existence of the investments.

Disclaimer Opinion

Because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and consequently, I am unable to express an opinion on the financial statements of West New Britain Provincial Government for the year ended 31 December 2013.

Other Matters

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

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

6.20.2.2 Control Environment

Corporate Governance

The West New Britain Provincial Government had a current four year Corporate Plan which focuses on eight Key Result Areas that was intended to enable the Provincial Administration to deliver and maintain government services to the people. But no evidence was available to show the plan being reviewed against programs and development projects that have been undertaken in line with the Corporate Plan to see if goals set have been achieved. Corporate governance within the administration was weak with budgetary activities not guided by focusing on the corporate plan. The Internal Audit Unit was not operating effectively in monitoring the internal controls of

the WNBPG Provincial Administration due to insufficient funding and logistical support. I further noted that the Provincial Government did not have an independent Audit Committee to oversee the activities of the Internal Audit Unit and attend to external audit queries raised in my audit reports.

Appropriation and Budget Management

The original appropriation of WNBPG anticipated revenue and expenditure of K155,997,500 for 2013. Adjustments were noted during the year through the quarterly budget reviews but the actual appropriation total of K155,997,500 remained for the year.

I noted significant shortfalls in collection of anticipated internal revenues indicating unrealistic revenue estimation and also, there is in-effective monitoring and collection of anticipated internal revenue.

Cash Management

WNBPG maintained three bank accounts. Two operating bank accounts with two separate cash books (Provincial Government grant account and Provincial Government operating account) and a revenue fund account for depositing of all its internal revenues. I noted unreconciled items and stale cheques in the bank reconciliations for the month of December 2013, relating to the two operating accounts and the revenue fund account. However, I noted the reconciling items and stale cheques had been cleared in subsequent month's bank reconciliations in 2014.

Revenue Management

Perusal of revenue ledgers and trial balance for the year revealed shortfalls in anticipated revenue collections for the year in both the internal revenue and external grant revenue by approximately K54,661,937, representing 75 percent of the anticipated total revenue for the year. I noted significant shortfalls in MVIL remittance, trust investments, bookmaker's tax, former year's development funds, LLG support grant, transport function grant, health function grant, and education function grant. These revenue shortfalls indicated to me unrealistic cash focus and budgeting.

As mentioned in my previous reports, segregation of duties at the Cash Office and Traffic Registry were lacking. Cash collection points require segregation of duties for transparency purpose and to avoid any fraud or misappropriation. I noted delays in banking of collection for up to 17 days. Further revenue collection for Receiver Statement No. 1-2 was under banked by K2,500. Maintenance of records such as collector statements, copies of official receipts and deposit books were noted to be weak.

Procurement and Payment Procedures

Payment of Accounts

My review of controls surrounding the payments of accounts on a sample basis had identified the following issues:

- K49,000 was paid to Dynasty Seafood Restaurant for hire of premises for hosting a corporate dinner to raise funds for the National Masks Festival. I was unable to ascertain the amount of money raised through this corporate dinner and whether the funds raised were fully accounted for and used for the intended purposes;
- I noted the acting Director for Health exceeding his delegated financial delegate limit of K50,000 by approving expenditure of K86,070 as Section 32 Officer;

- In two instances, payments totalling K107,463 were not certified to show payments have been paid;
- A total of K2,293,841 was paid to three suppliers namely, CRCE Studio Limited (K539,200), Remington Technologies (K324,393) and Ashok Leyland of India (K1,430,248) without appropriate supporting evidence to indicate that these expenditures were referred to the APC Committee for pre-commitment approval before being paid; and
- In six instances, officers had claimed payment for overtime totalling K12,617 without approval from respective Divisional Heads. Provincial Budget Officer had claimed overtime payment twice for the same time period. He also claimed overtime payment in advance of anticipated overtime work from the 7 to 16 January 2014.

Provincial Supply and Tenders Board

A proper WNB Provincial Supply and Tenders Board was noted in existence during the year under review in which the Board had fifteen meetings as reflected from the minutes forwarded for my review. However, except for Meeting Minute No. 15/2013, all other meeting minutes from 1 to 14/2013 were not signed by the Chairman of the WNB PSTB as accurate record of meetings held during the year.

Capital Works and Maintenance

- Total of K4,260,988 was paid to Dekenai Construction Limited for carrying out upgrading, sealing and drainage improvement works on Kimbe Town Roads (Project Number SC44-KRT-03/2011). I was unable to verify the total progressive payments from 2012 to the current year were within the approved total contract sum.
- Completion Certificates were not attached for payments totalling K483,560 made to private contractors engaged in the construction of classrooms and teachers houses at various schools, to indicate satisfactory completion of work.

Grants and Subsidies

WNBPG paid out grants, subsidies and financial assistances to schools and tertiary institutions, non-profit organisations, public authorities, Local-level Governments and various other entities during the year totalling K12,444,688. However, as in prior years audit reports, accountability reports from recipients were not requested for by the Provincial Administration and were not forwarded to the Provincial Government by the recipients to show grants and financial assistances given were used for the intended purposes. No guidelines were in place to administer the use of grant funds, a contributing factor to the lack of monitoring of grants and subsidy being paid out.

Human Resources Management

- Monthly and/or Quarterly manpower reviews for the year under review were not made available for my review. Without the manpower reconciliations, I was unable to determine the total number of Staff on Strength was within the manpower ceiling of funded positions approved for WNB Provincial Administration; and
- Salary advances totalling K193,030 has been paid to newly appointed officers in 2010 for which only K152,700 was recovered from the advance holders as of June 2013.
- Payroll reconciliations for employees were not done regularly and the Payroll for the year under review has not been made available for audit verification. Alesco integrated HR/payroll system revealed eighty unattached public servants on payroll in WNB Provincial Administration.

Assets Management

WNBPG did not disclose details of its fixed assets in Appendix 4 to the financial statements as required. Any assets register maintained during the year was not forwarded to me for verification of completeness in recording of assets purchased and owned by the Provincial Government, the existence and location of the assets, the condition of assets and any disposals during the year.

Various assets worth K5,030,888 were noted being purchased during the year but I was unable to trace these assets to any assets register. Consequently, I was unable to verify the existence of all assets purchased and owned during the year under review.

K1,430,248 (USD633,600) was paid to Ashok Leyland of India for six 32 seater buses of which four were to be operated as school buses and two were to be fitted with medical equipment and operated as mobile clinics. Physical inspection conducted on 11 November 2014 revealed the four school buses on site while the two buses intended for mobile clinics were not sighted at the time of audit.

Advance Management

Appendix presented show brought forward unacquitted advances as of 1 January 2013 to be K3,120,468, advances paid during the year as K887,208 while acquittals during the year as K259,368 leaving accumulated unacquitted advances at year end as K3,748,308. However the reported balances disclosed in the Appendix has not been supported by any detailed listings or schedules of unacquitted advances to verify the accuracy of un-acquitted advances reported. My prior audit reports show outstanding advances going back many years but such details were not shown.

Further nine cash advances totaling K59,250 paid during the year has not been recorded in the advances register. Consequently, I was unable to verify the accuracy of K3,748,308 disclosed in Appendix 6 as total unacquitted advances at year end.

6.20.2.3 Management Response

The above observations on the financial statements and internal control weaknesses for the year ended 31 December 2013 were communicated to the West New Britain Provincial Administrator and his management together with risk implications and recommendations for improvement. I have however, not received responses to the Management Letter at the time of preparing this Report in July 2015.

6.20.2.4 Status of Financial Statements

The West New Britain Provincial Government submitted its financial statements for the financial year ending 31 December 2014. Fieldwork associated with audit of the financial statements and accounts and records were completed in June 2015 and the results were being evaluated at the time of preparing this Report in July 2015.

6.20.3 Kimbe Urban Local Level Government

The Kimbe Urban Local-level Government (ULLG) submitted its financial statements for the years ended 31 December 2012 and 2013. Fieldwork associated with the audit of the accounts and records and the examination of the financial statements were completed with the Management Letters issued and the audit opinion reports were also issued to the Ministers concerned.

6.20.3.1 Comments on Financial Statements – 2013

My reports for 2012 and 2013 to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* were issued in June 2015. The reports were a Disclaimer Opinion. The reports contained similar issues hence; only 2013 issues are reproduced below:

“Basis for Disclaimer Opinion

Disclosure Errors

I noted the following disclosure errors which could have material effect on the accuracy and completeness of the Kimbe Urban Local-level Government account balances and consequently, the financial position of the Local-level Government as at 31 December 2013:

Cash Balances

I am unable to express an opinion on the accuracy of the cash and bank balance of K981,685 and consequently, on the financial position of Kimbe ULLG as at 31 December 2013 due to the reason that there were reconciling items identified in the bank reconciliation statements of the ULLG operating account relating to receipts and expenditure that should have been adjusted in the cashbook and posted to respective revenue and expenditure ledgers and disclosed in Statements ‘J’ and ‘K’ which also affected the bank and cash balances at year end.

Receipts and Payments

Statement ‘B’ show total revenue and expenditure as K1,769,954 and K1,901,731 with an operating deficiency of K131,777. However, there were material reconciling items pertaining to receipts and expenditure that were not adjusted in the cashbook and posted to the appropriate ledgers. Consequently, I am unable to confirm the accuracy of the revenue and expenditure and the operating deficit for the year ended 31 December 2013.

Assets

Appendix 4 to the financial statements did not disclose any information on the values of fixed assets held and owned by the Kimbe ULLG as at 31 December 2013. Assets worth K228,635 purchased during the year has not been accounted or recorded in an assets register nor taken up in the appendix to the financial statements. Consequently, I am unable to verify the completeness and accuracy of the value of assets held and owned by the Kimbe ULLG during the year ended 31 December 2013.

Other Disclosures

Accuracy of nil balance disclosures of other statements relating to investments, lending and borrowings, loans guaranteed as well as appendices relating to commitments and arrears, debtors and receivables, inventories, and losses and deficiencies could not be confirmed as accurate and reliable in the absence of related records and registers.

Disclaimer Opinion

Because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and consequently, I am unable to express an opinion on the financial statements of Kimbe Urban Local-level Government for the year ended 31 December 2013.

Other Matters

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

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

6.20.3.2 Control Environment - 2013

The Management Letters relating to the audit of the accounts and records for the years 2012 and 2013 contained similar issues; hence only 2013 issues are reproduced below:

Corporate Governance

The Town Manager did not respond to my request by providing the Kimbe ULLG Assembly as well as the Finance Executive Committee Meeting Minutes held during the year. Again, the Town Manager did not respond to the audit request by providing the Corporate Plan, if any, for audit perusal. The absence of a Corporate Plan, supported by the associated plans such as financial, assets management, human resources, information technology and risk management will impact on Kimbe ULLG’s ability to provide an efficient and effective service delivery to meet the needs and requirements of its stakeholders and the communities it services, and may also lead to lack of policy direction and inability to set priorities and targets and to take corrective actions, where necessary.

Appropriation and Budget Management

The Kimbe ULLG reported its annual budget estimates as K3,991,144. I was not provided a copy of *2013 Appropriation Act*, therefore I am unable to verify on the legality of the annual appropriation and to determine whether or not the annual appropriation was duly passed by the ULLG Assembly and certified by the Mayor as chairman.

Cash Management

The bank reconciliation statement compiled in respect of the Kimbe ULLG operating account showed a favorable closing bank balance of K661,412 and several material amounts of reconciling items which were not adjusted in the cashbook and respective ledger accounts and as a result, an unadjusted reconciled cashbook balance of K981,686 was shown as at 31 December 2013. The independent confirmation from the Bank confirmed the closing bank balance of K857,440 at year end. The material reconciling items, most of which were highlighted in previous year audit report had remained unadjusted as at 31 December 2013.

Revenue Management

Review of revenue ledgers revealed the Kimbe ULLG fell short of collecting its estimated internal revenue and grant revenue of K2,059,880 and K333,849 respectively by K2,393,729 in total resulting in collecting only K642,315 or 27% of its anticipated

total revenue of K3,036,044. The significant shortfall in revenue collections for the year indicates the inability of the Kimbe ULLG to prepare sound and prudent revenue forecasts.

Review of revenue records examined for the months of January to August, 2013 revealed weaknesses and serious breakdown in controls over revenue collection and banking. There were numerous instances of revenue collections not banked intact on a daily basis and that, revenue collections were banked prior to issuing of official receipts and preparation of appropriate Collector Statements.

Procurement and Payment procedures

Paid Accounts

Review of controls surrounding the payment of accounts had identified the following issues:

- In eighteen instances, payments totalling K37,479 were not certified and as such I could not determine the legitimacy of the expenditures;
- The ULLG had paid K35,000 as part payment for consultancy services rendered by Helandis and Company Accountants for preparation of a submission to National Executive Council seeking approval for the establishment of Kimbe Town Authority. No evidence of a formal Contract of Engagement sanctioned was provided for my examination;
- A payment of K14,950 was made in relation to the rental of a property occupied by the Town Mayor without the support of a formal Tenancy Agreement; and
- Payments of travelling allowances totalling K37, 800 were made to three officers named from 10 January to 13 March 2013. However, the payment vouchers were missing from the files and as such, I could not ascertain the validity and accuracy of the allowances paid.

Human Resources Management

The Town Manager had not responded to my request by providing the establishment register to determine the approved manpower ceiling. The review of the wages sheets for pay periods 01/2013 and 26/2013 showed that the ULLG had a total staff on strength of forty-five for pay period 01/2013 and had reduced to thirty-four for pay period 26/2013. The absence of an establishment register and other relevant manpower records I observed that the Human Resource had not been managed properly. Also the punctuality and attendance by the Town Manager and the staff was very poor.

Advance Management

Appendix 6 to the financial statements did not disclose any unacquitted advances for the year under review except prior years unacquitted advances dating back to 2006 of K419,600. I have noted travel and cash advances totalling K27,039 being paid during the year but has not been recorded in the PGAS advances register nor incorporated in this Appendix.

6.20.3.3 Management Response

The above observations on the financial statements and internal control weaknesses for the year ended 31 December 2013 had been communicated to the Management of Kimbe ULLG by way of a Management Letter together with risk implications and recommendations for improvement. At the time of preparation of this report in July

2015, I had not yet received the responses from the management of Kimbe ULLG.

6.20.3.4 Status of Financial Statements

At the time of preparing this report in July 2015 the financial statements for the year ended 31 December 2014 had not been furnished for my audit and inspection.

6.20.4 Kimbe Hospital Board

The Kimbe General Hospital submitted its financial statements for the years ended 31 December 2012 and 2013 in October and December 2014 respectively. The fieldwork associated with the accounts and records and the examination of the financial statements for 2012 were completed with the Management Letter and audit report issued. The interim audit for 2013 was completed and Management Letter issued due to late submission of the financial statements.

6.20.4.1 Comments on Financial Statements – 2012 and 2013

The Kimbe General Hospital submitted its financial statements for the years ended 31 December 2012 and 2013 for my audit and inspection. The financial statements audit for 2013 could not be conducted due to late submission of the financial statements.

My report to the Ministers concerned and other relevant bodies for the year ended 31 December 2012 under the *Public Hospital Act* and the *Audit Act* was issued with a Disclaimer Opinion as reproduced below:

“Basis for Disclaimer Opinion

Presentation Errors

Finance Instructions 2/2004 issued under Section 117 of the *Public Finances (Management) Act 1995* state the prescribed format for the preparation and presentation of the financial statements for Public Bodies including Hospital Boards. The financial statements for Kimbe General Hospital for the year ended 31 December 2012 did not present:

- Consolidated Statement of Accumulated Funds
- Consolidated Statement Receipts and Payments;
- Statement of Receipts and Payments For Operating Account and Trust Account;
- Accounting Policies and Other Explanatory Notes.
- Schedules of Capital Assets and Liabilities.

The financial statements described as “Financial Statements and Reports” merely listed income comprised of warrant authority released and the income described as “Other Medical Fees and Collections” and a list of expenditures by vote items.

The financial statements presented completely lacked the prescribed format as well as the presentation requirements. Further, the financial statements were not duly signed to indicate its authenticity as true and fair presentation of the financial operation of the Hospital during the year.

Consequently, the financial statements of Kimbe General Hospital for year ended 31 December 2012 did not comply with the Finance Instructions nor the *Public Finances (Management) Act*.

Disclosure Errors

I was unable to confirm the accuracy and completeness of the Kimbe General Hospital financial statements for the year ended 31 December 2012 due to the following disclosure errors:

- The financial statement showed a total income and expenditure as K5,239,748 and K4,477,815 respectively with an operating surplus of K761,933. The amounts disclosed are not in agreement with the Hospital's transaction ledger records total income and expenditure of K5,192,720 and K4,911,910 respectively with an operating surplus of K180,810 and a closing cash balance of K536,056. Further, figures reported under each revenue and expenditure head could not be agreed to the corresponding ledger totals and that the financial statement was not supported with any explanatory notes on how the statement was prepared; and
- The trust fund account statement of receipts and payments was not prepared and presented as at the time of audit in December, 2014 as a result of delays in updating the records and postings of transactions in the cashbook and general ledgers as well as monthly bank reconciliations.

Disclaimer Opinion

Because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and consequently I was unable to express an opinion on the financial statements of Kimbe General Hospital for the year ended 31 December, 2012.

Other Matters

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

- Kimbe General Hospital did not prepare and submit its financial statements to the Minister and the Auditor-General prior to 30 June for the year ending 31 December preceding, resulting in breaches of Section 63(2) and Section 63(4) of the *Public Finances (Management) Act 1995*.

6.20.4.2 Control Environment

The Management Letters relating to the audit of the accounts and records for the years ended 31 December, 2012 and 2013 contained similar issues hence only 2013 issues are reproduced below:

Corporate Governance

- Audit was not provided evidence to indicate that there had been a proper appointment of the hospital board and that the board meeting minutes were properly maintained;
- The National Department of Health is responsible for the internal audit function of the Hospital. However, no such audit were done on the accounts of the Hospital at the time of audit in December, 2014;
- The Kimbe General Hospital Corporate Plan, 2011-2015 was still in draft form. Audit could not establish whether there was an official copy of the plan that was launched or approved; and

- The Hospital had no written Manual of Procedures and Policies in place to guide its core activities including procurement and payment of accounts, preparation and payment of casual wages, assets and inventory management, revenue collection and banking and human resources management.

Appropriation and Budgetary Control

The audit review of budgetary control practices at the Kimbe General Hospital revealed the following issues:

- The Kimbe General Hospital's initial budget appropriation for the year ended 31 December, 2013 was K13,649,300. However, audit confirmed that actual receipts collected were K13,519,300, a decrease of K130,000. The variance was due to reduction in vote item 222 for vehicles and relevant CFC not released;
- The Department of Health allocated funds totaling K5,534,600 into Kimbe General Hospital Operating Account for the operational expenses whilst the budget appropriation of K7,984,700 for payment of salaries and allowances had been retained and administered through the ALESCO Payroll System;
- Commitment control ledgers were not maintained by the Provincial Health Authority which resulted in nine budgeted vote items being overspent by K1,171,293 and seven budgeted vote items being under spent by K848,356. Furthermore, K28,150 was spent on an unbudgeted vote item 226 in breach of the Appropriation Act.
- The Hospital is required to have monthly and quarterly budget reviews as part of budgetary control process to help monitor and maintain control over the receipt and spending of cash. However, there was no evidence to prove that such reviews were done during the financial year under review. Consequently, there was no proper control in spending by the Provincial Health Authority resulting in overspending and under spending; and
- The Kimbe General Hospital did not prepare its annual estimates of revenue and expenditure for Hospital Fees Trust Account for the year under review as required under Section 3(c) of the Hospital Fees Trust Instrument, neither a copy made available for examination. The absence of an approved annual estimate of revenue and expenditure for the Hospital Fees Trust Account indicates failure and non-compliance to the requirements of the Hospital Fees Trust Instrument.

Cash Management

- The operating and trust accounts had credit closing bank balances of K564,262 and K2,330,682 respectively. However, perusal of the bank statements showed the hospital operating account had overdrawn bank balances in the month of September, 2013 with two cheques totaling K3,543 that were dishonoured due to insufficient funds;
- The Hospital had adopted and utilized the MYOB accounting software programme for recording transactions and providing daily balances and financial data for reporting and management information purposes. The general ledger produced by the MYOB accounting software however, was unreliable as it could not provide comprehensive details of daily transactions as well as the accumulated opening and closing cash balances for monthly reconciliation purposes;
- The reconciliation report produced from the system attempted to reconcile the general ledger cash balance of K365,109 as at 31 December, 2013 to the bank

statement balance of K564,262. There were no other reconciling items except unrepresented cheques totaling K217,933 inclusive of twenty-two cheques drawn prior to 2013 totalling K93,598 which had become stale by 31 December, 2013. Further, the hospital operating account closing reconciled cash balance of K564,262 differed from the closing cash balance of K385,531 disclosed in the statement of receipts and payments at year end; and

- The bank reconciliation statements for the Hospital fees trust account for the year under review were not prepared and provided for audit review due to delays in recording and posting of trust account transactions in the cash book and ledgers.

Revenue Management

The examination of source documents and testing of revenue relating to Kimbe General Hospital Operating and Hospital Fees trust accounts revealed the following discrepancies:

- There were no official approved rates for fees charged to patients, as such, audit could not confirm whether appropriate fees structure have been determined by the management and adopted;
- A total of K57,946 had been recorded as “Other Income” comprised of rental income from institutional houses, cash advance reimbursement and government payroll. Audit however, could not fully ascertain whether all revenues due to the hospital had been collected, posted and reported in the absence of any revenue reports to that effect;
- No segregation of duties exercised in fees collection, receipting and depositing of monies which is a complete breakdown in cash accountability. Further, cash collection and recording done by cashiers and checked by OIC- Revenue, had not been independently confirmed by the Director Corporate Service or the Accountant before and after deposits were done;
- Inordinate delays in banking of revenue collections for up to ten days had exposed the Hospital to the risk of misappropriation of public monies and fraudulent activities; and
- Audit noted deficiencies in revenue collections due to refunds of hospital fees to patients as well as borrowings by Hospital staff to pay for various operational expenses without proper acquittals being made. It was noted that short notes were made for request of cash without proper accounting records for monitoring and recovery action.

Procurement and Payment Procedures

The audit review of controls surrounding procurement and payment procedures had identified the following issues:

Paid Accounts

- Audit was not provided documented and appropriately delegated responsibilities for Authorised Requisitioning Officer(s), Financial Delegate(s) and Section 32 Officer(s);
- Payments totaling K109,095 for stationeries and medical drugs had no delivery dockets or goods received note to substantiate that goods have actually been received. Furthermore, without a proper register or inventory status report, it is uncertain whether goods ordered represents current needs;
- Rental payments totaling K41,440 could not be vouched to any valid lease agreements, rental rates charged were incorrect and lacked details of tenants' eligibility for housing entitlements;

- Payments for fuel totaling K142,114 could not be vouched to any approved vehicle fleet register and fuel usage reports; and
- In thirty-two instances, payment vouchers relating to expenditures incurred totaling K424,126 were missing from the files and as such, audit could not ascertain the validity of expenditures as well as proper authorization of claims presented for payment.

Capital Works and Maintenance

A review of the payments made in respect of capital works and maintenance revealed the following issues:

Audit sighted no evidence to indicate that proper tender procedures were followed in engaging private contractors for capital or minor works undertaken by the Hospital. In addition, most private contractors had no terms of engagement, personal profile, referee, statutory declaration of services rendered to the Hospital.

Human Resource Management

Examination of the payroll records, personal files and other related records revealed the following matters:

- Review of the staff establishment register revealed that the Hospital had two hundred and thirty-three approved and funded positions with one hundred thirty three vacancies as at 30 June, 2014. Since the approval of the Hospital's current structure in 2006 by the Department of Personnel Management, there had not been any review of the structure;
- The Hospital had sixty-eight casual staff against an approved ceiling of forty-three thus incurring a wages and other related bill of K720,003 for the year under review. Consequently, the Hospital had over expended its casual employees wages allocation of K530,800 by K127,736 on wages; and
- No payroll reconciliations were done to ensure correctness and accuracy of payments and that ghost employees, if any, had been identified and dealt with. Consequently, former employees and officers were still on the payroll or officers were paid on incorrect rates.

Assets Management

A review of the Hospital's records and controls exercised over management and custody of assets identified the following weaknesses:

- No assets register, if any, was provided for audit review of records and details of additions and disposal of assets during the year under review; and
- The Hospital did not have a proper housing policy in place to govern and set guidelines and criteria for eligibility for staff occupation of institutional housing, payment of rental, repairs and maintenance and other matters relating to staff housing.

Advance Management

Audit review of the controls relating to payment, recording and acquittal of cash, travel and salary advances revealed the following weaknesses:

- Although, acquittals were made for travelling allowances, a proper register was not maintained to record details of payments and subsequent acquittal of travelling allowances totaling K24,600 to officers during the year under review. In most instances, the acquittals were not supported with proper supporting documents such

as boarding passes and hotel accommodation invoices. There was no evidence to indicate that appropriate recovery actions had been taken against the defaulters; and

- Further, additional advances were given to officers despite the outstanding acquittals. Audit noted for instance, advances for the eight months to August 2013 of over K18,000 had remained unacquitted at year end.

Trust Account Management

The revised Hospital Fees trust instrument clearly sets out the purpose and procedural guidelines pertaining to the receipts and expenditures to be incurred from the trust account. Audit however, noted the following matters of concern:

- The relevant laws and regulations and procedural guidelines pertaining to Hospital Fees trust account (trust instrument) were not complied with in relation to budget, expenditure and reporting; and
- The Hospital reported its trust account closing bank balance as K2,329,394. As per the cash book the Hospital had recorded receipts totaling K197,725 for the year but expended over K409,800 during the year. Audit however, could not verify the recorded amounts nor the year end balance due to lack of proper and consistent update of the trust account transactions in the cash book and non-preparation of monthly bank reconciliation statements.

6.20.4.3 Management Response

At the time of preparing this Report in July 2015, responses to the Management Letter had been awaited.

6.20.4.4 Status of Financial Statements

Financial statements for the year 2014 had not being received by my Office at the time of preparing this report in July 2015.

6.20.5 New Britain Palm Oil Limited

New Britain Palm Oil Limited (NBPOL) submitted its financial statements for the years ended 31 December 2012, 2013 and 2014 for audit. Fieldwork associated with audit of the financial statements and accounts and records were completed for all three years with the Management Letter and audit opinion report for the year 2012 issued while the 2013 and 2014 Management letters were being finalized at the time of preparing this report in July 2015.

6.20.5.1 Comments on Financial Statements – 2012

My report to the residence of West New Britain and other relevant bodies under the *Company's Act* and the *Audit Act* was issued with a Qualified Opinion in May 2015 as reproduced below:

“Basis for Qualified Opinion

Basis of Accounting

Without qualifying my opinion, I draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the West New Britain Provincial Government to meet the requirements of Section 4 of

the NBPOL Trust Deeds Number 1 and 2. As a result, the financial statements may not be suitable for other purposes.

Financial Statements

- The West New Britain Trust was named as “*West New Britain Provincial Government Charitable Limited*” according to the trust deed submitted. I noted however, the financial statements and other relevant records continued to bear the old name – NBPOL Trust rather than the approved and officially sanctioned name; and
- The Trustee Statement was unsigned and without date to authenticate the validity of the contents of the trustee’s statement including the disclosures in the financial statements.

Fixed Assets

The review and examination of the fixed assets records revealed a lack of proper maintenance of fixed assets register. The register provided for my review lacked important details including date of purchase, asset type, unit costs, total costs, depreciation and disposal date. Consequently, the existence of assets, and the accuracy and completeness of the stated total cost and the net book value of K309, 862 for office furniture, property and plant & equipment and motor vehicles as at year end could not be confirmed as correct. *This issue was raised in the 2011 management letter and the management had agreed to establish assets register and regularly maintain it however, nothing had eventuated since.* Further, periodical stock takes were not done to ensure physical existence and conditions of assets.

Property Investments – Revaluation

As reported in my previous reports, a property at Section 46 Kimbe, was purchased at a value of K1,820,555 in 2009. I sighted no evidence to suggest that asset revaluation was done on the property since the year of purchase. Taking in to account the property market in Kimbe as compared to the volatile property market around other major urban centers including Port Moresby, I have however, accepted the non-revaluation of this property in the circumstance.

Qualified Opinion

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

- The financial statements of the NBPOL Trust (Number 1 and 2) are based on proper accounts and records ; and
 - (i) Give a true and fair view of the state of affairs of the trust as at 31 December 2012 and the results of its financial operations and the change in equity and its cash flows for the year then ended; and
 - (ii) The provisions of the West New Britain Provincial Government's Share Trust Deeds Number 1 and 2 have been complied with; and
- The financial statements have been drawn up in accordance with the generally accepted accounting principles; and
- I have obtained all the information and explanations required.”

6.20.5.2 Control Environment

The Management Letter relating to the audit of the accounts and records for the year ended 31 December 2012 was issued in May 2015 as reproduced below:

Bank Reconciliations

Review of the Bank Reconciliations for the two bank accounts revealed that although monthly bank reconciliations were done on a regular basis, independent reviews were not done and signed by management.

Fixed Assets

The review and examination of the fixed assets records revealed a lack of proper maintenance of a fixed assets register. The register provided for my review lacked important details including date of purchase, asset type, unit costs, total costs, depreciation and disposal date. This issue was raised in the 2011 management letter and the management had agreed to establish assets register and regularly maintain it however, nothing had eventuated since. Further, periodical stock takes were not done to ensure physical existence and conditions of assets.

Property Investments – Revaluation

As reported in my previous reports, a property at Section 46 Kimbe, was purchased at a value of K1,820,555 in 2009. I sighted no evidence to suggest that asset revaluation was done on the property since the year of purchase. This issue was raised in the 2011 management letter and management accepted the comments and opted to do valuation on the said property however, this has not eventuated during the year under review.

6.20.5.3 Management Response

Except for the qualification paragraphs, there were no significant issues which warrant a response from management and at the time of preparing this Report in July, 2015.

6.20.5.4 Status of Financial Statements

New Britain Palm Oil Limited submitted its financial statements for the years ended 31 December 2013 and 2014 for audit. Fieldwork associated with audit of the financial statements and accounts and records were completed while the Management Letters and Audit Report were being finalized at the time of preparing this report in July 2015.

6.21 WESTERN HIGHLANDS PROVINCE

6.21.1 Introduction

Western Highlands Provincial Government, Mt Hagen Urban Local-level Government and Western Highlands Provincial Health Authority are audited every year, with or without financial statements. Other LLGs and the Business Arms of the Governments could not be audited due to manpower and financial constraints faced by my office and lack of records and support from the respective Governments.

6.21.2 Western Highlands Provincial Government

The Western Highlands Provincial Government had submitted its financial statements for the year ended 31 December 2013 for my inspection and audit. The fieldwork associated with the audit of the financial statements for 2013 and an interim audit of the control environment for 2014 had been completed with Management Letters issued. The audit opinion report for 2013 was a Disclaimer of Audit Opinion and was issued to the Ministers concerned. The internal control issues for 2013 financial year was reported in my last Report hence, the paragraphs below detail the issues identified with 2013 financial statements and internal control weaknesses for 2014.

6.21.2.1 Comments on Financial Statements – 2013

My report to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* was issued in May 2015. The report was a Disclaimer Opinion as reproduced below:

“Basis for Disclaimer Opinion

Limitation of Scope regarding Opening Balance

My report on the financial statements of Western Highlands Provincial Government for the year ended 31 December 2013 was disclaimed on the basis of limitation of scope with regard to:

- inherited errors carried forward from previous years which were not corrected in the current year (2013);
- underlying records for trust funds and bank reconciliation statements were not furnished for my examination;
- errors noted in Statements ‘J’ and ‘K’ materially affected related Statements ‘A’ and ‘B’; and
- value of investments, assets and advances could not be confirmed due to the registers and related records not provided for my examination.

I was unable to perform sufficient audit procedures to satisfy myself as to the completeness and accuracy of the opening balances. Any adjustments that might have been found to be necessary on such opening balances would have had a consequential effect on the financial statements for the period ended 31 December 2013. Consequently, I was unable to quantify the effects of any material misstatements in the opening balances that might have a bearing on the balances reported in the Statement ‘A’, Note 3 and other related statements and appendices for the period ended 31 December 2013.

Cash Balances

I was unable to express an opinion on the accuracy of the cash at bank and trust account balances and consequently, on the financial position of Western Highlands Provincial Government as at 31 December 2013 due to the following reasons:

Statement 'A' presented showed an accumulated fund balance of K3 576,447 represented by the bank and investment balance of K3,576,447 as at 31 December 2013.

- The Provincial revenue fund balance of K4,930,253 as disclosed in Note 3 to the accounts could not be confirmed as correct due to inherited errors carried forward from previous years which were not corrected in the current year's accounts.
- The opening revenue fund balance of K3,726,351 as per note 3 did not agree to the 2012 year-end closing balance of K9,246,002 disclosed in the comparative column of Note 3 thus renders the year end revenue fund balance incorrect which also affects the total funds disclosed in this Statement.
- The accuracy and fairness of the trust fund balance of K1,353,806 reported in Statement 'A' could not be ascertained as the Trust Holding account balance and the Computer Clearance account totalling K3,126,849 and K599,502 respectively reflected in the trust ledger was not taken up in Statement 'C' and ultimately distorts the cash position as at 31 December 2013.
- Notes 3, 4 and 7 to 17 erroneously recorded financial year 2012 instead of 2013 which was a fundamental error and misleading to users.
- In the absence of the underlying records such as cashbook, ledgers and the bank documents I was unable to ascertain the accuracy and completeness of other account totalling K392, 907 reported in Statement 'A'.
- I was unable to ascertain the completeness and accuracy of the revenue fund balances of (K4,930,253) shown in Note 3 to the account as substantial reconciling items of revenue and expenditure appearing in the bank reconciliation statements were not adjusted in the cashbooks and the subsequent revenues and expenditures in Statements 'B', 'J' and 'K'. Consequently, this distorted the cash position as at 31 December, 2013.

Receipts and Payments for 2013

I was unable to verify the completeness and accuracy of the receipts of K183,360,780, payments of K184,564,683 and the subsequent deficit of K1,203,903 in Statement 'B' and the related Statements 'J' and 'K' due to:

- The absence of the underlying records pertaining to the TMS 55 report on Staffing and Teacher's salaries grants of K62,618,335 disclosed in Statements 'B', 'J' and 'K'. I was not able to verify the disclosure.
- Significant reconciliation items for both grant and internal revenue accounts relating to the current and the previous years have not been cleared, hence, the cashbooks, ledgers and subsequently the financial statements, particularly Statement 'A', 'B', 'J' and 'K' have not been updated to determine the correct receipt and payment and the closing balance for 2013. As such I was not able to ascertain the completeness and accuracy of the balances disclosed in the respective statements of the financial statements.

Investments

The Financial Statements 'E' and 'F' presented did not indicate short and long-term investments, if any, held by the Provincial Government as at 31 December 2013. Neither investment registers nor related records were provided for my examination. Further, the financial statements and other related information on the Provincial Government Business Arms such as the Western Highlands Development Corporation have not been submitted to me for my examination. In the absence of such documents I was unable to confirm the nil balances in these statements.

Assets

Good assets management was not practiced and in the absence of a complete assets register and annual stocktakes, I was unable to confirm the completeness and value of all assets owned by the Western Highlands Provincial Government as at 31 December 2013. This included motor vehicles as there was also lack of control over the Provincial Government fleet of vehicles. I was also unable to trace assets totalling K1,952,347 purchased during the year to the assets register as no assets register was being maintained. Appendix 4 showed a 'nil' balance.

Advances

Appendix 6 did not disclose a cumulative figure on unacquitted advances as at 31 December 2013. My examination revealed a total of K1,109,259 was taken but I could not determine the total acquitted. As such, I could not confirm the correct amount of unacquitted advances.

Disclaimer of Opinion

In my opinion, because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and consequently, I was unable to express an opinion on the financial statements of the Western Highlands Provincial Government for the year ended 31 December 2013."

6.21.2.2 Control Environment– 2014

Corporate Governance

Corporate Plan

The Western Highlands Provincial Government had a Revised Corporate Plan (2013-2017) which focused on the governance and organisational capacity of the Provincial Administration, Districts, LLG's and Wards to deliver the development plans linked to the National Medium Term Development Strategy. My review of the plan noted the following significant matters:

- Appropriate internal controls were not in place for identifying associated risk and barriers to achieving objectives such as offering new services and adapting to changes occurring within the organisation, economic and regulatory environment.
- There was lack of communication between the Provincial Government and Urban LLG management in discussing major issues and changes that had significant effect on the organisation.
- Adequate process of performing periodic revenue reviews to identify major factors affecting internal revenue collections was lacking.

- Management lack to demonstrate a commitment to providing sufficient accounting, financial and IT personnel to keep pace with the growth and changing working environment of the organisation.

Minutes of Meetings

Minutes of the Provincial Executive Council and Assembly meetings held during the year had not been provided, although requested through a written submission. In the absence of a complete record of all meetings held, issues and resolution with major financial implications passed during the year could not be ascertained.

Internal Audit Unit

An Internal Audit Unit existed within the Western Highlands Provincial Administration was noted to be fully functioning and there was evidence of a number of internal audit reports had been completed but no evidence to suggest that Provincial Management actions had been taken on the recommendations made.

Appropriation and Budget Management

The WHPG passed an *Appropriation Act No.1 of 2014* authorising an expenditure estimate total of K227,692,500 to be spent during the fiscal year 2014 which comprised revenue estimate of K193,917,500 anticipated to be received in National Governments grants and K33,775,000 to be collected from Internal Revenues.

Comparison of the budgeted estimates against actual expenditure to determine the extent of performance made on budget programs during the year was not possible as the PGAS software used to produce financial information such as ledger, cashbook and other records was not functioning at the time of audit in March 2015. A hard copy of operating account (708) ledger printout was furnished for my examination. Consequently, I could not satisfactorily comment on the budget performance and the budgetary control practices observed by the Provincial Government.

Revenue and Receivables

Due to the technical fault of the PGAS software at the time of my audit no records of both soft and hard copies were made available consequently, I was unable to establish the total actual revenues collected from both the national government and the internal revenue. My review of internal revenue management revealed the following matters:

- I was not able to ascertain the effectiveness of the Provincial Revenue Office in terms of revenue collections due to the Provincial Government. There was no system in place to record and account for its internal revenue and the outstanding debtors;
- Records relating to liquor license collections were not provided to me despite written and verbal requests I made. In the absence of the records I could not ascertain whether all liquor outlet licensing and operations had adhered to established rules and regulations and whether all clients had duly paid up the required fees due;
- The duties of the officers responsible for revenue collection, monitoring, review and reporting were not properly defined. No such formal document was furnished to audit when requested and as such audit could not ascertain whether all revenues collected were brought to account and were appropriately verified and confirmed by designated officers; and
- Safe custody of cash was not applied as cash and cheques were locked in the ordinary drawers. The safe which was supposed to be used for safe custody of public moneys was not utilised.

Procurement and Payment Procedures

Provincial Supply and Tenders Board

The instrument establishing the Provincial Supply and Tenders Board (PSTB), PSTB Meeting Minutes and Resolutions of Meetings convened by the Board during the year and registers maintained to record all tenders invited, quotations received, contracts awarded and certificates of in expediency issued were not provided for my examination.

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

Paid Accounts

Examination of selected payment vouchers to ensure compliance with the financial instructions contained in the Financial Management Manual revealed the following anomalies:

- a) A register was not maintained to record verbal and written quotations obtained, not sighted three quotations, receipts and delivery notes in the paid vouchers;
- b) In reference to expenditure amounts exceeding K100,000 but less than K3,000,000 there was no evidence sighted to confirm that submissions with attachment of Official Requisition Form (FF3) and approved Authority to Pre Commit (FF5) were submitted for deliberation by the Provincial Supply and Tenders Board;
- c) In sixty-two instances, vouchers relating to payments totalling K41,813,002 were missing and as such I could not determine their validity;
- d) Instances of personal moneys spent on official duties and claimed reimbursement from the Provincial Government totalling K24,641 were paid. No prior approval was sought and in most cases lacked valid supporting documents. I noted that it was not normal for the provincial staff to spend large amounts of personnel monies on behalf of the Provincial Government to claim reimbursements. Also it is not a normal course of business in the Government Sector. These practices may have exposed the Provincial Government to fraud and misappropriation;
- e) It has been a practice where the provincial government spent funds on private vehicle hires and the following anomalies were noted:
 - Numerous payments for hire cars were not supported with three written quotations and also no invoices were sighted in many instances;
 - Payments were made from wrong vote items and the purposes of these hires were not stated on documents sighted. There was no evidence of any control mechanism in place to ensure that all requests for private hires were submitted to the appropriate administration authority for approval prior to engagements; and
 - There were many outstanding payments on vehicle hires indicating credit arrangements with suppliers, however there was no evidence of records such as reconciliation on how much was paid and how much remained outstanding.
- f) The engagement of various consultancy and legal services had cost the Western Highlands Provincial Government a total expenditure K1,821,396 during the year. I noted that notable legal firms were engaged on retainer basis and were paid monthly fees for the services provided and consultancy firms were also engaged by the provincial government during the year. However, Provincial Executive Council and PSTB deliberation and endorsement on these engagements were not

provided as such I was unable to establish whether PSTB meetings were convened to deliberate on these engagements. Further, invoices submitted by these firms did not record the details of the charges that were invoiced to the Provincial Government for payment; and

- g) Payments for hotel accommodation were not supported with comparative written quotations from other hotels and official receipts from suppliers were not provided and as such I could not verify the usage was for official purpose.

Capital Works and Maintenance

The Provincial Government in the annual budget allocated K104,500,000 for its development programs. However I could not establish actual expenditure incurred on capital works and maintenance program due to the following:

- a) The PGAS software at the Provincial Treasury office was not functioning and could not produce the accounting records particularly ledger records, cashbooks and other related records to establish total funds actually spent on capital works and maintenance programs during the year.
- b) An interview with the Provincial Administrator and Provincial Treasurer revealed that all major infrastructure development funds were diverted to Western Highlands Development Cooperation for Architectural and Building Construction works and Western Highlands Engineering Management Limited for all civil construction works such as roads and bridges. Attempt to obtain financial reports and related records from these entities were unsuccessful. In the absence of financial report and related records I was unable to establish the total actual funds disbursed to these agencies and that the funds were used for purposes intended for.
- c) These agencies Western Highlands Development Corporation and Western Highlands Engineering Division Limited were incorporated entities wholly owned by the Provincial Government and appeared to have undertaken all Provincial Governments' infrastructure development programs however, I noted that the provincial administration had little formal correspondence or dialog with these agents and that provincial administration was not in any way involved in the monitoring and assessment of major infrastructure works undertaken by these agents.

Grants and Financial Assistances

- a) The Kapal Haus Redevelopment was by far the single most important major development undertaken by the Western Highlands Provincial Government totalling more than K120,000,000. The Western Highlands Development Corporation acted on behalf of the Provincial Government by receiving grants and facilitated payments to the contractor 'Essar Project (PNG) Ltd'. Several attempts to obtain source documentation relating to the enormous project and the funds disbursement reports were unsuccessful although repeated requests were made.
- b) Provincial Government agencies namely Western Highlands Education Infrastructure Program and Pacific Arabica Coffee Development were paid grants amount of K1,760,000 and K1,007,800 respectively during the year. Accountability reports if any on the disbursement of the grant funding were not made available for my verification even though an official written request was made.

Assets Management

The assets register appeared to be non-existent although it was said to have been maintained in the computer which was the same response from the Provincial Treasury

staff in the 2013 and prior year's audits. Physical assets management posed a great challenge and required all levels of management to uphold and maintain all existing assets. The management through its Corporate Plan (2013-2017) identified assets management as a priority area that needed urgent attention. Some of the issues that needed quick fix up included:

- Proper inventory of assets;
- Policy and guidelines in place for asset acquisition, storage, disposal, and insurance;
- Proper plan in place for valuation of assets;
- Disposal, maintenance and replacement plan; and
- Effective Provincial Supply and Tenders Board (PSTB).

Good assets management was not practiced and in the absence of a complete assets register and annual stocktakes, I was unable to confirm the existence, completeness and value of all assets owned by the Western Highlands Provincial Government as at 31 December, 2014 which included motor vehicles as there was also lack of control over the Provincial Government fleet of vehicles. Further, assets worth of K940,907 purchased in 2014 were not fully recorded in the assets register

Advances Management

My review of the Provincial Government's advance management practices revealed that there had been a gross abuse and mismanagement over the payment and acquittal of advances during the year as well as the preceding years. The main issues regarding advance management are as follows:

- Incomplete advance register;
- Lack of effective control from the issuance of advances to the acquittal process by Provincial Treasury Office;
- Acquittal records unavailable thus posing question as to whether advance taken for specific purposes had been fulfilled;
- No notices given to advance holders to acquit within specific time frames as set by the financial management manual;
- Outstanding advances had not been acquitted before new advances were issued; and
- No attempts by the management to rectify the issues described above.

6.21.2.3 Management Response

Management had not responded to the matters raised in my Management Letters. Consequently, I was not advised of any improvement at the time of preparing this Report in July 2015.

6.21.2.4 Status of Financial Statements

At the time of preparing this Report in July 2015, the financial statements for the year ended 31 December 2014 had been submitted and the fieldwork associated with the inspection of accounts and examination of the financial statements was in progress.

6.21.3 Mt Hagen Urban Local-level Government

6.21.3.1 Status of Financial Statements

The Mount Hagen ULLG did not submit its financial statements for the year ended 31 December 2011 for my inspection and audit while the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements for the years ended 31 December 2012 and 2013 had been completed and the results were being evaluated at the time of preparing this Report. The financial statements for the year ended 31 December 2014 were submitted and arrangements were being made to commence the audit shortly.

6.21.4 Western Highlands Provincial Health Authority

The Western Highlands Provincial Health Authority had submitted its financial statements for the year ended 31 December 2013 for my inspection and audit. The fieldwork associated with the audit of the financial statements for 2013 and an interim audit of the control environment for 2014 had been completed with Management Letters issued. The audit report for 2013 was a Qualified Opinion and was issued to the Ministers concerned.

The paragraphs below detail the issues identified with the 2013 financial statements and the internal control issues for 2013 and 2014 were similar hence, only the 2014 control issues are reproduced.

6.21.4.1 Comments on Financial Statements– 2013

My report to the Ministers for Health and Finance respectively under the *Public Hospital Act* and the *Audit Act* was issued in May 2015. The report was a Qualified Opinion and as reproduced below:

“Basis for Qualified Opinion

The disclosure errors noted in the statements presented include:

- I was unable to confirm the accuracy and completeness of the consolidated accumulated fund of K27,038,255 disclosed in the financial statements due to inherited errors carried forward from previous years which were not corrected in the current year's accounts.
- In the absence of records such as creditors' sub-ledgers, together with reconciliation of payments made and debts outstanding I was unable to confirm completeness and accuracy of the total creditors of K340,924 disclosed in Note 16 to the financial statements.

Qualified Opinion

In my opinion, except for the effects of the matters referred to in the qualification paragraphs above, the Financial Statements of Western Highlands Provincial Health Authority for the year ended 31 December 2013:

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

6.21.4.2 Control Environment– 2014

There were internal control weaknesses identified in the accounts, records and processes as follows:

Corporate Governance

The Western Highlands Provincial Health Authority does have a Corporate Plan 2012 – 2015. However, without the AIP and Biannual Review Reports, Internal Peer Review Reports, Standards Accreditation Reports and the Monthly Reports audit could not determine whether or not the WHPHA had conducted reviews to assess and evaluate the progress and achievements of its goals and objectives based on the seven Key Result Areas as outlined in the Corporate Plan (2012-2015).

Work of Internal Audit

A written confirmation by the Deputy Director of Corporate Services dated 24 February, 2015 revealed that WHPHA had not been internally audited by the internal auditor (*who had left during the year*) or the auditors from the Department of Health for the period under review.

Appropriation and Budget Management

The Western Highlands Provincial Health Authority's initial budget appropriation was K160,830,038. However, with regards to actual funds receipt, the audit confirmed that K29,106,200 was received. Hence, the review of the Provincial Health Authority's budgets' appropriation and actual receipts against actual expenditures revealed the following shortcomings:

- a) The variance of K131,723,838 (K160,830,038 – K29,106,200) is due to unrealistic forecast of grants to be collected;
- b) The Provincial Health Authority is required to have monthly and quarterly budget reviews as part of budgetary control purposes to help monitor and maintain control over the receipt and spending of cash. However, the fourth quarter review was not provided for my inspection; and
- c) Consequently, it is not possible to calculate overspending or under spending due to non-maintenance of a budget commitment control ledger and also the fourth quarter budget review documentation.

Revenue and Receivables

No major issues were noted hence all records and documentations were provided for examination. The audit ascertained great improvements in terms of revenue collection, banking, receipting and record keeping. As such I would like to commend such great effort and encourage the management to continue in doing the good work.

Procurement Procedures

Examination of procurements and paid accounts revealed the following findings:

- a) Payments totalling K20,590 were processed and procured without obtaining three required written quotations;
- b) Payments totalling K573,737 being for medical supplies, rations, office supplies and materials do not have delivery or consignment dockets to confirm receive of goods;

- c) Kerry Motors was paid a totalling K440,381 for servicing of WHPHA vehicles. However, it was noted that no formal contract agreement was in place between Kerry Motors and WHPHA for such an engagement;
- d) Payments made for tuition fees totalled K157,635 were noted. However, there is no binding agreement between the hospital and each officer on study to ensure their service is given to the hospital for some time (period of time can be determined by the board) after completing their studies; and
- e) There was no contract agreement and PSTB approval for the engagement of Cathy/Katherine Ann Roughan as a Consultant. Cathy/Katherine was paid K364,437 and she is still continuing her service at time of audit without a formal engagement documentation between her and the WHPHA in place as yet.

Cash Management

The cashbook balance of Western Highlands Provincial Health Authority account number 1003299300 was overstated by K11,285 as a result of two stale cheques which are yet to be written off. Consequently this would have misstated the actual closing balances of the cash books and revenue and expenditure ledgers with consequent effects in the disclosure of the financial statements.

Advance Management

Advances were poorly managed by the health authority. I noted that WHPHA had not maintained an advance register and acquittal files for the year under review. As such I was unable to establish whether advances totalling K397,202 expended during the year were properly acquitted.

Asset Management

The WHPHA bought assets register software in 2013 and is currently in use. However, due to system failure the register was not provided. As such I was unable to confirm whether assets purchased totalling K775,321 were updated. There was no evidence to indicate that periodic stock takes were undertaken during the year.

Human Resource Management

My review of controls and procedures relating to personnel emulations such as the payroll, personnel files and payment of casual wages, overtime, leave fares, gratuities and other related records noted no major issues except selected payment vouchers relating to leave fare entitlements totalling K79 035 were processed and paid without appropriate supporting concession documentations such as the birth certificates for the dependents claimed and marriage certificates for couples' to confirm they were legally married.

6.21.4.3 Management Response

Management had not responded to the matters raised in my Management Letters. Consequently, I was not advised of any improvement at the time of preparing this Report in July 2015.

6.21.4.4 Status of Financial Statements

At the time of preparing this Report in July 2015, the Western Highlands Provincial Health Authority had not submitted its financial statements for the year ended 31 December 2014 for my inspection and audit.

6.21.5 Provincial Government Business Arms

Relevant Section of the *Audit Act* provides for and extends my functions to audit the accounts and records of the Provincial Government Business Arms and other establishments.

I am aware of two business arms of the Western Highlands Provincial Government namely, Western Highlands Development Corporation and Western Highlands Engineering Management Limited. At the time of preparing this Report in July 2015, the business arms had not submitted any financial statements to-date for my inspection and audit. Consequently, I was unable to comment on the operations and financial results of the entities.

7. LEGAL FRAMEWORKS

7.1 Organic Law on Provincial Governments and Local-level Governments

Sections 102 and 103 of the *Organic Law* require Provincial Governments and Local-level Governments to keep proper accounts and records of their transactions and affairs, and to set up an internal control system and internal audit unit to ensure adequate financial control.

In addition, Section 114 of the *Organic Law* requires each Provincial Government and Local-level Government to submit to the Minister for Finance and the Minister for Provincial and Local-level Government Affairs, a full statement on the financial position and affairs of the Province or Local-level Government for each fiscal year.

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

The legislation clearly states that an Act of Parliament shall prevail over any law made by the Provincial or the Local-level Government Legislatures. In view of this, the *PFMA* prevails over the Provincial Legislations in respect of financial management.

7.2 Provincial Governments and Local-level Governments

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

There are 21 Provincial Governments and 321 Local-level Governments under the Auditor-General's mandate. I have continued to experience significant delay in reporting the result of these audits. Details of the causes of this delay are outlined under paragraph 1.2 of this Report. Given the lack of resources, and other constraints, my Office will continue to concentrate its efforts on the core audits being that of Provincial Governments, Hospital Boards, Urban LLGs and a sizable number of business arms.

The 21 Provincial Governments received development and recurrent funds (Appropriations) in 2014 of approximately K3,567.9 million. This represented 17% of the total State's budgeted expenditure for 2014. Considering the significance of the amount, these audits have remained my priority in addressing the audit arrears situation.

7.3 Hospital Boards and Provincial Health Authorities

Hospital Boards and Health Authorities within the country are established under the *Public Hospital Act* and *Provincial Health Authority Act* as the case maybe. The Acts provide that the *PFMA* is applicable to the Boards on matters regarding accounting, financial management and reporting. That Acts also require the audit provisions contained in the *Audit Act* to apply to the Hospital Boards.

In accordance with Part 3, Section 8 of the *Audit Act*, I perform annual audits of the accounts and records and financial transactions of Hospital Boards and Health Authorities. I am also required to report to the Minister for Finance and the Minister for Health on the results of these audits.

The audits are performed so that I can obtain reasonable assurance as to whether the financial statements are free of material misstatements and amongst other things, whether the statements are prepared in a form approved by the Minister for Finance. Hospital Boards,

Health Authorities being public bodies, are required to prepare their statements in accordance with the Finance Instruction 02/2004: Financial Statement Format, Trading and Non-Trading Public Bodies. These Instructions issued under Section 117 of the *PFMA* had been signed and approved by the then Secretary for Finance.

7.4 Business Arms and Subsidiary Corporations

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

As detailed under paragraph 3.4 I have significant difficulties in identifying the exact number of business arms and status of their operations. Details of these business arms and their subsidiary corporations and companies, could not be fully established due to lack of adequate information forthcoming from the Provincial Governments or due to their failure to maintain proper investment records and registers. My Office was unable to determine whether number of these business arms were still in operation, defunct, or liquidated.

7.5 Provincial Authorities

Provincial Authorities are established by an Act of Parliament purposely to develop infrastructure and to stimulate business activities in the respective provinces. Some of these authorities are directly involved in commercial activities as well. The majority of these authorities are required to report under the cash basis of accounting applying the standard *Financial Reporting under the Cash Basis of Accounting* issued by the International Federation of Accountants.

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

7.6 Other Audits

My responsibility also includes the audit of Special Purpose Funds and Trusts established by Provincial Governments. The audit of these Funds and Trusts is organised in a similar manner as the audit of business arms. The Management of these funds had failed to furnish financial statements on a timely basis and, as such, I was unable to carry out the respective audits on a timely basis.

7.7 Dispensation of Audits

Part 5 Section 16(6) of the *Audit Act* states:

“The Auditor-General may, in his discretion, dispense with the whole or any part of the detailed inspection and audit of any accounts, moneys and property referred to in Subsection (2).”

Subsection 2 relates to audits of Provincial Government, Local-level Government, subsidiary corporations of a Provincial Government, a body established by a provincial law, Provincial Government Association and Provincial Government-owned company or public project.

Similarly, Part 1, Section 6(1a) of the *Audit Act* allows the Auditor-General to dispense with all or any part of the detailed audit related to other entities.

I am of the view that conducting these audits will not identify any new information that will benefit the Parliament, the Provincial and Local-level Government or the wider public. In the case of some of the more recent audits where no financial statements have been prepared and submitted to me for audit, my officers have conducted audit of controls and reported on the results of those audits to the auditee management. The results of those audits, grouped by Province, are reported in Chapter 5.

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

- Expenditure mainly relates to payment of salaries; and
- Lack of resources to undertake these audits.

The Provincial Government, Hospital and Urban Local-level Governments' problem audits are detailed in the table below which may be dispensed after further consultation with the authorities concerned.

Listing of Audits of Financial Statements to be dispensed

Entity	Year for which Financial Statements were due	Explanatory Notes
Gulf Provincial Government	2008-2009	FS not prepared. Control audits done
Kerema Urban LLG	2008-2011	FS not prepared. Control audits done
Buka Urban LLG	2008	FS not prepared. Control audits done
Motu Koitabu LLG	2008-2011	FS not prepared. Control audits done
Mendi Urban LLG	2005-2011	FS not prepared. Control audits done
Wabag Urban LLG	2011	FS not prepared. Control audits done
Madang Urban LLG	2011	FS not prepared. Control audits done
Wewak Urban LLG	2009-2011	FS not prepared. Control audits done
Kundiawa Urban LLG	2011	FS not prepared. Control audits done
Popondetta Urban LLG	2011	FS not prepared. Control audits done
Mt Hagen Urban LLG	2011	FS not prepared. Control audits done
Lorengau Hospital	2008	FS not prepared. Control audits done
Kavieng Hospital	2011	FS not prepared. Control audits done
Daru Hospital	2011	FS not prepared. Control audits done
Lae Hospital	2011	FS not prepared. Control audits done

8. STATUS OF FINANCIAL STATEMENTS

In conducting my audit, I cannot be 100 percent certain that it will reveal all errors in the financial statements that, individually or in total, may be material. The size and complexity of the entity's operations, as well as cost considerations, make it impractical for me to examine all or even most of the individual revenue and expenditure transactions entered into during the year. It is also impractical for me to examine all or most of the individual transactions pertaining to the trust funds.

What I can do is verify samples of transactions and account balances, determine whether significant financial controls within the entity are working and can be relied on to produce complete and accurate data, and carry out other procedures – such as confirming year-end balances with third parties and performing analysis – to identify anomalies in the reported data.

What this comes down to is exercising professional judgment about how much auditing is required to provide reasonable assurance to users of the statements that they can rely on the reported results and not be misled.

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

Qualified audit reports are issued when the financial statements do not present a true and fair view of the entity's financial position, nor of the results of its operations and its cashflows, thereby reducing the readers' ability to analyse, interpret and compare financial statements.

8.1 Provincial Government

Table 1 – Status of Audit Reports – Provincial Government

Table 1		Status of Audit Reports – Provincial Government as at 30 June 2015			
	Provincial Government	Issued		Pending	Remarks
		Last Cycle	Current Cycle		
1	Autonomous Region of Bougainville		2012-2013	2014	
2	Central	2012		2013-2014	
3	East New Britain		2014	Nil	
4	East Sepik		2013	2014	
5	Eastern Highlands	2013		2014	
6	Enga	2013		2014	
7	Gulf		2010-2012	2013-2014	
8	Hela			2013-2014	
9	Jiwaka			2013-2014	
10	Madang	2013		2014	
11	Manus	2013		2014	
12	Milne Bay	2013		2014	
13	Morobe		2014	Nil	
14	New Ireland	2013		2014	
15	Oro	2013		2014	
16	Sandaun		2013-2014	Nil	

17	Simbu		2014	Nil	
18	Southern Highlands		2013	2014	
19	West New Britain		2013	2014	
20	Western		2013	2014	
21	Western Highlands		2013	2014	
	TOTAL	8	15	21	

8.2 Local-level Government

Table 2 – Local-level Governments

#	PROVINCE	LLGs		TOTAL LLGs
		Urban	Rural	
1	Bougainville	1	-	1
2	Central	1	13	14
3	East New Britain	2	16	18
4	East Sepik	2	25	27
5	Eastern Highlands	2	22	24
6	Enga	2	15	17
7	Gulf	1	9	10
8	Hela	1	11	12
9	Jiwaka	-	6	7
10	Madang	1	18	19
11	Manus	1	11	12
12	Milne Bay	1	15	16
13	Morobe	3	30	33
14	New Ireland	1	9	10
15	Oro	1	8	9
16	Sandaun	2	16	18
17	Simbu	2	18	20
18	Southern Highlands	2	18	20
19	West New Britain	1	11	12
20	Western	3	11	14
21	Western Highlands	1	8	9
	TOTAL	31	290	321

Table 3- Status of Audit Reports - Local-level Governments

Table 3		Status of Audit Reports – Urban Local-level Governments as at 30 June 2015			
	Urban Local-level Governments	Issued			Remarks
		Last Cycle	Current	Pending	
1	Alotau		2013	2014	
2	Daru		2011-2013	2014	
3	Kiunga		2011-2013	2014	
4	Aitape Lumi				Audit on District ULLG pending
5	Balimo				Audit on District ULLG pending
6	Buka	2011		2012-2014	
7	Finschaffen				Audit on District

					ULLG pending
8	Goroka		2012-2013	2014	
9	Hagen	2010		2011-2014	
10	Ialibu				Audit on District ULLG pending
11	Kainantu				Audit on District ULLG pending
12	Kavieng		2011-2012	2013-2014	
13	Kerema	2009		2010-2014	
14	Kerowagi				Audit on District ULLG pending
15	Kimbe		2012-2013	2014	
16	Kundiawa	2010		2011-2014	
17	Lae	2011		2012-2014	
18	Lorengau	2013		2014	
19	Madang		2013	2011,2012,2014	
20	Maprik				Audit on District ULLG pending
21	Mendi	2010		2011-2014	
22	Motu Koitabu		Nil	2009-2014	
23	Popondetta		2012	2011,2013,2014	
24	Porgera				Under Porgera Dev. Authority
25	Tari				Audit on District ULLG pending
26	Rabaul		2012-2013	2014	
27	Kokopo/Vunamami		2012-2013	2014	
28	Vanimo		2013	2012, 2014	
29	Wabag	2010		2011-2014	
30	Wau/Bulolo				Audit on District ULLG pending
31	Wewak	2008		2009-2014	
	TOTAL	9	20	57	

8.3 Hospital Boards

Table 4 – Status of Audit Reports– Hospital Boards

Table 4		Status of Audit Reports – Hospital as at 30 June 2015			
	Hospital Board	Issued		Pending	Remarks
		Last Cycle	Current Cycle		
1	Angau (Lae)	2010		2011-2014	
2	Boram (Wewak)		2012-2013	2014	
3	Buka	2010		2011-2014	
4	Daru	2010		2011-2014	
5	Goroka		2012-2013	2014	
6	Hagen	2013		2014	
7	Kavieng	2010		2011-2014	
8	Kerema	2010		2011-2014	
9	Kimbe	2011		2012-2014	
10	Kundiawa		2013-2014	Nil	

11	Lorengau	2012		2013-2014	
12	Mendi		2013-2014	Nil	
13	Milne Bay	2013		2014	
14	Modilon (Madang)	2012		2013-2014	
15	Nonga (Rabaul)		2012-2013	2014	
16	Port Moresby	2010		2011-2014	
17	Popondetta		2011-2012	2013-2014	
18	Vanimo		2013-2014	Nil	
19	Wabag		2012-2014	Nil	
	TOTAL	11	17	38	

8.4 Business Arms

Table 5 –Provincial Governments Business Arms and Subsidiary Companies

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

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

#	Province	Entity	Remarks
		Corporation (NIDC)	
43	New Ireland	New Ireland Shipping Ltd. (NIDC)	1999-2002 F/S received. Audit fees awaited. Deregistered 21/04/2006.
44	New Ireland	Nimamar Investment Ltd	1999-2001 audited by private auditors. 2002 signed F/S awaited. 2003-2004 audit fees awaited.
45	New Ireland	Public Works New Ireland Ltd	No F/S since 2008.
46	New Ireland	SentrolNiuAilan Development corporation and subsidiaries	No F/S since 1999.
47	Sandaun	Sandaun Development Corporation	Deregistered on 11/03/1996.
48	Simbu	Simbu Holdings	No F/S since 1995.
49	Western Highlands	Melpa Properties Ltd	1997-2001 signed F/S awaited.
50	Western Highlands	Peninsula Shipping Lines (PNG) Ltd	Refer Table 6
51	Western Highlands	Petrohaul Ltd	Refer Table 6
52	Western Highlands	Vegmark Ltd	Refer Table 6
53	Western Highlands	WampNga Holdings Ltd (Group of Companies)	Refer Table 6
54	Western Highlands	Western Highlands Development Corporation	No F/S since 1995.
55	West New Britain	Cape Hollman Corporation	No F/S since 1998. Dissolved on 28/08/2007.
56	West New Britain	Kimbe Enterprises Ltd	No F/S since 1998.
57	West New Britain	Kimbe Frozen Foods & Delicatessen Ltd	Expired 18.9.1980 so consider removing from this table.
58	West New Britain	West Farm Resources Ltd	No F/S since 2002.
59	West New Britain	West New Britain Development Corporation	No FS since the last audit of 2004.
60	West New Britain	WNB Building Supplies Ltd	No F/S since 1998.

Table 6 – Status of Audit Reports–Business Arms& Subsidiary Companies – Do-ables

Table 6		Status of Audit Reports – Business Arms and Subsidiaries Companies – Do-ables as at 30 June 2015			
	Business Arms	Issued			Remarks
		Last Cycle	Current Cycle	Pending	
1	Akogere Estates Limited	2009		2010-2014	
2	Nokondi Investments	2009		2010-2014	
3	Al Auto Parts	2009		2010-2014	
4	Eastern Highlands Property Developers Ltd	2009		2010-2014	
5	WampNga Holdings	Not Known		2008-2014	2007 audit in progress was not finalised
6	Petrohaul Limited	Not Known		2008-2014	2007 audit in progress was not finalized
7	Vegmark Limited	Not Known		2008-2014	2007 audit in progress was not finalized
8	Peninnsula Shipping Limited	Not Known		2008-2014	2007 audit in progress was not finalized
	TOTAL	4	Nil	48	

8.5 Provincial Authorities

Table 7- Provincial Authorities

#	Province	Provincial Authorities	Status
1	ABG	Bougainville Restoration and Development Authority	No F/S since 2008.
2	Central	Koiari Development Authority	No F/S since 1993.
3	Central	Koiari Rural LLG Special Purpose Authority	No F/S since 2004.
4	Central	Central Province Transport Authority	Audited by me. Responses to M/L for 2007-2009 awaited. 2010 F/S received. Refer to Table 8.
5	East New Britain	Gazelle Restoration Authority	Audited by me up to 2011. Report issued. Refer to Table 8.
6	Enga	Porgera LLG Special Purpose Authority (Porgera Development Authority)	Audited by me up to 2009. M/L to be issued. Refer to Table 8.
7	Enga	Enga Construction Authority	No F/S since 1999.
8	Manus	Manus Shipping Authority	No F/S since 1994.
9	New Ireland	Nimamar Development Authority	No FS since 2005
10	New Ireland	Nimamar Rural LLG Special Purpose Authority	2004-2006 F/S submitted. No F/S since 2006.
11	Oro	Oro Fisheries Authority	No F/S since 1990.
12	Southern Highlands	Kutubu Development Authority	No F/S since 1996.

Table 8- Status of Audits – Provincial Authorities –Do-ables

Table 8		Status of Audit Reports – Provincial Authorities as at 30 June 2015			
	Business Arms	Issued			Remarks
		Last Cycle	Current Cycle	Pending	
1	Central Province Transport Authority	2006		2007-2014	2007-2009 ARs will be issued in July 2015
2	Gazelle Restoration Authority		2013	2014	
3	Pogera Development Authority	2008		2009-2014	2009-2011 ARs will be issued in July 2015
	TOTAL	2	1	15	

8.6 Trusts and Funds

Table 9– Provincial Government -Trusts and Funds

#	Province	Trusts/Funds	Status
1	Enga	Enga Mineral Revenue Stabilisation fund	No F/S since 1993.
2	Enga	Enga Children's Fund	Refer Table 10
3	Gulf	Gulf Investment Trust Fund (GITF)	No F/S since 2004.
4	Western Highlands	Western Highlands Sports Stadium Trust	No F/S since 1995.
5	West New Britain	NBPOL Trusts 1&2	

Table 10- Status of Audits – Trusts and Funds – Do-ables

Table 10		Status of Audit Reports – Trust Accounts as at 30 June 2015			
	Business Arms	Issued		Pending	Remarks
		Last Cycle	Current Cycle		
1	Enga Children's Fund Trustee Ltd	2011	Nil	2012-2014	
2	NBPOL Trusts 1&2	2012	Nil	2013-2014	
	TOTAL	2	Nil	5	