



Part 3

Report of the Auditor-General 2015

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

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



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31 July 2016

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 present to the National Parliament Part III of my Report.

The Part III 2015 Report covers the financial years ending 2015. 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 and Provincial Health Authorities.

Yours sincerely,

PHILIP NAUGA
Auditor-General

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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 2015 Report deals with audits of the Provincial Governments, their Public Bodies and Subsidiary Corporations, Local-level Governments, Provincial Authorities, Provincial Health 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 my Part III Report covers the financial years ending 2015 and some previous years' financial statements submitted subsequently. The Report covers the audit of Provincial Governments, Urban Local-level Governments, Hospitals and Business Arms and Authorities and Trust Funds.

The scope of 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.

The Report provides a summary of significant internal control weaknesses identified, and types of audit opinions expressed. Major financial and accounting issues which required remedial actions to be taken by the agencies concerned have been summarised in this part of my Report. These issues have been communicated to the respective Provincial Administrators or Executive Management through the 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 made available to the public through 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), Kokopo (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 my 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 or 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 | Table | Pages |
|-------------------------|------------|-------|-------|
| Provincial Governments | 21 | 1 | |
| Local-level Governments | 321 | 2 | |
| Hospital Boards | 19 | 4 | |
| Business Arms | 60 | 5 | |
| Provincial Authorities | 12 | 7 | |
| Trusts and Funds | 5 | 9 | |
| 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 2015 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, competency and cooperation of some Provincial Treasury, accounting personnel and the provincial administrative officers 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 of Supreme Audit Institutions (ISSAI) as promulgated by the International Organization of Supreme Audit Institutions (INTOSAI) 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 (provincial health authorities), business arms and subsidiary corporations, provincial authorities, trust funds 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 statements audits are an independent examination of the financial accounting and reporting of Provincial Governments, Local-level Governments, Hospitals Boards and Provincial Health Authorities, Business Arms of Provincial Governments 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 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.

Every year, the entities enter into thousands of transactions in millions of Kina. As such, errors are inevitable and may go undetected. It is therefore, important to appreciate that in expressing my⁷ opinion, the absolute accuracy of the financial statements may not be guaranteed. However, in conducting the audits of the entity's financial statements, I seek to ensure that there is a reasonable assurance that the financial statements are free of material errors and misstatements.

In determining the audit of the entity's financial statements, two main factors are considered to determine the nature and extent of the work required. The first of these is the "materiality" level of the Kina amounts. 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 relates to "audit assurance". This represents the level of certainty and confidence that my audit will reveal total errors that will be equal to or exceed the materiality threshold.

At the conclusion of the audit, I determine whether the effect of undetected errors in the financial statements would mislead those who use the financial statements. If the effect is such that the financial statements are misleading, 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 be reasonably 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 I am 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 Provincial Governments, 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.

The top management's (that is, Provincial and District Administrators) failure to promote measures and responsibilities for transparent and compliant spending of budget allocations continued to be a major factor that has contributed to such ineffective financial management processes. 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 12 audit reports to the Provincial Governments and 5 to Urban Local-level Governments. Details of these are presented in Section 8.1, Table 1 and Section 8.2, Table 3 respectively, Pages 208 - 209.

There are currently 321 Local-level Governments around the country (excluding the Local-level Governments of the Autonomous Region of Bougainville) as shown in Table 2 of Section 8.2, Page 208. 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 5 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 Provincial or Local-level Governments.

Common problems associated with the audit of this Statement include the following:

- Bank confirmations for the bank accounts and Interest Bearing Deposit (IBD) Certificates were usually not provided to confirm the closing bank and investment balances;
- Cash books and ledgers were often not updated before preparing the bank reconciliations therefore bank reconciliations done were cumbersome and difficult to understand and trace in audit to ascertain the correct cash balance;
- 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 an 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 my Office on assessing whether an audit of those financial statements should be undertaken by this Office. This assessment would be based on whether the Provincial Government is a major shareholder and has a controlling interest in the company.

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

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 28 financial statements relating to 2014 and 2015 financial years yet to be submitted by the Provincial Governments for audit as summarised in Table 1 of Section 8.1, Pages 207 – 208.

Presentation of Financial Statements

In addition to the annual financial statements, comprising Statements 'A' to 'K' and Appendices 1 to 6, the accounts are accompanied by the Chief Accountable Officer's Statement and the Council Executive Officer's Statement on the financial operation of the Provincial Government or the Local-level 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 19 audit reports to Hospital Boards and Health Authorities and 42 financial statements outstanding for submission for audit including ones the audit reports are under preparations, Table 4 of Section 8.3 details the status of the audit reports as at 31 June 2016.

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 5 of this report under the respective Provincial Governments headings.

I am pleased to report that a number of Hospital Boards and Health Authorities received qualified audit opinions compared to past years. There were notable improvements in the areas 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 without 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 preparing this Report in July 2016 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 preparing this Report in July 2016 the status of audits relating to the Provincial Authorities were as 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.

I have the responsibility to examine the financial statements and the accounts and records of the P&LLGs. For the last several years I have 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, I continued to report an inability to form an opinion on the P&LLG's financial statements. The situation has not improved much in 2015 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 has failed to furnish financial statements on a timely basis and as such, I was unable to carry out the respective audits on a timely basis. Management of these funds and Trusts has 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, Hospital Boards and other entities that come under my audit mandate.

In performing the statutory audit responsibilities, I focused primarily on evaluation of internal controls, together with such other examinations considered necessary to assess the performance of financial operations of the entities, with a view to assessing the reliability and integrity of financial data and determining the extent of compliance with applicable laws, regulations and directives.

The audits are not required to search specifically for fraud and therefore, cannot be entirely 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 Officer 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 of Supreme Audit Institutions (ISSAI) as promulgated by the International Organization of Supreme Audit Institutions (INTOSAI) 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, my 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 I assessed whether an agency's control environment included 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 my perspective, internal audit is an important component of the system of internal controls. Because of similarities in the nature and scope of activities performed by internal and external auditors, especially in the public sector, there are significant efficiencies to be achieved if external auditors are able to rely on the work of internal auditors. An effective internal audit program should facilitate external audit to place greater reliance on the work of internal audit, thereby making better use of overall audit resources.

In that respect, it was disappointing to find that the majority of Provincial Government's Internal Audit Units 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 Governments did not provide sufficient funds for Internal Audit Units to perform their 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 and Health Authorities. One of the key audit tests was to ensure that the expenditures were within the appropriation limit so that expenditure for each agency accurately reflects anticipated final budget outcomes in the National budget system.

The audit of the agencies revealed that controls 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. I 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 has not ensured that revenues were collected promptly and that the rates of fees, charges, and imposts were reviewed annually. In addition, there was no compliance to procedures pertaining to compiling of collector 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.

I observed a number of instances where salaries files of Provincial Government members and staff requested for audit were not made available. Consequently, I 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 I 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, I urge the Provincial Governments, Urban Local-level Governments and Hospitals to strictly follow my 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 Local-Level Governments 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 had not submitted its financial statements for the financial years ending 31 December, 2014 and 2015. Fieldwork associated with audit of the internal control environment for 2014 financial year had been completed. The audit working papers together with the draft Management Letter however, could not be located nor the Management Letter reviewed and issued due to the critical health condition of the officer responsible for the audit and consequently, all records and documents lost or misplaced in the process. I had considered redoing the audit together with the 2015 accounts and records to be reported in my 2016 Part 3 Report to the Parliament.

6.1.2.1 Status of Financial Statements

At the time of preparing this Report in July 2016, the Bougainville Autonomous Government had not submitted its financial statements for the years ended 31 December, 2014 and 2015 for my inspection and audit.

6.1.3 Buka Urban Local-level Government

6.1.3.1 Status of Financial Statements

At the time of preparing this Report in July 2016, the Buka Urban Local-Level Government (BULLG) had not submitted its financial statements for the financial years ending 31 December 2012, 2013, 2014 and 2015 for my inspection and audit. However, field work associated with audits of the internal control environment for those years are scheduled to commence shortly without the financial statements.

6.1.4 Buka General Hospital Board

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 audit of the internal control environment for the two years. Issues identified with the control environment were reported in my 2014 Part 3 Report to the Parliament. The audit of the internal control environment for the years 2013 and 2014 were subsequently completed and Management Letters issued in July 2016. The review of the financial statements for 2011 and 2012 had been completed with the qualified audit opinion reports issued to the

Ministers concerned. The paragraphs below detail issues identified with the financial statements.

6.1.4.1 Comments on Financial Statements – 2011 and 2012

My reports to the Ministers concerned under the *Public Hospitals Act* and the *Audit Act* on the financial statements of the Buka General Hospital for the years ended 31 December, 2011 and 2012 were issued on 11 July, 2016. The reports contained similar Qualified Opinions, hence only the 2012 report is reproduced as follows:

“Basis for Qualified Opinion

Presentation

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. The 2012 financial statements for Buka General Hospital had fully complied with the Finance Instruction.

Disclosure Errors

The financial statements provided did not disclose or include the detailed statement of receipts and payments for trust account. Consequently, the accuracy and completeness of the consolidated revenue, expenditure and a cash at year end of K9,986,531, K8,991,965 and K3,995,590 respectively could not be confirmed.

Qualified Audit Opinion

In my opinion, except for the effects of the matters referred to in the qualification paragraphs above, the financial statements of Buka General Hospital for the year ended 31 December, 2012:

- a) give a true and fair view of the financial operations during the year and its financial position for the year then ended; and
- b) with exception of instance of non-compliance described under Other Matters, the financial statements have been prepared and presented generally in accordance with the Finance Instruction 2/2004 issued under Section 117 of 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:

Buka General Hospital did not prepare and submit their financial statements to the Auditor-General and the Minister prior to 30 June resulting in breaches of Section 63(4) and Section 63(2) of the *Public Finances (Management) Act*”.

6.1.4.2 Control Environment – 2013 and 2014

The audit of the internal control environment for the years 2013 and 2014 were subsequently completed and Management Letters issued in July 2016. The Management Letters contained similar issues hence; only the 2014 Management Letter is reproduced as follows:

Budgetary Control

- Budget documents for the year under review were not provided for my review despite the request;
- Management had not adequately formulated the estimates of revenues and expenditures of the Hospital for the year under review as required by the *Public Finance (Management) Act, 1995*; and
- No monthly and quarterly budgetary reviews conducted by the Hospital during the year.

Revenue

Review of revenue management procedures revealed that the Hospital generally had sound and effective control such that National Government Grants received by way of Cash Fund Certificate and Cash through direct bank transfers from National Department of Health were correctly receipted and posted in the cash books. Similarly, patient fees collected were banked intact and correctly recorded in the cash books.

Payment of Accounts and Procurement

- Payments totaling K140,179 for operational materials and supplies lacked quotations where applicable nor delivery dockets and consignment notes sighted as evidence of goods received. Consequently, accuracy and validity of the payments and whether the goods had actually been delivered could not be confirmed although invoices were sighted;
- Routine maintenance payments totaling K68,312 made on eight (8) instances 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 received intact; and
- Tenancy agreements together with invoices relating to payment of accommodation rentals totaling K19,200 for number of doctors and other contract officers had not been sighted. Consequently, appropriateness of the payments made to the respective landlords could not be confirmed.

Salaries & Wages

- Personal files of the officers were generally not updated and lack personal records including among other things, Salaries and Wages Declaration forms; Statutory Declarations; copy of Educational Qualifications; Birth Certificates; Marriage Certificates; Birth Certificates; and Adoption Certificates; and
- Fortnightly payroll reconciliations were not done to certify the correctness of the payrolls.

Advance Management

The Buka General Hospital did not maintain any advance register during the year under review. However, reported un-acquitted cash and travel advances as K42,094. As such, accuracy of the amount could not be confirmed.

Asset Management

- The Buka General Hospital did maintain the assets register but not updated. Purchases during the year totaling K18,861 however, had not been recorded in the register. Further, in the absence of proper update of the asset register with additions and/or disposals, the Hospital had erroneously recorded previous years value of K181,063 as purchases for the current year with a misleading and inaccurate yearend total as K7,791,336. Consequently, substantial number of assets may not have been accounted for; and
- The Hospital owns extensive portfolios of fixed assets including properties and residential buildings, vehicles and various biomedical and static equipment; furniture, office equipment and white goods. I had not sighted evidence to indicate that periodic stock takes were conducted to ensure existence of assets and their conditions.

Corporate Governance

- The Buka General Hospital had a revised five (5) year Corporate Plan 2012 – 2016 with short and long term goals and objectives, set priorities and targets taking into account the interests of its partners and stakeholders;
- The Management had taken steps to establish an Internal Audit Unit in the Hospital. The position of an Internal Auditor however, it was yet to be occupied. The National Department of Health is responsible for the internal audit of the Hospital however, no audits had been conducted in 2014 on the accounts of Buka General Hospital; and
- As reported in my past 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.

6.1.4.3 Status of Financial Statements

At the time of preparing this Report, the financial statements for the years ended 31 December, 2013, 2014 and 2015 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 2016 as re-stated below:

6.1.5.1 South Bougainville Engineering

At the time of preparing this Report in July 2016, the entity had not submitted its annual financial statements for the eleven (11) years ended 31 December, 2015 for my review. Consequently, audit of the financial statements and the accounts and records for these years could not be conducted and therefore, I am unable to report on the affairs, including financial position of the entity.

6.1.5.2 North Solomon Marine Corporation

At the time of preparing this Report in July 2016, the entity had not submitted its annual financial statements for the last twenty three (23) years since 1993 including financial

year ended 31 December, 2015 for my review. Consequently, audit of the financial statements and the accounts and records for these years could not be conducted and therefore, I am unable to report on the affairs, including financial position of the entity.

6.1.5.3 Bougainville Restoration and Development Authority

The entity had never submitted any financial statements since its inception. Consequently, audit of the financial statements and the accounts and records could not be conducted and therefore, I am unable to report on the affairs, including financial position of the entity.

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 Central Provincial Government had submitted its financial statements for the year ended 31 December 2013 in 2015 however, audit of the accounts and records and the examination of the financial statements were delayed till 2016 due to computer crash resulting in the loss of records as well as lack of back up data for the Provincial Government. The Provincial Government had also submitted its financial statements for the year ended 31 December 2014. Field work associated with audit of the accounts and records and the examination of the financial statements for 2013 and 2014 financial years were completed and the Management Letter for 2013 was issued while the audit report was being finalized to be issued shortly. At the time of the preparation of this report in July 2016, the results of the audit for 2014 were being evaluated.

6.2.2.1 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 May 2016 and contained control weaknesses as stated below:

Appropriation and Budgetary Control

The Central Provincial Government's 2013 Appropriation Act (No.1 of 2013) which authorized the estimates of revenue and expenditure totaling K155,664,270 (Internal Revenue - K13,592,070 & National Government Grant - K142,072,200) for the year ended 31 December, 2013 was passed by the Central Provincial Assembly on the 18th December, 2012. Review of the budgetary controls however, revealed the following matters:

- The approved annual appropriation for Division 273 (National Government Grants) had increased by K21,951,325 from initial appropriation of K144,132,350. However, I was not provided evidence of any revised budgets done, if any, that incorporated the increases;
- I noted instances of expenditures totaling K259,410 charged to incorrect vote items during which defeats the purpose of the Budget and Funds appropriation under vote items;
- The expenditure Vote Item 135 – “Other Operational Expense”, is intended to fund any un-budgeted operational expenditures that may arise in the normal course of operations. However, the vote had been grossly used to fund other exhausted vote items contrary to the proper budgetary control practices. My sampled tests had revealed that expenditures such as travel and cash advances, financial assistances, overtime, accommodation, vehicle hire, capital works and maintenance, trainings and assets for instance totaling K1,559,438 (700 Series) were paid out of the vote item.

- No documentary evidences such as quarterly budget review reports were made available to indicate whether any budget performance reviews and evaluations were done during year.

Cash Management

The Central Provincial Government Grant and Operating Accounts as at 31 December 2013 showed a combined favorable closing bank balances as at 31 December 2013 as K14,823,674 as per independent bank confirmations and a “reconciled” cash book balances of K9,478,315. The bank reconciliation statements had the following issues:

- Bank reconciliation statements for December 2013 not checked and certified by the Provincial Treasurer as a correct copy;
- Bank debits relating to bank and service fees dating back to 2005 to 2010 totaling K131,795 had no evidence to indicate that appropriate actions had been taken to identify and clear the debits;
- Cheques on bank statement not in cashbook dating back to 2007 totaling K1,355,931 several of which were identified as manual cheques as well as other unidentified cheques. No appropriate actions had been taken at the time of the audit to get the cheques cleared;
- Other debit items of cancelled and reissued cheques, outstanding receipts and tax charges on cashbooks not in bank statements dating back to 2002 totaling K14,609,245 not adjusted and cleared;
- The bank statements credits not in cash book as per schedule 7 of the December bank reconciliation statements represent revenues actually received in the bank account totaling K7,406,753 of which K7,360,285 were for the year under review were neither posted to the revenue ledgers nor disclosed in Statement ‘J’, hence materially understating the revenue stated;
- Other credit items on bank statement not in cashbook or vice-versa, totaling K2,424,910 and K260,795, had not been identified and communicated to the respective banks and the system administrator for necessary adjustments; and
- The outstanding receipts dating back to 2002 up to 2012 in respect of the Provincial Government Operating account totaling K3,856,535 had not been investigated and cleared, or appropriate actions taken against the concerned accounting officer(s).

Revenue Management

Examination of the revenue ledgers and other records relating to the Internal Revenue collections during the year under review revealed the following unsatisfactory issues:

- Year to date actual collection in Internal Revenue was K12,474,327 as against the initial estimate of K13,592,070 resulting in a net overall under collection of K1,117,742;
- Records relating to CPG Property Rental, NCD VAT Sharing, Forestry Levy, Motor Vehicle Registration & Licensing, Liquor Licensing, Goods & Services Tax (GST)-IRC and Miscellaneous Income were not made available in spite of the requests made. Consequently, I could not ascertain whether or not established rules and regulations had been adhered to in these revenue generating areas; and

- As reported in the previous year's Management Letters, there had been no improvements in the number of issues including neither formal appointment notice nor documentation on the Receiver of Public Monies; lack of segregation of duties of revenue collection, recording, promptness of banking of cash and compiling of receiver statements.

Paid Accounts

Review of the 54 sampled expenditures totaling K592,252 revealed the following deficiencies:

- Five instances of payments for reimbursement of personal monies and hire of motor vehicles by the Governor's Office totaling K98,100 had no supporting documents to verify the validity and appropriateness of the payments; and
- Six instances of payments for hotel accommodation, consultancy fees & Motor vehicle hire with amounts ranging from K7,200 (hotel accommodation) to K32,500 (Disaster vehicle hire) totaling K123,880 were paid without appropriate written quotations from the suppliers as required under Finance Instructions for procurement value between K5,000 and K300,000.

Capital Works and Maintenance

Examination of documents on capital works and maintenance expenditures for the year under review revealed the following anomalies:

- Tender Registers, if any, were not provided at the time of the audit to ascertain details number of tenders during the year, tenders received, dates, values tendered and projected completion dates;
- Provincial Supply & Tenders Board (PSTB) meeting resolutions and other tenderable documentation for projects initiated during the year were not provided for inspection. As such, I could not ascertain whether proper tendering procedures and processes had been adhered to in the procuring of major capital works & maintenance projects;
- Payments vouchers relating to forty-five transactions totaling K1,599,946 were never provided for examination; and
- Proper contract documents and Project Reports (Progressive/Completion Reports) and Certificates of Completion were not available to ascertain the validity of a sampled payments totaling K2,333,188.

Asset Management

- PGAS analysis of the expenditures on fixed assets revealed that the Central Provincial Administration had expended over K2,790,880 on fixed assets including 15 motor vehicles and 4 outboard motors at a total cost of K1,978,651 during the year under review. Over 90% or K2,619,434 of the purchases however, had not been recorded or updated in the fixed assets master register nor the register properly maintained with details such as costs, acquisition date, serial and model numbers, location or custodian of the assets. I am aware however, that individual assets registers are maintained at the respective divisions; and
- Periodic stock takes were not done to ensure existence and conditions of fixed assets owned and in the custody of the Central Provincial Government. Consequently, I

could not confirm whether all assets of the Provincial Government had been properly accounted for during the year.

Advances Management

- The PGAS advances register was either incomplete or not properly updated, resulting in the failure to capture advances totaling K5,551. Hence, advances totaling K3,641,401 remained un-acquitted at year end as reported under appendix 6 to the financial statements; and
- Officers were paid subsequent and additional advances of over K199,600 in spite of their previous un-acquittals. Further, I sighted no evidence to indicate whether or not reminder notices and other course of actions had been taken to recoup outstanding advances.

Grants and Subsidies

- The Central Provincial Government had paid a total of K9,063,736 as Grants, Subsidies and Financial Assistances to Health Institutions, Public Authorities, non-profit organizations, Churches, schools (Institutions), business houses and even individuals during the year under review.
- However, audit review of controls surrounding the payments and acquittals of grants and subsidies revealed that neither accountability reports nor acquittals were submitted by the recipients. Further, I sighted no evidence to indicate whether the provincial government had in place an established criterion or policy to control, monitor and assess the expenditure on grants, subsidies and financial assistance provided to various recipients.

Corporate Governance

A copy of the Central Provincial Government's Corporate Plan with specified/set targets and priorities or Key Result Areas (KRAs) was provided for my review. My discussions with the Director, Corporate Services however, revealed that there had been no reviews and monitoring or evaluation done for the set targets and priorities (KRAs) outlined in the plan for the year under review. Nor were appropriate corrective action plans devised to address issues or identify and capitalize on the achievements. Consequently, I could not ascertain whether or not the Provincial Government had achieved at all, any of its goals as per the Five - Year Corporate Plan.

Provincial Executive Council (PEC) and Provincial Assembly (PA) Meetings

- Meeting minutes for both the Provincial Executive Council (PEC) and Provincial Assembly were not provided for review at the time of the audit. As such, I could not comment on the appropriateness of the meeting quorum, approval of the meeting minutes, frequency of the meetings and general effectiveness of the meetings and deliberations of the PEC and PA during the year under review;
- The appointment instruments for the Assembly and the PEC Members were not provided for my confirmation and verification purposes.

6.2.2.2 Status of Financial Statements

The Central Provincial Government had not submitted its financial statements for the year ended 31 December, 2015. However, the audit of the internal control environment was in progress at the time of preparation of this report in July 2016.

6.2.3 Motu Koita Assembly

The *Motu Koita Assembly Act 2007* provided for the establishment of a Local-level 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. Section 113 subsection 4 (c) 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

The Motu Koita Assembly (MKA) had not prepared its financial statements for the years 2007 to 2015. I reported in my 2014 report that audit of the accounts and records and the related control environment could not be conducted due to lack of cooperation from the officers and non-availability of the necessary records. I had dispensed 2007 to 2012 financial statements audits under *Part V Section 16 (6) of the Audit Act, 1989*.

6.2.4 Port Moresby General Hospital Board

The Port Moresby General Hospital had submitted its financial statements for the financial years ended 31 December 2012, 2013, 2014 and 2015. Field work associated with the audit of the accounts and records and review of the financial statements for 2012, 2013 and 2014 had been completed with the Management Letters issued. The issues identified in the 2012 Management Letter were reported in my 2014 Part 3 report. The audit report for 2013 was issued to the Minister concerned while report for 2014 was being finalized to be issued shortly. Field work associated with the audit of the accounts and records and review of the financial statements for 2015 had also been completed and the results were being evaluated at the time of preparation of this report in July 2016.

6.2.4.1 Comments on Financial Statements – 2013

My Reports for the years ended 31 December, 2012 and 2013 to the Ministers concerned and other relevant bodies under the *Organic Law* on Provincial Governments and Local-Level Governments and the *Audit Act* were issued in June 2016. The reports for the two years contained Disclaimer Audit Opinions with similar issues hence; only 2013 report is reproduced below:

“Basis for Disclaimer Opinion

Financial Statements

Presentation

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. The 2013 financial statements for Port Moresby General Hospital had fully complied with the Finance Instruction.

Disclosure Errors

I noted the following disclosure errors which could have material effect on the accuracy and completeness of the account balances, the financial position of Port Moresby General Hospital as at 31 December, 2013 and consequently, the reliability of the financial statements.

- The Management had engaged the services of an external accounting firm to oversee the daily general operations of the Hospital part of which was to assist in the compilation and preparation of the financial statements for the year under review. I had been advised and also noted during the course of my audit that bank statements were used as a source documents in the preparation of the financial statements in the absence of any properly maintained cashbooks and ledgers as a result of the accounting system in use either not in operation or incapable of capturing transactions. Further, the financial statements lacked sufficient trail of information, explanations or lead schedules;
- The Hospital had stated its consolidated yearend cash balance as K29,348,145 presumably net of all expenditure transactions in the respective bank accounts during the year. I noted however, the Special Projects account balance of K27,943,282 did not take in to account unrecorded expenses through telegraphic transfers totaling K175,458. The Special Projects account cash balance is therefore overstated to that extent hence, incorrect and affects the accuracy and reliability of the consolidated yearend cash balance; and
- The Hospital had no bank reconciliations done on its bank accounts nor was I provided copies, if any, for my review and confirmation of the account balances.

Significant Control Weaknesses

The paragraphs below give a summary of significant control weaknesses identified in the Port Moresby General Hospital internal control environment:

Revenue

- A total of K977,882 was collected as Sundry Hospital Fees as depicted in the Trust financial statements. However, I sighted no evidence of deposit slips, collector statements, and receipt books to ascertain whether these revenues had been sufficiently accounted for; and
- Under the National Government Free Health Policy initiative, the Hospital was appropriated K2 million in 2013 to subsidise costs of health services. The Hospital however, was still charging fees for specialised services rendered during the year.

Budgetary Control

- The Hospital had not provided copy of its draft or approved annual budget appropriation for my review at the time of the audit and as such, budgeted annual appropriation could not be ascertained. Review of the related expenditure schedules had revealed however, a total of K65,589,700 (inclusive of Salaries from the Department of Finance was expended during the year; and
- The Hospital had expended K36,322,900 on salaries & allowances through Department of Finance. The Fin 04 payroll report had stated an annual budget amount as K30,310,400. I sighted no evidence to suggest that there had been any payroll reconciliations done to confirm actual expenditures to-date. Consequently, the Hospital may have incurred an excess expenditure on salaries & allowances budget by K6,012,500 or over 83%.

Paid Accounts

Noted acute lack of proper maintenance of payment vouchers resulting in payments (direct debits) totaling K29,310,467 as per the bank statements of which a sampled payments of K1,199,077 not sufficiently verified for their legality and appropriateness.

Capital Works

Expenditures on building materials for hospital maintenance and renovation during the year (capital works) totaling K395,371 could not be substantiated to the physical payment vouchers.

Asset Management

- The Hospital by nature of its operations has huge range of fixed assets under its custody. I noted however, an updated and comprehensive Master Assets Register was not maintained nor provided for my inspection at the time of the audit. Consequently, details of assets owned and under the custody of the Hospital for the year under review as well as the reported expenditure on office equipment and plant & equipment of K320,515 could not be ascertained; and
- Periodic stock takes were not undertaken during the year on all existing assets to ensure controls were effective and assets were properly managed.

Advance Management

Noted payments of travel advances during the year totaling K312,789. However, there was no advance register(s) maintained to capture advances issued during the year or the prior years nor were there any evidence of acquittals and recovery actions taken.

Corporate Plan

The Hospital's Corporate Plan 2010 – 2015 remained unsigned and therefore not approved nor was officially launched due to the death of the Chairman of the Hospital Board, Late Sir Brian Bell and more so, due to failure of Board Members not able to reach quorum to accept the Corporate Plan as an official document.

Internal Audit

National Department of Health is responsible for the internal audit of the Port Moresby General Hospital. I noted however, that there had been no internal audit conducted nor sighted evidence of reports pertaining to the year under review to ensure that the control mechanism established was operational and effective.

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 the Port Moresby 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:

- Section 19 (6) of the *Public Hospital Act, 1984* requires minutes of the Management Board's meeting to be recorded and kept. The Port Moresby General Hospital did not adequately and fully maintain minutes of Management Board's meeting during the 2013 financial year.
- Section 62 (1) of the *Public Finances (Management) Act, 1995* requires all public bodies to keep proper accounts and records of its transactions and affairs, and to develop adequate controls over their assets and liabilities. As discussed in the Basis for Disclaimer Opinion paragraphs above, the Port Moresby General Hospital has not complied with this requirement during the 2013 financial year.
- The signed financial statements for the year ended 31 December, 2013 were only submitted for my review on 22nd June, 2015, a delay of up to 14 months from April 2014 was noted."

6.2.4.2 Control Environment – 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 June and July 2016 respectively. The Letters contained similar issues hence only 2014 control issues are restated below:

Corporate Governance

Corporate Plan

My review of the Hospital's Corporate Plan 2010 – 2015 revealed that the plan was not officially launched due to the death of the Chairman of the Hospital Board Late Sir Brian Bell and failure of Board Members not able to reach quorum to accept the Corporate Plan as an official document. The corporate plan was also unsigned hence, not approved by the hospital. Consequently, I could not ascertain whether or not planned goals and objectives had been achieved.

Hospital Board

The Hospital Board had convened five Board meetings during the year. I observed however, that Minutes of meeting number 01 was not duly signed to indicate its authenticity and minutes for meeting number five, if any, were not provided for my review. Further, I could not confirm the accuracy and appropriateness of the payments of members' sitting allowances in the absence of related records.

Internal Audit

National Department of Health is responsible for the internal audit of the Hospital. However, I sighted no evidence of internal audits reports or other documents to suggest conduct of any internal audits to ensure effectiveness of the established control mechanisms during the year under review.

Appropriation and Budget Management

Except for the 2015 Annual Appropriation Schedule from National Department of health (NDOH) and extracts from Meeting Minutes, I was not provided other source documentations for my review. The Annual Appropriation Schedule had reported a budget estimate of K59,361,200. I made following observation:

- A total of K28,394,300 was appropriated as operational grants for the year. I noted however, the Hospital had created three new ledgers in the statement of cash receipts

and payments namely, Administrative Consultancy Fees; Project Studies/Preparation; Construction, Renovation and Improvements. These however, were not captured in the budget;

- I sighted no evidence to indicate that the payroll reconciliations were done on the salaries & allowances paid through Department of Finance totaling K40,312,956 to confirm actual expenditures. The Finance 04 payroll report had indicated annual budget for salaries & allowances as K30,310,400. The Hospital had therefore, may have over-expended its salaries & allowances component by K10,002,556;
- Review of the 'Kundu Pei' system had indicated that expenditures on vote item 112 - Casual Wages had surpassed its budgeted amount of K4,131,600 by K5, 647,026. Most of these increases were attributed to recruitment exercises undertaken by the hospital. I could not establish if these salaries had been recouped from salaries once the casuals were made permanent staff and put on the 'Alesco' payroll system; and
- The Hospital had not prepared any budget for the trust account especially for the expected revenues. Further, the establishment of the free health service policy had either subsidized or eliminated some fees that the hospital could have collected.

Cash and Bank

Review of bank accounts and related records revealed the following issues:

- The Hospital had operated three bank accounts as at 31st December, 2014 namely, Hospital Operating Account; Trust Fees Account and a Special Project Account with account balances as stated below:

| Account | Bank Statement Balance (K) | Unpresented Cheques (K) | Reconciled Balance (K) |
|-----------------|----------------------------|-------------------------|------------------------|
| Operating | 4,651,912 | 768,276 | 3,883,637 |
| Trust | 685,847 | 20,302 | 665,545 |
| Special Project | 18,139,584 | 457,950 | 18,139,584 |

- Segregation of duties, in performing tasks including preparing bank reconciliations was lacking; and
- The Operation Open Heart Account was closed in April, 2014 with a balance of K21,041 transferred to the hospital's operational account. I neither was unable to establish nor provided reasons for the closer of this account.

Revenue Management

With exception to the National Government Grants, management of internal revenues was poor and ineffective as indicated by number of serious concerns including the following:

- Sundry Hospital Fees collection of K819,307 as per the financial statements could not be verified or traced to deposit slips, collector statements, and receipt books. Consequently, I could not ascertain the accuracy, completeness and whether the collections had been properly accounted for;
- The Hospital was noted to have received a total of K69,600,862 from various revenue sources during year as indicated below.

| <u>Types of Revenue</u> | <u>Account</u> | <u>Amount</u> <u>(K)</u> |
|--------------------------------|-----------------------|---|
| Operational Grants | Operational | 28,394,400 |
| Supplementary Grants | Operational | 8,000,000 |
| User Free Policy- Grants | Operational | 1,280,000 |
| Rental Income | Operational | 16,000 |
| Project Grants | Projects | 30,000,000 |
| Hospital Fees | Trust | 819,307 |
| Rental Income | Trust | 164,250 |
| Payroll Reimbursements | Trust | 745,339 |
| Fundraising Income- Golf Day | Trust | 181,565 |
| Total | | <u>69,600,862</u> |

However, the accuracy of the amounts could not be confirmed or verified in the absence of a complete bank statements and related records.

- The Hospital had not provided evidence to indicate that either surprise cash counts or daily independent confirmations were conducted by competent personnel to ensure all revenues collected were recorded and banked promptly and intact.

Procurement and Payment Procedures

Review of the paid accounts and procurement management of Port Moresby General Hospital revealed the following observations:

- Payment vouchers relating to thirty-one payments totaling K5,438,388 out of one hundred and twenty sampled for testing totaling K11, 028,260 were missing or not available for my review;
- Eleven instances of payments for consultancy and legal fees totaling K1,388,649 had the following weaknesses:
 - Most consultancy work carried out was related to major projects including Information Communication Technology (ICT), Hospital Clinical Service Plan, Hospital Master Plan and others. On six instances consultancy payments totaling K674,390 had the following concerns:
 - i. Except for the Hospital Board approvals, copies of the tender documentations and company profiles for selection of service providers were not available; and
 - ii. The nature of services rendered and by whom for which a telegraphic transferred payment totaling K27,480 was made could not be established in the absence of related records.
- Payments to Kimbu & Associates for legal services to the Hospital totalling K789,675 had the following anomalies:
 - i. Most of the legal fees were outstanding from previous representations on behalf of the hospital. There were no register kept by the hospital to verify the accuracy of the outstanding invoices;
 - ii. I sighted no evidence to indicate whether or not, the legal services provided by the firm had been reviewed by the Hospital Board; ,and

- iii. No charge out rate for lawyers on all matters inclusive of the cost bourn.
- Seven instances of payments to Kookaburra Meats Ltd, Starland Freezer Ltd and PBC Supa Hostel Ltd for food rations totaling K443,355 had the following issues:
 - i. No stock take report on need basis with actual reports from kitchen supervisor,
 - ii. No delivery notes to confirm goods have been received intact and according to the purchase orders; and
 - iii. No creditors listing to confirm if the creditors had been paid based on actual invoices.
- Four instances of payments to a fuel supplier, Canaan Service Station, totaling K50,000 had no certified listing of approved vehicles or reports for vehicle usage attached with daily tasks schedules;
- The MYOB accounting package adopted by the Hospital was unreliable due to configuration issues in relation to the Suppliers Names and Narrations on the reports generated. As such, sixty-nine instances of payments totaling K2,607,727 had no supplier names nor proper narrations to be referred to;
- Accommodation rentals for doctors employed by Port Moresby General Hospital were paid by the Hospital purported to be based on a circular instruction on the review of accommodation rental rates. Review of rental payments on eleven instances totaling K196,988 revealed rates applied could not be verified to the circular instruction. However, housing allowances were still being paid to doctors which may be a 'double dipping'. Further, lease agreements with land lords were not available to confirm the appropriateness and accuracy of the rental payments;
- 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 on those positions and/or examined, certified and approved claims during the year under review; and
- Noted thirty-six instances of payments totaling K1,801,507 as settling arrears on utilities and other bills. No creditors listing provided to confirm accuracy and validity of the payments made.

Capital Works and Maintenance

Apart from the major projects undertaken by the Hospital with a K30 million allocation, Capital Works and Maintenance during the year focused on minor and routine maintenance. Noted six instances of payments totaling K541,470 to the contractors Laurina Construction, EMS Builders and Contractors, and Varokau Construction and Maintenance Ltd with the following issues:

- i. No tender documentations for selection of contractor based on valid processes,
- ii. No Job request from relevant authority (facilities manager) to confirm need basis of work to be done,
- iii. Invoices lacking details of actual work done and according to the scope of works,
- iv. No company profile to identify expertise of contractor and experience along with certificate of incorporation, and

- v. No certification by competent authority to indicate adequate and proper completion of the projects and therefore requiring payments.

Human Resource Management

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

- Staff Personal files not updated regularly to reflect changes in salaries due to Information Promotion, Increments and Consumer Price Index (CPI) adjustments; Deductions; nor the Salary History cards updated to support salary adjustments due to promotions and performance appraisals;
- Officers listed in the Staff Establishment Register (SER) were not on payroll, an indication that the SER had not been updated nor the salary grade levels for couple of officers updated;
- Instances of officers on acting positions not paid their higher duty allowances (HDA's); and
- No fortnightly payroll reconciliations done to verify the correctness of the payrolls.

Assets Management

- A complete and updated comprehensive asset register was not provided for inspection at the time of the audit. However, review of the payments revealed that the Hospital had expended K18,392 on assets including purchases of six personal computers (PCs) from Daltron;
- A fixed asset listing for Port Moresby General Hospital for 2014 recorded the assets totaling K5,298,099. However, I was unable to ascertain an accurate description as either purchased or donated;
- The available updated property listing had no realistic market prices for the properties nor were titles for portion of land & buildings sighted for verification; and
- No periodic stock takes were undertaken during the year on all the existing assets to ensure effective control and management of assets.

Advance Management

- Noted payments of salary advances during the year totaling K745,339 and a travel and subsistence totaling K284,580. However, the Hospital had not maintained a comprehensive advance register to capture advances issued during the year or the prior years nor were there any evidence of acquittals and recovery actions taken;
- I noted that salary advances are unbudgeted items however, due to increasing staffing especially nurses, the Hospital had to take on board the responsibility by way of salary advances funded through the operational account until the nurses are put on 'Alesco' or 'Payroll'. However, I could not establish if the advances had been recouped once the nurses were put on the 'Alesco' payroll system.

6.2.4.3 Management Response

Management had not responded to my audit Management Letter queries at the time of preparation of this Report in July 2016.

6.2.5 Business Arms

Section 16(2)(f) of the Audit Act 1989 provides for and extends my functions to audit the accounts and records of the Provincial Governments and Local Level Governments Business Arms and other establishments.

I am aware of eight business arms of the Central Provincial Government namely, Central Province Transport Authority (CPTA); Central Provincial Investments (formerly Central Provincial Development Corporation); Central Provincial Travel Agent; Vitis Spices; Gokas Construction; Central Air Transport; Baina Agro-Forestry; and Ilimo Farm. CPTA had been the only one which had been consistently audited for the years up to 2010. None of the other entities had submitted their recent financial statements for audit at the time of preparation of this report in July 2016.

6.2.5.1 Central Province Transport Authority (CPTA)

The Authority had submitted its financial statements for the year ended 31 December 2010. The fieldwork associated with audit of the accounts and records and the examination of the financial statements had been completed and the Management Letter issued to the Managing Director in November 2015. The audit report to the Minister concerned was also issued.

6.2.5.2 Comments of Financial Statements

My Report for the year ended 31 December, 2010 to the Minister concerned and other relevant bodies under the *Audit Act* and the *Organic Law* on Provincial Governments and Local-Level Governments was issued in early December, 2015. The report contained a Disclaimer Audit Opinion as reproduced below:

Financial Statements

“Basis for Disclaimer Opinion

Presentation Errors

The following presentation errors render the financial statements of the Central Provincial Transport Authority unreliable:

- The Authority’s financial statements had not been duly endorsed and appropriately signed;
- The balance sheet, an income & expenditure statement and cash flow statement forming part of the Authority’s financial statements did not include comparative figures for 2009; and
- The financial statement lacked a Detail Statement of Revenue and Expenditure as part of the Notes. This statement gives detail of accounts of revenue and expenditure balances which make up the overall total disclosed in the Income and Expenditure Statement.

Disclosure Errors

- The accuracy of the Authority's bank statement balance of K1, 266 could not be confirmed as correct due to non-availability of both the bank reconciliation statements and the bank confirmation.

Significant Control Weaknesses

I have noted number of significant control weaknesses in the Central Province Transport Authority's records and internal control processes as stated below:

Central Province Transport Authority Act

The Central Province Transport Authority Act 1991(the Act) established the Central Province Transport Authority Ltd (the Authority). In 2004, amendments were created within the Act without meeting proper legal procedures including the Parliament's approval and enactment of the amendments.

Accounting records

- Proper and adequate records including relevant registers were not maintained in the absence of the proper cashbook, ledgers and trial balance which form the basis for the preparation of the financial statement. Consequently, balances disclosed in the financial statements could not be confirmed as correct. The same was noted in the previous years.
- The Authority had no proper back-up system in place for its electronic financial records. The entity was lacking computer controls surrounding the safe keeping of records. The network system currently used was not monitored allowing the in-flow and out-flow of information without any proper control.

Corporate Governance

Contrary to section 17 of the CPTA Act which requires the CPTA Management to report to the CPTA Board and the CPTA Board then reports to the Chairman of the Transport Board, the CPTA Management was reporting to the PEC, Central Provincial Government whilst the Managing Director for Central Province Investment Limited (CPIL) now operating as Central Province Development Corporation (CPDC) was overseeing the operations of the Authority. I noted this as an exception in the absence of a duly appointed CPTA Board and recommended the Central Province Transport Authority Board of Directors to be revived to effectively perform its intended obligations with proper channel of command and communication control and to oversee the overall operation of the Authority.

The response to my recommendation was still awaited at the time of finalizing this report.

Advance Register

The Authority did not maintain a proper and updated advance register to record all cash advances made during year as a control measure nor provided sufficient evidence to indicate that there were proper follow up on acquittals of cash advances. I noted payments totaling K45,223 as staff advances during the year of which only K10,942, or 24% were recovered and a balance of K34,281 remained un-acquitted at yearend. I noted the similar observations in previous years.

Budgetary Control

The Authority had failed to provide for my review evidence that it had operated within and on the basis of its approved annual budget. Consequently, I was led to conclude that the Authority was operating on an ad hoc basis during the year under review. I noted the similar observations in previous years.

Receipts Management

The Authority had reported its total revenue for the year as K3,862,839. Accuracy and completeness of the individual revenues however could not be confirmed as correct due to the following weaknesses:

- Postings of daily collection on to the debit cash account sheet by the Cashier were not counter-checked independently for accuracy and completeness by the financial controller or senior appropriate officer, nor the collections were entered into their respective ledger account or revenue heads; and
- The existing “One-Stop- Shop” policy between MVIL and CPTA, under the MOA signed in 2003 where both Vehicle Registration and Third Party Insurance (TPI) fees on motor vehicles are captured on one document. Under this concept, MVIL collects the registration and Insurance fees but retains the insurance component and to remit the calculated registration fees component on a monthly basis to CPTA. As reported in the past, the Policy continues to be practically unfavorable for the Authority’s smooth and timely operations as remittances are never on time for the Authority to settle its obligations with the service providers and creditors.

Operational and Other Expenditures

The Authority had expended over K5,096,000 as operational and other expenditures during the year. My review of the sampled payments totaling K1,379,418 revealed however, that the expenditures were either not appropriately approved or simply lacked supporting documents including invoices, receipts; engagement letters/service agreements, duly approved travel requisitions, competitive quotes and completed acquittal forms, or the supporting documents were missing. Consequently, the validity of these payments could not be confirmed.

Salaries, Wages and Allowances

My review of payroll and related records for the year ended 31 December, 2010 revealed that the Authority had incurred a total salaries, wages and allowances expenses of K755,579 during the year. I noted the following related weakness:

- Staff personal files were not properly and safely maintained to confirm employment details including staff permanency dates, number of dependents and the tax calculations done on salary and wages, history cards, salary & wages declaration forms, certificate of confirmation, legal binding contracts and other employee information;
- The then acting Managing Director named who appeared to have been in employment for only six months to February 2011 was paid a total of K40,862 as contractual allowances. I noted and subsequently advised however, that the employee was not on the salary and wages listing nor had personal file created for him or signed a formal contract agreement with CPTA. I further noted that, four of the above thirteen sampled payments totaling K25,863 lacked entitlement calculation, approvals for payments, copy of the contract, and tax calculated component and that the entitlement

calculations were done by the employee himself for processing;

- The validity and legality of payments made to the Managing Director (named), totaling K176,067 could not be verified in the absence of a duly signed contract agreement; and
- Contract gratuity payments to seven officers totaling K36,537 could not be verified against duly executed contract documents.

Payments to Related Parties

- Remittances to the Central Provincial Government and the Provincial Administration totaling K1,021,395 lacked evidence of formal and legal arrangement in place and that these have been in breach of and therefore, contrary to Section 105 of the CPTA Act, 2004(as amended); and
- Payments to Central Province Development Corporation Ltd as non-traffic registry expenses totaling K1,058,700 were contrary to the CPTA Act, 2004 (as amended). As such, the validity of the payments could not be confirmed. Further, I am of the view that the business arms are separate legal entities and therefore, should be self-sustaining without undue financial constraint to the CPTA. I reported the similar observation in the previous years.

Assets Management

The Authority has reported its fixed assets at cost as K119,030 with a written down value of K89,014 at yearend. My review of the relevant capital expenditure records revealed that the Authority had made payments totaling over K116,000 on five motor vehicles and other fixed assets during the year. The Authority had however, not maintained a proper assets register to accurately record additions and or disposals of fixed assets during the year. Consequently, physical existence of these assets as well as the accuracy of the cost and the value of assets at yearend could not be ascertained in the absence of a properly kept assets register.

Disclaimer Audit Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence. Accordingly, I do not express an opinion on the financial statements of Central Province Transport Authority for the year ended 31 December, 2010.

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. I draw attention to the following issues:

- Section 51 of the *Public Finance (Management) Act 1995* requires all public bodies to submit, not later than three months before the end of each fiscal year, an estimate of its receipts and expenditures for the next financial year. Central Province Transport Authority has not complied with this requirement during the 2010 financial year.

- Section 62 of the *Public Finance (Management) Act 1995* requires all public bodies to keep proper accounts and records of its transactions and affairs, and to develop adequate controls over their assets and liabilities. As discussed in Basis for Disclaimer Opinion paragraph, the Central Province Transport Authority has not complied with this requirement for 2010 financial year.”

6.2.5.3 Management Response

The Management had been given an extended time to respond to my Management Letter queries however, had not done so at the time of preparation of this report in July 2016.

6.2.5.4 Status of Financial Statements

The Authority had not submitted its financial statements for the years ended 31 December 2011, 2012, 2013, 2014 and 2015 for my inspection and audit. However, fieldwork associated with audit of the internal control environment for 2011 was in progress at the time of preparation of this report in July 2016.

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 Local-Level Governments and Business Arms.

6.3.2 East New Britain Provincial Government

The East New Britain Provincial Government had submitted its financial statements for the financial year ending 31 December, 2015. Field work associated with examination of the financial statements and the audit of the accounts and records were completed with the Management Letter issued. The audit opinion report was being finalized at the time of preparing this Report in July, 2016. The paragraphs below detail issues raised in the Management Letter with the internal control environment.

6.3.2.1 Control Environment - 2015

The Management Letter relating to the audit of the accounts and records for the year ended 31 December, 2015 was issued in July 2016 and contained control weaknesses as stated below:

Appropriation and Budget Management

The East New Britain Provincial Government approved estimates of revenue and expenditure for the year ended 31 December, 2015 was K259,524,800 and consisted of National Government Grants of K201,544,800 and Internal Revenues of K57,980,000.

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 K203,918,800 and K208,139,845 while the report for Division 716 showed the initial and current appropriations as K61,014,300 and K57,980,000.

The overall totals of the initial and current appropriations for Division 288 (Grants) of K203,918,800 and K208,139,845 exceeds the approved original budget appropriation of K201,544,800 while the initial appropriation for Division 716 (Internal Revenue) of K61,014,300 exceeds the approved original budget appropriation of K57,980,000. I was not provided a Revised Budget Document to verify the accuracy of the increases to the approved annual appropriations as well as to ascertain whether the increases were sanctioned and approved by the appropriate authorities.

Revenue Management

- Significant under collection of revenue were revealed in analytical procedures I performed to compare actual results against budget targets. I observed the East New Britain Provincial Government fell short to collect internal revenues totaling K36,548,138 from its potential revenue of K37,965,600 and National Government Grants totaling K191,633,645. The late release of funds by the National Government has been one factor attributed in the shortfalls in grant receipts;

- The Provincial Government had projected the receipt of K20,000,000 in Provincial Special Intervention Program (PSIP) funds in its 2015 Budget Estimates however, had received only K9,450,000 of these grant funds during the year. I observed the grant receipts of K9,450,000 were taken up in the National Government Agencies Database and were administered through the Provincial Treasury Operating Account hence, the National Government Grant receipts is materially misstated by the actual amount of receipts from PSIP funds; and
- Delays in banking of daily collection of revenues for up to twelve (12) days were observed in my review of collection and banking procedures.

Cash Management

The Office of the Provincial Administrator maintained and operated a bank account titled 'Administrative Expense Account'. The bank account was opened in December, 2010 with an initial amount of K100,000 and is operated independently as an impress account outside of the ENBPG Operating Account and ENBPG Grant Account. I observed the bank account was replenished with funds totaling K250,000 during the year without appropriate supporting documents in the form of acquittals. Furthermore, I was not provided sufficient evidence to confirm the legal existence and operation of this account.

Procurement and Payment Procedures

Prudent expenditure management is necessary in order to enhance effective service delivery. Review of the control environment relating to procurement and payment procedures revealed the following control weaknesses:

- Section 32 officers who approve Requisitions for Expenditure (FF3) continued to fail to disclose their designation and financial limits to approve expenditure. As a result, I was not able to obtain assurance whether two (2) payments of K99,500 and K53,460 duly approved by the Kokopo District Administrator were within his designated financial limit;
- A payment of K62,097 to Kumul Soft Limited was not signed by the appropriate Section 32 Officer as approval of expenditure;
- Payments totaling K1,717,073 were made to various suppliers for procurement of basic school materials for the four (4) Districts of the Province. I observed the claims presented for payment lacked proper and valid supporting documents such as the suppliers invoices, delivery dockets and/or goods received notes and minor contract agreements to substantiate the validity and genuineness of the expenditures incurred. Furthermore, three (3) of the District Education Offices except for Gazelle District, had not responded to audit request in providing acquittal reports on the disbursements and distribution of school materials in their respective Districts;
- Payments totaling K822,835 to Planpac PNG Limited were incorrectly paid out of funds from vote 716.2100.9105.143 intended for Kokopo/Tokua Water Supply Project. Planpac PNG Limited was engaged to provide documentation in respect of Kokopo/Tokua Corridor Development Plan Review Project;
- Payment of overtime allowances to officers during the year totaled K361,322. I observed that there was no budget funding provided under vote item 113 and that the overtime allowances were incorrectly charged and paid out of vote item 135. Further, payments for rental of office space were also incorrectly paid out of vote item 135 rather than vote item 127;

- I observed the Governor issued directives to use funds from CPB refund Vote 716.1100.1140.135 to expedite payments of K377,300 to KK Connections for supply of chainsaws. The payment voucher was not certified by the certification officer and also lacked appropriate supporting documents such as the goods delivery dockets, valid suppliers invoices and contract agreements;
- Excessive incidental allowances totaling K324,025 were claimed by officers of the Provincial Government during the year. I observed officers were claiming incidental allowances when attending workshops, trainings or conducting other official duties within the vicinities of their permanent locations; and
- In thirty-one (31) instances, payment vouchers with relevant supporting documents in respect of expenditures incurred totaling K3,386,065 were missing from files. Consequently, I am unable to ascertain the validity as well as proper authorization of the claims presented for payment.

ENB Provincial Supply and Tenders Board

- The ENB Provincial Supply and Tenders Board had convened four (4) meetings during the year under review. However, I was not provided the meeting minutes in respect of meetings number 03 and 04 of 2015 for my review. Consequently, I was unable to obtain any further information on matters with financial implications that were deliberated and approved by the Provincial Supply and Tenders Board at those two (2) Board meetings held; and
- The Meeting Minutes provided for my review revealed the ENB Provincial Supply and Tenders Board had approved the awarding of contracts worth K7,825,110 to five (5) private contractors. A firm namely, Planpac PNG Limited, in partnership with East New Britain Development Corporation was awarded the contract in respect of Kokopo – Tokua Corridor Development Plan Review at a contract value of K4,961,000. I observed what could be viewed as a conflict of interest situation in that, the Chairman of the Provincial Supply and Tenders Board was also a Director of East New Britain Development Corporation while the Acting Deputy Provincial Administrator for Socio Economic Services who is a member of the Provincial Supply and Tenders Board is a brother of the Chief Executive Officer of ENB Development Corporation.

Capital Works and Maintenance

The Provincial Government had paid K4,455,326 on capital and maintenance works during the year. I observed most payments were below the tenders board threshold limit of K5,000,000 however, lacked appropriate supporting documents such as the three (3) required written quotations from suppliers, minor works contract agreements and certificates of completion.

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 totaling K14,779,163 nor were there records to indicate that the Provincial Government had sought these reports.

Salaries and Allowances

Effective human resource management together with competent and highly motivated personnel is essential to provide quality service delivery. I was not able to obtain absolute assurance on the effectiveness of human resource management and validity of payments of salaries and allowances in view of the following discrepancies:

Provincial Assembly Members Salaries and Allowances

My review of the Provincial Assembly Members payrolls for Pay Nos. 03/2015, 05/2015 and 07/2015 revealed the following discrepancies:

- The Deputy Governor, PEC Members and Ordinary Members were paid their normal fortnightly salaries based on the 2014 approved salary rates rather than on the new approved rates as per the SRC Determination Schedule G007-01(a);
- The Governor, Deputy Governor and PEC Members who are recipients of entitlements such as accommodation, utilities and other allowances were not appropriately taxed on the entitlements as taxable income; and
- Certain PEC Members including the Town Mayors were not receiving the correct rates on their entitlements such as transport and entertainment allowances.

Public Servants Salaries and Allowances

- The Provincial Administrator had approved the new organizational structure of seven hundred and sixty-nine (769) positions for East New Britain Provincial Administration on 04th of August, 2014. As a result of the restructure, all positions were deemed vacant and all the officers were unattached. I observed the appointments to positions under the new structure and salary awards had not been implemented and that all officers, except for those officers who are occupying senior management positions, remained unattached as at the time of audit in May, 2016. Further, I was not provided evidence to suggest the new organizational structure was sanctioned and approved by the Secretary for Personnel Management;
- I was not provided the fortnightly payroll reconciliations to ascertain whether the salaries expenditure as well as the number of staff on strength was within the approved salaries budget and manpower ceilings respectively. Further, I observed from the Department of Finance IFMS 2233 Report, certain expenditure balances in respect of Overtime, Retirement Benefits, Pensions, Gratuities and Retrenchment and Unidentified ALESCO Payroll expenditure for which no explanations had been provided on the existence of the balance disclosed in the IFMS 2233 Report; and
- Proper maintenance and updating of salary records was lacking. I observed the payroll Unit did not maintain adequate records in personal files such documents in respect of salary adjustments and Contracts of Employment for contract officers nor had updated officers' salary history and leave records on a current basis and placed them in the respective personal files.

Teachers' Salaries and Allowance

- I was not provided the Teachers' Establishment Register to ascertain the accuracy of number of Teachers on Strength as against the approved Teachers Ceiling (funded positions) for East New Britain Province. I was however, provided a register which showed a total of three thousand six hundred and eighty (3,680) teaching positions in the province which did not show any names against the teaching positions;

- I was not provided evidence to suggest that proper payroll reconciliations were done to verify the accuracy of teachers' salaries against the budget allocation for Teachers' Salaries; and
- The Teachers' personal files and other relevant salary records were stored in a storage container stationed at Malaguna Technical School in Rabaul while the Provincial Education Office was situated at Kokopo. Such arrangement provides no assurance of safe custody of such vital and important records.

Vehicle Allowances

The Provincial Government had paid a total of K1,178,800 on expenditure relating to vehicle and mileage allowances. The Senior Officers of the East New Britain Provincial Administration were recipients of monthly vehicle allowances of K4,000, free of tax. The PEC Decision No. 22/2006 to pay vehicle allowances to Senior Officers was intended to enable officers to purchase and own vehicles to use on official duties. I was unable to ascertain whether or not the Senior Officers had strictly utilized the receipt of vehicle allowances for the intended purposes. Further, I was not provided evidence to suggest the Internal Revenue Commission had approved tax exemptions on the receipt of vehicle allowances.

Assets Control

The fixed asset registers maintained showed the East New Britain Provincial Government had recorded fixed assets at cost of K69,564,553 were held under its ownership as at 31 December, 2015. I was not able to obtain assurance on the completeness and accuracy of the reported total value of fixed assets in view of the following discrepancies:

- The purchase price of a Toyota Land Cruiser bought for Fisheries and Marine Branch was recorded in the fixed assets register as K13,766,677 as a result of a typographical error;
- A number of assets purchased during the year worth K451,191 were not identified as having been accounted for and recorded in the fixed asset registers;
- Fixed assets classified under the different categories were not shown in any sequential order according to the year of purchase for ease of reference and to establish the total value of fixed assets purchased in a fiscal year; and
- The Provincial Government had paid K117,097 to a firm namely; Kumulsoft Limited to acquire a fixed asset register database with trainings held and was attended by three (3) officers from the Property and Assets Unit. I observed the updating of the fixed asset registers were still been done using the Microsoft Excel Program.

Advances Management

I observed lack of monitoring and recovery exercises on travelling allowances and cash advances resulting in amounts of advances totaling K356,485 paid to officers during the year remained un-acquitted at year end.

6.3.2.2 Management Response

The above observations on the internal control environment for the year ended 31 December, 2015 had been communicated by way of Management Letter to the Provincial

Administrator of East New Britain Provincial Government and management together with recommendations for improvements. I have however, not received the responses at the time of preparing this Report.

6.3.3 Kokopo/Vunamami Urban Local Level Government

6.3.3.1 Introduction

The Kokopo/Vunamami Urban Local Level Government submitted its financial statements for the year ending 31 December, 2014. Field work associated with examination of the financial statements and audit of the accounts and records was completed with the Management Letter issued and the audit opinion report also issued to the Ministers concerned. The paragraphs below detail issues identified with the financial statements and the internal control environment.

6.3.3.2 Financial Statements – 2014

My Report to the Ministers concerned and other relevant bodies under the *Organic Law and the Audit Act* was issued on 07th of July, 2016. The Report contained a Qualified Audit Opinion as reproduced below.

“Basis for Qualified Audit Opinion

Presentation

Finance Instruction 5/2000 issued under Section 117 of the Public Finances (Management) Act, 1995 prescribes the format for the preparation and presentation of the financial statements for Local-Level Governments. The financial statements of Kokopo/Vunamami Urban Local Level Government for the year ended 31 December, 2014 fully complied with the formats prescribed by Finance Instructions.

Disclosure Errors

I noted the following disclosure errors which could have material effect on the accuracy and completeness of the Kokopo/Vunamami Urban Local-Level Government Account balances as at 31 December, 2014, the financial position and consequently, the reliability of the financial statements.

Cash Balances

The Kokopo/Vunamami Urban Local-Level Government Account balance of K615,269 disclosed in Statement ‘A’ which is represented by the closing reconciled cash balance of the Urban Local Level Government Operating Account of K615,269 as at 31 December, 2014 is confirmed as correct with the corresponding books of records.

Receipts and Payments

Statement ‘B’ presented total revenue and expenditure of K3,494,597 and K3,378,318 with an operating surplus of K116,279 which are in agreement with the corresponding Statements ‘J’ and ‘K’.

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 garbage and sanitation charges of K1,945,345 provided at the time of audit. The Appendix however, had stated thus, “there is a large amount of outstanding 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 acutely inaccurate and misleading in view of the following discrepancies:

- 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 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 totaling K107,665 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, 2014

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. The accumulative balance is inaccurate, misleading and unreliable as it is effectively a prior year un-acquitted balance that does not include current year balances, if any, and that it contains inherited errors from prior years which have not been adjusted or corrected.

Other Records and Registers

Several other documentation corroborating the financial statements, such as the registers of investments, inventory, debtor and borrowings, commitments and arrears and losses and deficiencies were not available. Consequently, I could not ascertain the existence, completeness and accuracy of these items in 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 Kokopo/Vunamami Urban Local-Level Government for the year ended 31 December, 2014:

- have been prepared in accordance with the Finance Instructions issued under the Public Finances (Management) Act 1995; and
- 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.

Other Matters

In accordance with 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 Kokopo/Vunamami 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 *Organic Law on Provincial Governments and Local Level Governments*. ”

6.3.3.3 Control Environment– 2014

The Management Letter relating to the audit of the financial statements and the accounts and records for the year ended 31 December, 2014 was issued in March, 2016. The Letter contained internal control weaknesses as stated below:

Corporate Governance

Effective service delivery depends entirely on prudent corporate governance. I was not able to obtain assurance on the effectiveness of good corporate governance in view of the following issues:

- The Kokopo/Vunamami Urban Local-Level Government had not maintained proper records of minutes of meetings held by the Urban Local-level Government Assembly and Finance Executive Committee during the year. Consequently, important resolutions and decisions passed with financial implications on the operations and management of the Urban Local-Level Government could not be ascertained; and
- The Kokopo/Vunamami Urban Local-Level Government had no Corporate Plan with clearly identified corporate goals, objectives and strategies to enhance service delivery.

Appropriation and Budget Management

The Kokopo/Vunamami Urban Local-Level Government reported its original annual budget estimates for expenditure and revenue as K6,704,300 while the expenditure ledger reports showed the initial and current appropriation as K7,137,269. I was not provided evidence including the Appropriation Act of 2014 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.

Revenue Management

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

- Kokopo/Vunamami Urban Local-Level Government fell short of collecting its anticipated internal revenue totaling K5,845,069 and grant receipts of K188,234 as at 31 December, 2014; and
- Delays in banking of revenue collections ranging from one (1) day to sixteen (16) days noted in my review of collection and banking procedures indicates a serious control weakness that needs immediate attention of the management.

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);
- There were instances of payments totaling K1,036,005 and K66,628 where the Town Manager and Acting District Administrator had approved expenditure in excess of their approved designated financial limit of K10,000 and K25,000 respectively;
- The Requisition for Expenditure (FF3) for a payment of K100,000 was not signed by the appropriate Section 32 Officer as approval for expenditure;
- Neither proper records nor ledgers were maintained by the Urban Local-Level Government to record the outstanding invoices for the truck hires for garbage removal dating back to 2010 which had resulted in an over payment of K26,980 to a service provider;
- The Kokopo/Vunamami Urban Local-Level Government incorrectly charged expenditures totaling K984,732 to unrelated vote items during the year; and
- I observed payments of vehicle allowances for the Town Manager and Deputy Town Manager totaling K32,000 from the LLGSIP and internal revenue funds are improper and an indication of non-adherence to proper budgetary control practices as these allowances are supposed to be budgeted for in the Provincial Government Budget and therefore, should have been paid from the Provincial Government Operating Account.

Advances Management

I observed serious lack of proper monitoring and recovery exercises on travel and cash advances resulting in substantial amounts dating several years back, remained un-acquitted as at 31 December, 2014 nor the Urban Local-level Government maintained a proper and updated advance register during the year.

Grants

Payments totaling K57,521 were paid out as grants and financial assistance to community organizations and individuals. I observed there were no proper monitoring guidelines or mechanisms in place to ensure that funds given are utilized for purposes intended and also to obtain accountability reports from recipients.

6.3.3.4 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 preparation of this Report in July, 2016.

6.3.3.5 Status of Financial Statements

At the time of preparation of this Report in July, 2016, the Kokopo/Vunamami Urban Local-Level Government had submitted its financial statements for the year ended 31 December, 2015 for my inspection and audit and arrangements were being made to commence the audit shortly.

6.3.4 Rabaul Urban Local Level Government

6.3.4.1 Introduction

The Rabaul Urban Local-Level Government submitted its financial statements for the year ended 31 December, 2014. Field work associated with examination of the financial statements and audit of the accounts and records was completed with the Management Letter issued and the audit opinion report also issued to the Ministers concerned. The paragraphs below detail issues identified with the financial statements and internal control environment.

6.3.4.2 Financial Statement – 2014

My report to the Ministers concerned and other relevant bodies under the *Organic Law and Audit Act* on the Rabaul Urban Local-Level Government's financial statements for the year ended 31 December, 2014 was issued on 07th of July, 2016. The Report contained a Qualified Audit Opinion as reproduced below.

“Basis for Qualified Audit Opinion

Presentation Error

Finance Instruction 5/2000 issued under Section 117 of the Public Finances (Management) Act 1995 prescribes the 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, 2014 had the following non-compliance and presentation issues:

- Except for the Mayors statement, the District Administrator's statement on the Urban Local-Level Government's budget and financial performance was not included; and
- Statement 'C' had misleading column headings with opening and closing balance dates as 31 December, 2013 instead of 01 January, 2014 and 31 December, 2014 which is misleading.

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 as at 31 December, 2014, the financial position and consequently, the reliability of the financial statements.

Cash Balances

The Rabaul Urban Local-Level Government Account balance of K686,417 disclosed in Statement 'A' as represented by closing reconciled cash balance of the Operating Account of K686,417 as at 31 December, 2014 is confirmed as correct with the corresponding books of records. I noted however, two (2) sets of Statement 'D' with different and misleading net increases of K286,139 and K283,146 which may impact the accuracy of the changes in bank balances and therefore, the movement in the cash flow statement.

Receipts and Payments

Statement 'B' presented total revenue and expenditure as K1,524,059 and K1,240,914 respectively with an operating surplus of K283,145. I noted however, the missing pages

in respect of Statements 'B' and 'K' and as a result, the reported total actual expenditures and operating surplus for the year were not disclosed.

Fixed Assets

The total cost of fixed assets of K1,899,556 disclosed in Appendix 4 to the financial statements is inaccurate and misleading in view of the following discrepancies:

- The Appendix showed opening balance totaling K2,360,914, however, did not reflect complete and accurate information on additions and/or disposals during the year to arrive at the reported closing value;
- Fixed Assets Register maintained as supporting schedule to Appendix 4 recorded fixed assets at a total cost of K2,362,914 at 31 December, 2014 hence, not in agreement with Appendix 4; 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, 2014.

Advances

Three (3) sets of Appendix 6 were presented showing differing totals of K28,312, K23,723 and K24,570 respectively as un-acquitted travelling allowances and cash advances as at 31 December, 2014 which are all not agreeing to the PGAS advances register outstanding total of K26,382 at year end. As such, the reported balances of un-acquitted advances are inaccurate, misleading and unreliable.

Other Records and Registers

Several other documentations corroborating the financial statements, such as the registers of investment, inventory, debtor and borrowings, commitments and arrears and losses and deficiencies were not maintained hence, not available for my review. Consequently, I could not ascertain the existence, completeness and accuracy of these items in 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 Rabaul Urban Local-Level Government for the year ended 31 December, 2014:

- have been prepared in accordance with the Finance Instructions issued under the Public Finances (Management) Act 1995; and
- 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.

Other Matters

In accordance with 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 Rabaul 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 *Organic Law on Provincial Governments and Local-Level Governments*.”

6.3.4.3 Control Environment - 2014

The Management Letter relating to the audit of the financial statements and the accounts and records for the year ended 31 December, 2014 was issued in March, 2016. The Letter contained internal control weaknesses as stated below:

Appropriation and Budget Management

The budget appropriation of K2,462,326 reported in Statement ‘B’ is not consistent with the annual appropriation of K2,282,300 which was approved by the Rabaul Urban Local-Level Government Finance, Administration and Planning Committee on 01 November, 2013. I was not provided evidence including the Appropriation Act of 2014 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 Rabaul District Treasury did not file and maintain adequate control over safe custody of accounting records such as payment vouchers;
- The Rabaul Urban Local-Level Government did not adhere to financial procedures in relation to maintenance of quotation registers and obtaining the required three (3) verbal and/or written quotations from suppliers; and
- Claims from private contractors, groups and individuals for minor maintenance works, general town cleaning and grass cutting undertaken during the year were not supported with relevant documentation to validate the payments.

Advances Management

I observed serious lack of proper monitoring and recovery exercises on travelling allowances and cash advances resulting in substantial amounts dating several years back, remained un-acquitted as at 31 December, 2014.

6.3.4.4 Management Response

Management had not responded to my audit Management Letter queries. Consequently, I was not advised of any improvements at the time of preparation of this Report in July, 2016.

6.3.4.5 Status of Financial Statements

At the time of preparing this Report in July 2016, the Rabaul Urban Local-Level Government had submitted its financial statements for the year ended 31 December, 2015 for my inspection and audit and arrangements were being made to commence the audit shortly.

6.3.5 Nonga General Hospital

6.3.5.1 Status of Financial Statements

At the time of preparing this Report in July, 2016, the Nonga General Hospital Board had submitted its financial statements for the financial years ending 31 December, 2014 and 2015 for my inspection and audit and arrangements were being made to commence the audits shortly.

6.3.6 Business Arms

Section 16(2)(f) of the Audit Act 1989 provides for and extends my functions to audit the accounts and records of the Provincial Governments and Local-Level Governments Business Arms and other establishments.

I am aware of business arms of the East New Britain Provincial Government namely, East New Britain Development Corporation Ltd (ENBDCL) and Barakopo Plantation Development Corporation Ltd.

6.3.6.1 East New Britain Development Corporation Ltd

As in the past, the ENBDCL had engaged services of the private accounting firms to conduct audits of its accounts and records. At the time of preparation of this Report in July 2016, ENBDCL had submitted its privately audited financial statements for the financial years ending 31 December, 2013 and 2014 and arrangements were being made to commence review of the financial statements shortly.

6.3.6.1.1 Status of Financial Statements

As at the time of preparing this Report in July, 2016, the East New Britain Development Corporation had not submitted its financial statements for the financial year ending 31 December, 2015 while Barakopo Plantation Development Corporation Ltd had failed to submit any recent financial statements for my inspection and audit.

6.3.6.2 Gazelle Restoration Authority

6.3.6.2.1 Introduction

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 AusAID.

The Gazelle Restoration Authority had submitted its financial statements for the year ended 31 December, 2014. Field work associated with examination of the financial statements and audit of the accounts and records was completed with the Management Letter issued and the audit opinion report also issued to the Ministers concerned. The paragraphs below detail issues identified with the financial statements and the internal control environment.

6.3.6.2.2 Financial Statements – 2014

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, 2014 was issued on 23th of November, 2015. The Report contained an Unqualified Audit Opinion with an Emphasis of Matter.

Unqualified Audit Opinion

“In my opinion, except for the effects of the matter described in the Emphasis of Matter paragraph, the financial statements of Gazelle Restoration Authority for the year ended 31 December 2014:

- (a) Give a true and fair view of the financial position and the results of its operations for the year then ended; and
- (b) The financial statements have been prepared in accordance with the Financial Instructions issued under the *Public Finances (Management) Act, 1995* and other generally accepted accounting practice in Papua New Guinea.

Emphasis of Matter

Without qualifying my opinion, I draw your attention to **Note 9** of the financial statements that the Authority had declared an operating surplus of K496,799 during the year ended 31 December 2014. Also, along with other matters as stated in **Note 1(b)**, there exists a material uncertainty on the operation of the Authority that casts significant doubt on the Authority's ability to continue as a going concern”.

6.3.6.2.3 Management Response

The Authority had fully responded to my audit queries at the time of preparation of this report in July 2016.

6.3.6.2.4 Status of Financial Statements

The Gazelle Restoration Authority had not submitted its financial statements for the year ended 31 December, 2015 for my inspection and audit at the time of preparation of this report in July, 2016.

6.4 EAST SEPIK PROVINCE

6.4.1 Introduction

The East Sepik Provincial Government (ESPG), Wewak Urban Local-level Government (WULLG) and Wewak General Hospital (WGH) are audited every year, with or without financial statements. Other LLGs and Business Arms of the ESGP & 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) had submitted its financial statements for the financial year ending 31 December 2014 for my inspection and audit. Fieldwork associated with the audit of the financial statements for 2014 and an interim audit of the control environment for 2015 had been completed with the Management Letters issued. The audit report for 2014 contained a Disclaimer of Audit Opinion and was issued to the Ministers concerned and other relevant bodies. The internal control issues were common in both years hence, the paragraphs below detail the issues identified with 2014 financial statements and internal control weaknesses for 2015.

6.4.2.1 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 2016. 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 2014 due to the following reasons:

- The fund balance of K21,241,868 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;
- Receipts and expenditures of K4,404,145 and K58,842,805 relating to grant account were incorrectly reported in Statement C and the subsequent note 4 which materially affected the accuracy of the trust fund and the subsequent Statement 'A';
- 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 (4) of the eight(8) trust fund balances totaling K2, 016, 319 included in the fund balances were mere cashbook balances. I noted that these were incorrectly disclosed in Statement 'A';

- I noted differences of K18,411 and (K43,233) 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 and the cash books for all three trust accounts with bank accounts operated by Provincial Government. Consequently, I was unable to ascertain the accuracy and completeness of the cash balances of K23,934,586.

Receipts and Payments

I was unable to verify the completeness and accuracy of the receipts of K104,693,082 and payments of K105,975,316 and the subsequent deficit of K1,282,234 in Statement 'B' and the related Statements "J" and "K" due to the TMS 55 report on Staffing and Teacher's salaries grants component not recorded in the books of accounts and reported subsequently. Consequently, the Statements B, J and K did not appropriately show the financial performance of the provincial government during the year under review.

Assets

The Provincial Government did not maintain a complete assets register 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 assets register and annual stocktakes, I was unable to confirm the existence, completeness and value of all 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'.

Losses and Deficiencies

I noted that there were instances of monies totaling K63, 440 being intentionally taken by illegal acts and other instances of break and enter during the year however, were not adequately registered and subsequently reported in Appendix 5.

Advances

The East Sepik Provincial Government did not maintain an advance register and acquittal files during the year. Consequently, I was unable to ascertain the accuracy and completeness of total un-acquitted advances of K12,943,480 disclosed in Appendix 6.

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 2014.

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*; 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*.”

6.4.2.2 Control Environment – 2015

The Management Letters relating to the audit of the accounts and records for the years ended 31 December 2014 and 2015 were issued in December, 2015 and June, 2016 respectively. The Letters contained similar issues, hence only the 2015 Management Letter is reproduced as follows:

Corporate Governance

Corporate Plan

East Sepik Provincial Government had in place its five-year Corporate Plan (2012 to 2016) and Associated Action plans. However, I noted that the Key Result Areas identified in the corporate plan lacked improvement. I did not sight documentary evidence to show whether the provincial management team actually implemented the corporate plan through annual budgets, monitoring implementation and evaluation of outcomes against corporate plan's key result areas. Consequently, I could not establish whether the Provincial Government had achieved the goals and objectives of its Plans for the year under review.

Internal Audit

An effective Internal Audit Unit provides assurance and instills integrity in the internal controls that management established to rely on. The internal audit unit was not functioning effectively within the Provincial Government Administration due to lack of adequate resources, staffing and logistical support. 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. 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.

Meeting Minutes

The Provincial Assembly and the Provincial Executive Council (PEC) meeting minutes were not made available for my review. As such I could not ascertain appropriateness of the issues discussed and decisions reached. Further, minute of the meeting number two (2) of the Provincial Supplies and Tenders Board (PSTB) was not signed by the Chairman to authenticate the validity of the meeting held.

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 authorize collection and spending of public funds hence, legislative approvals are necessary to ensure actual implementation is restricted to approved limits and purposes. The East Sepik Provincial Government's 2015 revenue and expenditure budget for the year was reported as K252,229,800. My review of the budget and budgetary controls revealed the following matters:

- The ministerial approval of the budget by the Minister for Treasury was not made available for my review;
- There were no budget implementation reports or indications to show the results of achievements on an annual basis and in accordance with the Provincial goals and objectives;
- The East Sepik Provincial Government is required to have monthly and quarterly budget reviews as part of budgetary control to ensure that any increase or decrease in receipts and payments respectively are assessed accordingly. There was no evidence to indicate that such reviews were done during the year;
- The East Sepik Provincial Government did not prepare the annual estimate of revenue and expenditure for all the trust accounts managed by the Provincial Government namely; Provincial Works Trust, Storm Water Trust, and the Marienberg Community College trust accounts as would be required under the trust instrument in accordance to the Finance Management Act. Without a properly prepared trust revenue and expenditure budget, the Provincial Government is likely to incur unbudgeted expenses from these trust accounts;
- I noted substantial under collection of K3,074,620 in seven (7) Internal Revenue Heads as compared to actual collection and anticipated revenue. Under collections would mean that budgets would not be implemented as planned; and
- I noted instances where expenditures totaling K2,531,136 were charged under incorrect expenditure votes. This was noted to be non-compliance to the budgetary requirements and defeated the purpose of formulating an annual budget.

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.

The East Sepik Provincial Government maintained two bank accounts namely, the East Sepik Provincial Government operating account and East Sepik Provincial Government grant account with related cashbooks to conduct its financial transactions for internal revenues and grants respectively. The provincial government also maintained three (3) trust accounts with the bank accounts. My review of the cash books and related records for these accounts revealed the following anomalies:

- 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 Storm Water and Marienberg Trust Accounts had ending cash book balances of K1,907,867 and K3,924,571 respectively. The bank reconciliations statements for these accounts were not made available for my review, consequently, I was unable to ascertain the accuracy and reliability of these cash book balances; and
- Unpresented cheques carried over from prior years dated back to 2010 were included in the bank reconciliation statements for the Provincial Works Trust Account and the ESPG Grant Accounts. These cheques have become stale but were not reversed by passing journals to correct the cash book thus rendering the cash balances unreliable.

Revenue Management

Effectively revenue management with adequate documentation of sources and procedures relevant for planning and collection of the entire potential revenue ensures that 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:

- It is the responsibility of Departmental Heads to ensure that internal revenues are collected promptly and to the fullest extent and to have the rates of fees, charges, and imposts reviewed annually. This was lacking as I observed instances of over estimation of revenue and short fall in internal revenue collection;
- Estimates of grant revenues were not entered into the PGAS hence; extent of under-collection could not be tabled. However, total grant receipt of K42,994,700 as per the grant revenue summary agreed to the total warrant authorities received;
- There was no segregation of incompatible duties such as revenue collection, receipting, preparing collector statements, preparing deposits, banking. I noted that the same person performed these duties hence, funds were likely to be embezzled given these circumstances;
- Registers for Land Rates, Driver's License, Motor Vehicle Registrations Liquor License and Fees were not maintained. This registers should be maintained to record dates of receipts. Value, payee, details of times received, and details of drawer, and the revenue credited;

Internal collections totaling K61,471 was stated as outstanding receipts in *Schedule 1* of the December Bank Reconciliation Statement for the ESPG operating account. This included outstanding receipts from 2010 of K450 and 2014 of K48,541. I noted that these amounts were not taken up in the revenue ledgers resulting in understatement of revenue;

- Credits in bank statement not in cash book totaling K42,359 as per Schedule 7 of the ESPG Grant account comprised of direct deposits and interest earned from this account. I noted that this amount was not taken up in the revenue ledgers;
- Credits in bank statement not in cash book totaling K980,950 as shown in Schedule 7 of the ESPG operating account included K959,515 being direct deposits for MVIL and VAT. I noted that these deposits were not taken up in the revenue ledgers hence, understatement of revenue; and
- Apart from the outstanding un-acquitted advances, no debtors ledgers or related records were maintained to record details of outstanding debtors from internal revenue sources for the Provincial Government.

Procurement Procedures and Payments

Provincial Supply and Tenders Board

Section 40 of the *Public Finances (Management) Act* prescribes that goods, works and services with a value greater than K500,000 are to be purchased through a public tender process as this provides government with the best chance of obtaining a "value for money" outcome. I noted the following weaknesses in respect to compliance to this section of the PFM Act:

- The Provincial Supply and Tenders Board did not have in place a tender box and a tender register to register all tenders received. PSTB meeting minutes were also not maintained properly. Hence, I was not able to confirm how the tender documents were received, recorded and evaluated ; and

- Tender documents for some major projects were not available for my review nor provided for my examination. Consequently, I was unable to ensure if proper tendering procedures were followed in awarding the contracts to the suppliers.

Payment of 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:

- Three (3) quotations were not obtained in almost all payment vouchers sighted nor did quotations register maintained during the year under review and prior years including minor contract payments;
- Financial assistance totaling K1,185,486 were paid to individuals and other organisations. I did not sight evidence of proper policies and guidelines in place to ensure proper control and accountability over these payments;
- Payments totaling K194,879 for flex cards were paid to various suppliers. Proper controls were not established to monitor the use of the flex cards account to make sure the account was not used excessively and abused nor misused;
- Expenditures totaling K837,075 were paid to Bank South Pacific (BSP) for airfares for officers. I noted this payment to be not proper as airfares can be paid to operating airlines only and BSP is not an airline company. Hence, there was high possibility of officers en-cashing the cheques at the bank as there were no control measures in place;
- Expenditures totaling K643,896 were paid to Travel and Logistics Agent, a travel agent based in Wewak, for travel expenses including airfares and accommodation for officers of the Provincial Government. These payments were seen to be non-compliance to our previous audit report where we noted that this travel agent was used by the Provincial Government as a medium to avoid and bypass all requirements of proper procurement procedures and the requirement for acquittal stipulated in the PFM Act;
- A new contract was signed between Travel & Logistics Agent and the Provincial Administration, this contract was still *null and void* as the provincial administration deliberately devised such means to misuse and misapply public funds;
- I noted instances of expenditure for vehicle hire totaling K2,803,690. Proper procurement procedures such as obtaining three quotes and establishing control measures for the use of the hired vehicles were not followed in engaging the services of the vehicle suppliers;
- I noted that fuel advances totaling K2,048,649 being paid to Fuel Distributors for the supply of fuel during the year. The Provincial Government did not have proper policies and guidelines in place to ensure that only authorized vehicles had access to refueling based on fuel dockets. Where there is no control over fuel usages, fuel can be supplied to private or unauthorized vehicles or cash given in place of fuel; and
- Minor contracts totaling K2,639,995 lacked project inspection/completion reports. Further, most contractors were paid prior to the actual work being carried out. The procedures involved in engaging these contractors could not be attested as the requirement to obtain three (3) quotes from suppliers were not adhered to nor attached to the payment vouchers based on which payment should be made.

Capital Works and Maintenance

Five (5) tenderable major capital works and maintenance were carried out during the year totaling K6,940,603. Apart from the Green Hill Investments contract, all the other four contractors namely; WanemYa Ltd, BG Civil Works, Architectural Alliance and Dieter Service Engineering were engaged between 2010 and 2013 for various projects. I was unable to ascertain that proper tender procedures were followed in engaging these contractors in view of the following:

- Tender documents were not provided although requested. A tender box was not located and a tender register was not maintained. In the absence of the tender register and tender evaluation documents, I was unable to satisfy that proper procurement and tender procedures were followed in the engagement of the services of these contractors;
- I noted that the above contracts were managed and paid through the *Provincial Works Trust Account* and in isolation to the Provincial Supply and Tenders Board (PSTB). Formal contracts and the tender documents for these projects were not provided to me for my inspection. Without these documents, I was of the view that these projects were not properly evaluated and awarded to legitimate contractors;
- I noted that a minute to the Provincial Treasurer by the Acting Executive Manager on 16th December, 2015 indicated that a Certificate of Inexpediency (COI) was issued by the PSTB on the town road maintenance works by Green Hills. The actual COI and the reason for the issue of the COI was not sighted nor provided for audit verification; and
- Reports pertaining to project inspection and progress/completion reports for all the projects were not provided for my verification. Consequently, I was not able to ensure that payments were made in proportion to jobs completed.

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. I noted that 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 nor were there records to indicate that the Provincial Government had sought these reports. A total of K3,495,026 was paid out as grants and subsidies during the year under review.

Human Resources Management

Effective Human Resources Management is essential to improvement service delivery. Competent and highly motivated personnel can perform their duties diligently and provide quality service. My review and inspection of payrolls and staff files revealed the following matters:

- All fortnightly payrolls and related records were not made available for my audit examination although requested which limited the scope of my audit consequently, I was unable to perform further audit tests; and
- Employee personal files and related records including salary history cards were not updated appropriately to support salary adjustments due to promotions and to reflect

the most recent status of pay rates, positions etc. These files were last updated between 1992 and 2007.

Assets Management

Effective asset management ensures proper accountability of public assets, preventing fraudulent use of assets thereby contribute towards better service delivery. I could not place complete reliance on the controls established by the ESPG over management of all fixed assets. Consequently, I was unable to ensure the accuracy of the total value of assets maintained by the Provincial Government and their existence in view of the following weaknesses:

- The ESPG did not maintain a comprehensive assets register and/or motor vehicle fleets register to properly account for all assets purchased and/or disposed during the year under. Hence, assets including motor vehicles purchased during the year totaling K956,111 have not been recorded and therefore had not been accounted for;
- The ESPG did not submit a comprehensive report on details of assets on hand with details extracted from stock cards at the end of each quarter, within 30 days of the subsequent month in compliance to Part 32, Division 1 (5) of the Public Finances Management Manual;
- A periodic stock take of assets of the Provincial Government was not done to ensure that all assets of the Provincial Government were in existence and used for official purposes. Also a proper Board Of Survey (BOS) was not done on assets to ensure their condition and to dispose them properly;
- A vehicle log book to record the movement, mileage and usage of the vehicles and a list of properties owned by the ESPG if any, was not maintained by the East Sepik Provincial Administration nor provided for my examination; and
- Buildings and motor vehicles were not covered by a general Insurance Policy. Insurance against liability from loss of assets has become an integral part of any organization and therefore the Provincial Administration must consider having in place proper insurance policy to protect the assets from loss.

Advance Management

An adequately maintained advance register and proper acquittal records provides assurance that an advance management system is effective. My review of controls established to comply with proper advance management procedures revealed the following anomalies:

- An advance register was maintained in the PGAS and provided for audit review. I noted that the register lacked basic information such as indication of purpose of the advances paid and if follow up actions were taken. Further, the register was not updated adequately to give an updated running balance of all outstanding advances at year end. Consequently, I was unable to ascertain the accuracy of total advances paid during the year nor was I able to determine the total value of outstanding advances at year;
- The un-updated advance register contained voluminous transactions involving advance payments dating back to 2004 causing difficulty and time consuming for me to do a proper age analysis. Consequently, I was unable to confirm that advances totaling K3,558,825 paid during the year were adequately acquitted;

- Advance payments of travel related costs totaling K643,896 were made to Travel and Logistics Agent. I noted that the ESPG deliberately made payments to this private company to deviate from the requirements of normal advance acquittal process. Consequently, I was unable to ascertain the total payments made to this company during the year and prior years and the unused funds balance remaining in this account at year; and
- Acquittal procedures and instructions were not adhered to by the Provincial Government. I noted that advances were not acquitted within 7 days from return and new advances were given to advance holders who had their previous advances outstanding nor were follow up actions taken to ensure advance holders acquitted their outstanding advances.

Trust Accounts Management

East Sepik Provincial Government (ESPG) maintained three (3) trust accounts with bank accounts namely; the Provincial Works Trust Account- with Bank Account BSP, Storm Water Trust Account – With Bank Account BSP and the Marienberg College Trust Account - with Bank Account Westpac. I was unable to place complete reliance on the controls established for proper management of these trust accounts revealed in view of the following weaknesses:

Compliance to Public Finances Management Act

I have not sighted evidence of approval of all the trust accounts by the Minister and also, there was no Trust Instrument in place for all the trust accounts operated by the ESPG during the year and the prior years *except* for the Marienberg Community College Trust Account. This was in breach of Section 15 of the *Public Finance Management Act*;

- The trust accounts with bank accounts were not reconciled on a monthly basis with copies sent to Accounting Frameworks and Standard Division at Department of Finance no later than 14 days of the close of each month. This was in breach of Section 8.1 of Financial Management Manual;
- The estimates of receipts and payments for each trust accounts were not submitted to Secretary of Finance before the commencement of each year in accordance to Section 19 (3) of the PFM Act; and
- Annual Statements on the operations of these trust accounts were not submitted to the Secretary of Finance to comply with Section 19 (4) (d) of the PFM Act.

Payments from Trust Accounts

- Wollimany Works Ltd was paid K245,329 from the Provincial Works Trust Account as fees for supervision of Wewak Sports Stadium Project undertaken by WanemYa Ltd. I noted that this fee was excessive (K129,227 overpaid) as my perusal of other records revealed that this fee was agreed at 7% of the total contract price for the sports stadium project which was K1,658,586. If the contract was varied, I did not sight the variation documents;
- Proper procurement processes were not followed in selecting and awarding the supervision contract to Wollimany Works Ltd. Although, it was stated that *due to urgency of civil works required for the project to host national events*, the requirement for obtaining three (3) written quotations was not adhered to hence, this supplier was handpicked which indicated non-compliance to proper procurement procedures; and

6.4.2.3 Management Response

The above observations on the internal control weaknesses had been communicated by way of Management Letters to the Provincial Administrator and Management together with implications and recommendations for improvements. At the time of preparing this Report in July 2016, Management had not responded to the matters raised in my Management Letters. Consequently, I was not advised of any improvements the Provincial Government had undertaken to remedy the above weaknesses.

6.4.2.4 Status of Financial Statements

At the time of preparing this Report in July 2016, The East Sepik Provincial Government did not submit its financial statements for the year ended 31 December, 2015 for my inspection and 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. A final audit will be conducted when the financial statements are submitted and this will be reported in my 2016 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, 2013, 2014 and 2015. Interim audits on the internal control environments for 2012 and 2013 were conducted with Management Letters issued and these were reported in my 2014 Part 3 Report.

6.4.3.1 Status of Financial Statements

The Wewak ULLG had not submitted its financial statements for the financial years ended 31 December 2012 to 2015 for my inspection and audit at the time of writing this Report in July 2016.

6.4.4 Wewak General Hospital

The Wewak General Hospital submitted its financial statements for the year ended 31 December 2014. Fieldwork associated with the audit of the accounts and records was completed with the Management Letter issued and the audit opinion report 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.

6.4.4.1 Financial Statements – 2014

My report to the Ministers for Health and Finance respectively under the *Public Hospital Act* and the *Audit Act* were issued in June 2016. The report contained a Disclaimer Audit Opinion as reproduced below:

“Basis for Disclaimer Opinion

Presentation Error

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's financial statements compiled for the year ended 31 December, 2014:

- did not present the schedule of Assets, Liabilities, Contingent Liabilities and Debtors as schedules forming part of the notes to the financial statement;
- Statement of Accumulated Funds was not presented in the front before the consolidated statement of receipts and payments instead after the statement of receipts and payments for trust account and with narrations which is confusing and misrepresented; and
- Funds appropriation is required to be disclosed as part of the notes to the accounts however, was reported before the statements of receipts and payments.

Subsequently, the financial statements were not presented in the format required by the Finance Instructions.

Disclosure Errors

I am unable to confirm the accuracy and completeness of the Wewak General Hospital Financial Statements prepared for the year ended 31 December, 2014 due to the following issues:

- There was limitation of scope arising from cashbook balances due to the inability of the hospital to maintain proper cashbooks and the ledgers for both the operating and the trust accounts. Also, there were 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 the total receipts and payments and the net results disclosed in the income and expenditure statements of the operating and trust accounts and the subsequent consolidated statement due to revenues received and expenditures incurred were not adequately recorded in the cashbooks and respective ledgers of both the operating and trust accounts of the hospital.

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 Wewak General Hospital for the year ended 31 December, 2014.

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 2014, 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 - 2014**Corporate Governance**

The Hospital had in place a Corporate Plan for 2014 and associated Action Plans. However, there were 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 2014 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; and
- I noted instances of expenditures being incurred out of incorrect vote items during the year.

Cash Management

I noted the following weaknesses relating to cash management by the Hospital management:

- The opening cash book balance for 2014 was incorrectly stated as K1,016,888 instead of K545,548 resulting in an unexplained difference of K471,340; and
- The cash balances shown on both accounts' monthly bank reconciliation statements could not be ascertained as correct due to unresolved issues arising from prior audits which the Management of the Hospital was yet to take corrective measures and subsequently affected the closing and opening balances.

Revenue Management

My examination on the available records for revenue revealed the following weaknesses:

- The underlying financial records for revenue were not adequately maintained;
- There was no segregation of duties by officers on the receipting and banking of monies and instances of delays in banking were ranging from 2 to 235 days;
- Cash from dental fees collected were used without being properly accounted for. In addition, instances of fees collected were being used and not promptly reimbursed by the responsible officers causing delays in banking which lead to under banking and further understating revenue and subsequent cash balance; and
- The Hospital did not maintain any debtor's records or ledgers to record and follow up and collect promptly all monies due to the Hospital.

Procurement Procedures and Payments

My review of procurement and payment practices at Wewak General Hospital revealed weaknesses in the system of controls as highlighted below:

- The Appointment Instrument of all Financial Delegates including Section 32 Officer and their specimen signatures were not made available for my examination;
- The payments made to Guard Dog Security Services (GDSS) valuing K281,662 and Pins Construction Limited totaling K158,123 were done without proper tendering and contract documentation in place;
- Three (3) quotes are the necessary proof to show that the goods or services being paid for are derived at the best possible market price and is required by the Public Finance (*Management*) Act. I noted instances where three (3) quotes were not obtained for all the payments made to suppliers of goods and services and is in breach of the *PFMA*; and
- Instances of payments made from the Trust Account were not in accordance with the Trust Instrument.

Human Resource Management

I noted the following lapses in internal control on human resources management:

- Total actual salary paid through the Hospital Concept Payroll System from the National Department of Health was over-run by 135% with a variation of K2,319,621;
- 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;
- Anomalies relating to calculation and payment of gratuities noted in the 2012 and 2013 audits remained unresolved at the time of audit in May, 2016. The HR Section of the Hospital did not understand 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);
- The Chief Executive Officer approved and paid himself K30,000 being for his housing allowance whilst he was living in an institutional house within the hospital compound. Such procured payment can be deemed as double dipping and inappropriate;
- Total actual salary paid through the Hospital Concept Payroll System from the National Department of Health could not be ascertained due to lack of payroll records. Consequently, fortnightly payroll reconciliations were not done;
- Leave fare entitlements were processed and paid without appropriate supporting concession documentations such as the birth certificates for the dependents claimed. I also noted instances of leave fares being paid as cash without the ten percent (10%) being remitted back to the hospital;
- No taxes were remitted to Internal Revenue Commission (IRC) even though being calculated out of overtime, wages, gratuities and other payments processed. This is a very serious issue that needs to be urgently resolved;
- Prior approval for overtime worked and overtime sheets for hours worked were not certified and approved by appropriate personnel; and

- I noted an instance where money was borrowed from a financial institution to pay for staff wages and later a payment of K32,500.00 including added interests.

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:

- In the absence of an up-dated asset register I was unable to verify the completeness, existence, accuracy and value of all fixed assets at year-end;
- In the absence of a comprehensive fixed assets register I was unable to verify assets purchased during the year totaling K39,600; and
- There was no evidence to indicate that the Hospital had conducted periodic stock-takes to verify and determine the existence, conditions and value of fixed assets under its custody and ownership.

Advance Management

The Hospital Management had failed to comply with the procedures stipulated under the Finance Management Manual. I noted the following weaknesses:

- Advances register and acquittal files were not maintained. Consequently, advances for K157,194 could not be confirmed as being acquitted adequately;
- Subsequent advances were continuously being paid to advance holders with outstanding advances;
- No follow up actions were taken to ensure officers acquit their advances on time; and
- Salary advances were paid to officers without maintaining proper records and their repayment of the advance salaries could not be ascertained.

Trust Accounts Management

Examination on Hospital Fees Trust account with its related records revealed the following issues:

- In contrary to Section 2 (c) of the Trust Instrument, payments made from the Trust Account were not in line with the Trust Instrument. These payments included travelling allowances associated costs for accommodation and airfares, stipend allowances for Hospital Board Members, gratuities, wages for Nursing Officers on Arrest Plan and payments related to assorted drinks for sale at the hospital; and
- 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.

6.4.4.3 Management Response

The control weaknesses stated above had been communicated by way of Management Letter to the Management together with implications and recommendations for improvement. At the time of preparing this Report in July 2016, Management had not responded to the matters raised in my Management Letter. Consequently, I was not advised of any improvements the Hospital Management had undertaken to remedy the above weaknesses.

6.4.4.4 Status of Financial Statements

At the time of writing this Report in July 2016, the Wewak General Hospital had not submitted its financial statements for the financial year ended 31 December 2015.

6.4.5 Business Arms

Section 16 (2) (f) of the *Audit Act 1989* provides for and extends my functions to audit the accounts and records of the Provincial Government and Local-Level Government Business Arms and other establishments.

I am aware that 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 the operations and financial results of these entities.

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 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 entities.

6.5.2 Eastern Highlands Provincial Government

The Eastern Highlands Provincial Government submitted its Financial Statements for the year ending 31 December 2014 after the interim audit of the control environment for 2014 was completed and the related control issues were reported in 2014 Part 3 Report in July 2015. The audit of the financial statements only was completed and the final Management Letter and the audit opinion report for 2014 was issued to the Ministers concerned and other relevant bodies in November 2015. The audit report issued was a Disclaimer Audit Opinion. Issues identified with the financial statements and the control environments are reproduced in the paragraphs below.

6.5.2.1 Financial Statements – 2014

My Report to the Ministers concerned and other relevant bodies under the *Organic Law* on Provincial Governments and Local Level Governments and the *Audit Act* was issued in November 2015. The report was a Disclaimer of 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 Eastern Highlands Provincial Government’s account balances and consequently, its financial position as at 31 December, 2014:

Cash Balances

- The Provincial fund balance of K8, 604,730 was not accurately represented by bank and investment balance of K8, 717, 025 which resulted in a difference of K112, 295. The Provincial Administration explained that the difference was due to computer data being thrown out due to power outage;
- The fund balance in Statement “A” is represented by the reconciled cash balances of revenue and trust accounts. My examination of the bank reconciliation of the Grant and the Provincial Government Operating accounts revealed significant reconciling amounts inherited remained to be reconciled as summarized below, as such the fund balance of K8,604,730 had been significantly distorted and could not be confirmed;

| | Grant Account K | PG Operating Account K | Total K |
|-----------|---------------------|---------------------------|---------------------|
| Cash Book | 3, 388, 802 | 5, 720, 747 | 9, 109, 549 |
| Bank | <u>34, 014, 152</u> | <u>14, 608, 802</u> | <u>48, 622, 954</u> |
| Variance | 30, 625, 350 | 8, 888, 055 | 39, 513, 405 |

- The Trust Fund balance of K222,236 could not be verified in the absence of the underlying accounts and records and also contained inherited errors and inconsistencies on the trust account balances that were not adjusted;
- I was unable to verify the accuracy of the overdrawn cash balance of K398,354 disclosed in *Note 6.1 to the Accounts* described as ‘other accounts’ due to non-availability of the source records. The same figure was disclosed in the previous financial statements and appeared to have been used as carried forward balancing figure to balance Statement “A” ; and
- The Provincial Government Operating account bank reconciled balance of K5, 720,747 at 31 December 2014 did not agree to the correct cash book balance of K5,726,577 reflected in the trial balance, resulting in a difference of K5, 830.

Receipts and Payments

There were significant reconciling items in the bank reconciliation statements of the Provincial Government Operating and Grant Accounts pertaining to receipts and expenditure that were not adjusted in the respective cashbooks and the revenue and expenditure ledgers which had consequent effect on the balances disclosed in Statements ‘B’, ‘D’, ‘J’, ‘K’ and ‘A’.

Consequently, I was unable to verify the accuracy of the total receipts of K124,164,315, payments of K138,361,448 and the subsequent operating deficit of K14,197,133 in Statement ‘B’ and the related Statements ‘J’ and ‘K’ and the revenue fund balance of K8, 382,494 in Statement ‘A’.

Assets

The value of assets owned by the Provincial Government at the end of the year had not been disclosed in Appendix 4 as required. However, assets totaling K3,461,396 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 2014.

Advances

Appendix 6 of the Financial Statements disclosed K1, 572, 689 as outstanding advances at year-end. Advance Management Procedures had not been followed to acquit the accumulated outstanding advances.

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 Eastern Highlands Provincial Government for the year ended 31 December, 2014.

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 Eastern Highlands 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
- Eastern Highlands Provincial Government did not prepare and submit its financial statements for the year ending 31 December 2014 to the Minister and the Auditor-General prior to 30 June 2015, resulting in breach of Section 114 and 119 of the *Organic Law on Provincial and Local Level Governments*”.

6.5.2.2 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.

6.5.2.3 Status of Financial Statements

The financial statements for the year ended 31 December 2015 had not been submitted for my inspection and audit at the time of preparing this Report in July 2016.

6.5.3 Goroka Urban Local-level Government

6.5.3.1 Status of Financial Statements

The Goroka Urban Local-level Government (GULLG) had not submitted its Financial Statements for 2014 and 2015 at the time of writing this Report in July 2016 for my inspection and audit. The field work associated with the interim audit of the control environment for 2014 was completed and Management Letter issued and was subsequently reported in the 2014 Part 3 Report of the Auditor-General.

6.5.4 Eastern Highlands Provincial Health Authority

6.5.4.1 Status of Financial Statements

Financial Statements for the years ended 31 December 2014 and 2015 had not been submitted for my inspection and audit at the time of preparing this Report in July 2016. Interim audit without the financial statements for 2014 accounts commenced in early 2016 however, could not be completed due to management problems within the Eastern Highlands Provincial Health Authority.

6.5.5 Business Arms

The four business arms of the Eastern Highlands Provincial Government, namely; Akogere Estate Limited, Nokondi Investments Limited, Al's Auto Repairs and Eastern Highlands Property Developers Limited were established by the Provincial Government to engage in different business activities and generate income and with the realised returns paid back into the provincial government.

6.5.5A Akogere Estate Limited

According to the accounts of Eastern Highlands Provincial Government, the Government has invested initial capital of K1,130,567 in this company back in 1998. The Akogere Estate Limited is an unlisted Company registered under the Papua New Guinea *Companies Act 1997*.

6.5.5A.1 The Activities of the Company

The principle activity of the Company during the year was property investments.

6.5.5A.2 Comments on Financial Statements - 2009

Akogere Estate Limited had submitted its financial statements for the year ended 31 December 2009 for my inspection and audit. The fieldworks associated with the audits of accounts and records and the examination of the financial statements have been completed with Management Letters and audit report issued.

My report to the Ministers concerned and other relevant bodies under the Company's Act and the Audit Act was issued with a Disclaimer Audit Opinion in February 2014 as reproduced below:

“Basis for Disclaimer Opinion**Cash at bank**

Akogere Estates Limited operated one single bank account for itself and three other entities namely Nokondi Investment Limited, Al's Auto Repairs Limited and Eastern Highlands Property Developers. As a result, the year-end cash at bank for Akogere Estate Ltd could not be ascertained nor confirmed separately against those of the other three entities at year end. Although regular bank reconciliations were done during the year under review, in the absence of a proper maintenance of a cashbook, I was unable to ascertain the accuracy of the year-end reconciled cash book balances.

Fixed Assets

Fixed assets of K2,777,727 was disclosed in the financial statements of Akogere Estates Limited however, management has not maintained a proper fixed assets register to capture details of all fixed assets owned, acquired and or disposed off by the company during the year under review. As such, I was unable to verify the accuracy, completeness and existence of fixed assets disclosed in the financial statements.

Liabilities

The financial statements disclosed current liabilities as K679,162 and non-current liabilities of K753,629. Supporting documentation relating to these liabilities were either insufficient or not available at the time of audit. Consequently, I was unable to substantiate the accuracy, completeness and fairness of the values disclosed in the financial statement.

Share Capital and Reserves

Share capital and reserves were reported as K200,002 and K2,086,411 respectively. The company has not maintained appropriate records including schedules, registers and board minutes, as such in the absence of these records, I was unable to confirm the existence, accuracy and completeness of these figures.

Salaries & Wages

The employees on the payroll could not be verified as bona fide employees of the entity due to lack of personnel files/records being maintained by management. Further, the accuracy of the calculation of salaries & wages, salaries & wages tax, salary deductions and annual leave & other employee entitlements could not be confirmed.

Office staff employed by Akogere Estates Limited performed duties for the management company, Gold Finance Limited whilst being on the Akogere payroll.

Related Party Transactions

The net of total revenue and expenditures amounting K537,037 and K607,622 respectively for three other companies held in the bank account of Akogere were erroneously taken up as loan receivable and loan payable by Akogere thereby overstating and understating its liabilities/receivables and at the same time having the same effect on the liabilities/receivables of the three companies.

Non-Disclosure of Contingencies

The company had an ongoing legal battle regarding Section 116 Lots 6&7 of the Nokondi Investment/Akogere Estate with a complainant. It is probable that this legal battle will result in the termination of land leases due to breaches in development clause in the lease agreement which means that the Akogere Estates Ltd might lose some properties in the future as well as incur legal fees and or compensation expenditure. There are also some outstanding tax obligations with the Internal Revenue Commission (IRC) which may lead to some recovery action by IRC. I noted no disclosure in the financial statements to capture these cases where possible liabilities may arise.

Inconsistency – Comparative Figures

The 2008 comparative figures in the cash flow statement and notes 3 and 4 did not agree and was not consistent to the 2008 audited figures. Therefore, I was unable to verify the prior year's comparative figures.

Disclaimer Opinion

Because of the significance of the matters referred to in the Basis for Disclaimer Opinion, I have not been able to obtain sufficient appropriate evidence and accordingly, I am unable to express an opinion on the financial statements of Akogere Estates Limited for the year ended 31 December, 2009.

Other Matters

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

- The *National Superannuation Act, 2000* requires that the employees who have “completed 3 months continuous service; or worked not less than 60 days with in a period of 6 months or less; or have been declared permanent” are eligible to contribute to the National Superannuation Fund (NASFUND). The employees in employment during the year under review however, have not been considered for employee contribution of 6% and employer contribution of 8.4%.
- Section 164 of the *Companies Act, 1997* requires companies to maintain relevant records including company's constitution, shareholders' meeting minutes and board

meeting minutes. There was no evidence to suggest that such records were maintained during the year under review.

- Account descriptions were not consistently used in the financial records and the subsequent financial statements thus such may confuse the users of financial statements.
- Effectiveness of the procurement process currently used by management could not be ascertained due to the unavailability of a proper documentation of the company's procurement process.
- Third party confirmation proved that a sum of K120,000 cashed cheque paid to the Governor and Member for Eastern Highlands as a loan advance was never recorded in Provincial Government books of accounts as a loan payable. The fund was later refunded in 2010.
- There was no third party confirmation on the Directors revaluation of assets by an independent assessor or valuer. Further, gain on property valuation was overstated by K870,315.
- Basis for the related party transactions between Akogere Estates Limited and the other three companies namely Nokondi Investment Limited, Al's Auto Repairs Limited and EHPD Limited could not be verified.
- Dividend of K200,000 provided for in previous year to be paid to the Eastern Highlands Provincial Government has not been paid and was withheld by management upon the Provincial Governor's instruction. PEC meeting minutes, resolutions and other supporting documents substantiating this claim were not made available to audit.
- Property title deeds for land and buildings owned by Akogere Estates Limited were not provided to audit.
- The Board of the Eastern Highlands Provincial Government Business Arms which includes Akogere Estate Limited and others do not have a fair representation from the business and general community."

6.5.5A.3 Control Environment– 2009

The Management Letter relating to the audit of the accounts and records for the year ended 31 December 2009 was issued in March 2011. The issues are reported under 'Other Matters' above.

6.5.5A.4 Management Response

I have communicated the management letter to the client and the then management had acknowledged issues highlighted and informed that appropriate actions were taken on improvement.

6.5.5A.5 Status of Financial Statements

At the time of preparing this Report, the Akogere Estate Limited had not submitted its financial statements for the years ended 31 December 2010 to 2015 for my inspection and audit.

6.5.5B Nokondi Investments Limited

According to the accounts of Eastern Highlands Provincial Government, the Government has invested initial capital of K501,148 in this company back in 1998. The Nokondi Limited is an unlisted Company registered under the Papua New Guinea *Companies Act 1997*, operating in property investment business.

6.5.5B.1 The Activities of the Company

The main activity of the Company was among others to invest in property investments in Goroka, Eastern Highlands, PNG and elsewhere with realised returns that will benefit the people of Eastern Highlands.

6.5.5B.2 Comments on Financial Statements - 2009

Nokondi Investments Limited had submitted its financial statements for the year ended 31 December 2009 for my inspection and audit. The fieldworks associated with the audits of accounts and records and the examination of the financial statements have been completed with Management Letters and audit report issued.

My report to the Ministers concerned and other relevant bodies under the Company's Act and the Audit Act was issued with a Disclaimer Audit Opinion in February 2014 as reproduced below:

“Basis for Disclaimer Opinion**Cash at Bank**

Nokondi Investment Limited had no bank account of its own and so all proceeds were banked into the bank account of Akogere Estates Limited and payments made out of the same. As such, I was not able to confirm the cash position of Nokondi Investment Limited as at 31 December, 2009.

Fixed Assets

Fixed assets of K249,037 was disclosed in the financial statements of Nokondi Investments Limited however, management has not maintained a proper fixed assets register to capture details of all fixed assets owned, acquired and or disposed off by the company during the year under review. As such, I was unable to verify the accuracy, completeness and existence of fixed assets disclosed in the financial statements.

Trade Debtors and Other Debtors

Financial statements recorded trade debtors for the year under review of K9,900. Audit noted general lack of consistency in the maintenance and up-dating of debtor's listings and general ledger accounts resulting in an overstatement of trade debtors of K2,640.

Liabilities

The financial statements disclosed trade creditors as K317,261. Supporting documentation relating to these liabilities were either insufficient or not available at the time of audit. Consequently, I was unable to substantiate the accuracy, completeness and fairness of the values disclosed in the financial statement.

Shares Capital and Reserves

Share Capital, Reserves and Accumulated Losses were reported as K648,001, K1,265,668 and (K1,307,126) respectively. The company has not maintained appropriate records including schedules, registers, board minutes, and as such in the absence of these records, I was unable to confirm the existence, accuracy and completeness of these figures.

Income

Income of K107,598 was solely from property rental. It was noted that there was a lack of consistency in the maintenance of rental schedules and the general ledger account resulting in the understatement of rental income by K55,182 in the financial statements.

Non-Disclosure of Contingencies

The company had an ongoing legal battle regarding Section 116 Lots 6&7 of the Nokondi Investment/Akogere Estate with a complainant. It is probable that this legal battle will result in termination of land leases due to breaches in the development clause in the lease agreement which means that the company might lose some properties in the future as well as incur legal fees and or compensation expenditure.

Disclaimer Opinion

Because of the significance of the matters referred to in the Basis for Disclaimer Opinion, I have not been able to obtain sufficient appropriate evidence and accordingly, I am unable to express an opinion on the financial statements of Nokondi Investments Limited for the year ended 31 December, 2009.

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. Without further qualifying the audit opinion, I draw attention to the following issues:

- Section 164 of the *Companies Act, 1997* requires companies to maintain relevant records including company's constitution, shareholders' meeting minutes and board meeting minutes. There was no evidence to suggest that such records were maintained during the year under review;
- Section 188(2)(b) of the *Companies Act, 1997* requires companies to maintain records of assets and liabilities of the company. Management has however, not maintained a proper fixed assets register to capture details of all fixed assets owned, acquired and or disposed off by the company during the year under review. As such, I could not ascertain the accuracy and completeness of assets disclosed in the financial statements. Further, I could not rely upon the depreciation charged on assets during the year as accurate. *This issue was brought to the attention of management in my 2008 report. No improvements were made to date;*
- The *National Superannuation Act, 2000* requires that the employees who have “completed 3 months continuous service; or worked not less than 60 days with in a period of 6 months or less; or have been declared permanent” are eligible to contribute to the National Superannuation Fund (NASFUND). The employees in employment during the year under review however, have not been considered for employee contribution of 6% and employer contribution of 8.4%;

- Employees on the payroll of Nokondi could not be verified as bona fide due to the absence of employee personnel files/records;
- Effectiveness of the procurement process currently used by the management could not be ascertained due to the unavailability of a proper documentation of the company's procurement process;
- There was general lack of consistency in the maintenance and update of data in the MYOB system resulting in scope limitation and as such I could not place reliance on the system's record as adequate and accurate for further audit testing;
- The accuracy, completeness and fairness of liabilities could not be substantiated due to the general lack of consistency in the maintenance of supporting documentation for all liabilities;
- Property title deeds for properties owned by Nokondi Investments Limited were not provided to audit;
- The Board of the Business Arms of Eastern Highlands Provincial Government which includes Nokondi Investment Limited and others does not have a fair representation from the business and general community; and
- Nokondi Investments Limited does not have a proper company structure under which a competent company accountant could be employed to properly prepare accurate financial statements for the company on a timely basis. As a result, the management engaged the services of two different accounting firms to prepare financial reports of the company and as a result, accurate and timely financial statements could not be produced."

6.5.5B.3 Control Environment – 2009

The Management Letter relating to the audit of the accounts and records for the year ended 31 December 2009 was issued in March 2011. The issues are reported under 'Other Matters' above.

6.5.5B.4 Management Response

I have communicated the management letter to the client and the then management had acknowledged issues highlighted and informed that appropriate actions were taken on improvement.

6.5.5B.5 Status of Financial Statements

At the time of preparing this Report, the Nokondi Investments Limited had not submitted its financial statements for the years ended 31 December 2010 to 2015 for my inspection and audit.

6.5.5C Al's Auto Repairs Limited

According to the accounts of Eastern Highlands Provincial Government, the Government has invested initial capital of K94,581 in this company back in 1998. The Al's Auto Repairs Limited is an unlisted Company registered under the Papua New Guinea *Companies Act 1997*, operating in property investment business.

6.5.5C.1 Comments on Financial Statements- 2009

Al's Auto Repairs Limited had submitted its financial statements for the year ended 31 December 2009 for my inspection and audit. The fieldworks associated with the audits of accounts and records and the examination of the financial statements have been completed with Management Letters and audit report issued.

My report to the Ministers concerned and other relevant bodies under the Company's Act and the Audit Act was issued with a Qualified Audit Opinion in February 2014 as reproduced below:

“Basis for Qualified Opinion**Cash at Bank**

Al's Auto Repairs Limited had no bank account of its own, as all proceeds were banked into the bank account of Akogere Estates Limited and payments made out of the same. As such, I was not able to confirm the cash position of Al's Auto Repairs Limited as at 31 December, 2009.

Liabilities

The financial statements disclosed trade creditors as K122,813. Supporting documentation relating to these liabilities were either insufficient or not available at the time of audit. Consequently, I was unable to substantiate the accuracy, completeness and fairness of the values disclosed in the financial statement.

Assets Revaluation

There was no third party confirmation on the Directors revaluation of assets totaling K280,000 by an independent assessor or valuer. Further, gain on property valuation was overstated by K120,000 materially misstating the balance of fixed assets and equity.

Fixed Assets

Fixed assets of K514,841 was disclosed in the financial statements of Al's Auto Repairs Limited however, management has not maintained a proper fixed assets register to capture details of all fixed assets owned, acquired and or disposed off by the company during the year under review. As such, I was unable to verify the accuracy, completeness and existence of fixed assets disclosed in the financial statements.

Qualified Opinion

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

- (a) The financial statements of Al's Auto Repairs Limited for the year ended 31 December, 2009;
 - (i) Give true and fair view of the financial position and the results of its operations and cash flows for the year ended on that date; and
 - (ii) The financial statements have been presented in accordance with the *Companies Act, 1997, International Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea.

- (b) Except as noted under Other Matters paragraph, proper accounting records have been kept by the Company; and
- (c) I have obtained all the information and explanations required.

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. Without further qualifying the audit opinion, I draw attention to the following issues:

- Section 164 of the *Companies Act, 1997* requires companies to maintain relevant records including company's constitution, shareholders' meeting minutes, and board meeting minutes. There was no evidence to suggest that such records were maintained during the year under review;
- Section 188(2)(b) of the *Companies Act, 1997* requires companies to maintain records of assets and liabilities of the company. Management has however, not maintained a proper fixed assets register to capture details of all fixed assets owned, acquired and or disposed off by the company during the year under review. As such, I could not ascertain the accuracy and completeness of assets disclosed in the financial statements. Further, I could not rely upon the depreciation charged on assets during the year as accurate. *This issue was brought to the attention of management in the year 2008 audit. No improvements were made to date;*
- The *National Superannuation Act, 2000* requires that the employees who have “completed 3 months continuous service; or worked not less than 60 days with in a period of 6 months or less; or have been declared permanent” are eligible to contribute to the National Superannuation Fund (NASFUND). The employees in employment during the year under review however, have not been considered for employee contribution of 6% and employer contribution of 8.4%;
- Employees on the payroll of Al's Auto Repairs Ltd could not be verified as bona fide due to the absence of employee personnel files/records;
- Effectiveness of the procurement process currently used by management could not be ascertained due to the unavailability of a proper documentation of the company's procurement process;
- There was a general lack of consistency in the maintenance and update of data in the MYOB system;
- The accuracy, completeness and fairness of liabilities could not be substantiated due to the general lack of consistency in the maintenance of supporting documentation for all liabilities;
- There was no chart of accounts created for the Al's Auto Repairs Ltd accounts in the MYOB system resulting scope limitation arising from the unavailability of individual accounts transactions for expenditures;
- I was unable to ascertain or confirm whether Al's Auto Repairs Limited had properties in the preceding years due to the absence of appropriate records to this effect. Further, the use of these title deeds at the bank as security for loans obtained could not be authenticated due to the non- disclosure of any loans with the bank in the financial statements;

- The Board of the Business Arms of Eastern Highlands Provincial Government which includes Al's Auto Repairs Limited and others do not have a fair representation from the business and general community; and
- Al's Auto Repairs Limited does not have a proper company structure under which a competent company accountant could be employed to properly prepare accurate financial statements for the company on a timely basis. As a result, the management engaged the services of two accounting to prepare financial reports of the company and as a result, accurate and timely financial statements could not be produced."

6.5.5C.2 Control Environment – 2009

The Management Letter relating to the audit of the accounts and records for the year ended 31 December 2009 was issued in March 2011. The issues are reported under 'Other Matters' above.

6.5.5C.3 Management Response

I have communicated the management letter to the client and the then management had acknowledged issues highlighted and informed that appropriate actions were taken on improvement.

6.5.5C.4 Status of Financial Statements

At the time of preparing this Report, the Al's Auto Repairs Limited had not submitted its financial statements for the years ended 31 December 2010 to 2015 for my inspection and audit.

6.5.5D Eastern Highlands Property Developers Limited

6.5.5D.1 Comments on Financial Statements - 2009

Eastern Highlands Property Developers Limited had submitted its financial statements for the year ended 31 December 2009 for my inspection and audit. The fieldworks associated with the audits of accounts and records and the examination of the financial statements have been completed with Management Letters and audit report issued.

My report to the Ministers concerned and other relevant bodies under the Company's Act and the Audit Act was issued with a Disclaimer Audit Opinion in February 2014 as reproduced below:

"Basis for Disclaimer Opinion

Cash at Bank

Eastern Highlands Property Developers Limited had no bank account of its own and also all proceeds were banked into the bank account of Akogere Estates Limited and payments made out of the same. As such, I was not able to confirm the cash position of Eastern Highlands Properties Developers Limited as at 31 December, 2009.

Fixed Assets

Fixed assets of K977,199 was disclosed in the financial statements of Eastern Highlands Property Developers Limited however, management has not maintained a proper fixed assets register to capture details of all fixed assets owned, acquired and or disposed off

by the company during the year under review. As such, I was unable to verify the accuracy, completeness and existence of fixed assets disclosed including the depreciation charge of K26,254 in the financial statements.

Revaluation of Assets

The International Accounting Standard, *16 -Property, Plant and Equipment*, requires that an asset item, after its initial recognition shall be carried at a revalued amount. Revaluations should be undertaken with sufficient regularity, to ensure that the carrying amount of assets does not materially differ from their fair value at the end of the reporting period. As at 31 December, 2009 the company's Land and Buildings were reported at a net book value of K997,199. In my opinion, the market values of the company's investment would have materially exceeded the recorded net book value of Land and Buildings.

Management responded that *the Land and Buildings were located 10 km out of town in the middle of 3 villages, where there has been continued tribal fights. Management said the value of these properties would not increase in line with the more secure Goroka located property.*

Liabilities

The financial statements disclosed trade and other payables as K39,579. Supporting documentation relating to these liabilities were either insufficient or not available at the time of audit. Consequently, I was unable to substantiate the accuracy, completeness and fairness of the amounts disclosed in the financial statement.

Related Party Accounts

The financial statements disclosed related party accounts of K430,468. It was noted that this amount was made up of a loan of K446,067 taken out by Eastern Highlands Property Developers (EHPD) from Akogere Estates Ltd to purchase the Bobiufa Estates. Audit did not sight any loan agreements between Akogere Estates and EHPD for the purchase of Bobiufa Estates to ascertain the existence and accuracy of the loan outstanding balance.

Disclaimer Opinion

Because of the significance of the matters referred to in the Basis for Disclaimer Opinion, I have not been able to obtain sufficient appropriate evidence and accordingly, I am unable to express an opinion on the financial statements of Eastern Highlands Property Developers Limited for the year ended 31 December, 2009.

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. Without further qualifying the audit opinion, I draw attention to the following issues:

- Account names used in the general ledger were not consistently used in the trial balance and the financial statement;
- The *National Superannuation Act, 2000* requires that the employees who have “completed 3 months continuous service; or worked not less than 60 days with in a period of 6 months or less; or have been declared permanent” are eligible to contribute to the National Superannuation Fund (NASFUND). The employees in

employment during the year under review however, have not been considered for employee contribution of 6% and employer contribution of 8.4%;

- Employees on the payroll of EHPD could not be verified as bona fide due to the absence of employee personnel files/records;
- Section 164 of the *Companies Act, 1997* requires companies to maintain relevant records including company's constitution, shareholders' meeting minutes and board meeting minutes, etc. There was no evidence to suggest that such records were maintained during the year under review;
- Section 188(2)(b) of the *Companies Act, 1997* requires companies to maintain records of assets and liabilities of the company. Management has however, not maintained a proper fixed assets register to capture details of all fixed assets owned, acquired and or disposed off by the company during the year under review. As such, I could not ascertain the accuracy and completeness of assets disclosed in the financial statements. Further, I could not rely upon the depreciation of K26,254 charged on assets during the year as accurate;
- Effectiveness of the procurement process currently used by the management could not be ascertained due to the unavailability of a proper documentation of the company's procurement process;
- Property title deeds for properties owned by EHPD were not provided to audit;
- The Board of the Business of Arms of Eastern Highlands Provincial Government which includes Eastern Highlands Property Developers Limited and others does not have a fair representation from the business and general community; and
- Eastern Highlands Property Developers Limited does not have a proper company structure under which a competent company accountant could be employed to properly prepare accurate financial statements for the company on a timely basis. As a result, the management engaged the service of two accounting firms to prepare financial reports of the company and as a result, accurate and timely financial statements could not be produced.”

6.5.5D.2 Control Environment – 2009

The Management Letter relating to the audit of the accounts and records for the year ended 31 December 2009 was issued in March 2011. The issues are reported under ‘Other Matters’ above.

6.5.5D.3 Management Response

I have communicated the management letter to the client and the then management had acknowledged issues highlighted and informed that appropriate actions were taken on improvement.

6.5.5D.4 Status of Financial Statements

At the time of preparing this Report, the Eastern Highlands Property Developer Limited had not submitted its financial statements for the years ended 31 December 2010 to 2015 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

6.6.2.1 Financial Statements – 2014

The Enga Provincial Government 2014 audit was carried out on two different time intervals due to late submission of financial statements. The first part was the interim audit on control environment with Management Letter issued and was reported in our 2014 Part 3 Report. The second part was the financial statements audit which has been completed with Management Letter issued. The audit opinion report for 2014 was a Disclaimer of Opinion and issued to the Ministers concerned hence, the paragraph below details the issues identified with 2014 financial statements;

“Basis for Disclaimer Opinion

My report to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* was issued in May 2016. The report was a Disclaimer of Opinion as reproduced below:

Cash Balances

I am unable to express an opinion on the accuracy of the cash at bank and trust account balances totaling K26,826,618 and consequently, on the financial position of Enga Provincial Government as at 31 December, 2014 due to:

- inherited errors, omissions and misstatements carried forward from previous years which were not rectified and incorporated in the 2014 accounts;
- The completeness and accuracy of the Trust Fund balance of K880,735 could not be confirmed in the absence of source documents. In addition, the eight (8) trust accounts reported in statement 'C' were dormant with the same balances repeatedly carried forward;
- In 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 balance of K500,662 reported in statement 'A'; and
- I was unable to confirm the accuracy and completeness of the total bank balance of K26,826,618 due to substantial reconciling items remained uncleared in the bank reconciliation for the month of December 2014. In addition, stale cheques totaling K2,401,590 were not written off and the cash book adjusted.

Receipts and Payments for 2014

The Enga Provincial Government reported its total revenue and expenditure as

K161,490,756 and K145,021,964 respectively with an operating surplus of K16,468,792. I am unable to verify the accuracy of the receipts and payments in statements 'B', 'J' and 'K' due to:

- the actual receipt and payment component of Teaching Service and Public Servants Staffing Grants totaling K39,822,249 were reported in Statement 'K' however, not in Statements 'B' and 'J'; and
- Substantial reconciling items pertaining to revenue of K4,719,484 and expenditure of K531,034 were not adjusted in the cash books, respective ledgers and the subsequent Statements 'B', 'J' and 'K'.

Investments

The Financial Statements 'E' and 'F' presented did not indicate short and long term investments by the Provincial Government as at 31 December, 2014. In response to my Management Report to the administration, the provincial government made mention of majority share holdings held with Wapenamanda Coffee Factory at 51%, Enga Pyrethrum Company at 100% and Kandep Wheat Factory at 100%, however no Investment Registers and other related records were provided for my examination.

Assets

Appendix 4 reported total assets value of K64,404,136 as at 31 December, 2014. In the absence of an updated assets register and of lack of adequate control over the management of assets, I am unable to confirm the value of assets owned and under the custody of the Enga Provincial Government as at 31 December, 2014.

Advances

Appendix 6 disclosed un-acquitted advances of K6,471,100 as at 31 December, 2014. The advances register was not maintained systematically to capture the running balance at year end consequently; I was not able to ensure the accuracy and completeness of the total un-acquitted advances as at year end.

Disclaimer 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 am unable to express an opinion on the financial statements of the Enga Provincial Government for the year ended 31 December, 2014.

Other Matters

In accordance with the *Audit Act, 1989* (as amended) I have duty to report on significant matters arising out of the financial statements, to which the report relates. The following is a matter of significance:

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

6.6.2.2 Control Environment – 2014

The findings resulting from my audit on the control environment for the 2014 financial year were reported in my 2014 Part 3 Report.

The Management Letter was issued, however the Enga Provincial Government response dated 30th March 2016 was received after finalizing my 2014 Part 3 Report in July, 2015.

6.6.2.3 Management Response

With consideration to the management's response, I provide in this Report an update on the 2014 control environment issues raised in the 2014 Part 3 Report as follows:

- **Non Existence of Corporate Plan**
Management responded that the Provincial Government's first Corporate Plan for a three year period (2010–2012) was launch by Chief Secretary to Government at that time Mr. Manasupe Zurenuoc and third Corporate Plan was to be launch in April 2016;
- **No Actions on Internal Audit Findings**
Internal Audit findings revealed serious allegations of maladministration, mismanagement and fraudulent activities for which no actions was evidence to have been taken. The audits mostly relate to schools and management responded that audit findings have been referred to the Chairman Enga Provincial Education Board (PEB) for deliberation and appropriate action;
- **Lack of supporting documents relating to Provincial Supply and Tenders Board**
The management informed that the PSTB for EPG exists and actively in operation and certified copies of the board meetings and COI file were provided;
- **Payment vouchers totaling K7,838,285 were noted missing and were not available for my examination**
Copies of twenty four (24) of paid vouchers not located during the time of audit were provided for my review;
- **Contract Agreements not sighted for consultancy and legal services and housing rentals**
Copies of consultancy agreements and tenancy agreements were provided for my review;
- **Capital Works and Maintenance Payments lack appropriate supporting documents in reference to procurement procedures, contract engagements, project formulation, implementation and monitoring processes**
The provincial administration responded accordingly and provided supporting documents; and
- **Grants and Subsidy Payments lack supporting documents of accountability**
The provincial government responded that the recipient do submit accountability reports which were not submitted for my review.

6.6.2.4 Status of Financial Statements

The Enga Provincial Government has submitted its financial statements for 2015 and field audit completed. The Management Letter was in its drafting stage as at the time of compiling this report in July 2016. The Management Letter and Opinion Report will be issued upon completion and included in my 2016 Part 3 Report

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. Fieldwork 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 and the Management Letter issued. However the Financial Statements for 2012 was misplaced during the course of audit and attempts to obtain copy from the client were unsuccessful as such I have not issued the report to the Ministers concerned.

The internal control issues for both years were reported in my 2014 part 3 Report to Parliament in July 2015.

6.6.3.1 Status of Financial Statements - 2013, 2014 and 2015

At the time of preparing this Report, the Wabag Urban Local-Level Government had submitted its financial statements for the years ended 31 December 2013, 2014, and 2015 for my inspection and audit and audits will commence shortly

6.6.4 Wabag General Hospital

6.6.4.1 Status of Financial Statements –2015

At the time of preparing this Report, the Wabag General Hospital had not submitted its financial statements for 2015 for my inspection and audit despite numerous reminders.

6.6.5 Business Arms

The Enga Provincial Government has a number of business arms as reported below.

6.6.5A 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'.

6.6.5A.1 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.

6.6.5A.2 Financial Statements – 2012, 2013 and 2014

The Enga Children's Fund Trustee had submitted its financial statements for the year ended 31 December 2012, 2013 and 2014 for my inspection and audit. The fieldwork associated with the inspection of the accounts and records and the examination of the financial statements had been completed and Management Letters issued.

My reports to the Ministers and other relevant bodies under the *Company's Act* and the *Audit Act* were issued on 31st January 2016 and 10th June 2016 respectively. The reports did not contain any qualifications.

6.6.5A.3 Status of Financial Statements

The Enga Children Fund has submitted its financial statements for the year ended 31 December 2015 for my inspection and audit. Fieldwork associated with the audit of accounts and records and the examination of the financial statements had been completed and the results are being evaluated at the time of preparing this Report in July 2016.

6.6.5B Enga Rural Investments (Holdings) Ltd and its Subsidiaries

The Enga Provincial Government incorporated Enga Rural Investments (Holdings) Ltd (ERIHL) and its Subsidiaries (Wapenamanda Coffee Factory, Enga Pyrethrum Company and Kandep Wheat Factory) purposely to invest and develop major agricultural development projects aimed at economically empowering the lives of simple people in the province. The three (3) subsidiary companies are cash crop companies managed by ERIHL.

6.6.5B.1 Status of Financial Statements

At the time of preparing this Report in July 2016, the financial statements for these companies for the years since their establishments have not been submitted for my inspection and audit despite numerous reminders from my Office.

6.6.6A 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.

6.6.6A.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.

6.6.6A.2 Financial Statement

The audits of the financial statements and control environment of Pogera Development Authority for the 2009, 2010 and 2011 fiscal years were carried out and audit reports issued for which I have express Qualified Audit Opinions for each of these years hence, the paragraph below details only the issues identified with the 2011 financial statements and control environment:

“Basis for Qualified Opinion

1. Financial Statements

Interest Bearing Deposits (IBD)

On call deposit balance of K183,214 was reported in the financial statement, however, the IBD certificates and third party bank confirmations revealed a balance of K253,656 as at 31st December 2011 resulting in IBD being understated by K70,442. Consequently, I am unable to confirm the accuracy and completeness of the balance as at year-end.

SML Trust Accounts

The SML Trust Accounts held on behalf of the Landowners by the Porgera Local-level Government Special Purpose Authority have been incorrectly reflected in the Authority's accounts as their current assets and reserves. This treatment has inflated the assets and reserves of the Authority by K2,823,670.

Fixed Assets

The Fixed Assets Register was not updated as such the obsolete assets and assets no longer in existence were still shown. Further, there was no physical stock-take performed at the end of the year neither was there a board of survey done for all obsolete assets of the Authority. Consequently, I was unable to verify the existence, valuation and completeness of all the fixed assets with the net book value of K14,870,426 owned by the Authority.

Goods and Services Tax (GST)

Goods and Services Tax (GST) balances in the accounts related to input and output taxes of K1,092,579 and K130,460 respectively. The Authority did not file tax returns nor performed monthly reconciliation of GST which resulted in debt of K962,119 due from the Internal Revenue Commission. Consequently, I am unable to determine the accuracy of any receivables arising as the information provided to me was limited.

Receivables

Included in the total receivables of K1,481,497 was the amount of K996,480 due from Paiam Management Company (PMC) for outstanding rentals due. It was noted that, PMC had long outstanding debts which the PDA management had made no attempt to recover. Consequently, I am unable to conclude on the collectability of the receivables disclosed in the financial statements.

Investments

The financial statements disclosed investments of K2 relating to 100% shareholding in Paiam Management Company Ltd, a company set up to manage water and sewerage services in Paiam town area in Porgera Valley. This company is not trading at profit and is entirely dependent on the Authority's funds for existence. I was not provided with the latest financial statements of this company and as such, I am unable to satisfy myself as to the accuracy and completeness of the account balance at the year-end.

Inventory

The financial statements disclosed inventories of K61,218. The Authority did not perform year-end stock take of its inventories to disclose an accurate inventory on hand. Consequently, I am unable to verify on the accuracy and completeness of the inventories disclosed in the financial statements.

Accounts Payable

Included in the total accounts payable of K1,081,906 was an accrued expense of K55,000. I noted that this amount was paid during the year however respective ledger not updated. Further, outstanding audit fees for the years 2010 and 2011 were not captured in the records and reported in this statement. These issues were communicated to the management however, no adjustments were made consequently, I am unable to verify the accuracy and completeness of the balances as at the year-end.

Adjustments in the Statement of Changes in Equity

An adjustment of K3,273,241 was reported in the Statement of Changes in Equity. In the absence of supporting documentation and schedules I was unable to verify the accuracy and completeness of this amount.

2. Accounts and Records

Acquittals of Advances

I noted that advance registers and acquittal files were not maintained. Cash advances and travelling allowances totaling K1,043,775 paid out during the year were noted to have not been acquitted during the year.

Board Minutes

Minutes of the Board and Management Meetings were not properly maintained and made available for my review. Only two meeting minutes for the year were made available of which, only one of the two minutes was properly signed by the Chairman. I am unable to determine whether the required six (6) meetings in a year as per the Authority Act have been complied with.

Compliance with Tax Legislation

The Authority has failed to comply with the Tax Act requirements by not lodging its Goods and Services Tax, Group Tax and Business Withholding Tax Returns.

Qualified Audit Opinion

In my opinion, except for the effects of the matters referred to in the qualification paragraphs above, the financial statements of Porgera Local-level Government Special Purpose Authority for the year ended 31 December 2011:

- give a true and fair view of the financial position and the results of its operations for the year then ended; and
- the financial statements have been prepared in accordance with the Finance Instructions issued under the *Public Finances (Management) Act 1995*, *International Public Sector Account Standards* and other *Generally Accepted Accounting Practice* in Papua New Guinea.

Other Matters

In accordance with the *Audit Act, 1989* (as amended), I have duty to report on other significant matters arising out of the financial statement to which the report relates. I have noted that the Authority has not prepared and submitted 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*."

6.6.6A.3 Control Environment – 2011

Significant internal control weaknesses were identified in 2009, 2010 and 2011 which are common in nature, therefore, only the 2011 weaknesses are reported below.

Budgetary Control

The budget estimates and the revised budget for PDA made available for my examinations were duly approved by the Minister. A review of the budget documents revealed that the balance of the SSG grants invested in the short term deposit was included in the budget and as such the drawdown of K1 million from IBD covered for the shortfall in cash flow during the year.

PDA had over expenditure of K2,456,214 in six areas, which have resulted in break down in Budgetary Controls that leads to deficit balance for the year 2011

Cash Book, Bank Accounts and Bank Reconciliations

Review of controls relating to the maintenance of the cash book, bank accounts and the bank reconciliations revealed the following observations:

- There was no segregation of duties between data entry, bank reconciliation and monthly reports to minimize the risk of error, manipulation or fraud and also to identify and correct the incorrect postings. These tasks were performed by the finance and administration assistant as the subordinates lacked the required skills of preparing proper bank reconciliations and posting of data into the ACCPAC accounting software; and
- All the monthly bank reconciliations were done but no independent checks and verifications were done to authenticate the accuracy of the balances for the year end. Such practice shows a weakness in the control mechanism over the cash management environment.

Equity

The statement of changes in Equity showed the balances of SML Trust Funds and Retained Earnings of K3,378,344 and K11,220,107 respectively, totaling to K14,598,451. In the absence of proper books and accounts of SML Trust Funds and overstatement of K554,674 under Royalty Trust Young Adults and observations noted in sundry income and extra ordinary items, I could not ascertain the completeness and accuracy of the equity figures disclosed.

Revenue

The authority's revenue consists of Government Grants of K6,650,000, Mining Royalties of K2,264,837 and Sundry Income of K947,572 totaling K9,862,409.

An examination of the cashbooks, ledgers, bank statements and receipt books revealed that all revenue were properly recorded and accounted for in the books of accounts and the subsequent financial statements. However, the authority needs to create an excel spread sheet to maintain all the income due to the authority and should be captured and measured against the actual receipts for the period to ensure that what should be collected has been received.

Furthermore, Lease Agreements for Leased Properties in Port Moresby and properties leased to Telikom and Paia Management Company were not made available for my examination.

In addition, PDA owned four (4) properties which generated income of K302,126 in 2011. These properties were managed by Strickland and net rents remitted to the PDA operating account. Rental reconciliations by Strickland were not made available for my

examination and as such I could not establish the actual rentals due to PDA were recognized in the revenue as well as the receivables of the financial statements.

Procurement Procedures and Paid Accounts

My review of established internal control procedures in relation to the procurement of goods and services observed by the Authority were noted to be satisfactory in that expenditures incurred and paid have complied with the law except the following issues:

General Administration Account Expenses

- Twenty (20) payment vouchers totaling K332,794 were missing and as such were not available for my examination;
- Quotations Register was not maintained to record verbal and written quotations. A payment of K6, 197 lacked three quotations and relevant supporting documents in justifications of payments made;
- In three (3) instances, payments for travel & subsistence valuing at K46,400 had no acquittals to the travel allowances, vehicle hire and accommodation;
- Two (2) payments totaling K143, 631 were not authorized by the GM or the financial delegate;
- Significant amount of over expenditure noted during the year totaling K2,123,478 which constitute a serious breach of proper budgetary control; and
- Several payments relating to cash advances, vehicle hire, and accommodation totaling to K105,000 were made to a Mats Consultant Brokers Ltd which were not provided for in the 2011 budget.

Special Support Grant Expenses

- A payment of K55,350 on cheque no.4433 to a Matz Consultants included an interest charge of 35% on the principal amount advanced to the PDA Board. This extra charge (interest) is deemed to be extravagant and further increase the financial burden on PDA;
- A payment of K33,000 was made to Porgera Hospital as reimbursement for accommodation, vehicle hire, travelling advance and others expenses relating to PDA directors on an investigation trip to Mt. Hagen and then to POM. I have not sighted any supporting documents initiating these trips to authenticate the validity of the payments made;
- Two separate payments of ex-gratia entitlements were made to the Board members during the year of which one payment was amounted to K210,000 and the other K370,000 (K50,000 each). I observed that this was double dipping by the board members as the funds were from the same source (PDA);
- I observed that board directors were paid the June monthly allowance of K7,210 twice, which occurred on pay periods 24/08/11 and 21/09/11. These were the same Directors on the Board of PDA who were paid their monthly allowances totaling K48,560. This was deemed as double dipping; and
- HDA's of K3,094 paid could not be substantiated due to lack of appropriate supporting documents.

Salaries and Wages

My review of controls and procedures relating to Salaries and Wages payments during the year revealed the following matters:

- Employee personal files were not properly maintained and instances of important records such as history cards, PVAs were not sighted;
- There was no logbook or checklist maintained to control the movement of personal files as anybody can check the staffs personnel file as General Manager's office is open at all times;
- According to the 2011 Revised Budget for PDA, the approved expenditure for Personal emoluments for the General Manager position was K605,406 while the actual expenditure was K615,516 resulting to an over expenditure of K10,110; and
- The contract of employment sighted for an officer has lapsed on the 16/04/2010. However, the officer was still receiving salaries and allowances as per the contract. This implies that the salary paid to the officer after contract expiry date would technically be illegal. According to the General Ledger, the total paid during 2011 was K71,505.

6.6.6A.4 Management Response

The Authority has responded to the management letter issues and together with the adjusted financial statements was submitted for my opinion report.

6.6.6A.5 Status of Financial Statements

The Pogera Development Authority had not submitted its financial statements for the years ended 31 December 2012, 2013, 2014 and 2015 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 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.

6.7.2 Fly River Provincial Government

The Fly River Provincial Government had not submitted its financial statements for the years ended 31 December, 2014 and 2015 for my inspection and audit. However, the field work associated with audit of the internal control environment for both years had been completed and the results were being evaluated at the time of preparation of this Report in July 2016.

6.7.3 Daru Urban Local-level Government

6.7.3.1 Status of Financial Statements

The Daru Urban Local-level Government had not submitted its financial statements for the years ended 31 December 2014 and 2015 for my inspection and audit at the time of preparation of this Report in July 2016. However, the field work associated with audit of the internal control environment for both years were scheduled to commence shortly in the absence of the financial statements.

6.7.4 Kiunga Urban Local-level Government

6.7.4.1 Status of Financial Statements

The Kiunga Urban Local-level Government did not submit its financial statements for the financial years ended 31 December 2014 and 2015 for my inspection and audit at the time of preparation of this report in July 2016. However, the field work associated with audit of the internal control environment for both years were scheduled to commence shortly in the absence of the financial statements.

6.7.5 Daru General Hospital Board

The fieldwork associated with the audit of the internal control environment for the years ended 31 December 2011, 2012 and 2013 were completed with Management Letters issued and the 2013 results reported in my 2014 Part 3 Report to the Parliament. The Daru General Hospital Board had subsequently submitted its financial statements for all three years as well as for 2014 and 2015. The financial statements for 2011, 2012 and 2013 were reviewed and the audit opinion reports issued. The fieldwork associated with the audit of the accounts and records and the review of the financial statements for years ended 31 December 2014 and 2015 were scheduled to commence shortly.

6.7.5.1 Comment on Financial Statements – 2013

My reports for the years 2011, 2012 and 2013 to the Minister concerned and other relevant bodies under the *Audit Act* and the *Organic Law* were issued in early July 2016. The reports for the three years contained Disclaimer Audit Opinion with similar issues hence, only 2013 report is reproduce below:

“Basis for Disclaimer Opinion

Financial Statements

Presentation

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. The 2013 financial statements for Daru General Hospital had fully complied with the Finance Instruction.

Disclosure Errors

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

- Total revenue of K5,845,146 disclosed in the financial statements could not be confirmed in the absence of related records; and
- Schedule of assets totaling K911,257 could not be confirmed to the register as proper and adequate records were not available.

Significant Control Weaknesses

The paragraphs below give a summary of significant control weaknesses identified in the Daru General Hospital internal control environment:

Revenue

- Deposit slips and receipts not available to confirm cash per collector statements;
- Segregation of duties in respect of collection, recording and banking of fees collection was poor or non-existent;
- Revenue ledgers not maintained or available to confirm recording of daily cash collections;
- Payment of supplier invoices noted to have been entertained by the revenue office thus making payments from day's cash collections without properly recording;
- Borrowing of cash by hospital staff without proper records; and
- National Department of Health annual grants remittance of K542,700 for the Hospital Operations could not be ascertained whether the funds were properly accounted for and disclosed in the absence of Revenue Ledgers.

Budgetary Control

Proper accounting for government grants and hospital fees and the formulation of annual budget estimates of revenues and expenditures was lacking. Management failed in its responsibility to formulate estimates of revenues and expenditures of the Hospital for the year under review as required by the Public Finance (Management) Act, 1995.

Paid Accounts

- Formal appointment instruments not sighted to confirm the appointment of financial delegates for examination, certification and approval of claims and approval limits;
- Travel & subsistence payments totaling K154,286 not supported with required quotations in the case of accommodation and vehicle hire; ticket butt/boarding passes or receipts and invoices;
- 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 correctly received;
- Recreational leave fares payments were not supported with birth certificates and/or concessions for legal dependents and students under 18 years;
- Tenancy agreements together with invoices relating to payment of accommodation rentals for various doctors and other contract officers had not been sighted. As such I was unable to determine if the payments to at least a couple landlords (named) were accurate or not; and
- In effective and poor filing system controls had resulted to over 50% of the sample paid vouchers missing or were not on file.

Salaries & Wages

- 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;
- No proper and updated staff establishment register or the personnel files maintained to record relevant classification and details of staff in employment. As such salary variations and allowances paid to staff could not be verified; and
- Salary variations lacked supporting documents including performance appraisals, permanent and temporary variations forms or over time forms.

Asset Management

The Daru General Hospital did maintain an asset register however, lacked proper and timely update of asset details including model/serial number, additions and disposals, and physical location of assets. Further, I sighted no evidence to indicate that periodic stock takes of the assets were conducted to ensure existence and condition of assets.

Advance Management

Noted general breakdown in management of travel and cash advances during the year resulting in an un-acquitted balance of K63,075 at year end.

Cash & Bank Balances

The Hospital Board ceased the fees trust account in the prior years and operated a single operating account for both the fees and the operational account transactions with a single cash book. However, proper reconciliations of cash book and bank account for the year under review were not done to reflect accurate account balance at yearend.

Corporate Governance

The Daru General Hospital did not have any formal Corporate Plan at the time of the audit with related long term objectives, set priorities and targets as well as associated plans incorporate patient care through financial, asset management, human resource, information technology, risk management and divisional operating plans, etc. Further, the Five - Year Strategic Implementation Plan (2012 to 2016) was still in draft form;

The Daru General Hospital had no formal Board in place in 2013 due to the expiry of the terms of its members. Consequently, no formal meetings were convened during the year. I noted however, stipends and allowances totaling K223,227 were paid 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 is responsible for the internal audit of the Hospital. However, there was no such audit conducted during the year to ensure that the control mechanisms instituted were operational and effective.

At the time of preparing this report, the Management has responded and noted fully my audit queries advising that certain remedial actions have been taken or are being taken to improve on the issues highlighted and will continue put in place measures for further improvement as best it can.

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 Daru General Hospital 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:

- Section 62 (1) of the *Public Finances (Management) Act, 1995* requires all public bodies to keep proper accounts and records of their transactions and affairs, and to develop adequate controls over their assets and liabilities. As discussed in the Basis for Disclaimer Opinion paragraphs above, the Daru General Hospital has not complied with this requirement during the 2013 financial year.
- The financial statements for Daru General Hospital was not prepared and submitted 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 (4) of the *Public Finances (Management) Act 1995*. The signed financial statements for the year ended 31 December, 2013 were only submitted for my review in October, 2015.”

6.7.6 Business Arms

Section 16 (2) (f) of the *Audit Act 1989* provides for and extends my functions to audit the accounts and records of the Provincial Government and Local-Level Government Business Arms and other establishments.

I am not aware of the existence of any business arms of the Fly River Provincial Government at the time of preparing this Report in July 2016. Consequently, I am unable to comment on the operations and financial results of the business arms of the Provincial Government, if any.

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 and Business Arms.

6.8.2 Gulf Provincial Government

The audit of the accounts and records for the years ended 31 December, 2013 and 2014 were completed without the financial statements and Management Letters issued and reported in my 2014 Part 3 report. The Gulf Provincial Government had eventually submitted the financial statements for my inspection and audit. The review and examination of the financial statements had been completed and the Management Letters on the final audit were issued in June 2015. The audit opinion reports for the two years were also issued to the Ministers concerned.

6.8.2.1 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* on the financial statements of the Gulf Provincial Government for the years ended 31 December 2013 and 2014 were issued in June 2016. The reports contained similar Disclaimer Audit Opinions, hence only the 2014 report is reproduced as follows:

“Basis for Disclaimer Opinion

Financial Statements

Presentation Errors

Finance Instruction 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 financial statements of Gulf Provincial Government for the year ended 31 December 2014 did not fully comply with the above Finance Instruction in that the Governor and the Administrator’s Statements on the Provincial Government Budget Performance and Financial Performance were not included with the Financial Statements presented, neither the financial statements duly signed and certified by the Provincial Administrator and the Provincial Treasurer to authenticate the report as legal document presenting true and fair view of financial activities of the Provincial Government during the year.

Disclosure Errors

I noted the following disclosure errors which could have material effect on the accuracy and completeness of the account balances, the financial position of the Gulf Provincial Government as at 31 December, 2014 and consequently, the reliability of the financial statements.

Cash Balances

- The Gulf Provincial Government's total fund balance of K62, 569,682 shown in Statement 'A' is not reliable as there was no proper and appropriately reconciled cash and bank account balances to verify this fund balance.
- Accumulated opening fund balance of K47,213,281 used in Note 3 computations is both erroneous against the prior year closing balance of K47,219,848 and inaccurate as the material errors, omissions and misstatement of previous years inherited in these balances affect the fund balance.

Receipts and Payments

The Gulf Provincial Government had reported its total revenue and expenditure as K61,555,468 and K76,929,838 respectively with an operating deficit of K15,374,370 as at 31 December, 2014. I am unable to confirm the accuracy of the revenue and expenditure and therefore, the accuracy of the operating deficit as at 31 December, 2014 due to the reasons that:

- The National Government Grant revenues per the PGAS revenue ledger for 2014 recorded an amount totaling K35, 867,915 as against the bank statement total of K42,103,134 resulting in the revenue ledger amount and therefore, the cash book balance understatement of K6,235,218. Furthermore, I could not confirm the completeness of the actual grants received in the absence of complete warrant authorities.
- Funds transferred from grant account in to revenue account totaling K390,143 for the purposes of certain expenditure was erroneously recorded as revenue resulting in an over-statement of revenue to that extent.

Investments

No investments (short term or long term) were disclosed as having held during the year under review. I am aware however, the Gulf Provincial Government owns 100 percent shares in Gulf Economic Development Authority and 86 percent shares in Paia Inlet Infrastructure Development Co. Ltd. Gulf Services Ltd has a single share issued and held by Governor Havila Kavo on trustee. Details of these investments however, were not disclosed in Statement 'F'. Further, my prior year audit reports showed the Gulf Provincial Government held investments in several other companies. In the absence of the audited financial statements of the investment companies as well as the investment register and other related records, I am unable to ascertain the status and existence of the investments.

Assets

The Gulf Provincial Government did not disclose details of fixed assets purchased and owned at the closure of the year under review in Appendix 4 to the financial statements. Further, the assets register was poorly maintained to capture purchases and/or disposals during the year. I noted for instance, payments totaling K214,754 for various assets during the year which apparently had not been properly accounted for, and to that extent, I am unable to confirm the existence, completeness and the accuracy of the value of assets owned and under the custody of the Gulf Provincial Government during the financial year ended 31 December 2014.

Advances

The appendix presented did not disclose any particulars of advances or the un-acquitted balance at yearend. I noted however, the Gulf Provincial Government had spent K8,445,327 on travel and cash advances in 2014. Cash advances accounted for over 36% or K3,051,693; over 23% or K1,948,914 on accommodation, and over 19% or K1,603,906 on vehicle hires. I could not confirm the full extent of the outstanding advances at year end due to inadequacy of the manual registers and lack of summary listings. Consequently, the reported Nil balance of un-acquitted advances is inaccurate and misleading in view of the above observations.

Significant Control Weaknesses

The paragraphs below give a summary of significant control weaknesses identified in the Gulf Provincial Government's internal control environment:

The Gulf Provincial Government had expended over K25,480,688 on capital works and maintenance during the year under review. I noted the following discrepancies:

- The Provincial Government had seriously failed to maintain proper records of certified copies of Provincial Supply and Tenders Board (PSTB) meeting minutes and resolutions;
- Supporting vouchers relating to forty two payments totaling K16,268,675 were missing. Consequently, the validity of the payments could not be ascertained;
- Various contract payments including payments to contractors Construction 2006 Limited and Kikori Projects Co-ordination at a value of K3,866,551 and K4,003,370 respectively had no evidence of PSTB approvals as contracts were above the K3 million;
- A contractor, Rhythm Consolidated (PNG) Ltd was paid in two installments totaling K5,000,000 as 50% of the contract value of approximately K10,000,000 in 2013 and a further K2,215,400 as progressive and other related payments in 2014 purportedly for Gulf Administration Office Complex. I noted payments to date totaling K7,215,400, a massive 72% of the contract value that could not be vouched to any tangible work done as at the date of the audit in May 2015;
- A contractor, Tamik Builders was paid K706,200 in 2013 as 60% of the contract amount of K1,177,000 for a complete renovation of the Gulf Provincial Governor's State House. In 2014 a total of K1,661,000 was paid to the contractor in three separate payments at a cumulative costs amounting to K2,367,200. As with many other contract payments, the contractor was paid in excess of K1, 190,200 and in the absence of any physical and tangible work done as at the date of the audit in May 2015;
- Consultants were engaged by the Provincial Government without proper and formal consultancy agreements in place. I noted in two instances for services of Wil Investment Ltd and Emmanuel Mai were engaged and payments made totaling K558,000 which could not be vouched to any formal consultancy agreements;
- Noted a transfer of K390,143 from grant account to revenue account for purposes of hire of heavy equipment in breach of PFMA in the absence of proper authorization by Secretary, Department of Finance or appropriate policy in place;

- The Gulf Provincial Government had no clear procurement policy guidelines in place for procurement of fixed assets;
- Grant and subsidy payments totaling K9,907,192 paid to various entities and organizations including schools, Local-Level Governments and individuals during the year from grant and non-grant votes. I sighted no evidence of monitoring and accountability mechanisms in place by the Provincial Administration. Consequently, none of the recipients had acquitted funds provided to them by way of accountability reports to the Treasury and Provincial Administration;
- Supporting vouchers relating to one hundred payments totaling K2,760,183 were missing. Consequently, the validity of the payments could not be ascertained;
- A test on the 25 personal files revealed lack of personnel information including completed Tax Declaration forms for correct tax calculation, certificates of academic qualifications, etc. I noted instances of over-tax deductions for a number of officers and under-tax deductions in the assembly members' salaries;
- Provincial Executive Council (PEC) and Assembly Meeting Minutes reflect important financial decisions of the province yet no such records were maintained for meetings conducted during the year, if any, hence not furnished for my review. Consequently, important decisions of financial implications including conduct of meetings could not be ascertained;
- The gross salaries for Deputy Governor, PEC and Assembly Members were increased by K1,013, K536 and K258 respectively. Consequently, former PEC and Assembly Members were also back-paid. I am unable to confirm the appropriateness of these increases and back pays in the absence of a properly calculated and documented evidences to this effect;
- The Gulf Provincial Government's blue print Vision 2020 for the period 2012 – 2020 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 by way of effective Provincial Management Team (PMT) meetings for corporate governance and policy development; and
- The Provincial Administration had no Provincial Management Team meetings during the year as indicated by a lack of meeting minutes to confirm whether there had been any senior management meetings to discuss affairs of the province. Thus, no proper monitoring mechanism was in place within the Provincial Administration to monitor outcomes of the budget against the Key Result Areas of the Vision 2020 Plan.

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 Gulf Provincial Government for the year ended 31 December, 2014.

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 internal control environment for the years 2013 and 2014 were reported in my 2014 Part 3 Report in July 2015. The Management Letters relating to the final audit of the accounts and records were issued in June 2015 as summarized in my reports to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act*.

6.8.2.3 Management Response

The final audit observations on the examination of the financial statements and internal control weaknesses for the years 2013 and 2014 had been communicated by way of Management Letters to the Provincial Administrator and Management together with the implications and recommendations for improvements. I had however, not received the responses to the Management Letters at the time of preparation of this Report in July 2016.

6.8.2.4 Status of Financial Statements

At the time of preparing this Report in July 2016, the Gulf Provincial Government had not submitted its financial statements for the year ended 31 December 2015 for my inspection and audit.

6.8.3 Kerema Urban Local-level Government

6.8.3.1 Status of Financial Statements

As reported in my 2014 Part 3 Report, the Kerema Urban Local-level Government had not submitted its financial statements for the years ended 31 December 2010, 2011, 2012, 2013, 2014 and 2015 for my inspection and audit at the time of preparation of this Report in July 2016. I had dispensed 2010 and 2011 financial statements audits under Part V Section 16 (6) of the Audit Act, 1989.

6.8.4 Kerema General Hospital

As reported in my 2014 Part 3 Report, the audit of the accounts and records for the year ended 31 December, 2011 was discontinued due to lack of basic underlying records and I have since considered dispensing the audit. The Kerema General Hospital had submitted its financial statements for the years ended 31 December, 2012 and 2013 for my inspection and audit. Field work associated with the audit of accounts and records and examination of the financial statements had been completed and the results were being evaluated at the time of this Report in July 2016.

6.8.4.1 Status of Financial Statements

The Kerema General Hospital had not submitted its financial statements for the years ended 31 December, 2014 and 2015 for my inspection and audit at the time of preparation of this Report in July 2016. However, the field work associated with the audit of the internal control environment for 2014 had been completed and the results were being evaluated.

6.8.5 Business Arms

Section 16 (2)(f) of the *Audit Act 1989* provides for and extends my functions to audit the accounts and records of the Provincial Government and Local-level Government Business Arms and other establishments.

I am aware of the following Business Arms and/or the Trust Funds of the Gulf Provincial Government namely, Gulf Economic Development Ltd; Paia Inlet Infrastructure Development Co Ltd (86% shareholding); Gulf Investment Trust Fund and its two Subsidiaries – Gulf Papua Fisheries Ltd and Southern Star Ltd; Vailala Timber Block 1 Trust Fund; and Vailala Timber Block 2 Trust Fund. At the time of preparing this Report in July 2016, none of the entities had submitted their financial statements for my inspection and audit. Consequently, I am unable to comment on the operations and financial results of these entities.

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 Hela Provincial Government will be audited every year, with or without financial statements. The new province is yet to properly establish the Tari Urban Local-level Government and the Provincial Health Authority.

6.9.2 Hela Provincial Government

The Hela 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 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 summarized in the paragraphs below.

6.9.2.1 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 Hela Provincial Government for the years ended 31 December 2013 and 2014 were issued in June 2016. The reports contained similar Disclaimer Audit Opinions, hence only the 2014 report is reproduced as follows:

“Basis for Disclaimer Audit Opinion

Financial Statements

Disclosure Errors

I noted the following disclosure errors which could have material effect on the accuracy and completeness of the Hela Provincial Government’s account balances and consequently, its financial position as at 31 December 2014:

Cash Balances

I am unable to express an opinion on the accuracy and completeness of the cash at bank balances and trust account balances and consequently, on the financial position of the Hela Provincial Government as at 31 December 2014 due to the following reasons:

- The total overdrawn fund balance of K91,076,951 could not be confirmed as correct due to errors and material limitation of scope arising from disclaimed audit opinion in the prior year. In addition, the operating deficit for the current year was materially misstated as discussed under the paragraph of Receipts and Payments;
- The overdrawn Provincial Revenue Fund of K135,582,689 was materially incorrect due to erroneous disclosure and accounting practice. The total revenue funds represented expenditure amounts only and did not include the revenue figures. Consequently, the Statement ‘A’ was materially misleading;

- The opening balance of the Trust Fund as at 1 January 2014 of K44,285,738 differed to the closing balance of K66,741,084 as at 31 December 2013. The variance of K22,455,346 related to the Hela PGOA C/Book Contra Trust (320-719) and the transactions of which included both opening and closing balances of K22,455,346 and (K37,463,860) had not been disclosed in Statement 'C' and note 4. Consequently, I was unable to confirm the accuracy of the year-end trust fund balance. In addition, the Hela PGGA C/Book Contra Trust Account being the non-bank trust account was incorrectly presented under 'Trust Funds with Bank Accounts' which was not consistent with the 2013 financial statements disclosure being "trust fund without bank account" and misleading; and
- Substantial reconciling items of revenue and expenditure for both accounts appeared in the bank reconciliation statements totaling K264,539,390 had not been adjusted in the cash books and the subsequent revenues and expenditures in Statements 'B', 'J' and 'K'. Consequently, distorted the cash position as at 31 December, 2014.

The Management had sufficiently highlighted each of the above issues in the Provincial Administrator's Declaration with the assurance that it was going to take necessary measures where applicable in the future and I intend to satisfy myself of the adequacy of these measures in my subsequent audits.

Receipts and Payments

I am unable to verify the accuracy of the receipts and payments and subsequently the accuracy of the operating deficit of K67,630,224 in Statement 'B' and the related Statements 'J' and 'K' due to un-reconciled items reported under cash balances above. In addition, all receipts relating to both internal and national government grants had not been recorded in the PGAS and subsequently no disclosures had been made in Statements 'B' and 'J' respectively due to the Cash Office not be established as yet to perform the functions of collecting, receipting and banking of public monies, this subsequently limited the scope of audit.

Sources and Application of Funds

The statement showed a net decrease of K67,410,224 in the movement of cash as at 31 December, 2014. I was unable to confirm the accuracy and completeness of this balance due to material errors and inconsistencies noted under the paragraphs of receipts and payments and the cash balance which affected this Statement.

Investments

The Provincial Government did not report any Investments as at 31 December 2014. However, in 2013 it had budgeted for revenue of K1.5 million as dividend from the Petroleum Resource Kutubu which had not been received. In the absence of any related Investments Register, I am unable to establish the numbers and value of investments held by the Provincial Government and/or disposed.

Assets

The newly established Provincial Government had not maintained a Fixed Asset Register. In absence of a complete and up-dated assets register and annual stock takes, I am unable to confirm the value, existence and completeness of assets owned by the Hela Provincial Government as at 31 December, 2014. I had noted that assets purchased during the year totaling K2,138,359 and those purchased during the prior periods had not been recorded and maintained appropriately. Lack of proper maintenance of a fixed asset

register had resulted in a significant understatement of Appendix 4 that was unreliable and misleading.

Advances

Appendix 6 of the financial statements showed 'nil' un-acquitted advances as at 31 December, 2014. The Hela Provincial Government had not maintained an advance register and acquittal files. Consequently, I am unable to confirm the existence and the completeness of un-acquitted advances as at the year-end, and to ascertain whether advances paid had been properly monitored to ensure completeness in recording to the register, acquittals requirements complied with and remedial actions had been taken against those that failed to provide acquittal reports. A total of K951,169 was paid as advances during the year under review.

Provincial Executive Committee and Provincial Assembly

PEC Meeting Minutes and Resolutions were not provided for my examination. I noted that there had been no mandatory PEC meetings held during the year under 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 Hela Provincial Government for the year ended 31 December 2014.

Other Matters

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

- the Hela Provincial Government did not maintain proper accounts and records in breach of 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*.”

6.9.2.2 Control Environment - 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 November 2015. The letters contained similar issues, hence only the 2014 Management Letter is reproduced as follows:

Corporate Governance

The Hela Provincial Government had in place its three-year Corporate Plan (2014 to 2016) and five-year Integrated Development Plan (2013 to 2017). I noted however, that there were no reviews of set targets and priorities or the reports of monitoring and evaluation of the Plans. I was advised and had noted also that lack of competent staffing and a dispersed location of employees coupled with the absence of other associated plans had contributed much to the Provincial Government's lack of timely and effective monitoring, evaluation and review of the Plans. Consequently, I could not establish

whether the Provincial Government had achieved the goals and objectives of its Plans at least for the year under review.

The absence of the Internal Audit Unit also meant a lack of independent and objective assurance and review of the activities designed to add value and improve the Hela Provincial Government's operations through systematic and disciplined approach to evaluate and improve the effectiveness of risk management and governance processes.

Appropriation and Budgetary Management

The revised budget estimates have not been correctly posted to the relevant ledgers resulting in differences being noted between the revised budget totals and related expenditure and revenue ledgers totals. As such, there is a greater risk of lack of budgetary control and proper accountability of funds which may lead to unreliable and misleading information.

Analysis of the current appropriation and the actual expenditure against provincial revenue and national grants revealed that the Hela Provincial Government had an actual expenditure of K75,770,223 against the current budgeted estimate expenditure of K241,197,600 resulting in an under-expenditure of K165,427,377 as stated below. The material variance may have been due to adjustments done on the initial budget but not properly taken up in the appropriate ledgers. This has exposed the Provincial Government to the risk of lack of control over budgetary lapses.

Cash Management

Prudent cash management practices are essential to reflect the Hela Provincial Government's cash position at any given time and to enable prudent cash management decisions.

The Hela Provincial Government maintained two bank accounts namely, the Hela Provincial Government Operating Account and Hela Provincial 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 but were not identified and corrected resulting in the distortion of the accuracy of the cashbook and fund balances. Also almost all credits in bank statements were not appropriately taken up in the cash books and the related revenue ledgers resulting in the significant understatement of revenues and cash book balances throughout the year.

The non-establishment of revenue chart of accounts in which revenue codes are derived and charged against had greatly impacted the capturing of revenue into the PGAS system that resulted in negative balances in the cashbooks.

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:

- Hela Provincial 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;
- The Hela Provincial Government did not effectively collect and maintain proper records of both the national grants and internal revenue for the year. Evidence of check and balances were apparently non-existent and without proper records consequently, I was unable to ascertain whether all receipts appropriated have been received. There was a significant break down in the control of revenue management by the provincial government;
- The Provincial Government Accounting System (PGAS) for Hela PG was installed by the Provincial Treasury Office in October 2013, however, it had not created the revenue chart of accounts in the system for budgeted revenue activities to be fully implemented, recorded and accounted for. Consequently, and as noted in the earlier paragraphs, the inflow of revenue to the province was not captured in the respective revenue ledgers and subsequently reported; and
- Cash Office was not established as yet to perform the functions of collecting, receipting and banking of public monies. In addition, the Treasury Office to fully perform its mandated duties.

Procurement and Payment Procedures

Provincial Supply and Tenders Board

The Provincial Supply and Tenders Board did not function effectively during the year under review and consequently, procurements made during the year were not done economically and efficiently. The Instrument establishing the Provincial Supply and Tenders Board, 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.

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:

- Payment vouchers totaling K684,000 were not sighted as such I was unable to verify the validity of these payments;
- Eleven (11) payments totaling K2,220,600 were not supported with the adequate required documents such as progressive or completion reports and contract documents. As such I was unable to verify the validity of these payments;
- Financial Delegates' specimen signatures and instrument of appointment for the year 2014 were not provided to confirm financial ceilings and signatures of Section 32 Officers; and
- Various contractors and suppliers were awarded contracts and services during the year. My examination revealed no evidence to indicate that proper supervision, monitoring and reporting on projects by engineers was effective. I also noted that project scoping, documentation; progressive reports and completion reports were done by the contractors rather than the Provincial Engineers thus exposing the Provincial Government to a very high risk of fraudulent activities.

Grants and Subsidies

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

I noted however, that no proper monitoring guidelines were in place to monitor, control and obtain accountability reports from recipients of grants and subsidies from the Provincial Government for the year totaling K1,243,500 nor were there records to indicate that the Provincial Government had sought these reports.

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 Staff Establishment Register as at 22nd July 2015 recorded number of positions in the Hela Provincial Government as 627 comprised of 278 occupied and 339 vacant positions. I could not establish the accuracy and validity of these positions in the absence of any valid and approved organizational structure. Furthermore, there was no supporting documentation available to support the increase in the budget. As such, the evidence suggests that the HPG had initially under-budgeted the positions to be funded and had to provide a revised budget to cater for the difference;
- I was advised that the HRM Section was operating out of Port Moresby due to lack of a proper office space hence, most personal files were not available for verification at the time of audit in November, 2015. I was also informed that the HRM Section was currently, working in close consultation with Department of Personal Management on a third batch recruitment exercise submission for 300 staff to fill the vacant positions;
- Casual wages totaling over K1,298,693 could not be verified against the casual staff listings or personnel records due to non-availability of these records; and
- A payment relating to leave fares totaling K333,900 on *Cheque # 1951* was paid as Teacher's Leave Fares to Liberty Travel Ltd; however, payment voucher was not available for my examination.

Asset Management

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

The Hela Provincial Government did not properly maintain a comprehensive assets register to properly account for all assets purchased and/or disposed during the year under review. Consequently, assets purchased during the year totaling K2,138,349 have not been accounted for.

Advance Management

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

The Hela Provincial Government did not maintain a detailed advance register to record advances obtained during the year under review. Consequently, advances of K951,169 were neither registered nor acquitted at year end.

Trust Account Management

The 2014 non-bank trust fund balance of K44,505,738 was unreliable as there was inconsistency in ending and beginning balances rendering it to be incorrect.

Investments

This Financial Statements 'E' and 'F' relating to investments showed 'nil' disclosure and has been confirmed in audit that there was no record of investments during the year under review.

6.9.2.3 Management Response

The above observations on the financial statements and internal control weaknesses for the year 2014 had been communicated by way of a Management Letter to the then Acting Provincial Administrator of Hela Provincial Government 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.

6.9.2.4 Status of Financial Statements

At the time of preparation of this Report in July 2016 the Hela Provincial Government did not submit its Annual Financial Statements for the year ended 31 December, 2015 for my inspection and audit.

6.9.3 Tari Urban Local-level Government**6.9.3.1 Status of Financial Statements**

At the time of preparing this report in July 2016, the Tari Urban Local-Level Government had not submitted its financial statements for the years ended 31 December 2013, 2014 and 2015. Audit will be carried out when the financial statements are submitted.

6.9.4 Tari General Hospital Board**6.9.4.1 Status of Financial Statements**

At the time of preparing this report in July 2016, the Provincial Hospital had not submitted its financial statements for the years ended 31 December 2013, 2014 and 2015. Audit will be carried out when the financial statements are submitted.

6.10 JIWAKA PROVINCE

6.10.1 Introduction

The 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 Jiwaka Provincial Government will be audited every year, with or without financial statements. At the time of audit in October 2015, the new Jiwaka Province had yet to properly establish the Jiwaka Urban Local-level Government and the Provincial Health Authority.

6.10.2 Jiwaka Provincial Government

The Jiwaka Provincial Government submitted its financial statements for the financial year ending 31 December 2013. Fieldwork associated with audit of the accounts and records for 2013 to 2015 and certification of the 2013 financial statements were done with completed Management Letters issued. A Disclaimer Opinion Report on the 2013 audit was issued to the Ministers concerned. The paragraphs below detail the issues identified with the 2013 financial statements and the control environment. The control environment issues were similar for 2013, 2014 and 2015, hence only the 2015 issues are reproduced.

6.10.2.1 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 Jiwaka Provincial Government for the year ended 31 December 2013 was issued in May 2016. The report contained Disclaimer Audit Opinion and is reproduced as follows:

“Basis for Disclaimer Opinion

Presentation Error

Finance Instructions 4/2000 issued under Section 117 of the *Public Finances (Management) Act, 1995* state the prescribed format for the preparation and presentation of the financial statements for the Provincial Government and Local-Level Government. The signed statements by the Provincial Governor and the acting Provincial Administrator were made on the Provincial Government budget and the financial performances for the year. However, Statement ‘A’ of the financial statements of Jiwaka Provincial Government provided for my examination was not signed by the senior management (the acting Provincial Administrator and the Provincial Treasurer) as required; this constitutes a scope limitation and affects every statement of the financial statements.

Disclosure Error

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

Cash Balances

I am unable to express an opinion on the accuracy of the fund balance of K25,457,266 of the Jiwaka Provincial Government as at 31 December 2013 due to:

- The accuracy and completeness of the opening accumulated fund balance of K10,988,368 in note 3 of the financial statements could not be confirmed due to absence of records and source documents. This amount was the LLG grants recorded in the trust clearing ledger. Furthermore, the accounting treatment and disclosure of the opening revenue fund balance was noted to be incorrect and misleading due to 2013 being the first year of operation for Jiwaka Provincial Government; and
- I was unable to confirm the accuracy and completeness of the total bank balance of K25,457,266 due to substantial reconciling items remained uncleared in the bank reconciliation for the month of December 2013. In addition, cheque numbers 1, 2 and 5 for K164,550, K92,351 and K48,696 respectively that were manually raised were not taken up in the grant account cash book.

Receipts and Payments

I am unable to verify the accuracy and completeness of the receipts of K37,677,932 and payments of K23,209,034 and the subsequent surplus of K14,468,898 in Statement 'B' and the related Statements 'J' and 'K' due to the following:

- An estimate of K27,785,900 being salaries for public servants and teachers was included as actual revenue and expenditure in statement B. In the absence of underlying records such as the TMS 55 report from Department of Finance, I was unable to verify the actual grants allocated for these salaries. In addition, the TMS 55 was not reported in Statements 'J' and 'K';
- The grants received for LLG and others of K10,988,368 were not posted to the respective revenue heads. Consequently, were not reported in Statements 'B' and 'J' thus these statements being understated which subsequently affected statement 'A'; and
- There were material reconciling items identified in the bank reconciliation statements relating to receipts and expenditure that were not adjusted in the cashbook and the revenue and expenditure ledgers and disclosed in Statements 'J' and 'K'. Consequently, this has effects in statements 'B' and the cash balances reported in statement 'A'.

Sources and Application of Funds

I was unable to confirm the balances of K65,463,832 for revenue and K50,994,934 for expenditure disclosed in the statement of Sources and Application of funds due to a significant difference of K10,988,368 reported.

Assets

The newly established Provincial Government did not maintain a Fixed Asset Register. In absence of a complete and up-dated assets register and annual stock takes, I am unable to confirm the existence and the completeness of assets owned by the Jiwaka Provincial Government. I noted that assets purchased during the year totaling K1,349,311 and those purchased during the transition period were not recorded and maintained appropriately. Lack of proper maintenance of a fixed asset register has resulted in a significant understatement of Appendix 4 that is unreliable and misleading.

Advances

Report on Outstanding Advances had nil balances as at 31 December, 2013. The Jiwaka Provincial Government did not maintain an advance register and acquittal files.

Consequently, I am unable to:

- confirm the existence and the completeness of un-acquitted advances at as the year end; and
- ascertain whether advances paid were properly monitored to ensure completeness in recording to the register, acquittals requirements were complied with and remedial actions were taken against those failing to provide acquittal reports.

Disclaimer Audit Opinion

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

Other Matters

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

- the Jiwaka 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 Jiwaka Provincial Government did not have a five (5) year corporate plan and has consequently breached the *Public Service General Order No. 8.11.*”

6.10.2.2 Control Environment - 2015

The Management Letters relating to the audit of the control environment for the years ended 31 December 2013, 2014 and 2015 were issued in November 2015 and June 2016 respectively. The letters contained similar issues hence; only the 2015 issues are reproduced as follows.

Corporate Governance

Provincial Government Corporate Plan

The Jiwaka Provincial Administration had a Revised Corporate Plan (2014-2017) which focused on the governance and organizational capacity of the Provincial Administration, Districts, LLG's and Wards to deliver the development plans linked to the National Medium Term Development Strategy. I noted the following control weaknesses on the Corporate Plan:

- 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 organization, economic and regulatory environment;

- There was lack of communication between the Provincial Government and Urban Local-Level Government management in discussing major issues and changes that had significant effect on the organization;
- Adequate process of performing periodic revenue reviews to identify major factors affecting internal revenue collections was lacking;
- Management failed to demonstrate a commitment to providing sufficient accounting, financial and IT personnel to keep pace with the growth and changing working environment of the organization;
- There was no evidence sighted to suggest that management gave appropriate attention to internal controls, including regularly educating and communicating the importance of internal controls to employees;
- There were no linkage between the annual budget or a periodic budget for the duration of the corporate plan, performance reviews and management indicators which should include performance measurement of employees against set task which would enable the achievement of the key result areas; and
- There was no annual performance report by the Provincial Administrator on the progress of the achievements of the corporate plan.

Internal Audit

Internal Audit Unit existed within the Jiwaka Provincial Government Administration and was noted to be fully functioning during the time of audit. A review of its operations indicated that there was evidence of various audits carried out by the Internal Audit Unit however the Internal Audit Unit was not fully supported and utilized in terms of adequate funding and effectively using this unit as a management tool in the management process.

Provincial Executive Council (PEC) and Assembly Minutes

Minutes of the PEC and Assembly meetings held during the year under review were not furnished although requested for 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 verified.

Appropriation and Budget Management

My review on the budgetary control practices observed by the Provincial Government during the year 2015 revealed the following matters:

- The JPG Budget document provided did not contain the enactment of the Appropriation passed by the Provincial Assembly together with its certification authorizing expenditure estimated and revenue anticipated to be collected during 2015. As such audit cannot ascertain whether revenues raised and expenditure incurred for the year had legal authority;
- Finance Ministers approval and endorsement of the provincial government budget together with the Governors and the Provincial Administrators message were not enclosed; and
- The assembly meeting minute relating to the passing of the 2015 appropriation for enactment was not provided to audit.

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. My review of the cash book revealed the following weaknesses:

- The cashbook for the Provincial Government Grant Account for 31 December, 2014 was not submitted to confirm the opening balances of 01 January, 2015. I also noted that the cashbook maintained through the PGAS commenced in May 2015 and not January. As such, the transactions prior to May 2015 could not be verified and consequently, the reconciled cashbook overdrawn balance of K684,350 as at 31 December, 2015 could not be confirmed;
- The Provincial Government Operating Account (PGOA) bank reconciliation statement showed a closing bank balance of K18,391 and reconciled overdrawn cash book balance of (K171, 361) as at 31 December 2014. All 2015 financial records for the PGOA maintained in the PGAS including cash book could not be retrieved. In the absence of these records my examination of the PGOA was impossible and consequently the reconciled cash balance established as at 31 December, 2015 could not be confirmed as correct; and
- Unpresented cheques were not made available. As such further checks for presentation of cheques in the subsequent month could not be done. Also, carried forward from the 2014 list of unpresented cheques back dated to 2013 could not be established for clearance during the year.

Revenue Management

My review of the revenue management process observed by the JPG during the year under review identified the following issues:

- The PGAS downloads for the Provincial Government Operating Account could not be retrieved from the system due to a system default which was experienced at the time of audit. However, documentation of correspondence and other sources of evidence were not sighted to confirm that such defaults existed;
- I also noted that there was no proper management of the source documents in regards to the national government grants, other funds received and the transfers made during the year. The source documents such as Cash Fund Certificates, receipts of internal revenue collection and grants were not properly compiled and kept and that most of the documents were not in the file or missing. In the absence of such records, I could not ascertain whether all receipts or fees collected were properly collected and accounted for; and
- The duties of the officers responsible for revenue collection, monitoring, reviewing and reporting were not properly defined. No such formal document was furnished for my examination when requested. Consequently, I could not ascertain whether all revenues collected were brought to account and were appropriately verified and confirmed by designated officers.

Procurement Management 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:

Provincial Supply and Tenders Board

- The Instrument establishing the Provincial Supply and Tenders Board (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 Inexpediency (COI) issued were not provided for my examination. Consequently, I was of the view that the PSTB may not have existed or not functioning, thus exposes the risk that procurements made during the year were not done economically, transparently and efficiently which facilitate abuse, irregular and corrupt practices that may have occurred; and
- 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 reports, progressive reports and completion reports for each of the projects awarded to various contractors.

Procurement Procedures and Payments

- I was not provided with complete PGAS downloads for the Jiwaka Provincial Government Operating Account for expenditure and revenue analysis. As such there was a limitation on the scope in relation to examination of paid accounts for expenditures incurred under the operating account;
- Three (3) quotes are the necessary proof to show that the goods or services being paid for are derived at the best possible market price and is required by the Public Finance (*Management*) Act. I noted that three (3) quotes were not obtained for all the payments made to suppliers of goods and services and is in breach of the *PFMA*;
- There seemed to be breakdown in controls in the confirmation of goods upon receipt. There were no receipts attached for vehicle hires, accommodation and purchase of goods and services. On the other hand, delivery notes or dockets were not utilized as genuine proof of accuracy in the specifications as per the order made;
- Instances of reimbursements of personal expenses totaling K140,226 were approved for payment. I noted that prior approval of commitments made, written request from the divisional heads, receipts of payment made and official receipt of moneys received were not provided in support of the genuineness of the claim made. Further, individuals to spending large amounts of personnel monies on Government's operations may have exposed the Provincial Government to fraud, misappropriation of funds and other irregular practices during the year;
- I noted instances of payments for private hire vehicles totaling K1,007,839 during the year. Numerous payments for hire cars were not supported with three written quotations and also no invoices or official receipts were sighted in many instances. As such, I was not able to ensure that the use of the vehicles were for official purposes;
- 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 controls mechanism in place to ensure that all request for private hires were submitted to the appropriate administration authority for approval prior to engagements;
- There were many outstanding payments on vehicle hires indicating credit arrangement with suppliers, however there was no evidence of records such as reconciliation on how much was paid and how much remained outstanding; and

- I noted instances where expenditure for grants and subsidies and financial assistance totaling K1,188,787 were paid during the year to schools and district health services. In the absence of accountability reports or acquittals, I was unable to ensure that these payments were expended on the intended purpose. There was no evidence of an administrative guideline in place to ensure these recipients report back to the paying authority as a control measure for management and accountability purposes.

Assets Management

An asset register was not maintained by the Jiwaka Provincial Government. Assets totaling K1,651,929 including motor vehicles were purchased during the year however; in the absence of a comprehensive assets register, I could not verify the completeness and existence of these assets. Other control weaknesses are stated below;

- The Jiwaka Provincial Government had an extensive portfolio of fixed assets that needed to be properly managed and safeguarded against theft, fire or vandalism through appointment of custodians, taking insurance and proper maintenance of assets register and related records. I noted that there were no controls established by the provincial Government to safeguard these assets;
- There was no evidence provided to suggest that there was any physical stock take of assets undertaken during the year. A comprehensive stock take should be undertaken to ensure physical existence and condition of all fixed assets owned; and
- There was no updated provincial vehicle fleet register maintained by the Provincial Government nor was a proper disposal register of Provincial Government vehicles maintained by the Provincial Transport Office.

Advances Management

The Jiwaka Provincial Government did not maintain a complete advance register. Hence, I was unable to ascertain whether advances paid were properly monitored to ensure completeness in recording to the register, acquittals requirements were complied with and remedial actions were taken against those failing to provide acquittal reports.

Capital Works and Maintenance

The Public Financial Management Act provides for the purchasing procedures for purchases of goods, services and disposal of assets and provides for the establishment of a Provincial Supply and Tenders Board (PSTB) for the Provincial Government to control and regulate the purchasing procedures. My examination of records and accounts relating to Capital Works and Maintenance Program revealed the following matters:

- The Provincial Supply and Tenders Board may not have existed or if existed did not effectively function as there was no evidence to suggest its existence, thus exposing the risk that procurements made during the year were not done in compliance with procurement procedure requirements and could facilitate abuse and other irregular practices; and
- Contract engagement documents for minor and major contracts engaged, progressive and inspection reports for project assessment were not furnished for my examination.

Human Resources Management

Effective Human Resources Management is essential to improvement service delivery. Competent and highly motivated personnel can perform their duties diligently and

provide quality service. My review of the Human Resources Management Policy and related controls revealed the following:

- The staff establishments register for all employees were not provided for audit examination and as such, I was unable to establish the staff on strength, required establishment, vacant positions, unattached and other vital information;
- The JPG PGAS records indicated that wages were paid to various employees totaling K339,271, however, in the absence of documentation I could not ascertain whether procedures applied in recruitment and staffing establishing the provincial administration adhered to standardized procedural requirements;
- Without a staff establishment register, I was unable to establish an official list of all the unattached officers within the provincial government. Further, vacant position listing had not been provided even though a formal request was made on a letter dated 18th April, 2016; and
- There was no approved casual listing and as such, I could not ascertain the hiring of casuals, the rate of hire and whether some casuals were entitled for superannuation benefits.

6.10.2.3 Management Responses

The above observations on the internal control weaknesses had been communicated by way of interim management letters for 2014 and 2015 to the Provincial Administrator and management together with implications and recommendations for improvements. I have however, not received the responses to the interim Management Letter for 2014 and 2015 as at the time of preparing this Report in July, 2016.

However, the management letter for 2013 was responded to by the management acknowledging the issues identified and informed that management was taking appropriate remedial actions to improve.

6.10.2.4 Status of Financial Statements

At the time of preparation of this Report in July 2016, the Jiwaka Provincial Government did not submit its Annual Financial Statements for the years ended 31 December, 2014 and 2015 for my inspection and audit.

6.10.3 Jiwaka Urban Local-level Government

6.10.3.1 Status of Financial Statements

The new Jiwaka Province is yet to properly establish the Jiwaka Urban Local-level Government. When the Jiwaka Urban Local-level Government is properly established, it will be required to prepare annual financial statements and submitted to my Office for audit.

6.10.4 Jiwaka General Hospital Board

6.10.4.1 Status of Financial Statements

The new Jiwaka Province is yet to properly establish a Provincial Hospital Board. When the Provincial Hospital Board is properly established and financially operational, it will be required to prepare annual financial statements and submit to my Office for audit.

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 Comments on Financial Statements - 2014

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 with the Management Letter and audit report issued.

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 Provincial Government for the year ended 31 December 2014 was issued in 2016. The report contained Disclaimer Audit Opinion and is reproduced as follows:

“Basis for Disclaimer Opinion

1.0 Financial Statements

Cash balances

I am unable to express an opinion on the accuracy of the cash at bank balances and consequently, on the financial position of the Madang Provincial Government as at 31 December 2014 due to the following reasons:

- There was limitation of scope arising from disclaimed audit opinion in the prior year. Remedial adjustments taken to correct the account balances had not been provided for my examination. In addition, the operating surplus for the current year was materially misstated as discussed under the paragraph of Receipts and Payments for 2014. Consequently, I could not confirm the accuracy of the accumulated fund balance of K20,442,101;
- In absence of accounting books and records pertaining to trust accounts I was unable to confirm their existence and subsequently the accumulated Trust Fund Balance at the end;
- Substantial reconciling items of revenue and expenditure appearing in the bank reconciliation statements not being adjusted in the cash books and the subsequent revenues and expenditures in Statements ‘B’, ‘J’ and ‘K’. Consequently, distorts the cash position as at 31 December, 2014.

Receipts and Payments

I am unable to verify the accuracy of the receipts and payments and subsequently the accuracy of the net surplus of K6,575,188 as at 31 December, 2014 due to:

- In absence of the underlying records pertaining to the TMS 55 report on Staffing and Teacher's salaries grants of K76,013,000 disclosed in statements 'B', 'J' and 'K' I was not able to verify the disclosure.
- Budgetary Allocations totaling K86,500,000 relating to PSIP Funds of K27,000,000, DSIP Funds of K50,000,000 and LLGSIP Funds of K9,500,000 although budgeted under the Provincial Government annual appropriation were remitted directly to the respective Provincial Treasury Operating Account, District Operating Accounts and Local Level Government Operating Accounts and as such were not captured in books of account of the Provincial Government.

Investments

The Provincial Government reported investment in Madang Development Corporation of K500,000 as at 31 December 2014. In absence of investment register, share certificates or documentation available to indicate whether the investment was disposed, I was unable to ascertain the value of the investments held.

Advances

The management of advance was lacking in that register was not adequately maintained or updated. There was no evidence of enforcements to ensure acquittals of advances were made. Consequently, advance totaling K1, 864,859 reported in Appendix 6 remained un-acquitted as at 31 December, 2014.

2.0 Significant Control Weaknesses

Significant control weaknesses identified in the Provincial Government's records and processes were as follows:

- The Provincial Government did not maintain proper computerized data basis for the collection of revenue from the major internal revenue sources such as Goods and Services Tax (GST), Liquor Licensing Fees and Motor Traffic Registration Fees. Evidence of checks and balances were apparently non-existent. Segregation of duties being the key element of control was not being exercised. Staff were performing overlapping tasks in cash collection, receipting, recording and paying;
- The Provincial Government had provided grants and financial assistance to various entities during the year had no indication of accountability and financial reports furnished;
- Personal monies reimbursements by individuals lack proper receipts or relevant documents in support of claims made;
- Accountable Forms were not properly safe guarded which had resulted in two Blank Government cheques were manually drawn without authority and approval for payments totaling K35,191;
- A significant expenditure of more than K15 million was incurred on the Capital works and maintenance programs during the year. I noted that the Provincial Government's Provincial Supply & Tenders Board and its Works Division did not ensure proper tendering processes in engaging contractors for major projects. In addition the PSTB Technical and Evaluation Committee evaluation

and analytical reports were not sighted to ascertain proper evaluation and recommendations made to the Board. Also pre-qualification list of local contractor was lacking. Key principles embodied in good contract implementation specifically Accountability and Responsibility, Timeliness, Knowledge of Contract Administration and Contract Documents, and Good Documentation could not be ascertained;

- Controls were lacking over the management of assets, including inability to conduct proper periodical stock take and imposing protective measures to protecting the assets from misuse, theft, fire and other natural causes; and
- Minutes of Provincial Executive Committee and Provincial Assembly Meetings held were not made available for my examination.

Disclaimer Audit Opinion

Because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and accordingly I am unable to express an opinion on the financial statements of Madang Provincial Government for the year ended 31 December, 2014.

Other Matters

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

- The Madang Provincial Government did not maintain proper accounts and records and consequently in breached Section 68(1) of the *Public Finances (Management) Act, 1995*; and
- the receipts and payments and investments of moneys and the acquisition and disposal of assets during the fiscal 2014 have not been in accordance with the *Public Finances (Management) Act, 1995* and *Organic Law on Provincial Governments and Local-Level Governments*

6.11.2.2 Control Environment - 2015

The issues identified with the control environment for the 2014 and 2015 financial years were generally common in nature, hence the 2015 issues are produced below.

Corporate Governance

Although requested, the Corporate Plan was not made available and I could not fully ascertain whether a new corporate plan was created since the last one expired in 2012. It appeared that the only form of plan that was followed by the province was the Kalibobo 2020 and MIDP 2016.

Due to insufficient information provided on the existence of a corporate plan, I was unable to determine whether Corporate Governance existed and management applied good practices in running the entity. I observed the following internal control issues:

- 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 organization, economic and regulatory environment;

- 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 organization;
- There was no evidence to suggest that management gives appropriate attention to internal controls, including regularly educating and communicating the importance of internal controls to employees; and
- The Internal Audit Unit of the province was not fully utilized to report on core issues affecting the province. If any, investigation or special audit reports compiled were not furnished.

Appropriation and Budget Management

I observed the following discrepancies regarding the appropriation and budget management:

- Budgetary performance during the year under review was noted to be very poor when comparing actual revenue receipts totaling K51,323,634 against budgeted appropriations totaling K303,466,000 and as such limiting total actual expenditure to K50,173,718;
- Inconsistency and incompleteness in recording the revenue and expenditure transactions of appropriated funds not receipted and spent from the two main provincial government operating accounts which includes PSIP funds, DSIP Funds LLG SIP funds; and Public Servants and Teacher Services Salaries; and
- Budgetary reviews were not done to revise the original appropriation in line with actual appropriations received and spent by the provincial government during the year under review.

Cash Management

The Provincial Government operates two bank accounts, the Madang Provincial Government main operating account and Madang Provincial Government Grant Account. My examination of the cash books, bank reconciliation statements and other related records revealed that reconciling item identified through the monthly bank reconciliation were not promptly cleared, thus resulting to accumulation outstanding items brought forwarded from previous years.

- a) The December 2015 bank reconciliation statement compiled for the Provincial Government Operating account reported the following outstanding reconciling items:
 - Under Banking of K5,898 shown under *Schedule # 4* of the bank reconciliation statement relates to an under banking in 2007 which remained outstanding as at 31 December 2015. I noted from the Provincial Treasurer's report that a surcharge has been prepared for the MPG Collector (Mr. Tony Daton) for the above under banking however, could not confirm if the surcharge has been actually served to the Collector of Public Monies;
 - Debits in Bank Statement not in Cash Book totaling K466,715 as shown under *Schedule #6* of the bank reconciliation statement includes a court order

payment of K460,257 effected by the bank in 2015. The matter is now before the MPG lawyers for appropriate action; and

- The unpresented cheques totaling K1,834,590 as shown under schedule 8 of the bank reconciliation includes stale cheques amounting K25,732 for 2014 financial year. It was noted that these stale cheques have not been identified, cancelled and written off with prior approval from authorities.
- b) The December 2015 Bank Reconciliation Statement compiled for MPG Grant Account reported significant amounts of outstanding items not promptly cleared from the bank reconciliation statements which included:
- The unpresented cheques totaling K6,133,041 as shown under schedule 8 of the bank reconciliation includes stale cheques amounting K310,400 for 2014 financial year. It was noted that these stale cheques have not been identified, cancelled and written off with prior approval from authorities

Revenue Management

Revenue sources of the Provincial Government mainly are budgetary allocations of national grants appropriations and internal revenue collections. The following matters were noted:

- Grants totaling K36,164,600 was recorded in the revenue ledgers as against annual estimates of K285,651,400 resulting in revenue shortfall by K249,486,800. The shortfall mainly was due to non-recording of 2014 rollover funds and budgeted allocations not remitted and spent from the Provincial Government Grant Account;
- In regard to tender fees collections, it could not be independently verified if proper identification and valuation of motor vehicles were done before disposal. There was no indication of an authorized Board of Survey (BOS) being engaged to vet the values of the motor vehicles by taking into account the asset management policy of the Government; and
- Regarding rental fees collection, no approved property listing was provided to identify properties belonging to MPG and whether tenants were current staffs of MPG and were actively paying rent. Also no evidence was sighted to suggest that rates applied in charging rent have been reviewed to take into account the value of the properties, land rates and other rates.

Procurement Procedures and Paid Accounts

My review of the procedures involved with the procurement processes and examination of expenditure records including the cash books, expenditure ledgers, paid vouchers and other related records resulted in the following observations:

Procedural deficiencies

- Non-maintenance of accounting records such as FF3 register, claims register, verbal & written quotation registers, centralized assets and advances registers;
- Significant volume of expenditure transactions charged to inappropriate vote items and also there were numerous instances of unbudgeted commitment paid from the 2014 appropriation;

- Instances of claims not thoroughly examined and certified and also there were numerous instances of payments which lacked proper and appropriate supporting documentations in justification of claims; and
- ILPOC's were frequently used in processing claims without the FF3 forms.

Excessive Expenditure on Vehicle Hires

As mention in my previous years reports, expenditure on private vehicle hire and associate cost on fuel and maintenance continued to be an excessive expenditure item to the Provincial Government. There appeared to be no control over the hiring of vehicles and in most instances the genuiness and economical purpose of hire could not be determined due to lack of supporting documents or claims paid were for services already rendered and as such there were no deliberation on the purpose of hire, number of days hired, rate charge and approval obtained from the appropriate authority. It was not understood why so much money was spent on private vehicle hire within the province when the Provincial Government has a motor vehicle fleet in operation.

Financial Assistance

Payments of financial assistance totaling K1,537,414 were incurred during the year. I observed that approval of request for assistance was based on discretionary powers rather than adopting a set process through engagement of a committee to deliberate on request for financial assistance.

Grants & Transfers to Public Authorities

Grants and Transfers to Public Authorities totaling K1,270,000 were paid during the year. Funds released in this manner were based on budgetary allocations appropriated to the respective Public Authorities.

With the exception of grants paid to the LLGs, there was no accountability report shown for funds paid to public authorities neither were there any evidence sighted to suggest that a systematic monitoring process existed and functioning effectively to ensuring that funds paid in this manner are appropriately used for purposes intended.

Reimbursement of Personal Expenses

Reimbursement of personal expenses totaling K706,888 was incurred on behalf of the Provincial Government. I was of the view that regardless of whatever circumstances resulting to incurring personal expenses or completeness in submission of relevant supporting documents, there is always the risk that actual expenses could be overstated, possible collaboration with service providers to raise invoices for services that were never provided and submission of false documents. It is therefore recommended that reimbursement of personal expenses should be restricted to acceptable circumstances only with prior approval from appropriate authority.

Payments for Food and Beverages in Restaurants

The incurring of costs for hosting lunch, dinner and refreshments, although reported in the previous year's audit reports has continued to occur. The total cost incurred during the year amounted to K338,180. An analysis revealed that whenever there was a meeting or gathering held by the Provincial Government payments are made to Eden Restaurant, Hong Bao Restaurant, Jais Aben Resort and Ocean Restaurant. Such high spending on lavish lunch and dinners was considered as total waste of public funds that were

supposed to be spent on vital services required by vast majority of people in the province.

Claim paid to Richard Kelola- Cheque # 132422

A payment of K126,000 made to a Mr. Kelola for Police officers engaged on Law and Order Operations. I noted that the payment was not certified and examined for validity and approval from Provincial Administrator was not sighted and lack appropriate supporting documentation such as list of officers engaged and approval from the Provincial Police Commander.

Further investigation into the payment noted that the officers at the Provincial Treasury were pressured by the police for this claim to be paid. Though the service was provided to enforce Law and Order in the province, there was no proper protocol followed for the claim to be paid. An investigation should have been carried out alongside police internal affairs to verify the legitimacy of the claim and whether officers engaged have benefited.

Claim paid to Fortune Investments Limited-Cheque # 130810

A payment of K208,000 was made to Fortune Investment Limited to repay the money that was lent to a number of officers from the Madang Provincial Government to assist with administrative responsibilities. Borrowing from a third (3rd) party will be detrimental to the operations of the provincial government as it operates on cash basis and pays clients as when funds are available and may affect other priority areas of the Madang Provincial Government due to liability incurred with interest. The practice is very risky and must not be entertained.

Claim paid to Nancy Magautu-Cheque # 137160

A payment of K101,600 was paid to a Nancy Magautu being allowances for the officers who carried out road blocks and Liquor License operation from the month of December to January in 2015. The payment lacked vital information like certified listing of officers engaged, time sheet and on and off hours of each of those officers. The manner in which the payment was made to an individual exposes great risk to moneys not being paid to the officers concern.

Capital Works and Maintenance

Expenditure transaction inspected by the audit noted a sum of K7,394, 968 was paid to a number of Contractors and individuals for the purpose of Capital Works and Maintenance programs. Expenditures were mostly towards constructions, renovations and maintenance of buildings and roads within the province. I noted the following matters:

- Contract agreements for some identified projects were not available, even though, it was requested;
- Completed projects did not have a certificate of completion to certify that work has been fulfilled according to contract agreements and is completed;
- Projects in progress did not have a progressive report to show stages of completion and how much still owed as stipulated in the contract agreement; and
- There were some projects that were not endorsed by PSTB but were implemented along with PSTB endorsed projects. Also, these projects were above K500,000 in

value that requires an Authority to Pre-Commit (APC). There were no indications that an APCs were issued for these projects.

Salaries and Wages

My examination of records maintained and a review of the processes involved with the payment of salaries and allowances for the year ended 31 December 2015, revealed the following matters:

- Since 2013, fortnightly payroll printouts or even soft copies were not disbursed to the provincial government, although, numerous request were made from payroll office. Without the payroll, payroll reconciliation was not done on a quarterly basis as required. In contrary, threshold report (lump sum fortnightly payments) from DPM was forwarded to payroll office which was used to confirm against fortnightly batches prepared by payroll office before submission to DPM for final payout;
- In 2012, a DPM Circular was issued to cease the recruitment of casuals and allow all current casuals to be transferred to the Alesco Payroll System, and create positions in the province to accommodate them and do away with Item 112 or Casual Wages. However, there were twelve (12) staffs paid as casuals that could not be taken onboard into Alesco because DPM Circular 15 of 2015 which indefinitely ceases all new recruitment into the Public Service; and
- Employment contracts for all contract positions were drafted and signed between Madang Provincial Administration and the respective officers were without the Department of Personal Management's Review. Although such powers of drafting employment contracts had been delegated, no proper consultation with DPM was done to ensure certain clauses were properly reviewed for compliance with Standard Public Service Terms and Conditions of Employment.

Assets Management

There was no assurance that the management has implemented good asset management practices or that the management maintained proper records of assets, purchases and disposals. The Provincial Government has an extensive portfolio of fixed assets that has not been effectively managed nor appropriately safeguarded against theft, fire or vandalism through appointment of custodians, or taking insurance.

Advances Management

It was noted that a total payment of K2,540,825 was paid as cash advance, salary advance and travel allowance during the year.

Without an updated advance register I could not ascertain whether acquittal had been made during the year. Furthermore, at the time of audit (April-May, 2016) the advance register was not yet finalized to use as a source for the financial statement presentation. As such, I could not confirm the number of un-acquitted advances accumulated during the year and previous years combined.

6.11.2.3 Management Response

The above observations on the internal control weaknesses for 2015 had been communicated by way of a Management Letter to the management 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 2016.

6.11.2.4 Status of Financial Statements

The Madang Provincial Government did not submit its financial statements for the year ended 31 December 2015. However, the interim audit on the control environment had been completed in the absence of the financial statements and Management Letter issued as stated above and awaiting response from the client.

At the time of preparing this Report in July 2016, Madang Provincial Government had not submitted its financial statements for the year ended 31 December 2015 for my inspection and audit.

6.11.3 Madang Urban Local-Level Government

6.11.3.1 Status of Financial Statements

At the time of preparing this Report in July 2016, the Madang Urban Local-Level Government had not submitted its financial statements for the years ended 31 December 2011 to 2015 (5 years) for my inspection and audit.

6.11.4 Modilon General Hospital Board

6.11.4.1 Status of Financial Statements

At the time of preparing this Report in July 2016, the Modlion General Hospital Board had not submitted its financial statements for the years ended 31 December 2013, 2014 and 2015 for my inspection and audit.

6.11.5 Business Arms

Section 16 (2) (f) of the *Audit Act 1989* provides for and extends my functions to audit the accounts and records of the Provincial Government and Local-Level Government Business Arms and other establishments.

I am aware that Madang Provincial Government had a number of business arms including Madang Development Corporation. Records pertaining to these investments were not made available for my examination and as such I was unable to comment on the operations and financial results of these entities.

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

The Manus Provincial Government submitted its financial statements for the year ending 31 December 2014. The field work associated with the audit of the financial statements and the accounts and records were completed with the Management Letter issued followed by a Disclaimer Audit Opinion report issued to the Ministers concerned. The paragraphs below detail issues identified with the financial statements and the internal control environment.

6.12.2.1 Comments on Financial Statements-2014

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

“Basis for Disclaimer Opinion

Presentation Errors

- The financial statements for 2014 did not comply with the format prescribed by Finance Instruction 4/2000 in that the Provincial Governor and Provincial Administrator’s statements on the Provincial Governments budget performance and financial performance were not included.
- Financial statements provided for my review were noted as draft hence were not signed and certified by the Provincial Administrator and the Provincial Treasurer to authenticate the report as legal document representing true and fair view of financial affairs of the Manus Provincial Government during the year. Consequently, I am unable to express an opinion on the accuracy and completeness of the financial statements.

Disclosure Errors

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

Cash Balances

Statement ‘A’ showed K10,679,013 as Provincial account balance as at 31 December, 2014. I was unable to ascertain the accuracy of this account balance in this statement due to the following reasons:

- The closing cash balances disclosed in this Statement representing the Manus Provincial Government Operating account of K3,439,074, Manus Provincial Government Grant account of K3,036,859 (overdrawn) and Lorengau Market Trust account balance of K2,569 were inaccurate and their total did not agree to the Provincial account balance in this statement;
- The accumulated opening revenue fund balance of K9,364,384 used in Note 3 computations contains inherited errors brought forward from prior years. Further, the Provincial Revenue Fund of K8,380,436 could not be confirmed as correct due to errors and material misstatement of operating deficit as discussed under the paragraphs on receipts and payments for the year ended 31 December, 2014;
- Note 6 to the Statement which is required to show the reconciled closing bank and cash balances representing the Provincial account balances at year end in Statement 'A' was incomplete and incorrectly showed the closing bank balance of the Manus Provincial Government Grant account as K6,110,368. Further, the amount of K6,110,368 was incorrectly stated in the amount of 'thousands' instead of the original amounts;
- The Lorengau Market Trust account balance of K2,569 which is included as a closing cash balance at year end representing the Provincial account balance is not supported by actual cash balance held in bank account as this account is dormant and should have been closed; and
- There were material reconciling items identified in the bank reconciliation statements of the Manus Provincial Government Operating account and Manus Provincial Government Grant account relating to receipts and expenditure that were not adjusted in the cashbooks and respective revenue and expenditure ledgers and disclosed in Statements 'J' and 'K' which also affected the bank and cashbook balances at year end.

Receipts and Payments for 2014

Statement 'B' disclosed total revenue and expenditure as K26,871,145 and K27,855,093 respectively with an operating deficit of K983,948. I was unable to confirm the accuracy of the revenue and expenditure figures and therefore, the correctness of the operating deficit as at 31 December, 2014 due to the following reasons:

- The total revenue of K26,871,145 included adjustments of stale cheques totaling K6,244 written back to the cashbook and treated as Health - Former Years receipts. 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;
- I noted the actual receipts and expenditure on Public Servants Staffing Grants and Teaching Services Commission - Teachers' Salaries were not taken up in the respective revenue and expenditure ledgers and disclosed in Statements 'J' and 'K' respectively. Further, in the absence of the independent confirmation by Department of Finance, I was unable to ascertain the overall total actual receipts and expenditures incurred on Public Servants and Teachers' Salaries compared against the projected estimates of K12,394,400 and K14,057,300 respectively at year end; and
- Material reconciling items pertaining to receipts and expenditures were not adjusted in the cashbooks and posted to the appropriate revenue and expenditure ledgers.

Trust Accounts

Statement 'C' showed the Provincial Government operated sixteen (16) non-bank trust accounts with accumulated opening balance of K18,640,094, receipts and payments of K10,691,867 and K27,033,385 respectively and a net closing balance of K2,298,576 as at 31 December, 2014. As stated in previous years audit reports, I was not provided evidence of Trust Instruments and other related documents to ascertain legality, validity and the appropriateness of the transactions effected through these trust accounts during the year and therefore may be illegally in operation.

Investments

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

- The Manus Provincial Government held at face value investments of K198,970 in four (4) companies namely; Bougainville Copper Limited (K348), Lorengau Hotel Limited (K160,000), Kei Beseu Kampani (K522) and Manus Marine Resources (K38,100) at a total cost of K71,258 as at 31 December, 2014. I observed the face value and costs of investments disclosed in Statement 'F' were incorrectly presented in amounts of 'thousands' instead of the original amounts thereby, resulting in material misstatement of value and costs of investments held by the Provincial Government as at 31 December, 2014;
- Apart from Lorengau Hotel Limited and Kei Beseu Kampani, the share certificates in respect of investments held with Bougainville Copper Limited and Manus Marine Resources were not made available for my review;
- As stated in my previous years audit reports, the Provincial Government had also invested funds in the form of capital contributions towards the establishment and operations of other entities namely; Manus Provincial Shipping Authority, Manus Fishing Corporation, Manus Savings and Loans Society and National Gas Corporation. The values of capital contributions invested by the Provincial Government in these entities were not disclosed in the financial statements. In the absence of 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 balances at year end; and
- The Manus Provincial Government had accounted for and recorded receipts of K10,440 in dividends from Kei Beseu Kampani. Though the dividends were adequately reported in the relevant statement, the details including the principle investment with the company were not disclosed in Statement 'F'.

Assets Management

The fixed assets register maintained lacked complete and accurate information on all fixed assets such as land, buildings, plant and machinery, office equipment, etc that were purchased, donated or transferred from prior years up to the current year held under the custody of the Manus Provincial Government. The assets register provided for my review had records of fixed assets purchased in 2014 with several assets purchased in 2012 and 2013 but without the details including purchase date, costs, custodian/location, etc. Due to inadequate maintenance of the assets register, purchases during the year worth K1,010,509 could not be verified as recorded in the asset registers. Consequently, I was unable to verify the accuracy and completeness of the reported closing cost of assets of K2,378,057.

Advances Management

Appendix 6 to the financial statements was not updated. My review of the PGAS outstanding advances reports revealed numerous payments of camping and travelling allowances and cash advances totaling K588,674 dated back to 2004 were not acquitted as at 31 December, 2014. Further, review of the expenditure ledger reports revealed payments of cash advances to officers during the year totaling K526,754 had not been captured in the PGAS advances register. Consequently, I was unable to confirm the accuracy and completeness of total un-acquitted advances disclosed in the Appendix to the financial statement.

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 Manus Provincial Government for the year ended 31 December, 2014.

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:

- Manus 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.*”

6.12.2.2 Control Environment - 2014

The Management Letter relating to the audit of the accounts and records for the year ended 31 December 2014 was issued in August 2015. The Letters contained control weaknesses as stated below:

Budgetary Control

- My review of the postings of the appropriations presented as Current Appropriation in the expenditure ledger reports revealed that the provincial government had over budgeted its internal revenues (Division 714) and grants (Division 286) by K163,500 and K202,300 respectively against its approved revised appropriations for 2014 financial year of K19,050,500 and K77,788,700 respectively. I was not provided explanations or reasons for the variances; and
- I was not provided sufficient evidence to confirm whether the Provincial Executive Council had sanctioned the diversion of funds appropriated under various votes totaling K399,386 intended for rehabilitation of the Lorengau Hospital and to administer and implement programs not implemented in the previous years.

Procurement and Payment Procedures

My review of procurement and payment procedures on sampled payments had revealed the number of internal controls weaknesses including the following:

- Lack of adequate and proper maintenance of Provincial Supply and Tenders Board Meeting Minutes, Tenders Register and other relevant records relating to project descriptions, documentations and tender evaluations. Consequently, I was unable to assess the efficiency and effectiveness of the Provincial Supply and Tenders Board in awarding contracts for and on behalf of the Provincial Government;
- The Provincial Supply and Tenders Board had issued a Certificate of Inexpediency authorizing the expenditure of K2.8 million to Department of Works to carry out work on Lorengau town roads sealing as well as rehabilitation and maintenance on other selected provincial roads. I observed the issue of Certificate of Inexpediency as inappropriate and improper as the Certificate is applicable only in times of natural disasters and emergency situations. Further, the Provincial Government had paid K7 million to Department of Works to carry out work on the selected road projects in excess of the Provincial Supply and Tenders Board approved expenditure of K2.8 million;
- The Manus Provincial Government had paid K1,8 million to Water PNG Limited for design documentation of Lorengau Town Sewerage Project. However, the Memorandum of Understanding with the claim presented for payment was not signed and dated as a legal binding document between the parties;
- In four (4) instances, payments totaling K303,901 were not certified to determine the legitimacy of the expenditures prior to processing of the claims;
- The acting Manager for the Division of Local-level Governments had inappropriately approved expenditure of K50,000 as Section 32 Officer contrary to his delegated financial limit of K15,000;
- The Manus Provincial Government had engaged the services of a private law firm namely; Boma Lawyers for a twelve (12) months period to provide legal services at the cost of K400,000 being the agreed retainer fee. My review of the expenditure reports revealed the legal firm was paid K454,345 in total for the legal services rendered in excess of the agreed retainer fee of K400,000. Further, I was not provided appropriate documents to indicate the expenditure was sanctioned by the Provincial Supply and Tenders Board; and
- The Manus Provincial Government had paid K49,884 for audit fees to a Freelance Auditor of PA Business Consultants engaged to conduct audit of the books of Manus Fishing Corporation. I further noted that the Provincial Government paid K45,481 as cost of the audit relating to travelling allowances, airfares, accommodation and vehicle hire for the two (2) consultants. In the absence of appropriate documents such as a duly signed contract agreement between the Provincial Government and the Audit Consultants, I was unable to ensure the validity of these payments.

Human Resources Management

My review of payroll and related records revealed the following issues:

- The Manpower Reconciliation Summary dated 31 May, 2013 provided revealed the Manus Provincial Administration had an approved manpower ceiling (funded positions) of 510. However, in view of the outdated summary, I was unable to

ascertain the accurate approved manpower ceiling as at 31 December, 2014;

- The Provincial Administrator was noted in one instance to have received Housing and Vehicle Allowances whilst being provided with accommodation and a vehicle by the State. I considered this as being improper and in violation of the relevant provisions of the Standard Terms and Conditions of Employment for the Provincial Administrators in the National Public Service (Revised 2003);
- An officer attached with Human Resources Division had claimed outstanding payment of gratuity, housing and utility allowances covering the periods from December, 2007 to September, 2008 and January, 2011 to June, 2012 and was paid K21,216 after tax. Perusal of the supporting documents revealed the officer held the position of Manager – Retrenchment and IDC with the Department of Personnel Management (DPM) from December, 2007 to December, 2008. However, I was not provided evidence of any written statement from the DPM as confirmation that the officer had not been paid his entitlements whilst in employment with the DPM. Further, I observed the officer was paid on Grade 15 (Step 5) salary level whilst the Establishment Register – Positional Occupancy dated 30 April, 2014 showed the officer held the position of SIP Coordinator on salary grade 13.

Grants and Subsidies

The provincial government lacked proper guidelines to monitor, control and obtain accountability reports from recipients of grants and subsidies from the Provincial Government for the year totaling K923,282 nor were there records to indicate that the Provincial Government had sought these reports.

6.12.2.3 Management Letter Response

The above observations on the financial statements and internal control weaknesses for the year 2014 had been communicated by way of Management Letter to the Provincial Administrator of Manus Provincial Government and management together with recommendations for improvements. I have however, not received the responses at the time of preparing this Report.

6.12.2.4 Status of Financial Statements

At the time of preparation of this Report in July 2016, the Manus Provincial Government had not submitted its financial statements for the financial year ended 31 December, 2015 for my inspection and audit.

6.12.3 Lorengau Urban Local-level Government

The Lorengau Urban Local-Level Government (LULLG) submitted its draft financial statement for the financial year ending 31 December 2014. Field work associated with the audit of the accounts and records was completed with the Management Letter issued and a Disclaimer Audit Opinion report issued to the Ministers concerned. Issues identified with the financial statements and the control environments are summarized in the paragraphs below.

6.12.3.1 Comments on Financial Statements -2014

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

Government for the year ended 31 December, 2014 was issued in July 2016. The report contained a Disclaimer Audit Opinion as reproduced below:

“Basis for Disclaimer Opinion

Presentation Errors

Finance Instruction 5/2000 issued under *Section 117 of the Public Finances (Management) Act, 1995* prescribes the format for the preparation and presentation of the financial statements for Local-Level Governments. The financial statements of Lorengau Urban Local-Level Government for the year ended 31 December, 2014 had the following non-compliance and presentation issues:

- The Mayor and District Administrator’s statements on the Urban Local-Level Government’s budget and financial performance and a description of the Accounting System adopted by the Urban Local-Level Government were not included; and
- The set of financial statements provided were noted as draft hence, were not signed and certified by the District Administrator and the District Treasurer to authenticate the report as legal document presenting true and fair view of financial activities of the Urban Local-level Government during the year.

Disclosure Errors

I noted the following disclosure errors which could have material effect on the accuracy and completeness of the Lorengau Urban Local-Level Government account balances as at 31 December 2014, the financial position and consequently, the reliability of the financial statements.

Cash Balances

The Lorengau Urban Local-Level Government cash and bank balance of K114,580 could not be confirmed as correct due to errors and material misstatement of operating surplus as disclosed under the paragraph on receipts and payments for the year ended 31 December, 2014.

Receipts and Payments

Statement ‘B’ presented total revenue and expenditure as K1,110,715 and K996,135 respectively with an operating surplus of K114,580. I observed there were reconcilable items relating to receipts and expenditure that were not adjusted in the cashbook and relevant revenue and expenditure ledgers and disclosed in Statements ‘J’ and ‘K’ which also affected the bank and cashbook balances at year end.

Assets Management

Appendix 4 to the financial statements presented only ten (10) asset items worth K27,270 purchased dating back to 2007 to 2010 as owned by Lorengau Urban Local-Level Government as at 31 December, 2014. The Urban Local-Level Government had not maintained a proper assets register or any records of periodical stock-take of assets by management verifying the existence, conditions and value of fixed assets.

Other Records and Registers

Several other documentations corroborating the financial statements, such as the registers of investment, inventory, debtor and borrowings, commitments & arrears, and losses &

deficiencies were not maintained hence, not available for my review. 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 above, I was not able to obtain sufficient appropriate audit evidence and consequently, I am unable to express an opinion on the financial statement of Lorengau ULLG for the year ended 31 December 2014.

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:

- Lorengau 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 *Organic Law on Provincial Governments and Local-level Governments*.”

6.12.3.2 Control Environment – 2014

The Management Letter relating to the audit of the accounts and records for the year ended 31 December 2014 was issued in August 2015. The Letter contained control weaknesses as stated below:

Corporate Governance

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

- The Lorengau Urban Local-Level Government had developed a Five (5) Year Development Plan, 2013 to 2017. However, the Development Plan was not further refined into a Corporate Plan that would set its long term objectives, priorities and targets taking into account the requirements of its stakeholders and the needs of the communities it serves;
- The Internal Audit Unit had not conducted any procedural checks on the transactions and accounts of the Lorengau Urban Local-Level Government for the year 2014; and
- The Lorengau Urban Local-Level Government Assembly had convened only two (2) meetings in the first and second quarters of 2014 as confirmed by signed Meeting Minutes provided for perusal. The third and fourth quarter Meeting Minutes (if any) were not made available for review.

Revenue Management

I noted shortfall in collection of anticipated revenue by K1,129,285. The material amounts under collected in internal revenues were noted in respect of Market Revenues Former Years Appropriation and all other revenue sources categorized as internal revenues. This indicated that the inability of Lorengau Urban Local-Level Government

to prepare sound and prudent revenue forecast and also to effectively plan and direct its efforts and course of action to maximize the collection of internal revenue in a coordinated manner so that all revenues estimated for the year are collected and properly accounted for.

Payment and Procurement Procedures

Lorengau Urban Local-Level Government had paid K44,249 to SalaseaTyre Services for charges relating to tyre repairs and petroleum products supplied on credit facility. I observed from the Suppliers Refueling Register excessive fuel consumption as well as vehicles refueling within the space of two to four days. There were also instances of premix petrol being supplied for use on outboard motors. The supply of premix petrol for outboard motors could not be justified as all the Urban Local-Level Government Wards are accessible by road within the vicinity of Lorengau Town.

Cash Management

- The bank reconciliation statement compiled in respect of the Lorengau Urban Local-Level Government for the month of December, 2014 showed a favorable closing bank balance of K313,266, un-presented cheques totaling K166,725 and several reconciling items which were not adjusted in the cashbook and respective ledger accounts and as a result, an unadjusted reconciled cashbook balance of K114,580 was shown as at 31 December, 2014; and
- Reconciling items, most of which were identified and stated in previous years audit report still remains unadjusted nor were cleared as at 31 December, 2014.

Human Resource Management

The Lorengau Urban Local- Level Government did not maintain adequate records such as casual employee personal files neither an Establishment Register was made available for audit examination. In the absence of an Establishment Register and relevant casual employee personal records, I could not ascertain whether the actual number of casual employees employed were within the manpower ceiling (funded positions) approved for Lorengau Urban Local-Level Government as well as to determine whether or not the amount of fortnightly/annual wages awarded to employees were consistent with the approved rates of pay.

Asset Management

The asset register maintained (if any) and records of periodical stock-take of assets by management verifying the existence, conditions and value of fixed assets were not provided for my review.

Advance Management

- I observed serious lack of proper monitoring and recovery exercises on travelling allowances and cash advances resulting in payments totaling K53,971 dating back to 2013 remained un-acquitted as at year end; and
- Further, my review of the expenditure ledger reports revealed five (5) payments of cash advances to the Town Manager totaling K8,360 that had not been recorded in the PGAS advances register and consequently, will not be followed up for acquittal purposes.

6.12.3.3 Management Response

The above observations on the financial statements and internal control weaknesses for the year 2014 had been communicated by way of Management Letter to the District Administrator and management together with implications and recommendations for improvements. I have however, not received the response to the Management Letter at the time of preparing this Report.

6.12.3.4 Status of Financial Statements - 2015

At the time of preparation of this Report in July 2016, the Lorengau Urban Local-Level Government had not submitted its financial statements for the financial year ended 31 December, 2015 for my inspection and audit.

6.12.4 Lorengau Hospital Board

The Lorengau Hospital Board had not submitted its financial statements for the financial years ending 31 December, 2013 and 2014. Field work associated with audit of the internal control environment for the two years however, had been completed in the absence of the financial statements with the Management Letters issued in August, 2015.

6.12.4.1 Control Environment – 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 August 2015. The Management Letters contained similar issues hence only the 2014 Management Letter is reproduced as follows:

Corporate Governance

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

- The Hospital Board had no Corporate Plan in place with long term objectives, set priorities and targets taking into account the requirements of its stakeholders;
- The Hospital Board had not established an Internal Audit Unit though there is an Internal Auditor Position created in the staff establishment. The National Department of Health is also responsible for the Hospital's internal audit functions. I did not sight evidence of internal audit conducted during the year on the activities and routine operations of the Hospital during the year;
- The approved minutes of the Board meetings held during the year were not provided for my review. Consequently, I was unable to confirm if board meetings were conducted at all during the year consistent with *Section 19 of the Public Hospitals Act, 1994* in terms of number of meetings and meeting quorums and major decisions were effectively debated and resolutions appropriately passed.

Appropriation and Budget Management

My review of the Hospital's budget appropriation and actual receipts against actual expenditures revealed the following issues:

- The approved revenue and expenditure budget estimates for 2014 was not provided for audit review. In the absence of the budget estimates, I was not able to extend

further checks to ensure proper control measures were in place for ensuring revenues were collected and payments made as anticipated;

- The Hospital Board is required to have monthly and quarterly budget reviews as part of budgetary control to ensure that any increase or decrease in receipts and payments respectively are assessed accordingly. I noted no evidence to indicate that such reviews were done during the year;
- The Hospital Board had not prepared the annual estimate of revenue and expenditure for Fees Trust Account for the year under review and prior years as required under *Section 3 (c) of the Hospital Fees Trust Instrument*. Without a properly prepared internal revenue and expenditure budget, the Hospital is likely to incur unbudgeted expenses; and
- A review of the expenditure records maintained on excel spreadsheet revealed that expenditures figures were not adequately presented to give a total expenditure figure at year end. As a result, instances of over expenditures on vote items incurred during the year could not be tabled.

Cash Management

- The ending cash book balance of the operating account of K1,765,011 did not agree to the reconciled cash book balance of K1,764,011 as per bank reconciliation statement as at 31 December, 2014. A difference of K1,000 was noted;
- The total cash book balance could not be correct as a result of unresolved issues raised in the prior year's audit management report;
- The cash books were maintained on excel spreadsheet in the absence of a proper and appropriate cash management software hence, the likelihood of errors persisting; and
- The monthly bank reconciliation statements were prepared for the operating and the trust bank accounts. However, they were not checked and certified by a senior officer for accuracy, a violation of the *Public Finances (Management), Act*.

Revenue Management

My examination and verification of source documents and testing of revenue records revealed the following discrepancies:

- The Hospital Board had failed to maintain essential financial records such as the cash fund certificates and revenue ledgers for the National Government Grants received and internal revenue collected from hospital fees during the year. Without proper revenue ledgers maintained, I could not ascertain the total grants and internal revenues received during the year. Further, grants were received by way of direct bank deposits however, were not brought to account in the cash book or revenue ledgers, if any, by way of passing journal entries or issuing official receipts;
- No control mechanisms were in place to ensure daily collections of hospital fees were immediately banked intact and to avoid potential abuse and misuse of collections by the officers. As a result, delays in daily banking were noted ranging from one (1) to fourteen (14) days;
- A register of official receipts book for hospital fees was not maintained by the hospital. Further, properly designed pre-numbered official receipts with triplicates were not used to issue to patients for record purposes at time of collection. Instead, cash register-generated receipts were used however, information on all receipt

summaries was faded hence could not be ascertained. Although carbon copy of the official receipts were attached with the collector statement, the details of information therein were also unreadable causing great difficulty in tracing the amounts to the actual collector statements;

- There was a serious lack of audit trail in collection, banking and accounting for monies causing great difficulty in tracing these collections to available schedules in the absence of the ledgers;
- Segregation of duties in collecting, summarizing and banking of fees collected was lacking;
- There was no proper safeguarding of the collections and custody of the user fees collected. The cashier office is not secured with steel window frames and deadlocks for the door; and
- I sighted no evidence to indicate that the Hospital had maintained debtor's records or ledgers to record and follow up and collect promptly all monies due.

Procurement and Payment Procedures

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

- 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;
- Three (3) quotations were not obtained in all payment vouchers sighted nor were quotations register maintained. I was advised that not many suppliers of goods and services operated in the province so obtaining of quotations was not possible and therefore, irrelevant;
- Tenancy agreements 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;
- Mosong Security Services Ltd was engaged by the hospital to provide security services to the hospital premises during the year and prior years. In the absence of a formal contract document, I was unable to ascertain the validity of the payments totaling K98,208 made to this security company;
- Payments for maintenance and renovation works on hospital premises and institutional houses totaled K161,002. I was unable to ascertain whether proper procurement procedures were followed in engaging the contractors as formal contract documents duly signed by the hospital and the firms were not provided for my examination;
- I noted that an Accounting Software, *Attaché Accounts* purchased by the Hospital from a software company in Australia in March 2014 has not been used and the Hospital continued to maintain its record manually;

- The Hospital did not maintain records of outstanding commitments and unpaid accounts hence, I could not extent further checks to ensure the completeness and accuracy of the outstanding commitments;
- I noted instances of stipend allowances totaling K59,000 paid as final payout to exiting members of the Hospital Board in 2014 when the Hospital Board took the Provincial Health Authority status and new Board members were appointed. The exiting members were not properly appointed through the National Gazette as reported in the 2013 audit report and their terms of office were not known. In the absence of proper instrument of appointment such as the National Gazette, the payments of the stipend allowances were deemed illegal; and
- The payments of stipend allowances were subject to tax in accordance with the prevailing tax regulations. I noted that the stipend allowances were paid tax-free in direct violation of relevant tax regulations.

Human Resource Management

My review of the staff establishment, payroll records, personal files and other related records had revealed unsatisfactory outcomes as detailed below:

- A staff establishment register for permanent officers covering the period under review was not provided for audit examination. However, the most recent staff establishment register under the Provincial Health Authority was provided. A review of it revealed that there were still a lot of vacancies and the positions that have not been filled as yet though the vacancies have been advertised by the hospital but no recruitments were made;
- The position classifications and the salary grades shown in the establishment register could not be cross-checked against the personal records for selected employees as such information were not maintained nor were personal records updated;
- Actual salary and allowances paid through the Hospital Concept Payroll System from the National Department of Health could not be ascertained due to lack of payroll records. Consequently, checks and payroll reconciliations were not done by the Human Resource Section of the Hospital to ensure payroll errors are conveniently detected and corrected on a timely manner;
- I noted that actual salary rates shown on the pay slips for selected employees on selected pay periods could not be reconciled to the salary scale current for the year under review. Validity of differing pay rates as per the pay slips could not be ascertained as a result of the Human Resources (HR) Section not maintaining updated salary records for its employees;
- Salaries and wages declarations forms for dependents were not kept in the personal files. Hence, audit was not able to ascertain the accuracy of tax deductions on the payroll as reflected on the pay slips;
- The Hospital Board did not have a documented Human Resource Manual in place thus exposing the Hospital Board to the risk of selection and appointment of incompetent personnel, lower and unacceptable staff performance, inappropriate rewarding of personnel or lack of it and poor health service delivery;
- Salary advances totaling K68,152 were paid to officers not on the Alesco payroll between 2007 and 2014. The HR section of the Hospital did not maintain proper records of these employees to ensure these amounts were recovered when they were

put on the payroll system. Most employees were put on the payroll in 2013, however the HR Section had not taken any action to recover these salary advance payments;

- Employee leave history records were not maintained by the Human Resources Section of the Hospital. Consequently, I was unable to ensure the validity and genuineness of recreation leave fares totaling K62,951 paid to Air Niugini;
- Although leave forms were completed by the officers concerned their leave records were not updated to ensure accurate leave history for each employees thus posing a risk of payments of undue leave entitlements;
- I noted that a fixed amount of K1,000 was paid as local leave entitlements to individual officers from within the province. I was advised that the payments of this fixed amount were in accordance to a minute issued by Finance Department in 2008. I had not sighted a copy of the minute to authenticate the payments;
- Copies of duly signed contract of employment for the officers concerned were not maintained during the year under review and the prior years. Consequently, I was unable to ascertain the payment of gratuities totaling K130,099 during the year. I was advised that there were no valid contracts in place for all contract officers due to unresolved management issues. Consequently, the validity of gratuities paid could not be verified as legal and appropriate; and
- The approved list of casual employees and their wage rates for the year under review was not provided for my review of the wage rates paid and the overtime calculations. Consequently, I was unable to ensure the accuracy of the wages and overtime payments totaling K79,869.

Assets Management

I reviewed the controls established for proper management of assets and noted the following outcomes as detailed below:

- The Hospital Board had failed to maintain a proper assets register during the year under review and prior years. A listing of assets was provided for my review however, was incomplete and lacked complete and accurate information on the assets such as purchase prices, unit costs, model and serial numbers, asset identification references etc. Consequently, I was not able to ascertain the total value of assets owned by the Hospital;
- Selected items were physically sighted however; there was no basis to confirm that these were the actual items in the listing provided as important details of the items such as the model number or serial number were missing. Further, physical verification of these assets revealed that two items totaling K136,951 during the year but retired and awaiting disposal as they could not function nor serve the intended purposes;
- A periodic stock take of assets of the Hospital was not done during the year. I was advised of a Board of Survey (BOS) conducted in prior years however, not sighted any reports;
- Two vehicles were disposed during the year. I did not sight evidence of receipts for the disposal of the Utility Space Cab and the valuation reports for these two vehicles. Further, the board meeting minutes approving the disposal and the tender documents were not provided for my review. Consequently, I was not able to ascertain if proper procurement procedures were followed in disposing these vehicles;

- I was not provided with records of properties owned by the Hospital. Title documents and records of institutional houses occupied by officers were not maintained. Consequently, I was unable to ensure the total value of properties owned by the Hospital including furniture and other white goods purchased for the institutional houses;
- The trust instrument requires the payroll deductions as rentals for institutional houses however, the officers had not been paying rentals during the year under review and the prior years; and
- Buildings and motor vehicles had not been covered by any Insurance Policy. If they were insured, the insurance documents were not provided for my review.

Advances Management

My review of controls and procedures established to comply with the requirement of the *Public Finance Management Act (PFMA)* identified the following issues:

- The Hospital had maintained a manual advances register during the year however, was not consistently updated with progressive total of all un-acquitted advances to date; and
- Un-acquitted advances totaled K79,699 representing more than 80% of the total advances paid during the year. The acquittals and un-acquitted advances could not be verified in the absence of any supporting documentation including an acquittal file and that subsequent advances were paid despite previous advances still outstanding.

Trust Accounts Management

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

- The Hospital had not submitted the monthly statements and summaries of the trust account to the First Assistant Secretary (Public Accounts) of the Department of Treasury and Corporate Affairs within seven (7) days from the end of each month as required under Section 3(c) of the Trust Instrument;
- Monthly reconciliations of the trust account were not sent to the Accounting Frameworks and Standard Division at Department of Finance as required by *Section 8.1 of Financial Management Manual*;
- Estimates of receipts and payments were not submitted to Secretary of Finance. Section 19 (3) of the Public Finance Management Act; and that the Annual Statements on the operations of the Trust were not submitted to the Secretary of Finance as required under Section 19 (4) (d) of the PFM Act; and
- Payments out of the trust account totaling K23,774 were noted to be contrary to and outside of the requirements of Section 2 (b) of the Trust Instrument.

6.12.4.2 Management Response

The above observations on the internal control weaknesses for the year 2013 and 2014 had been communicated by way of Management Letter to the Hospital Management together with implications and recommendations for improvements. I have however, not received the responses to the Management Letters at the time of preparing this Report.

6.12.4.3 Status of Financial Statements

The Lorengau Hospital Board had not submitted its annual financial statements for the years ended 31 December, 2013, 2014 and 2015 at the time of preparation of this Report in July, 2016 for my review.

6.12.5 Business Arms

Section 16(2)(f) of the *Audit Act 1989* provides for and extends my functions to audit the accounts and records of the Provincial Government and Local-level Government Business Arms and other establishments. The Manus Provincial Government has investments in 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 preparation of this Report in July, 2016 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 preparation of this Report in July, 2016 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 preparation of this Report in July, 2016 the company had not submitted its financial statements for the years ended 31 December 2011, 2012, 2013, 2014 and 2015 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 preparation of this Report in July, 2016 the company had not submitted its financial statements for the years ended 31 December 2011, 2012, 2013, 2014 and 2015 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 Local-level Governments 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 audit of the internal control environment for the year ended 31 December, 2014 was completed with Management Letter issued and reported in my 2014 Part 3 Report to the Parliament.

The Milne Bay Provincial Government had subsequently submitted its financial statements for the financial years ended 31 December, 2014 and 2015. At the time of preparing this report in July 2016, the review of the financial statements for 2014 and fieldwork associated with audit of the financial statements and the accounts and records for 2015 had been completed, and the results were being evaluated.

6.13.3 Alotau Urban Local-level Government

The audit of the internal control environment for the year ended 31 December, 2014 was completed with Management Letter issued and reported in my 2014 Part 3 Report to the Parliament. The Alotau Urban Local-level Government had subsequently submitted its financial statements. At the time of preparing this report in July, 2016 review of the financial statements had been completed and the results were being evaluated.

The Alotau Urban Local-level Government had not submitted its financial statements for the financial year ended 31 December, 2015 for audit at the time of preparing this report in July, 2016.

6.13.4 Milne Bay Provincial Health Authority

The audit of the internal control environment for the year ended 31 December, 2014 was completed with Management Letter issued and reported in my 2014 Part 3 Report to the Parliament. The financial statements were subsequently submitted, reviewed and the Management Letter together with a Qualified Audit Opinion report were issued.

The Milne Bay Provincial Health Authority (PHA) had also submitted its financial statements for the year ended 31 December, 2015. The fieldwork associated with the audit of the financial statements and accounts and records had been completed and the results were being evaluated at the time of preparation of this Report.

6.13.4.1 Comments on Financial Statements – 2014

My report on the Milne Bay PHA for 2014 to the Ministers concerned and other relevant bodies under the *Audit Act* was issued in June 2016. The report contained a Qualified Opinion as reproduced below:

“Basis for Qualified Opinion

1.0 Financial Statements

The following presentation and disclosure discrepancies render the financial statements of Milne Bay Provincial Health Authority for the year ended 31 December, 2014 inaccurate, misleading and unreliable:

- a) 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. The 2014 Financial Statements for Milne Bay Provincial Health Authority had fully complied with the Finance Instruction 2/2004 except for the Statement of Accumulated Fund.
- b) Bank reconciliations were not done for both the Operating and General Trust Fees Accounts for the year ended 31 December, 2014. The Authority had however, disclosed an un-reconciled closing cash at bank balances for the two accounts as K8,476,433 and K1,334,901 respectively. As such, the closing bank balances totaling K9,811,334 as stated in Note 2 to the financial statements could not be confirmed as reliable in the absence of any bank reconciliations.
- c) Inaccurate disclosures in the Statement of Receipts & Payments had resulted in an understatement of receipts in the Consolidated Statements. Audit analysis for instance, had revealed total receipts of K40,826,027 as against the financial statements' disclosure of K40,890,553 resulting in an overstatement of K64,526.
- d) The expenditure amount disclosed in the Consolidated Statement of Receipts & Payments was understated by K3,683,483 as a result of incorrect disclosures; understatement of expenditures on Salaries, Wages, Employee Benefits of K623,674; Project expenditures totaling K3,202,837 not taken up; and an overstatement in Supplies & Consumables of K143,028.

The Hospital had not responded to my audit queries at the time of preparing this report in June 2016.

2.0 Significant Control Weaknesses

My review of the accounts and records revealed significant control weaknesses including the following major issues as summarized below:

- a) No bank reconciliations were done for both the Operating Account and Fees Trust Account. The discrepancy in respect of the Operating Account was due to the introduction of PHA grant ledgers in PGAS as the division code (238) was inconsistent with the grants received from the DoH (241275) and thus a new database (cashbook and transaction ledgers) was created by the DoF ICTD to cater for the PHA grants from Finance.
- b) Encountered audit scope limitation arising from incomplete and duplicated ledgers and cash books coupled with the inaccessibility of the Attaché accounting system used to account for fees trust account transactions during the year. Consequently, the transaction details/summaries could not be confirmed nor the appropriate comparisons could be made on the budgeted and actual transactions.

- c) The duties of Examination and Certification of payments were lacking in the procurement process. Audit sampled tests of 97 payment vouchers with amounts ranging from K1,300 to K300,000 in respect of both the Operating and fees trust accounts revealed that no such duties were performed before the actual payments were raised and paid to recipients.
- d) Audit sampled tests of two hundred and twenty six payments of salary advances with amounts ranging from K250 to K500 totaling K58,250 could not be confirmed to the Salary Advances Acquittal Register as either acquitted or the amounts recouped at year end. I have further noted that eighty payments in respect of general advances totaling K169,072 were not recorded on the General Advances Register.
- e) Audit review into the management of assets revealed that there had not been any improvement in accounting for assets purchased during the year by way of maintaining and consistently updating an Assets Register, nor the stock takes conducted during 2014. Audit analysis of transactions executed by the MBPHA revealed that the Health Authority had made payments for assets with amounts ranging from K1,300 to K116,900 totaling over K580,593 however, these assets remained unrecorded.
- f) Audit review of the MBPHA's Corporate Plan 2013-2015 had indicated certain level of improvement in the achievement of its Key result Areas (KRAs) with exceptions to KRAs 3 and 5 in respect of lack of monthly bank reconciliations for the Operating and Fees Trust Accounts and lack of appropriate policy on the management of fixed assets.

I have completed the interim audit of Health Authority and issued the Management Letter in May, 2015. At the time of preparing this report, responses to the management letter queries however, have not been received.

Audit Opinion

In my opinion, except for the effects of the matters referred to in the qualification paragraphs above, the financial statements of Milne Bay Provincial Health Authority (MPHA) for the year ended 31 December, 2014:

- a) give a true and fair view of the financial operations during the year and its financial position for the year then ended; and
- b) the financial statements have been prepared and presented generally in accordance with Finance Instruction 2/2004 issued under Section 117 of the Public Finances (Management) Act 1995".

6.13.4.2 Management Response

The observations on the audit of the financial statements and the accounts and records for the year ended 31 December, 2014 had been communicated by way of a Management Letter to the Chief Executive Officer of Milne Bay Provincial Health Authority together with recommendations for improvements. The responses to the Management Letter had not been received at the time of preparation of this report.

6.13.5 Business Arms

Relevant Section 16(2)(f) 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 had not submitted any financial statements for my inspection and audit. Consequently, I am unable to comment on the operations and financial results of the entities.

6.14 MOROBE PROVINCE

6.14.1 Introduction

The Morobe Provincial Government (MPG), Lae Urban Local-level Government (LULLG) and Angau Memorial General Hospital (AMGH) are audited every year, with or without financial statements. Other 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 entities.

6.14.2 Morobe Provincial Government

The financial statements for Morobe Provincial Government for the financial year ending 31 December 2014 reported in the 2014 Part 3 Report as “unsigned financial statement” was signed in its responses to my management letter. The financial statements for the year ending 31 December 2015 were not submitted for my inspection and audit. However the interim field work associated with audit of the accounts and records were completed with the Management Letter issued. The paragraphs below detail issues identified with the 2015 Internal Control environment.

6.14.2.1 Control Environment - 2015

Appropriation and Budget

Expenditure were 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.

Revenue

Controls and procedural break down in collections of Public Monies as resulted in substantial amount of monies under-banked, misused or missing cash and not accounted for. Total under banking as at 31st December 2015 amounted to K220,013 for period from 2009 to 2014. Hence absence of a debtor’s ledger has contributed to the no recovery action taken to recoup the monies.

I noted that collections were being held in the cash office for days prompting people to use. The collections for the Lae Motor Traffic Office were not banked on a daily basis but delayed ranging from two (2) to seven (7) days. A proper Data Base of clients was not established in revenue sections such as the liquor licensing and motor traffic registry to maintain up to date and consistent records on an annual basis.

Procurement and Payment Procedure

Occurrence of non-compliances to procedures such as maintenance of quotations register, obtaining required number of quotations prior to the purchase of goods and services, and the non- supporting documentations such as contract agreements, business registrations, tax compliances, and invoices still exist. Other irregularities in payments incurred during the year were as noted:

- Advance payments purportedly for travel warrants made to Prime Travel Service not only paid for airfares but included accommodation, vehicle hire and travel allowance, contradicting the Public Finances Management Manual;

- The consultancy and professional service provided to MPG Governor's Office by *Gryphon Ltd* under a contract agreement signed by the Provincial Government and the Company to a cost of K20,000.00 per month was represented by the owner of the *Gryphon Ltd* whom also occupied the position of the Chief of Staff, a position created and funded within the Governor's Office structure. The company represented by the owner being engaged as a consultant and to provide Professional Management services to the Governor was also performing duties in relation to finance or financial delegation which is a breach of the *Public Finances Management Act*. I observed that the consultant/Chief of Staff was performing duties as a section 32 officer authorizing payments.

Capital Works

Proper monitoring and reporting system was lacking in managing project works and maintenances particularly in the Districts. Funds totaling K5,228,527 paid for works and maintenance of schools, roads, bridges, airstrips, wharves and health facilities etc. have not been monitored by the Provincial Works Unit to ensure that the funds paid were spent on the intended projects with proper reports being submitted.

Individual Project and contract files have not been maintained.

Grants and Subsidy

Accountability reports by recipients for grants and subsidies paid totaling K5,720,903.90 during the year were not sighted to confirm grants received were expended on the intended purpose. Further, there were no policy and guidelines for the payment of grants and subsidies.

Capital Asset

Effective asset management and usage would contribute to better service delivery and prevent fraudulent use of assets for personal gains, theft and reliable data will be available for relevant decisions regarding assets acquisition and disposal. I observed that the assets register was not adequately maintained to properly account for assets purchased and disposed during the year and prior years.

Cash Advances

Proper and updated register of advances was lacking and proper control and monitoring of acquittals was not in existence. Thus, allowing for multiple payments of advances. Such has resulted in-excessive cash advance amounts ranging from K20,000.00 to K100,000.00 totaling K1,378,795.92 paid without accountable records to monitor the acquittal processes.

Payroll

I noted that officers on the provincial government payroll were paid stipends and allowances. This is double dipping and non-compliance to the requirements of the Circular Instructions 21/2000 issued.

6.14.2.3 Management Response

Management letter highlighting the findings of my audit of the 2014 financial statements and accounts was submitted and management response was received from the Provincial Government. Management letter highlighting the finding of the 2015 accounts without the financial statements was issued during the period of which this report was prepared. Management response is pending.

6.14.2.4 Status of Financial Statements

At the time of preparing this Report in July 2016, the Financial Statement for the Morobe Provincial Government for the financial year 2015 was not prepared and submitted for my inspection and audit.

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, 2013, and 2014. 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 these years were conducted with Management Letters issued respectively. The internal control issues for 2012 and 2013 were reported in the 2014 Part 3 Report and the 2014 audit findings are reported below.

6.14.3.1 Control Environment - 2014

General Accounting and Reporting

The Accounting Software (SYSPRO) used by the Urban LLG was not fully utilized to produce required financial reports in uniform with the required Government Accounting Reports. Although the system had features that could have been utilized to generate the cash book and other reports, it was not fully utilized.

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. Lae Urban Local-Level Government did not have in place a corporate plan with clearly identified corporate goals, objectives and strategies to enhance service delivery.

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 Lae ULLG had no Internal Audit Unit in its structure and the Internal Audit Unit within Provincial Administration is responsible for the internal audit function of the ULLG. There had been no internal audits undertaken for the years up to and including 2014. 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.

Revenue and Receivables

Revenue

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 total income received during the year for both internal revenue and grants were not properly recorded and accounted for due to insufficient accounting records such as cashbooks, ledgers and trial balance;

- There was no evidence of stringent controls in place to monitor the business activities conducted in the city. I noted that control and monitoring mechanism to ensure businesses were conducted in line with prevailing health rules and regulations and paying the necessary fees were not in place;
- Fourteen small shops had been operating within the main market generating a total monthly income of K5,555 had no lease agreements signed with the Lae ULLG. Furthermore, there were no evidence to confirm that rental income have been collected from these tenants;
- There was high turnover of cashiers at the main cash office due to no permanent appointment of collector of public monies;
- The revenue collections for Lae ULLG were not banked promptly and intact. I observed that substantial amount of cash were retained unduly out of which operational expenses were met including payment for salaries and wages for employees;
- I observed that a rental cheque of K253,935 was not banked. Furthermore, significant loss of revenue was noted from the cash office by responsible officers between October 2013 and February 2014 when series of under banking totaling K773,503 were reported. Recovery and/or imposition of appropriate disciplinary action taken on person(s) responsible for under banking of revenue collections by management was lacking;
- Delays in banking of daily collections for up to sixty-six (66) days noted in my review of collection and banking procedures indicates an important control weakness that needs immediate attention of responsible revenue managers and management;
- The safe custody of cash was inadequate and unsatisfactory. I observed the revenue collections were kept at locations other than the safe which exposed the ULLG the risk of theft and loss of public money; and
- There were no evidences to prove that a Senior Accounting Officer had checked and certified the Cash Summaries as correct before banking.

Debtors/Receivables

There was no assurance that the 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 my review. The statement of debtors as at 31 December, 2014 disclosed total debts of K23,118,727 comprising land tax K19,523,353, Head Tax K330,240 and sanitation and garbage K2,265,134.

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. Six years ago, July 2011, 85% of the recipients have not yet repaid their loan. No repayment records were made available. *This was reported in my 2014 part 3 report to parliament however, management has not taken appropriate action and as such remains outstanding as at the time of this report.*

Procurement and Payment Procedure

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:

- 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 prescribed Finance Forms - 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;
- Furthermore, the appointment instruments and records for Section 32 Officers, Requisitioning Officers, Financial Delegates, Examiners and Certifying Officers and Receiving Officers and their specimen signatures were not provided. As such I was unable to verify the following:
 - a) All claims were properly examined and certified prior to payment being processed;
 - b) All payments incurred during the year were properly authorized and approved by duly appointed Section 32 Officers;
 - c) Financial Delegates were approving payments within their designated financial limits; and
 - d) Goods were being received by duly appointed Receiving Officers.

Human Resource Management

Employees personal files and employment records were not maintained properly and updated. 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 all of the four (4) bank accounts were neither maintained nor were they prepared and furnished for my 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, 2013, 2014 and 2015. The bank reconciliation statements for these years were not provided for my 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 updated. Available records showed that two of the accounts have been closed however still shown. Status of these trust accounts could not 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 and title documents. There was no evidence that proper Board of Survey (BOS) was carried out during the year and prior years and any disposed during the year could not be established. Whilst any receipts on disposal of assets could not be established due to non-maintenance of records.

Advances Management

The controls exercised over recording, monitoring and recovery of advances was lacking. My review of expenditure records revealed the ULLG had paid out K34,500 on travelling allowances and cash advances of K55,544 totaling to K90,044. I observed the Lae ULLG 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 and cash advances were recorded and followed up for acquittal and recovery purposes.

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 Letter together with risk implications and recommendations for improvement. However, I had not received any responses to the Management Letter as at the time of preparing this Report.

6.14.3.3 Status of Financial Statements

Status of the three 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 2016, the financial statements of Lae ULLG for the years ended 31 December 2012, 2013, 2014, and 2015 had not been submitted for my inspection and audit.

6.14.4 Angau Memorial General Hospital

The Angau Memorial General Hospital had submitted its financial statements for the years ended 31 December 2010 to 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 2010 to 2013 reports contained Qualified Opinions and the 2014 report did not contain any qualifications. The issues identified with the financial statements and the control environments were common throughout hence, only the 2013 issues are reproduced.

6.14.4.1 Financial Statements – 2013

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 Angau Memorial General Hospital for the years ended 31 December 2010 to 2014 were issued in June 2016. The reports contained similar Qualified Opinions except for 2014 report which did not contain any qualification hence; only 2013 report is reproduced as follows:

“Basis for Qualified Opinion

Accounts and Records

I have noted significant control weaknesses in the Angau Memorial General Hospital's records and processes as stated below:

- Formal (written) appointment instruments and specimen signatures were not sighted to confirm the appointment of financial delegates who have examined, certified and approved claims and their approved financial limits (for section 32 Officers). In the absence of formal appointment instruments and the specimen signatures, I was unable to confirm the validity of persons who have acted on those positions and the expenditures they signed off in 2013;
- Payments made to various suppliers and service providers lacked valid document such as, no written request, no written quotations, no supplier invoices and no delivery notes etc. for authentication;
- Accommodations for most medical officers were paid for by the hospital. However, I noted that the hospital failed to adequately maintain Lease Agreement files for all its lessors with updated lease agreements;
- The trust account earned monthly interests that were noted to have been directly credited to a Department of Finance Public Account (No. 1000587933) since 2010. In the absence of relevant documents and records I was unable to establish the total earned and subsequently remitted and the appropriateness of the remittance. Furthermore, the interests earned was not captured and recorded in the hospital's books and reported accordingly;
- The Hospital has an extensive portfolio of fixed assets that has not been effectively managed nor appropriately safeguarded against theft, fire or vandalism through appointment of custodians, or taking insurance cover. A comprehensive assets register had not been maintained and as such I was unable to determine the total value and safe custody of all fixed assets owned by the hospital which include motor vehicles, operational and bio medical equipment, land and buildings, etc. Furthermore, there was no evidence to conform that physical stock takes of assets were undertaken during the year;
- Neither payroll reconciliation nor payroll data clenching was conducted during the year as check and balances measures to ensure pays were made only to individuals who work for the Hospital;
- There were no effective controls over payments, recordings and acquittals relating to all cash and travel advances during the 2013. Advances register has not been maintained to record and monitor all forms of advances paid during the year including salary advances; and
- The signed minutes of the meetings held by the Hospital Board during the year under review were not adequately maintained. Consequently, I was unable to confirm the important financial and operational decisions made the board concerning the operations of the hospital.

The Management had sufficiently responded to each of my queries with the assurance that it will take necessary measures where applicable in the future and I intend to satisfy myself of the adequacy of these measures in my subsequent audits.

Audit Opinion

In my opinion, except for the effects of the matters referred to in the qualification paragraphs above, the financial statements of Angau Memorial General Hospital for the year ended 2013:

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

Other Matters

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

- Angau Memorial General Hospital did not maintain proper records and has consequently breached Section 68(1) of the *Public Finances (Management) Act, 1995*;
- Angau Memorial 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 preceding, resulting in breaches of Section 63(2) and Section 63(4) of the *Public Finances (Management) Act 1995*;
- The Chief Executive Officer is required by the Trust Instrument to furnish annual estimates of revenue and expenditure (Budget) 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 by the then Chief Executive Officer of the Hospital; and
- No proper and formal appointment of financial delegates, authorized requisitioning officer, examiner and certifying officers is a breach of Section 32 of the *Public Finance (Management) Act, 1995*”.

6.14.4.2 Management Response

Hospital Management has responded to my Audit Management Letter queries for these financial years and corrections, improvements, and adjustments noted from the management responses has been rectified with the management prior to issuing the audit reports.

6.14.4.3 Status of Financial Statement

At the time of preparing this Report in July 2016, the Angau Memorial General Hospital had submitted its financial statements for the year ended 31 December 2015 for my inspection and audit and arrangements have been made to commence the audit shortly.

6.14.5 Business Arms

Section 16(2) (f) of the *Audit Act 1989* provides for and extends my functions to audit the accounts and records of the Provincial Government and Local-Level Government Business Arms and other establishments.

I am aware of two business arms of the Morobe Provincial Government namely, Kumghie Holdings Limited and Morobe Sustainable Investment. At the time of preparing this Report in July 2016, 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 these entities.

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 entities.

6.15.2 New Ireland Provincial Government

The audit of the internal control environment for the year ended 31 December, 2014 was completed with Management Letter issued and reported in my 2014 Part 3 Report to the Parliament. The financial statements were subsequently submitted, reviewed and the Management Letter with a Disclaimer Audit Opinion report issued.

The New Ireland Provincial Government had not submitted its financial statement for the year ended 31 December, 2015 at the time of preparation of this Report in July 2016. However, the audit of the internal control environment was completed without the financial statements and the Management Letter issued.

6.15.2.1 Financial Statements – 2014

My Report for the year ended 31 December, 2014 to the Ministers concerned and other relevant bodies under the *Organic Law* on Provincial Governments and Local-Level Governments and the *Audit Act* was issued in early July 2016. The report contained a Disclaimer Audit Opinion as reproduced below:

“Basis for Disclaimer Opinion

Presentation Errors

Finance Instruction 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 financial statements of New Ireland Provincial Government for the year ended 31 December, 2014 had the following non-compliance and presentation issues:

- The Provincial Governor and Provincial Administrator’s statements on the Provincial Governments budget and financial performance were not included;
- The set of financial statements provided were noted as draft hence, were not signed and certified by the Provincial Administrator and the Provincial Treasurer to authenticate the report as legal document presenting true and fair view of financial activities of the Provincial Government during the year; and
- The financial statements are misleading as the amounts in Statements ‘C’ to ‘I’ as well as the closing balances reflected in the respective Notes 3 to 17 to Statement ‘A’ were incorrectly presented in amounts of ‘thousands’ instead of the original amounts. Furthermore, the financial year of reporting were incorrectly stated as 2012 and 2013 instead of 2014 throughout the financial statements.

Disclosure Errors

I noted the following disclosure errors which could have material effect on the accuracy and completeness of the New Ireland Provincial Government account balances as at 31 December, 2014, the financial position and consequently, the reliability of the financial statements.

Cash Balances

- The reconciled cash and bank balance of K35,761,537 did not agree with the closing Provincial Account Balance of K17,688,124 overdrawn resulting in an unexplained difference of K18,073,413. Furthermore, the stated reconciled bank balance included an old operating account balance of K765,007 which was not supported by evidence of any actual cash held in bank account as this Account was inactive dating back to prior years and that the amount merely represents the closing cashbook balance at the closure of the Operating Account;
- The balance of the Provincial Revenue Fund of K35,686,343 overdrawn could not be confirmed as correct due to errors and material misstatements of the operating surplus as discussed under the paragraphs on Receipts and Payments; and
- There were material reconciling items identified in the bank reconciliation statements of both the Operating and Grant Accounts relating to receipts and expenditure that were not adjusted in the cashbooks and respective revenue and expenditure ledgers and disclosed in Statements 'J' and 'K' which also affected the bank and cashbook balances at year end.

Receipts and Payments

The New Ireland Provincial Government reported its total revenue and expenditure as K58,088,332 and K38,257,634 respectively with an operating surplus of K19,830,699 (Statement 'B'). I am unable to confirm the accuracy of the revenue and expenditure and therefore, the correctness of the operating surplus as at 31 December, 2014 due to the following reasons:

- The total actual expenditure of K38,257,634 disclosed in Statement 'B' was materially misstated as it did not agree with the trial balance total of K62,322,949. As a result, the operating surplus of K19,830,699 is also materially misstated, inaccurate and unreliable; and
- The Public Servants' and Teachers' Salaries actual receipts and expenditures had not been disclosed in the financial statements nor were taken up in the respective revenue and expenditure ledgers as these were provided for in the Annual Appropriation Act.

Investments

The Provincial Government had not disclosed any information or balances relating to long term investments in the financial statements. However, as stated in my previous year audit report and Note 8 to Statement 'A', the New Ireland Provincial Government held two (2) shares at the cost of K2 in its business arm, namely New Ireland Development Corporation as well as 3,000 shares at the cost of K3,000 in Lottery Management Services which is understood to be defunct. In the absence of adequate confirmation including the investment register and related share certificates, I am unable to confirm the accuracy, existence, ownership and value of investments owned by the Provincial Government as at 31 December, 2014.

Assets

The New Ireland Provincial Government did not disclose details of fixed assets purchased and owned at the closure of the year under review in appendix 4 to the financial statements. However, Note 15 to Statement 'A' showed the assets value as K9,805,600 which was the same balance reported to have been brought forward since 2004. As stated in my previous year audit report, no proper Assets Register was maintained to capture complete and accurate information on all fixed assets purchased and/or disposed during the year. Consequently, I am unable to confirm the completeness, accuracy and existence of the fixed assets owned and under the custody of the New Ireland Provincial Government.

Trust Accounts

The New Ireland Provincial Government administered independently several trust accounts that were operated through separate bank accounts. I was not provided evidence of Trust Instruments and other related documents to ascertain legality and validity of the transactions through these trust accounts.

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 New Ireland Provincial Government for the year ended 31 December, 2014.

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 New Ireland 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*."

6.15.2.2 Control Environment – 2015

The Management Letter relating to the audit of the internal control environment accounts and records for the year ended 31 December 2015 was issued in June, 2016. The Letter contained control weaknesses as stated below:

Corporate Governance

The New Ireland Provincial Government's three (3) year Corporate Plan, 2013 to 2015 had lapsed at the end of 2015. The three (3) year Corporate Plan of the Provincial Government had focused on nine (9) Strategic Result Areas (SRA) by setting sector strategies, targets, deliverables and was aimed at translating the Malagan Declaration and the National Medium Term Development Plan (MTDP), 2010 to 2015 into tangible results. The Strategic Result Areas were identified as:

- SRA 1 – Governance and Management;
- SRA 2 – Law and Justice;
- KRA 3 – Health;
- KRA 4 – Economic Development;
- KRA 5 – Education;
- KRA 6 – Infrastructure;
- KRA 7 – Land Mobilization;
- KRA 8 – Human Resource Development; and
- KRA 9 – Cross Cutting Sector

I was not provided evidence to suggest that reviews had been conducted to assess and evaluate the implementation and achievements made in respect of each of the Strategic Result Area (SRA) as set out in the Corporate Plan and to develop a new Corporate Plan for 2016 and beyond.

Internal Audit

The internal audit is a key administrative function that oversees the effectiveness of other functions and internal controls within the administration. An effective internal audit provides assurance and instills integrity in the internal control system within the organization. Internal Audit Unit was non-functional at the time of my audit inspection in March, 2016. This indicated a major control weakness – in essence the reliability of various management systems established to deliver basic services.

Appropriation and Budgetary Control

The New Ireland Provincial Government approved annual appropriation for the financial year ended 31 December 2015 was K250,729,800. The Minister for Treasury had granted conditional approval on the 2015 Provincial Budget on the basis that the Provincial Government removes the Former Years Appropriation of K30,764,000 from the budget estimates as it was not funded in the 2015 Budget and the budget be revised and resubmitted for the Minister's final approval.

However, my review of the expenditure ledger reports revealed the approved annual appropriation for both Division 715 (Internal Revenues) of K93,820,400 and Division 287 (Grants) of K156,909,400 had remained unchanged at year end. I was not provided a Revised Budget to verify whether or not the directive issued by the Minister for Treasury was adhered to and in the absence of the approved Revised Budget in line with the Minister's directive could render the entire receipt and expenditure of funds by New Ireland Provincial Government for the year ending 31 December, 2015 not legal.

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 noted the following cash management control issues:

- The New Ireland Provincial Government's cash position as at 31 December 2015 could not be confirmed 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;
- The monthly bank reconciliations of the New Ireland Provincial Government Operating Account and Grant Account were in arrears and had been compiled only up to April 2015 at the time of my audit inspection in March, 2016; and

- Revenue collections totaling K296,334 dating back to March, 2010 up to May 2015 were recorded in the cash book however, not deposited into the Provincial Government Operating bank account. Further, I sighted no evidence to indicate that the outstanding receipts had been investigated and appropriate recovery actions taken against the accounting officer(s) concerned.

Revenue Management

Effective revenue management with adequate documentation of sources and procedures relevant for planning and collection of revenue ensures that potential revenue is collected intact. I was not able to obtain assurance on the effectiveness of the internal controls relating to revenue management in view of the following control weaknesses:

- My analysis of the budgeted targets against the actual revenue collections revealed significant under collections. The Provincial Government fell short of collecting its internal revenues by K16,196,908 resulting collecting K73,612,492 from its potential revenue of K89,809,400 and National Government Grants by K 8,259,640 receiving only K74,624,960 from its anticipated grants of K82,884,600. The late release of funds by the National Government had always been a factor attributing to the shortfalls in grant revenues; and
- The Provincial Government had not maintained proper revenue registers and other relevant underlying records such as debit notes or invoices that could have assisted, particularly in recording and monitoring its internal revenue collections on a regular basis from sources including Sales and Tobacco Taxes, Land Tax, Land Rentals, Developed Property Taxes and Business Premises Rentals, among others.

Procurement and Payment Procedures

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

Payment of Accounts

- In thirty-one (31) instances, the Certifying Officer failed to certify the payment vouchers for their legitimacy, accuracy and completeness of the expenditures incurred totaling K10,667,020 prior to processing payment of the claims;
- The Provincial Government had paid a total of K1,984,932 (*Cheques #s 13839 & 12031*) to a consultancy firm for the consultancy services rendered on the proposed Namatanai Township Development at Bopire Plantation. The first payment totaling K1,086,522 was not supported with appropriate documents including Contract of Engagement as well as the required three (3) written quotations. I sighted no evidence to suggest the expenditure was sanctioned by the Provincial Authority Pre-Commit Committee (PAPCC) or approved by the Provincial Supply and Tenders Board. Further, the payment vouchers on the second payment totaling K898,410 were missing from the file;
- Payments of K1,476,919 and K547,288 (*Cheque numbers 12975&12976*) to two construction firms respectively were not authorized by the appropriate Financial Delegate whilst the Requisition for Expenditure (FF3) for the payment of K547,288 was also not approved by the appropriate Section 32 Officer;
- I was not able to ascertain the validity as well as proper authorization of the payment claims totaling K1,731,859 due to missing payment vouchers;

- The Governors' Housing Allowance entitlement was paid at the rate of K1,598 per week and therefore, K83,096 in total for the full year. I noted however, the Governor was paid a total of K140,624 in housing allowances for the year on two separate claims of K57,528 and K83,096; and
- Two entities were paid K1,155,000 and K957,000 respectively for the supply of corrugated roofing irons to be distributed under the "Roof Overhead Policy" of the Provincial Government. The payment vouchers however, were not supported with appropriate delivery dockets or goods received notes duly certified by the Housing & Assets Manager to confirm the accuracy of the quantity of roofing irons received and that the materials were delivered in good order.

Capital Works and Maintenance

- Public Works New Ireland Ltd was sanctioned to receive funds from the Provincial Government and to participate in the management and implementation of capital works and maintenance projects on behalf of the Provincial Government. The Joint Provincial Planning and Budget Priorities Committee (JPP&BPC) Decision No. 02/2015 approved a grant of K3,000,000 from roll-over funds to Public Works New Ireland limited as the Project Manager for specific projects endorsed by the New Ireland Provincial Government. A payment of K2,630,800 from the grant of K3,000,000 was paid to the company (*Cheque number 12371*) however, there was no evidence to suggest the Public Works New Ireland Limited had acquitted the funds by way of furnishing an accountability report on the receipt and expenditure of these funds to the Provincial Government; and
- I observed that payments totaling K2,906,386 made to several private contractors engaged on minor capital and maintenance works were not supported by work in progress reports and/or certificates of completion duly certified by a competent technical officer of the Provincial Government to indicate the capital and maintenance works undertaken had been satisfactorily executed and that the payments were proper.

Provincial Supply and Tenders Board

- The Provincial Government had engaged and awarded contracts to several private contractors on minor capital and maintenance projects during the year. My examination of Provincial Supply and Tenders Board Meeting Minutes revealed no evidence to suggest the award of contracts were sanctioned by the Board. Further, the New Ireland Provincial Supply and Tenders Board had no permanent Tender Evaluation Committee in place to provide competent technical advice to the Board;
- I was unable to assess the efficiency and effectiveness of the Provincial Supply and Tenders Board in awarding contracts for and on behalf of the Provincial Government due to non-maintenance of a Tenders Register to record information on tender invitations, quotations received and tender evaluations leading to the selection and approval for the awarding of contracts to successful bidders; and
- The Provincial Supply and Tenders Board had issued a Certificate of Inexpediency authorizing the expenditure of K337,500 to a company for the supply of 5,000 Solar MBZ – 200 Lanterns in respect of the Solar Lights Programme of the Provincial Government. I noted the issue of Certificate of Inexpediency as improper and inappropriate as the issue of certificate of inexpediency is applied only for extreme cases and in times of natural disasters and emergency situations.

Grants and Subsidies

The New Ireland Provincial Government had expended over K4,692,680 on grants and subsidies to public authorities, organizations and agencies during the year. I had not sighted evidence to suggest that there had been a proper policy guidelines and accountability procedures in place for effective control and monitoring for disbursement of the public funds.

Consultancy Services

The New Ireland Provincial Government engaged the services of three Consultants, two with the Autonomy Secretariat and one with the Division of Planning. The former were each paid monthly consultancy fees of K36,000 tax-free whilst the latter was paid fortnightly based on an annual salary of K1,314,000.

I was not provided evidence to indicate that the engagement of the Consultants were sanctioned and approved by the appropriate authorities including the Consultancy Steering Committee of the Department of Personnel Management.

Human Resource Management

- The Human Resources Management Unit had not responded to my request for information and relevant records relating to:
 - The Manpower Ceiling (funded positions) approved by the Department of Personnel Management for New Ireland Provincial Administration;
 - Manpower reconciliation – reconciling the number of staff on strength against the approved manpower ceiling and the salaries expenditure for the reconciling period;
 - The Payroll Register for Pay No. 26 of 2015;
 - The approved ceiling with detailed listing of casual employees engaged by the New Ireland Provincial Government as at 31 December, 2015;
 - Confirmation as to whether or not the positions of four (4) Chief Executive Officers for Social, Economic, Administration and Planning, Finance and Budget Sectors engaged by New Ireland Provincial Administration are approved and funded in the Organizational Structure; and
 - A detailed list of all consultants engaged by the New Ireland Provincial Government and copies of their Contracts of Employment.

In the absence of appropriate responses to the above requested information as well as the non-availability of relevant records, I was not able to determine whether or not the manpower and payroll matters were effectively managed and that, the total number of Staff on Strength were within the duly approved manpower and budget ceiling.

- As stated in my previous year audit report, two retrenched officers were paid their net final retrenchment entitlements totaling K138,827 in December, 2014. I noted that the officers were again paid their net retrenchment entitlements as at 04th March, 2015 a sum of K154,087. The payment of final entitlements, in my view, should have been less if the calculations were based on the periods from 11th of December, 2014 to 04th of March, 2015. Further, I was not provided evidence to indicate that the Retrenchment/Retirement Benefit Calculation Forms were independently verified and approved by Department of Personnel Management for payment. Consequently, I

observed these payments as inappropriately processed outside the sanctioned expenditure item 111.

Trust Accounts

- The Provincial Government administered independently through a bank account number 1006146433 held with Bank South Pacific, Kavieng Branch, a Trust Account titled 'NIPG Royalty Associated Benefits Trust Account'. I was not provided evidence of a Trust Instrument and other related records including cashbooks to ascertain the legality, validity and appropriateness of the transactions effected through this Trust Account. Consequently, I was unable to verify the ledger account closing bank balance of K24,028,210 as at 22 December, 2015.
- I reported in my previous audit reports that the Provincial Government had operated several trust accounts and administered independently through separate bank accounts without any evidences of trust instruments, proper relevant cashbooks and other related records to account for receipts and expenditure of the trust account funds.

Asset Management

Effective asset management results in prevention of fraudulent use of assets and therefore, would contribute to better service delivery. The assets register however, 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 2015. Consequently, purchases during the year totaling K1,716,980 could not be identified as having been recorded and accounted for.

Advances Management

I observed a serious lack of control over advances management procedures resulting in travel allowances and cash advances totaling K2,280,009 and dating back to 2005 remained un-acquitted at 31 December, 2015. Further, payments of cash advances during the year totaling K1,119,197 were not recorded in the advances registers. I was not provided evidence to suggest that the defaulters were issued reminder notices for acquittals or other recovery actions taken. Consequently, these cash advances may not have been accounted for.

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 recommendations for improvement. I had however, not received 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 in July 2016, the New Ireland Provincial Government had not submitted its financial statements for the year ended 31 December 2015 for my inspection and audit.

6.15.3 Kavieng Urban Local-level Government

The Kavieng Urban Local-level Government had 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 for 2013 and 2014 were completed and the results were being evaluated at the time of preparation of this report in July 2016.

6.15.3.1 Status of Financial Statements

The Kavieng Urban Local-level Government (ULLG) had not submitted its financial statements for the year ended 31 December 2015 for my inspection and audit at the time this report was prepared in July 2016.

6.15.4 Kavieng General Hospital

The Kavieng General Hospital had not submitted its financial statements for the financial years ended 31 December 2011, 2012, 2013 and 2014 respectively. Fieldwork associated with the internal control environment were however, completed without the financial statements. The Management Letters for the years 2011 and 2012 were issued and reported in my 2014 Part 3 report to the Parliament while the results for the years 2013 and 2014 were being evaluated at the time of preparation of this Report in July 2016.

6.15.4.1 Status of Financial Statements

The Kavieng General Hospital had not submitted its financial statements for the financial years ended 31 December 2011, 2012, 2013, 2014 and 2015 at the time of preparation of this Report in July 2016. I had dispensed 2011 financial statements audits in June 2016 under Part V Section 16 (6) of the Audit Act, 1989. The audit of the internal control environment for 2015 was scheduled to commence shortly in the absence of the financial statements.

6.15.5 Business Arms

Section 16(2)(f) of the Audit Act 1989 provides for and extends my functions to audit the accounts and records of the Provincial Governments and Local-Level Governments Business Arms and other establishments.

The New Ireland Provincial Government had investments in the New Ireland Development Corporation Ltd. The entity however, had not been submitting its financial statements since 2007 and I was not able to confirm if the entity was still operationally active at the time preparation of this report in July 2016.

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. 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 entities.

6.16.2 Oro Provincial Government

6.16.2.1 Status of Financial Statements

The Oro Provincial Government had not submitted its financial statements for the financial years ending 31 December 2014 and 2015. Field work associated with audit of internal control environment for both years had been completed and the Management Letter for 2014 was issued and reported in my 2014 Part 3 report while the results for 2015 were being evaluated at the time of preparation of this report in July 2016.

6.16.3 Popondetta Urban Local-level Government

6.16.3.1 Status of Financial Statements

The Popondetta Urban Local-level Government (ULLG) had submitted its financial statements for the financial year ending 31 December 2013 while the financial statements for 2014 and 2015 were yet to be submitted at the time of preparing this report in July 2016. Fieldwork associated with audit of the accounts and records and the review of the financial statements for 2013 together with the audit of the internal control environment for 2014 and 2015 were scheduled to commence shortly.

6.16.4 Popondetta General Hospital Board

6.16.4.1 Status of Financial Statements

The Popondetta General Hospital Board had not submitted its financial statements for the financial years ending 31 December 2013, 2014 and 2015 at the time of preparing this report in July 2016. Fieldwork associated with audit of the internal control environment for the three years were scheduled to commence shortly.

6.16.5 Business Arms

Section 16(2)(f) of the Audit Act 1989 provides for and extends my functions to audit the accounts and records of the Provincial Governments and Local-level Governments Business Arms and other establishments.

The Oro Provincial Government had investments in number of entities including Oro Fisheries Authority; Ambogo Saw Mill and Higaturu Motors. However, none of these entities had submitted their financial statements since their inceptions and I was not able to confirm if the entities were still operationally active at the time of preparing this report in July 2016.

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 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 entities.

6.17.2 Sandaun Provincial Government

6.17.2.1 Status of Financial Statements

The Sandaun Provincial Government submitted its financial statements for the financial year ending 31 December, 2015. Fieldwork associated with audit of the accounts and records and financial statements were in progress at the time of preparing this Report in July 2016.

6.17.3 Vanimo Urban Local-level Government

The Vanimo Urban Local-level Government submitted its financial statements for the year ended 31 December 2012 and 2014. Fieldwork associated with audit of the financial statements for 2012 as well as the accounts and records and financial statements for 2014 have been completed and the Audit Management Letters were still being finalized as at the time of preparing this Report in July 2016.

6.17.3.1 Status of Financial Statements

At the time of preparing this Report in July 2016, the Vanimo Urban Local Level Government submitted its financial statements for the year ended 31 December, 2015 for my audit inspections and arrangements were being made to commence the audit shortly.

6.17.4 Vanimo General Hospital

5.17.4.1 Status of Financial Statements

The Vanimo General Hospital submitted its financial statements for the year ended 31 December, 2015. Fieldwork associated with audit of the accounts and records and the examination of the financial statements were in progress at the time of preparing this Report in July 2016.

5.17.5 Business Arms

Relevant Section of the *Audit Act* provides for and extends my functions to audit the accounts and records of the Provincial Government and Local-Level Government Business Arms and other establishments.

West Sepik Investment Limited is known to me as one of the business arm of Sandaun Provincial Government however, at the time of preparing this report in July 2016, it had

not submitted any financial statements for my audit inspections. Consequently, I was unable to comment on the operations and financial results of the entity.

5.17 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 entities.

6.18.2 Simbu Provincial Government

6.18.2.1 Status of Financial Statements

The Simbu Provincial Government submitted its financial statements for the financial year ending 31 December 2015. Field work associated with audit of the accounts and records and the examination of the financial statements were completed with audit results being evaluated at the time of preparing this Report in July, 2016

6.18.3 Kundiawa Urban Local-level Government

6.18.3.1 Status of Financial Statements

The Kundiawa Urban Local-level Government (ULLG) had not submitted its financial statements for the financial years ending 31 December 2011, 2012, 2013, 2014 and 2015 for my inspection and audit. I had dispensed 2011 financial statements audit under Part V Section 16 (6) of the Audit Act, 1989 in June 2016. No progress was made since my last part 3 Report of 2014 in July 2015.

6.18.4 Kundiawa General Hospital Board

6.18.4.1 Status of Financial Statements

The Kundiawa General Hospital submitted its financial statements for the financial year ending 31 December 2015. Field work associated with the audit of the accounts and records and the assessment of the financial statements was completed and the audit results were being evaluated at the time of preparing this Report in July 2016.

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 2015. Fieldwork associated with audit of the accounts and records were completed with the Management Letter issued and the audit opinion report is being evaluated at the time of writing this Report in July 2016. The paragraphs below detail issues identified with the control environment.

6.19.2.1 Control Environment - 2015

In accordance with the *Audit Act* and the *Organic Law on Provincial Governments and Local level Governments*, 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's Corporate Plan was not made available for my audit 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 produced an audit report in 2015 that revealed serious allegations of maladministration, misappropriation of funds, 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 Provincial Government passed the Provincial Appropriation Act, No.1 of 2015 authorizing a total of K366,636,478 inclusive of 2014 Roll over Funds of K15,691,479 to be spent during the fiscal year 2015 as per its budget estimate. There was no revised budget done during the year.

As a result the ledgers revealed a significant under collection of K236,939,217 between the revenue estimate and the actual revenue. The difference was due to Public Servants and Teachers' Salaries which were paid by the respective relevant departments on behalf of the Provincial Government and Members non-discretionary funds not taken up in respective revenue ledger accounts. The TMS 55 Report was not made available for audit to verify payment of salaries for Public Servants and Teachers.

Warrant authorities and CFCs issued under National and Provincial accounts were not provided as such I was unable to conduct the necessary examinations.

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 lacked adequate resources such as office equipment and trained personnel for collecting revenue for the Province.

Procurement and Payment Procedures

Payment of Accounts

- Twenty eight payment vouchers totaling K4,536,411 were not provided, thus I was unable to validate these payments;
- A total of K5,369,172 were noted to have been made as consultancy and legal services payments comprising K1,710,000 and K3,659,172 respectively during the year. Payments for the consultants were excessive and the management was recommended to review such payments for the purpose of delivery of goods and services to the people of Southern Highlands Province;
- There were instances where reimbursements of personal expenses totaling K509,180 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;
- Twenty six instances of payments totaling K206,736 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, twelve instances of advance payments on fuel totaling K78,884 indicating arrangement with suppliers, however there were no evidence of records such as reconciliation on fuel consumption, dates, persons that collected fuel;
- Payments as financial assistances to individual totaling K3,663,130 were made however evidence of any standard criteria being followed in determining the eligibility of claims received were not sighted;
- Expenditure totaling K792,900 for hire cars from individuals 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; and
- A total payment of K676,170 was made for hotel accommodation and K165,543 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.

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 K22,833,693 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 totaling K3,663,130 were paid to various recipients during the year. However, accountability reports from the grant recipients were not provided for examination, although requested.

6.19.2.2 Management Response

Management had not responded to the matters raised in my Audit Management Letter for 2015. Consequently, I am unable to determine if there were any improvements at the time of preparing this Report in July, 2016.

6.19.2.3 Status of Financial Statements

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 2015 had been completed and the Management Letter issued as stated above and awaiting response from the client. The audit report was being finalized at the time of this Report in July 2016.

6.19.3 Mendi Urban Local-level Government

6.19.3.1 Status of Financial Statements

At the time of preparing this report in July 2016, the Mendi Urban Local-Level Government had not submitted its financial statements for the years ended 31 December 2013, 2014 and 2015. Audit will be carried out when the financial statements are submitted.

6.19.4 Mendi General Hospital Board

The Mendi Hospital Board submitted its financial statements for the year ended 31 December 2015. 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 report being evaluated at the time of writing this Report in July 2016. The paragraphs below detail issues identified with the control environment.

6.19.4.1 Control Environment - 2015

The Management Letter relating to the audit of the accounts and records for the year ended 31 December 2015 contained issues as reproduced below:

Appropriation and Budget Management

- The budget only took into account the activities under the Operating Account and not the Trust Account therefore, leaving out the revenue and expenditure activities of the Trust Account in the budget process and documentation. The receipts in the trust account at year end showed a total credit of K8,655,310 and have expended K2,259,609 during the year. All these were not captured in the Mendi General Hospital 2015 Budget Estimates;
- The hospital had a budget estimate of K20,116,027 however, only K14,078,000 was appropriated to the hospital and the hospital expended a total of K13,612,345. The actual receipts and the expenses resulted in a under spending of K464,755 against the appropriation; and
- The amount disclosed for Salaries & Allowances of K9,328,400 per the appropriation could not be confirmed due to the unavailability of the TMS55 Report from Department of Finance and payroll reconciliations.

Procurement Procedures

My review of the procurement procedures and payments noted that:

- On two (2) instances, payments for recreational leave totaling K43,264 were not supported with the relevant documents as marriage and birth certificates to support the officers' claim of airfares for partners and dependents; and
- The hospital has been paying rentals at a rate of K3,000 per month for a medical staff however; inspection of payment vouchers has indicated that the Lessor was charging a rate of K4,000 per month. With the absence of the lease agreement, the rates charged and paid could not be confirmed.

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.

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, disposed of assets and their respective dates since 2009 up to current 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 totaling K364,219 purchased during the year were noted to have not been recorded; and
- Proper stock takes on all the assets had not been undertaken to ensure controls were effective and these assets had been properly managed.

6.19.4.2 Management Response

Management had not responded to the matters raised in my Audit Management Letter. Consequently, I was not advised of any improvements at the time of preparing this Report in July 2016.

6.19.4.3 Status of Financial Statements

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 2015 had been completed and Management Letter issued as stated above and awaiting response from the client. The audit report was being finalized at the time of this Report in July 2016.

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 and Business Arms.

6.20.2 West New Britain Provincial Government

The West New Britain Provincial Government had submitted its financial statements for the years ended 31 December, 2014 and 2015 for my inspection and audit. The examination of the financial statements and the fieldwork associated with the audit of the accounts and records for 2014 had been completed and Management Letter issued in July 2015 with the audit report also issued to the Ministers concerned. The examination of the financial statements and the fieldwork associated with the audit of the accounts and records for 2015 had also been completed and Management Letter issued in July, 2016. At the time of preparing this report in July, 2016 the audit report for 2015 was being reviewed. The paragraphs below detail issues identified with 2014 financial statements and internal control environment for 2015.

6.20.2.1 Comments on Financial Statements – 2014

My report to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* on the 2014 financial statements of the West New Britain Provincial Government was issued in June, 2016. The report contained a Disclaimer Audit 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 including trust account balances and consequently, on the financial position of West New Britain Provincial Government as at 31 December 2014 due to the following reasons:

- The Provincial Government total fund balance of K27,940,116 is not in agreement with the audit reconciled closing cash balances of K27,075,553 resulting in a variance, an over-statement of K864,565 at year end. The variance of K864,565 has been reported in Note 6.1 to the financial statements as the balance from ‘Other Accounts’ which could not be verified to the reliable sources;
- The overdrawn trust fund balance of K161,129 is a carry forward suspense account balance in the PGAS system from prior years and is not an actual cash balance of a trust fund with bank account. Consequently, it distorted the fund balance in Statement ‘A’; and
- The 2014 opening fund balance of K20,820,663 is not in agreement with the prior year closing fund balance of K16,253,848 taken up in Note 3 to the financial statements thus over overstating the fund balance by K4,566,815.

Receipts and Payments

The West New Britain Provincial Government had reported its total revenue and expenditure as K127,763,537 and K120,482,955 respectively with an operating surplus of K7,280,582 as at 31 December, 2014. The accuracy of the revenue and expenditure and therefore, the operating surplus as at 31 December, 2014 could not be confirmed due to the following reasons:

- Instances of over and understatement of actual receipts and payments noted in Statements 'J' and 'K';
- Material reconciling items relating to receipts and payments identified in the Operating and Revenue Fund Accounts' bank reconciliation statements were not adjusted in the cashbooks, the revenue and expenditure ledgers disclosed in Statements 'J' and 'K' had affected accuracy of statement 'B' and the cash balances reported in Statement 'A'; and
- Public Servants' and Teachers 'Salaries and allowances actual receipts and payments of K59,462,052 not in agreement with the Department of Finance Expenditure Report (TMS 55) of K64,077,000 resulting in K4,754,448 understatement of Statements 'J' and 'K'.

Investments

No investments (short term or long term) were disclosed as having held during the year under review. 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, the status and existence of the investments could not be ascertained.

Assets

- The West New Britain Provincial Government did not disclose details of fixed assets purchased and owned at the closure of the year under review in appendix 4 to the financial statements. I noted however, a receipt totaling K155,200 from disposal of assets as well as payments totaling K3,871,380 for various assets during the year which apparently had not been properly accounted for, and to that extent, and in the absence of an adequately maintained Assets Register, the existence, completeness and the accuracy of the value of assets owned and under the custody of the West New Britain Provincial Government during the financial year ended 31 December 2014 could not be confirmed; and
- As reported in my 2014 Part 3 report, the West New Britain Provincial Government had paid a total of K1,430,248 (USD633,600) in 2013 to an overseas supplier namely, Ashok Leyland of India to supply and deliver six (6) of the 32 –seatbuses of which four (4) were to be operated as “School Buses” and two (2) to be fitted with medical equipment and operated as “Mobile Clinics”. My physical inspection of the assets at the time of audit in June 2015 revealed six buses including the four purchased under the arrangement were parked at the Department of Works Yard and two others at the Kimbe General Hospital Car Park. The buses were parked away and sitting idle due to problems associated with running costs (spare parts and high

consumption of diesel fuel); I was not provided evidence to suggest that the Provincial Government had sought independent technical advice from the Department of Works or other relevant agencies prior to purchasing what appeared to be an uneconomical expenditures and therefore, a wastage of limited resources though the intension was honorable.

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 2014.

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, 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 – 2015

The Management Letters relating to the audit of the accounts and records for the years ended 31 December, 2014 and 2015 contained similar issues hence, only the 2015 Management Letter is reproduced as follows:

Corporate Governance

- The implementation periods of the West New Britain Provincial Government’s four (4) year Corporate Plan as well as the Integrated Provincial Development Plan, 2012 to 2015 had lapsed at the end of the year 2015. The four (4) year Corporate Plan of the Provincial Government was developed and linked to the WNB Integrated Provincial Development Plan, 2012 to 2015 and had focused on eight (8) Key Results Areas that were to enable the Provincial Administration to advance in delivering and maintaining government services to the people. However, no evidence was made 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; and
- I, further noted that the Provincial Government had no Independent Audit Committee established 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 for 2015 financial year was K182,113,371. Adjustments made were noted during the year through the quarterly budget reviews but the actual appropriation total of K182,113,371 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 2015, relating to the two operating accounts and the revenue fund account. These reconciling items and stale cheques had been cleared in subsequent month's bank reconciliations in 2016.

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 K84,951,944, representing 62 percent of the anticipated total revenue for the year. I noted significant shortfalls in MVIL remittance, liquor license, trust investments, bookmaker's tax, former year's development funds, LLG support grant, transport function grant, health function grant and education function grant.

The material amounts of shortfall in internal revenues indicates the inability of the Provincial Government to prepare sound and prudent revenue forecast and also, to effectively plan and direct their efforts and course of action to maximize the collection of internal revenues while late release of funds by the National Government has been one of the factors attributed to the short falls in grant revenues.

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:

- In four (4) instances, payment vouchers relating to expenditures incurred and paid totaling K929,547 were noted missing from files and as such, I could not ascertain the validity as well as proper authorization of the claims presented for payment;
- The Provincial Government had paid a total of K193,033 on reimbursement of personal monies belonging to officers or private organizations that were used to pay for expenses incurred on behalf of the Provincial Government. I observed the claims presented for payment lacked complete and appropriate supporting documents to verify the validity of the claims as well as evidences to suggest the officers had obtained prior approval from their respective Divisional Heads or the Provincial Administrator to enter into such arrangements;
- Payments totaling K4,323,403 were made in settlement of outstanding claims from prior years lodged by various organizations and individuals. However, there was no

proper control mechanism in place to determine and verify the validity and genuineness of the claims prior to processing payment of the claims. Furthermore, most of the claims lacked appropriate original copies of supporting documents such as invoices;

- Payments totaling K640,209 were made as financial assistances to individuals and community organizations during the year under review. However, there were no proper monitoring guidelines or mechanisms in place to ensure that funds given are utilized for purposes intended and also to obtain accountability reports from recipients. Lack of monitoring guidelines exposes the Provincial Government to risks where funds may be misused or not utilized for the intended purposes;
- Payments totaling K224,575 and K314,010 were paid to private lawyers and certain organizations and individuals respectively for their legal and consultancy services rendered to the Provincial Government. The private lawyers were paid on a retainer basis as well as monthly fees for the legal services rendered to the Provincial Government. The claims presented for payment lacked appropriate supporting documents such as contract agreements to suggest that the engagement of private lawyers and consultants were sanctioned by the appropriate authorities such as the Provincial Supply and Tenders Board. Payments made not in accordance with provisions of the Public Finances (Management) Act and relevant financial procedures and guidelines exposed the Provincial Government to the risk of misuse of public moneys and fraudulent activities.

Provincial Supply and Tenders Board

- The Provincial Administration had established a Provincial Supply and Tenders Board (PS&TB) Secretariat that had been tasked with the responsibility of coordinating the activities of the Board as well as maintaining proper records of meeting minutes of the Board. The WNB Provincial Supply and Tenders Board had convened five (5) meetings during the year. Perusal of the Meeting Minutes revealed the Minutes in respect of Meetings No.03/2015 and No.04/2015 were not signed by the Chairman of the Board whilst the Minutes of Meetings No. 02/2015 and 05/2015 were not made available for audit perusal; and
- The PS&TB Meeting Minutes in respect of Meeting No. 03 of 2015 revealed the Board had approved the list of eighteen (18) Provincial Government vehicles that were surveyed for disposal. The list however, did not provide any further information on the reserve price or disposal value for those vehicles that were confirmed for disposal nor the names of successful bidders with their offered prices as well as their placing in the order of priority. The review of revenue ledgers revealed the Provincial Government had accounted for and recorded receipts of K22,500 in disposal of vehicles under revenue head 639000/05.

Capital Works and Maintenance

My review of a sample of expenditures incurred and paid by the Provincial Government in respect of capital and maintenance works totaling K5,602,202 had identified the following issues:

- In most instances, payment of contract funds were made in full to private contractors prior to commencement of work and/or were not supported with appropriate progressive work reports or certificates of completion duly certified by a competent technical officer of the Provincial Government to indicate maintenance works undertaken had been satisfactorily executed and that the payment to private contractors were proper;

- A contractor was engaged by the Provincial Government to construct a 4 in 1 double classroom at WNB Technical College for a contract value of K482,185. The PS&TB contract agreement intended to formalize the engagement of the contractor was not fully completed with the necessary details; and
- A contractor was paid K600,000 in total for alteration work carried out at Textile Shed and variations for additional work done at the Barefoot College. The claims presented for payment were not supported by the PS&TB contract agreement.

Grants and Subsidies

WNBPG paid out grants, subsidies and financial assistances to schools and tertiary institutions, non-profit organizations, public authorities, Local-level Governments and various other entities during the year totaling K9,226,600. 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 in lack of monitoring of grants and subsidy being paid out.

Human Resources Management

My review of relevant records pertaining to payroll management and payment of salaries and allowances had identified the following issues:

- 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;
- Salary advances totaling K193,030 had been paid to newly appointed officers in 2010 for which only K152,700 was recovered from the advance holders as of June 2016; and
- Payroll reconciliations for employees were not done regularly and the Payroll for the year under review had not been made available for my verification. Alesco integrated HR/payroll system revealed eighty unattached public servants on payroll in WNB Provincial Administration.

Assets Management

- The WNBPG had not disclosed 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 K4,957,768 were noted being purchased during the year, however, 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; and
- I sighted no evidence to suggest the Property and Assets Unit had conducted periodic and/or an annual stock-take to physically verify the existence, conditions and ascertain the value of fixed assets held under ownership of the Provincial Government.

Advance Management

- Appendix 6 presented showed the balance of un-acquitted travelling allowances and cash advances of K4,497,699 as at 31 December, 2015 inclusive of previous years brought forward un-acquitted advances of K1,185,696.
- Cash advances totaling K864,633 paid during the year had not been recorded in the advances register. Consequently, I was unable to verify the accuracy of K4,497,699 disclosed in Appendix 6 as total un-acquitted advances at year end. Further, numerous instances of additional advances totaling K613,046 had been paid to officers while their earlier or previous advances remained un-acquitted.

6.20.2.3 Management Response

The above observations on the financial statements for the year ended 31 December, 2014 and internal control weaknesses for 2015 were communicated to the West New Britain Provincial Administrator and his management together with recommendations for improvement. I have however, not received responses to the Management Letter at the time of preparation of this Report in July 2016.

6.20.3 Kimbe Urban Local-Level Government

6.20.3.1 Status of Financial Statements

At the time of preparing this report in July 2016, the Kimbe Urban Local-Level Government had not submitted its financial statements for the years ended 31 December 2014 and 2015. Audit will be carried out when the financial statements are submitted.

6.20.4 Kimbe Hospital Board

At the time of preparing this report in July 2016, the Provincial Hospital had not submitted its financial statements for the years ended 31 December 2013, 2014 and 2015. Audit will be carried out when the financial statements are submitted. The interim audit for 2013 was completed and Management Letter issued and reported in my 2014 Part 3 Report.

6.20.5 New Britain Palm Oil Limited

New Britain Palm Oil Limited (NBPOL) submitted its financial statements for the years ended 31 December 2013 and 2014 for audit. Fieldwork associated with examination of the financial statements and audit of accounts and records were completed for both years with the Management Letters and audit opinion reports issued.

6.20.5.1 Comments on Financial Statements – 2014

My reports to the residence of West New Britain and other relevant bodies under the *Company's Act* and the *Audit Act* for the years ended 31 December, 2013 and 2014 were issued in May 2016. The reports contained similar issues, hence only the 2014 report is 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. The management has since responded as follows:

We note your comments regarding the name of the Trust. WNB Charitable Trust Limited is the trustee of the West New Britain Trust and so if we were to change the name disclosed on the financial statements it would need to be to that of “The West New Britain Trust.

The reason we have not changed the name of the Trust as yet becomes clearer if one reads paragraph 1 and 4 of the Report of the Trustee on page 1 of the financial statements. These read as follows:

On 24 November 1998 two trusts were established as a mechanism by which the permanent residents and people of West New Britain Province could both participate and benefit from the business activities of New Britain Palm Oil Ltd (NBPOL). The trusts were individually named the Free Share Trust and the Carry Share Trust. The trusts acquired 18,000,000 ordinary shares in NBPOL.

For reporting purposes the financial position and performance of both the trusts have been incorporated into the attached single Financial Report.

The assets of the original two trusts still remain in their hands and have been included in the single financial report which has simply adopted the name “NBPOL Trust”. This was only supposed to be a temporary solution until a newly established single trust would take over the assets. This new trust is the West New Britain Trust referred to earlier. The assets will be transferred formerly to the West New Britain Trust once the Internal Revenue Commission has approved its registered charitable status for tax exemption purposes. Unfortunately we still await the Internal Revenue Commission to issue the exemption.

In light of the above facts we propose that the name not, at this point, be changed.

- The Trustee financial statements were unsigned and without date to authenticate the validity of the contents of the trustee’s statement including the disclosures.

Fixed Assets

The 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 of K523,801 and the net book value of K299,944 at year end could not be confirmed as correct. *The issue continues to remain unattended to despite being raised in the management letters in the last three years.* Further, periodical stock takes

were not done to confirm physical existence and conditions of assets. The management has since responded thus-

The trust fund owns less than ten assets. The total value of these assets at 31 December 2014 was K299,944 of which two assets, being the generator at Sir Buri Kidu Haus and the new CX5 motor vehicle, represent over 87% of this value. The asset schedule is the Funds Fixed Asset Register and it contains all the relevant information which you require the individual assets and we believe such is sufficient to safeguard these 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, audit has however, accepted the non-revaluation of this property in that circumstance. *This issue was raised since 2011 and the management opted to do valuation on the said property however, this has not eventuated during the year under review.* In addition, non-revaluation of the said property was not disclosed in the Notes as required by IAS 40 paragraph 75.

The management has since advised that the Trust had appointed a professional valuer and the formal valuations for the properties were obtained. The valuations have indicated substantial increase in the value of the properties which will be reflected in the 2015 financial statements.

Term Deposits

Perusal of the term deposit records revealed that there had been 8 term deposit transactions in November, 2013 with the Westpac Bank PNG Limited (which included ANZ funds transferred into Westpac A/C no.2 in November 2013) with a closing balance of K27, 567,562 in 2013. Out of which a total of K25, 400,000 was invested in Treasury Bills (7 different accounts) between April and July 2014 with BPNG each maturing at different dates. Two (2) of the 7 treasury bill accounts had matured in October, 2014 and got refunded leaving a net investment of K17,746,104 at year end.

I was not provided evidence to indicate that the transfer of funds from commercial banks to BPNG and therefore, the investments in Treasury Bills had been formally approved by the Trustee (WNBPG) through a formal Provincial Executive Council Meeting Resolution with assessment and advice from the Financial Advisor.

The management has since responded that it had taken note of my recommendations for improvement and has stated that it had 'sought expert advice from the Trust's investment adviser before the decision to invest in the Treasury Bills was taken and that the investment has brought significant gains to the fund with no increase in the trust's risk profile.

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 2014 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.

Significant Control Weaknesses

The paragraphs below give a summary of significant control weaknesses identified in the review of the West New Britain Provincial Government's Share Trust Number 1 and 2 records and processes:

Trust Account 1

- An MOU signed between the University of Goroka (UOG) & WNBPG for a 4 year Early Child Training Program for teachers in the province at a cost of K400,000. I was not provided supporting list of teachers selected and benefitted from the program to-date or the related cost details.
- A total of K250,000 paid for an eviction exercise lacked adequate evidence of a nature or description eviction and supporting documentations. I noted the payment as clearly unrelated to any impact projects and was therefore contrary to the intentions of the trust deed.

Trust Account 2

- Acquittals of payments with receipts, supporting documents, together with progress status reports where applicable in relation to the funds expended on projects totaling more than K19 million were not available for audit verification. Further, of the sampled projects physically sighted as completed, I noted that a construction of a classroom at Vilolo Primary School appeared to have been abandoned and remained incomplete at the time of audit in May 2015 although the contractor was paid in full in 2013;
- Cash cheques paid to facilitate casual wages and other petty cash expenses were not properly supported with acquittals. Further, signing of wage sheet, etc. was insufficient to confirm actual receipt of wages and correct amount paid to recipients. The manner in which casual wages were managed was also very much prone to the risk of loss, theft or misappropriation;
- Cheque totaling K11,000 noted to have been paid in advance for fuel to Lifu Holdings (a fuel distributor - POM). The validity of these payments could not be ascertained in the absence of any related supporting documents including fuel usage report/account showing details of amounts paid, vehicle descriptions, date & time of refilling;
- Payments for vehicle hires, accommodation and ship fares associated with the PNG Games in Lae, Morobe Province in December 2014 totaling K375,636 had not been acquitted at the time of the audit in May, 2015;

- Various payments between the months of January and June 2014 totaling K137,764 could not be confirmed as valid in the absence of related paid vouchers, invoices and other supporting documents; and
- Unspent funds from the current year projects had not been properly accounted for to ensure their availability in the subsequent year on the same projects and to avoid excessive budgeting and allocation of funds. I noted to the contrary that unspent funds were transferred into the main unspent funds account of the provincial government without proper monitoring and recording of their sources as being from the trust accounts.

The management has since advised that all payments are paid through service providers except for the trust casuals who are now being sorted out to be paid through their personal accounts.

Trust Fund and Impact Project Management and Reporting System

The annual disbursement of funds for impact projects including tertiary students' tuition fees in West New Britain Province under the established trust deed lacked a properly established trust office with competent full-time officers to adequately manage and monitor activities and provide report on the application of the funds as well as the status of the projects at an appropriate intervals directly to the Provincial Administration. Consequently, I could not establish if funds disbursed under the trust deed were properly accounted for and with positive results to the intended beneficiaries.

The management has since advised that a new data base is being created trying to get the career and advices to establish the information centre.

Trade Receivables

The West New Britain Provincial Government was advanced an amount totaling K75,921 in January 2013 out of the Trust funds for purposes of paying casual wages. The amount however, had not been reimbursed as at the time of the audit in May 2015.

The management has since advised that despite its frequent requests and best efforts, the debt remains unpaid and that a decision to this effect will be reflected in the 2015 financial statements".

6.20.5.2 Management Response

The Management had since responded to my Management Letter queries as stated under the respective qualification and internal control paragraphs above.

6.20.5.3 Status of Financial Statements

New Britain Palm Oil Limited had not submitted its financial statements for the year ended 31 December 2015 at the time of preparing this report in July 2016.

6.20.6 Business Arms

Section 16(2)(f) of the Audit Act 1989 provides for and extends my functions to audit the accounts and records of the Provincial Governments and Local-Level Governments Business Arms and other establishments.

I am aware of business arms of the West New Britain Provincial Government namely, Cape Hollman Corporation, West New Britain Development Corporation, West Farm

Resources Limited and Mokmok Development Corporation Ltd. None of the entities had submitted their recent financial statements for audit at the time preparation of this report in July 2016.

6.21 WESTERN HIGHLANDS PROVINCE

6.21.1 Introduction

Western Highlands Provincial Government, Mount 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.

5.21.2 Western Highlands Provincial Government

The Western Highlands Provincial Government had submitted its financial statements for the year ended 31 December 2014 for my inspection and audit. The fieldwork associated with the audit of the financial statements for 2014 and an interim audit of the control environment for 2014 had been completed with Management Letters issued. The audit opinion report for 2014 was a Disclaimer Audit Opinion and was issued to the Ministers concerned. The internal control issues for 2014 financial year were reported in my last 2014 Part 3 Report hence, the paragraphs below detail the issues identified with 2014 financial statements.

5.21.2.1 Comments on Financial Statements – 2014

My report to the Ministers concerned and other relevant bodies under the *Organic Law on Provincial Governments and Local-Level Governments* 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, 2014 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 (2014);
- 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, 2014. Consequently, I am 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, 2014.

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 Western Highlands Provincial Government as at 31 December, 2014 due to:

Statement 'A' showed an accumulated fund balance of K10,569,474 represented by the bank and investment balance of K10, 569,473 as at 31 December, 2014.

- I was unable to confirm the accuracy and completeness of the Provincial Revenue Fund balance of K8,254,392 as disclosed in *Note 3 to the Accounts* due to;
- Inherited errors carried forward from previous years which were not corrected in the current year's accounts, and
- Substantial reconciling items of revenue and expenditure appearing in the bank reconciliation statements not being adjusted in the cash books and the subsequent revenues and expenditures in Statements 'B', 'J' and 'K'. Consequently, this distorts the cash position as at 31 December, 2014.
- In the absence of records and documents pertaining to the Trust accounts I was unable to confirm the accuracy, completeness and fairness of the Trust Fund balance of K2,315,082 reported in Statement 'A';
- It was erroneously reported in Note 4 comparative balances for 2013 as this related to the 2011 financial year which is a fundamental error and misleading to users;
- Note 4 relating to the Trust Fund closing balance of (K1, 007, 636) in 2013 did not correspond to the opening balance of K1, 353, 806 in 2014 resulted in an unexplained difference of K 346, 170.
- Reference notes 6.2 and 6.3 under Bank Balances in Statement 'A' were erroneous and misleading as the figures disclosed refers to notes 6.1 instead which is 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 totaling K392, 907 reported in statement 'A'.

Receipts and Payments

I am unable to verify the completeness and accuracy of the receipts of K180, 753,902, payments of K167, 569,257 and the subsequent excess of K13,184,645 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 K79,110,500 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 cash books, 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 the year, 2014. 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, 2014. Neither Investment Registers nor related records were provided for my examination. Further, the Financial Statements and other related information on the Provincial Government's 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. 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 was unable to confirm the 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. I was also unable to trace assets totaling K2,215,859 purchased during the year to the asset register as no asset register was being maintained. Appendix 4 showed 'nil' balance.

Advances

Appendix 6 did not disclose a cumulative figure on un-acquitted advances as at 31 December, 2014. My examination of records revealed that there had been gross abuse and mismanagement over payment and acquittal of advances during the year where effective control from the issuance of advances to the acquittal process was lacking. In the absence of a complete advance register, I was unable to ascertain whether advances paid were properly monitored to ensure completeness in recording to the register, acquittals requirements were complied with and remedial actions are taken against those failing to provide acquittal reports."

6.21.2.2 Control Environment

The internal control issues relating to the 2014 financial year were reported in my last 2014 Part 3 Report. As at the time of writing this Report in July 2016, the management has not responded to the matters raised in my Management Letters. Consequently, I was not advised of any improvement the Provincial Government had undertaken to remedy the above weaknesses.

6.21.2.3 Status of Financial Statements

At the time of preparing this Report in July 2016, the financial statements for the year ended 31 December 2015 had been submitted for my inspection and audit and arrangements were being made to commence the audit as soon as possible.

6.21.3 Mt Hagen Urban Local-level Government

The Mount Hagen ULLG had submitted its financial statements for the years ended 31 December 2012, 2013 and 2014 for my inspection and audit. The fieldwork associated with the audits of these financial statements had been completed with Management Letters issued. The audit reports for 2012, 2013 and 2014 were Disclaimer Audit Opinions and were issued to the Ministers concerned. The issues identified with the

financial statements and the control environments were similar hence, only the 2014 is produced below:

6.21.3.1 Financial Statements - 2014

My report to the Ministers concerned and other relevant bodies under the *Organic Law on Provincial Governments and Local-Level Governments* and the *Audit Act* was issued in March 2016. The report was a Disclaimer Opinion as reproduced below:

“Basis for Disclaimer Opinion

Presentation of Financial Statements

Finance Instruction 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 Mt. Hagen Local-Level Government:

- a) did not contain the Lord Mayor’s Declaration on the Mt. Hagen Urban Local-Level Government’s budget performance for the year ended 31 December, 2014 as required;
- b) the presentation of heading name Mt. Hagen Urban Local Level Government was erroneously reported as Western Highlands Provincial Government in all the statements from ‘A’ to ‘K’ including the Notes and the Appendices 1-6 and the presentation of name Urban Local Level Government Fund and Urban Local Level Government Operating Account were erroneously reported as Provincial Fund and Provincial Government Operating Account in Statement ‘A’ and the related notes which are fundamental errors and misleading; and

Subsequently, the financial statements were not presented in the format required by the Finance Instructions. Furthermore, comparative figures for Statement ‘A’ was incorrect and misleading and not in compliance with the reporting requirements. They were the 2012 figures.

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 Mt Hagen Urban Local Level Government as at 31 December, 2014 due to the following reasons:

- inherited errors, and misstatements carried forward from previous years which were not rectified and incorporated in the 2014 accounts;
- The completeness and accuracy of the trust fund balance of K208,109 could not be confirmed in absence of the underlying records such as cashbook, ledgers and the related documents; and
- The accuracy of the revenue fund balances of K1,061,362 could not be confirmed as substantial reconciling items of revenue and expenditure appearing in the reconciliation statements totaling K615,231 were not adjusted in the cash books as well as the total revenue and total expenditure in Statements ‘B’, ‘J’ and ‘K’, consequently affected the balances in Statement ‘A’.

Receipts and Payments for 2014

I am unable to verify the accuracy of the receipts of K3,976,843 and payments of K3,522,306 and subsequently the accuracy of the operating surplus of K454,537 in Statement 'B' and the related Statements 'J' and 'K' due to un-reconciled items reported under cash balances above.

Debtors and Receivables

Appendix 2 showed nil balance as at 31 December, 2014. My examination of records pertaining to land rates revealed an outstanding of K9,260,261 as at 31 December 2014 which was carry forward balance from 2012. In the absence of proper reconciliations and records I was unable to confirm the total land rates collected and the outstanding as at the year then ended.

Assets

In the absence of a complete assets register and annual stock-takes, I am unable to confirm the completeness and value of total assets of K2,615,859 disclosed in Appendix-4. Assets worth K28,734 purchased in 2014 were not fully recorded in the assets register. Furthermore, payments totaling K1,276,000 was made to a supplier for machineries. There is no evidence to confirm that the assets were delivered.

Advances

Appendix 6 of the financial statements showed 'nil' un-acquitted advances as at 31 December, 2014. The Mt. Hagen Urban Local-Level Government maintained neither an advance register nor the acquittal files. Consequently, I am unable to confirm the existence and the completeness of un-acquitted advances as at the year-end, and to ascertain whether advances paid were properly monitored to ensure completeness in recording to the register, acquittals requirements were complied with and remedial actions were taken against those failing to provide acquittal reports. A total of K45,640 was paid as advances during the year under review.

Disclaimer 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 am unable to express an opinion on the financial statements of the Mt. Hagen Urban Local-Level Government for the year ended 31 December 2014."

6.21.3.2 Control Environment– 2014

Corporate Governance

Corporate Plan

The Mount Hagen Urban Local-Level Government did not have a Corporate Plan in place during the year under review. Management did not act on previous years' audit recommendations to develop a corporate plan to implement it to drive the organization forward.

Minutes of Meetings

Minutes of the Urban Assembly meetings held during the year had not been provided, although requested for 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

The internal Audit Unit of Western Highlands Provincial Administration has the responsibility of conducting Mount Hagen ULLG internal audit but did not conduct any audits on the operations of the Urban Local-Level Government in relation to management's conduct and financial affairs.

Appropriation and Budget Management

The Urban Local-Level Government passed an Act entitled Appropriation Act No.1 of 2014 authorizing an expenditure estimate total of K6,806,380 appropriated for the fiscal year 2014 comprising National Government Grant of K1,562,800 and Internal Revenue Collections of K5,243,580. The following matters were noted:

- The original certification was not signed by the Lord Mayor. Also the assembly meeting minutes relating to the passing of the 2014 budget was not provided for my review; and
- The 2012 Mount Hagen Urban Local-Level Government general election was declared a failed election. It appears that there was no Assembly quorum in place to enact the 2014 appropriation. The ULLG management explained in the audit exit meeting that through administrative arrangement with the Provincial Administration funds were accessed for 2014 fiscal operations. However documents and records including the enabling legal provision in support of the verbal statement were not provided. Consequently I am unable to confirm whether the revenues collected and expenditures incurred during 2014 was legal and provided for within the legal framework of the Organic Law on Provincial and Local-Level Governments.

Paid Accounts

Procedural deficiencies were noted with the procurement processes as discussed below:

- Registers for both quotations and accountable forms were not maintained and as such I was unable to confirm whether verbal and written quotations were obtained;
- Paid vouchers for payments totaling K45,342 were missing and as such I was unable to confirm the validity of these payments;
- Law and consultancy firms were engaged whose fees were K39,873. The underlying records like Finance Committee approval, contract document and supplier invoice were not provided in support of the payments;
- Reimbursement of personal monies totaling K139,470. There was no evidence to show prior approval was granted, the validity of such expenses could not be established in the absence of supporting documentations;
- A total expenditure of K451,784 was incurred on private vehicle hires. The payments were not supported with three written quotations, suppliers invoices, payments were made from wrong budget votes; no consideration was given to the daily rates charge, number of days hired and genuine purposes for the hires. There were numerous instances where 10% VAT remittance to IRC were not compliant with;
- Total expenditure of K563,203 was spent for transport and fuel during the year. In the absence of a transport policy I was unable to ascertain that vehicles owned were properly managed;

- Rental payments of K102,135 including housing allowances were made during the year. In the absence of tenancy agreements and employment contracts including staff files, I was unable to verify the appropriateness and genuineness of these payments;
- Payments totalling K80,000 was made to three (3) ULLG officers as cash advances for Christmas party. In the absence of proper documentation and acquittals I was unable confirm whether the funds were spent for the intended purpose;
- Counter funding payment of K4,000,000 was made to WHPG for Mt Hagen City roads developments and contribution to rebuilding Kapal Haus at K2,000,000 respectively. The Mt. Hagen ULLG Assembly resolutions and management approvals and Memorandum of Understanding between the ULLG and WHPG were not provided in support of the payment.

Assets

My review of the ULLG's records and controls exercised over management and custody of assets identified the following weaknesses:

- An Asset Register maintained was incomplete with details of assets, value, date of purchase and disposal and other details lacking. During the year the ULLG purchased assets totaling K28,734 however, were not updated in the assets register. In the absence of a complete assets register, I was unable to verify the condition and existence of assets owned by ULLG;
- Physical stock takes of assets were not undertaken during the year to ensure the condition and existence of assets; and
- The ULLG made a payment of K1,276,000 to Giru Ltd an agent company dealing with machinery to purchase 4 x machineries in 2013. Except for one 8 tonner ampli roller valued at K352,00 delivered in 2013 the other 3 machineries were not delivered as at 31 December, 2014. If there were any efforts made to recover funds or for the machineries to be delivered I have not sight any evidence of such effort made.

Advances

The Mt. Hagen 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 paid and acquitted and total outstanding for the period under review.

6.21.3.3 Management Response

Management had not responded to the matters raised in my Management Letters. Subsequently, I was not advised of any improvement at the time of preparing this Report in July 2016.

6.21.3.4 Status Financial Statement

The Financial Statement for 2015 was not submitted however the fieldwork associated with the inspection and audit of the accounts and records (interim audit) was in progress at the time of this Report in July 2016.

6.21.4 Western Highlands Provincial Health Authority

The interim audit of the control environment for the 2014 financial year was completed earlier without the financial statements and the matters arising for that audit was taken up in my last 2014 Part 3 report. The Western Highlands Provincial Health Authority has now submitted its financial statements for the year ended 31 December 2014 and the fieldwork associated with the audit of the financial statements has been completed and the results are being evaluated at the time of writing this Report in July 2016.

6.21.4.1 Status of Financial Statements

As at the time of preparing this Report in July 2016, The Western Highlands Provincial Health Authority has not submitted its financial statements for the year ended 31 December, 2015 for my inspection and audit.

6.21.5 Business Arms

Section 16 (2) (f) 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 2016, 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 delays in reporting the result of these audits. Details of the causes of the delays 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 2015 of approximately K3,533,920,600 billion. This represented 22% of the total State's budgeted expenditure for 2015 which was K16,199,100,000. 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 4.4 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 Organization of Supreme Audit Institutions (INTOSAI). 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, I conduct 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 6.

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 Urban Local-level Governments and Hospitals problem audits are detailed in the table below had been dispensed in June 2016.

List of Audits of Financial Statements dispensed

| Entity | Year for which Financial Statements were due | Explanatory Notes |
|--------------------------|---|--------------------------------------|
| Kerema Urban LLG | 2010-2011 | FS not prepared. Control audits done |
| Motu Koitabu LLG | 2009-2011 | FS not prepared. Control audits done |
| Mendi Urban LLG | 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 |
| Mt Hagen Urban LLG | 2011 | FS not prepared. Control audits done |
| Kavieng General 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 report is 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 cash-flows, 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 2016 | | | |
|---------|------------------------------------|--|---------------|-----------|---------|
| | Provincial Government | Issued | | Pending | Remarks |
| | | Last Cycle | Current Cycle | | |
| 1 | Autonomous Bougainville Government | | | 2014-2015 | |
| 2 | Central | | | 2013-2015 | |
| 3 | East New Britian | | | 2015 | |
| 4 | East Sepik | | 2014 | 2015 | |
| 5 | Eastern Highlands | | 2014 | 2015 | |
| 6 | Enga | | 2014 | 2015 | |
| 7 | Gulf | | | 2015 | |
| 8 | Hela | | 2013-2014 | 2015 | |
| 9 | Jiwaka | | 2013 | 2014-2015 | |
| 10 | Madang | | 2014 | 2015 | |
| 11 | Manus | | 2014 | 2015 | |
| 12 | Milne Bay | | | 2014-2015 | |
| 13 | Morobe | 2014 | | 2015 | |
| 14 | New Ireland | | 2014 | 2015 | |

| | | | | | |
|----|--------------------|----------|-----------|-----------|--|
| 15 | Oro | | | 2014-2015 | |
| 16 | Sandaun | | | 2015 | |
| 17 | Simbu | | | 2015 | |
| 18 | Southern Highlands | | 2014 | 2015 | |
| 19 | West New Britain | | 2014 | 2015 | |
| 20 | Fly River | | | 2014-2015 | |
| 21 | Western Highlands | | 2014 | 2015 | |
| | TOTAL | 1 | 12 | 28 | |

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 2016 | | | |
|---------|----------------------------------|---|---------|-----------|-----------------------------------|
| | Urban Local-level Governments | Issued | | | Remarks |
| | | Last Cycle | Current | Pending | |
| 1 | Alotau | | | 2014-2015 | |
| 2 | Daru | | | 2014-2015 | |
| 3 | Kiunga | | | 2014-2015 | |
| 4 | AitapeLumi | | | | Audit on District ULLG pending |
| 5 | Balimo | | | | Audit on District ULLG pending |
| 6 | Buka | | | 2012-2015 | |

| | | | | | |
|----|-----------------|----------|-----------|-----------------|--------------------------------|
| 7 | Finschaffen | | | | Audit on District ULLG pending |
| 8 | Goroka | | | 2014-2015 | |
| 9 | Hagen | | 2012-2014 | 2015 | 2011 dispensed |
| 10 | Ialibu | | | | Audit on District ULLG pending |
| 11 | Kainantu | | | | Audit on District ULLG pending |
| 12 | Kavieng | | | 2013-2015 | |
| 13 | Kerema | | | 2012-2015 | 2011 dispensed |
| 14 | Kerowagi | | | | Audit on District ULLG pending |
| 15 | Kimbe | | | 2014-2015 | |
| 16 | Kundiawa | | | 2012-2015 | 2011 dispensed |
| 17 | Lae | | | 2012-2015 | |
| 18 | Lorengau | | | 2014-2015 | |
| 19 | Madang | | | 2014-2015 | |
| 20 | Maprik | | | | Audit on District ULLG pending |
| 21 | Mendi | | | 2012-2015 | 2011 dispensed |
| 22 | Motu Koitabu | | Nil | | |
| 23 | Popondetta | | | 2013-2015 | |
| 24 | Porgera | | | | Under Porgera Dev. Authority |
| 25 | Tari | | | | Audit on District ULLG pending |
| 26 | Rabaul | | 2014 | 2015 | |
| 27 | Kokopo/Vunamami | | 2014 | 2015 | |
| 28 | Vanimo | | | 2012, 2014-2015 | |
| 29 | Wabag | | | 2012-2015 | 2011 dispensed |
| 30 | Wau/Bulolo | | | | Audit on District ULLG pending |
| 31 | Wewak | | | 2012-2015 | 2009-2011 dispensed |
| | TOTAL | - | 5 | 54 | |

8.3 Hospital Boards/Health Authorities

Table 4 – Status of Audit Reports– Hospital Boards and Provincial Health Authorities

| Table 4 | | Status of Audit Reports – Hospital as at 30 June 2016 | | | |
|---------|-------------------------------------|---|---------------|-----------|---------|
| | Health Authority/ Hospital Board | Issued | | Pending | Remarks |
| | | Last Cycle | Current Cycle | | |
| 1 | Angau (Lae) | | 2010-2014 | 2015 | |
| 2 | Boram (Wewak) | | | 2014-2015 | |
| 3 | Buka | | 2011-2012 | 2013-2015 | |
| 4 | Daru | | 2011-2013 | 2014-2015 | |
| 5 | Goroka | | | 2014-2015 | |
| 6 | Hagen | | | 2014-2015 | |
| 7 | Kavieng | | | 2013-2015 | |

| | | | | | |
|----|------------------|----------|-----------|-----------|--|
| 8 | Kerema | | | 2011-2015 | |
| 9 | Kimbe | | | 2013-2015 | |
| 10 | Kundiawa | | | 2015 | |
| 11 | Lorengau | | | 2013-2015 | |
| 12 | Mendi | | | 2015 | |
| 13 | Milne Bay | | | 2014-2015 | |
| 14 | Modilon (Madang) | | | 2013-2015 | |
| 15 | Nonga (Rabaul) | | | 2014-2015 | |
| 16 | Port Moresby | | 2012-2013 | 2014-2015 | |
| 17 | Popondetta | | | 2013-2015 | |
| 18 | Vanimo | | | 2015 | |
| 19 | Wabag | | | 2015 | |
| | TOTAL | - | 19 | 42 | |

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/BarakopoLtd | 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. |
| 15 | East New Britain | Pomio Development Corporation | 1995-1997 F/S received. Audit fees awaited. |

| # | Province | Entity | Remarks |
|----|------------------|--|---|
| 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 Binnen Marine Services Ltd | De-registered from IPA but still in operation. |
| 25 | Manus | Kei Beseu Kampani Ltd | 2000-2006 audited by private auditors. |
| 26 | Manus | Lorengau Hotel Ltd | Audited by private auditors to 2010. |
| 27 | Manus | Manus Fishing Corporation | No F/S since 2004. |
| 28 | Manus | Manus Marine Resources Ltd | No F/S since 1995. Deregistered on 03/06/2002. |
| 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 Corporation (NIDC) | 1997-2004 F/S received. |
| 43 | New Ireland | New Ireland Shipping Ltd. (NIDC) | 1999-2002 F/S received. Audit fees awaited. Deregistered 21/04/2006. |
| 44 | New Ireland | Nimamar Investment Ltd | 1999-2001 audited by private auditors. 2002 signed F/S awaited. 2003-2004 audit fees awaited. |

| # | Province | Entity | Remarks |
|----|-------------------|--|---|
| 45 | New Ireland | Public Works New Ireland Ltd | No F/S since 2008. |
| 46 | New Ireland | Sentrol Niu Ailan Development corporation and subsidiaries | No F/S since 1999. |
| 47 | Sandaun | Sandaun Development Corporation | Deregistered on 11/03/1996. |
| 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. Refer to Table 8. |
| 5 | East New Britain | Gazelle Restoration Authority | Audited by me up. Refer to Table 8. |
| 6 | Enga | Porgera LLG Special Purpose Authority (Porgera Development Authority) | Audited by me. 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 2016 | | | |
|---------|--------------------------------------|---|---------------|-----------|---------|
| | Business Arms | Issued | | | Remarks |
| | | Last Cycle | Current Cycle | Pending | |
| 1 | Central Province Transport Authority | | 2007-2010 | 2011-2015 | |
| 2 | Gazelle Restoration Authority | | 2014 | 2015 | |
| 3 | Pogera Development Authority | | 2009-2011 | 2012-2015 | |
| | TOTAL | - | 8 | 10 | |

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 | Refer Table 10. |

Table 10- Status of Audits – Trusts and Funds – Do-ables

| Table 10 | | Status of Audit Reports – Trust Accounts as at 30 June 2016 | | | |
|----------|----------------------------------|---|---------------|----------|---------|
| | Business Arms | Issued | | Pending | Remarks |
| | | Last Cycle | Current Cycle | | |
| 1 | Enga Children's Fund Trustee Ltd | | 2012-2014 | 2015 | |
| 2 | NBPOL Trusts 1&2 | | 2013-2014 | 2015 | |
| | TOTAL | - | 5 | 2 | |