

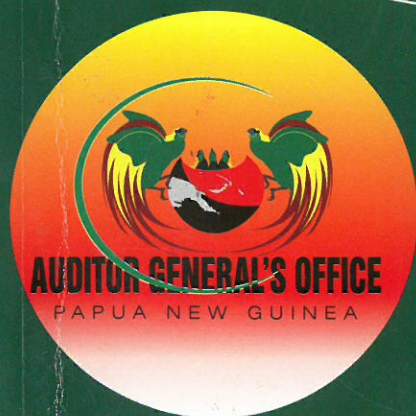


Part 4

Report of the Auditor-General 2017



AUDITOR GENERAL'S OFFICE
PAPUA NEW GUINEA





Part IV

Report of the Auditor-General 2017

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

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

20 July 2018

The Honourable Job Pomat, MP
The Speaker of National Parliament
Parliament House
WAIGANI
National Capital District

Dear Sir,

In accordance with the provisions of Section 214 of the Constitution of the Independent State of Papua New Guinea, I forward herewith a copy of my report signed on 20th July 2018 upon the inspection and audit of the financial statements of the Public Bodies and their subsidiaries and National Government owned companies for tabling in the National Parliament. This Report (Part IV) also contains information on companies in which the Government does not hold majority interest. Section D of this Report contains information on the status of certain entities whose audits have been in arrears.

Yours sincerely,



GORDON KEGA, CPA
Acting Auditor-General

2017 AUDITOR-GENERAL'S REPORT – PART IV

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GENERAL

A. FOREWORD

My Annual Report to the National Parliament for the 2017 financial year is presented in four Parts. Part I deals with the Public Accounts of Papua New Guinea (PNG), Part II deals with National Government Departments and the Provincial Treasury Offices, whilst Part III deals with the audit of the Provincial Governments and Local-level Governments.

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

This Report is divided into four sections:

- Section A deals with Public Bodies and their subsidiaries;
- Section B deals with National Government owned companies;
- Section C deals with the Companies in which the National Government has shareholdings; and
- Section D is an additional section which provides details of entities that have audits which have been in arrears due to non-submission of financial statements.

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

A.1 Audit and Delivery of Government Program

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

Although my report provides opinions on the financial affairs of these entities, other audit procedures performed by my Office give a picture of effective delivery of government policies and programs particularly by the public sector and their contribution through 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 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 risks falling short of its objectives.

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

B. AUTHORITY TO AUDIT

B.1 Constitution

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

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

B.2 Audit Act

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

This Act was amended in 1995 and the relevant provisions of the amended Act are explained below.

B.2.1 Auditing and Reporting Requirements

In *Section 8, Sub-sections 2 and 4* of the *Audit Act* were amended to include provisions governing the auditing and the reporting requirements of public bodies including government owned companies incorporated under the *Companies Act 1997*.

B.2.2 Matters of Significant Importance

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

B.2.3 Audit Opinion on Financial Statements

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

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

B.3 Public Finance (Management) (Amendment) Act 2016 (PFMA)

The submission of the financial statements of statutory bodies for audit is required under *Section 63(1) and (3)* of the *Public Finance (Management) (Amendment) Act 2016*. The *Section* requires each statutory body to prepare and furnish to its Minister before end of fourth calendar month from close of a fiscal year, a report on its operations for the year ended 31 December preceding, together with financial statements in respect of that year duly audited by me.

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

B.4 Companies Act

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

C. AUDIT OF PUBLIC BODIES

C.1 Scope of Audit

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

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

C.2 Audit Objectives

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

C.3 Reporting Framework

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

D. APPOINTMENT AND USE OF AUTHORISED AUDITORS

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

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

E. EXECUTIVE SUMMARY

E.1 Report Coverage

This Report covers the audit reports issued by my Office on the audits of Public Bodies and their Subsidiaries, Government Owned Companies, and National Government's shareholdings in Other Companies during the period July 2017 to June 2018 (2017/2018 Audit Cycle). The Report covers the audits of these entities' financial statements for a number of years, not just 2017.

In **2017** there were **115 public entities** subject to audit by my Office, consisting of **78 Public Bodies and their Subsidiaries** and **37 National Government Owned Companies**.

I am also responsible for reporting on the audits of **4 Companies**, in which the National Government has shareholding. These entities are audited by private company auditors and are reported under **Section C** of this Report.

E.2 Consistency in audit findings over a number of years

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

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

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

Weaknesses with financial management are contributing to significant wastage of financial resources and indicate a serious lack of transparency and accountability. Ultimately these weaknesses adversely impact upon the delivery of services to the citizens of PNG.

E.3 Submission of current year Financial Statements

Section 63(1) and (3) of the PFMA requires ‘...a statutory body to prepare and furnish to the Finance Departmental Head before end of fourth calendar month from close of a fiscal year, a performance and management report of its operations for the year ended 31 December preceding, together with financial statements to enable the Finance Minister to present such report and statements to the Parliament...’

Before submitting the financial statements to the Minister, Section 63(3)(c) requires a statutory body to submit the financial statements to the Auditor-General and for the Auditor-General to report to the Minister in accordance with Part II of the Audit Act.

Despite these legislative requirements, **63 entities** had not submitted their **2017 financial statements** to be audited and overall some **87 financial statements for 2016** and prior years had not been submitted for audit (**Refer Table A**). However, the situation has deteriorated during this cycle.

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

Table A

STATUS OF AUDITS DURING THE YEAR 2017 (END OF 2017/2018 CYCLE)

Year	Audits Completed	Audits Substantially Completed	Audits in Progress	Audits to Commence Shortly	Financial Statements not Submitted	Total 2017/2018	Total 2016/2017
2017	-	14	27	11	63	115	-
2016	8	24	16	7	34	89	104
2015	11	21	7	4	21	64	84
2014	3	13	6	2	13	37	60
2013	3	5	1	-	10	19	37
2012	1	2	1	-	5	9	16
2011	-	-	-	-	2	2	6
2010	-	-	-	-	2	2	2
2009	-	-	-	-	-	-	1
2008	-	-	-	-	-	-	1
2007	-	-	-	-	-	-	1
2006	-	-	-	-	-	-	1
2005	-	-	-	-	-	-	1
Total	26	79	58	24	150	337	314

Table A above shows that **163 audits** were either completed, substantially completed or still in progress as at 30 June 2018. The details are graphically depicted in **Attachment ‘C’**, which also included the arrears of prior years.

As shown also in **Table A** there were no current year audits (2017) issued however, **41 audits** were either substantially completed or were in progress. A further **11 audits** were to commence shortly. Graphical description of the status of current year 2017 audits (excluding arrears) is given in **Attachment ‘A’**. The list of entities is at **Schedule ‘A’ (i), (ii), (iii) & (iv)**.

A further **40 audit reports** were being finalised and awaiting approval at **30 June 2018**. The total reports at finalised stage and issued amounted to **66**.

E.4 Type of Audit Opinions Issued¹

In the period covered (July 2017 to June 2018) by the audit, **26 audit reports were issued**. Of the **26 audit reports issued, 11 were unqualified, 9 were qualified and 6 were Disclaimer Opinions**. The details are captured in **Attachment ‘D’**.

Types of Audit Opinions issued for each entity over the period of five years from **2013 to 2017** are detailed in **Attachment ‘E’**.

E.5 Key Findings

The key findings from the audits centered primarily on the non-submission of the financial statements, non-compliance with the Salaries and Conditions Monitoring Committee (SCMC) regulatory mechanisms for salaries and wages, lack of basic accounting records and ineffective internal control systems. These issues are highlighted in the paragraphs below.

¹ The types of audit opinions are: **Unqualified Opinion** – A Company’s financial statements are presented fairly, in all material respects in conformity with generally accepted accounting principles. **Qualified Opinion** – The financial statements “except for” certain issues fairly present the financial position and operating results of the firm. The except for opinion relates to inability of the auditor to obtain sufficient objective and verifiable evidence in support of business transactions of the Company being audited. **Disclaimer Opinion** – When insufficient competent evidential matter exists to form an audit opinion due to scope limitation or uncertainties. **Adverse Opinion** – The Company’s financial statements do not present fairly the financial position, results of operations, or changes in financial position or are not in conformity with generally accepted accounting principles.

E.6 Non-Submission of Financial Statements

As stated earlier, *Section 63(3)* of the *PFMA* requires each statutory body to prepare and furnish to its Minister before end of fourth calendar month from close of a fiscal year, a report on its operations for the year ended 31 December preceding together with financial statements in respect of that year duly audited by me for tabling in Parliament.

This legislative requirement has not been strictly adhered to by most respective public entities' management. To comply with this requirement, the financial statements are required to be submitted to my Office before 30 April each year for my audit and inspection. However, out of **115 public entities** only **52** entities have submitted their financial statements for 2017 (**Refer Schedule A (i), (ii), (iii) & (iv)**) for my audit and inspection up to the time of preparing this Report. A total of **63** entities have failed to comply with these provisions (**Refer Schedule A (v)**). The public entities referred to above exclude the **4 Companies** with Government shareholdings.

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

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

Responsibility for Submission of Financial Statements

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

Recommendation

My Office recommends that there is rigorous enforcement of the provisions of Section 63 of the PFMA and a legislative requirement is established to make the renewal of contracts of Chief Executive Officers subject to submission of financial statements and implementation and maintenance of prudent financial management.

This recommendation is to help achieve financial management accountability and good governance in the public sector.

During the cycle, **34** entities have audits in arrears totaling to **87**. Details of audits that have gone into arrears due to non-submission of financial statements from 2010 are given below in **Table B** and **Schedule 'C'**.

Table B
Financial Statements Not Submitted

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	3A	Papua New Guinea Maritime Transport Limited	2013-2016	4
2	A	5	Climate Change and Development Authority	2013-2016	4
3	A	8	Coffee Industry Corporation Limited	2015 & 2016	2
4	A	8A	Coffee Industry Fund	2015 & 2016	2
5	A	8B	Patana No. 61 Limited	2015 & 2016	2
6	A	12	Industrial Centres Development Corporation	2016	1
7	A	18	Mineral Resources Authority	2016	1
8	A	21	National AIDS Council Secretariat	2016	1
9	A	22	National Broadcasting Corporation	2016	1
10	A	23A	National Capital District Botanical Enterprises Limited	2013-2016	4
11	A	23B	Port Moresby City Development Enterprises Limited	2013-2016	4
12	A	24	National Cultural Commission	2015 & 2016	2
13	A	27	National Gaming Control Board	2016	1
14	A	27A	National Gaming Control Board Community Benefit Fund Trust	2016	1
15	A	28A	National Housing Estate Limited	2010-2016	7
16	A	31	National Museum and Art Gallery	2016	1
17	A	32	National Narcotics Bureau	2013-2016	4
18	A	34	National Road Safety Council	2016	1
19	A	39	Oil Palm Industry Corporation	2012-2016	5
20	A	43	Papua New Guinea Forest Authority	2015 & 2016	2
21	A	45	Papua New Guinea Institute of Medical Research	2016	1
22	A	46	Papua New Guinea Institute of Public Administration	2015 & 2016	2
23	A	49	Papua New Guinea Sports Foundation	2016	1
24	A	50A	National Analytical and Testing Services Limited	2014-2016	3
25	A	50B	Unitech Development and Consultancy Company Limited	2014-2016	3
26	A	52	Public Curator of Papua New Guinea	2015 & 2016	2
27	A	53	Security Industries Authority	2016	1
28	A	56A	Unigor Consultancy Limited	2014-2016	3
29	A	57	University of Natural Resources and Environment	2015 & 2016	2
30	A	58A	Unisave Limited	2012-2016	5
31	A	58B	Univentures Limited	2012-2016	5
32	B	63	Livestock Development Corporation Limited	2010-2016	7
33	B	67	NCD Water and Sewerage Limited (Eda Ranu)	2016	1
34	B	69	PNG Air Services Limited	2016	1
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Arrears Reduction Strategies

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

- Issuance of reminder letters to entities on a regular basis until the submission of the financial statements;
- Copies of these reminder letters were forwarded to the Public Accounts Committee and to the Secretary for Finance for their necessary action;

- My officers visited various entities and held meetings with the Chief Executive Officers regarding non-submission of the financial statements and drew their attention to their responsibilities under the *PFMA* and the resultant breach of that Act; and
- Senior officers of the Division attended various audit committee meetings during the cycle and emphasised the importance of bringing the audits up to date. My officers attended the following audit committee meetings during the cycle:
 - *Civil Aviation Safety Authority of PNG;*
 - *University of Papua New Guinea;*
 - *National Housing Corporation;*
 - *University of Goroka;*
 - *Internal Revenue Commission;*
 - *PNG Customs Service; and*
 - *Papua New Guinea University of Technology.*

I have set a goal to significantly reduce the arrears situation and the entities listed under **Attachment ‘F’** indicate the arrears cleared during the audit cycle. This reduction largely reflects the collective efforts of all my staff members to better manage the audits in arrears. This can only be achieved by timely submission of financial statements and cooperation of the entities’ management to clear the arrears.

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

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

- “(a) *The provisions of this Act apply notwithstanding anything in any other law relating to the determination of salaries and conditions or employment of employees of a public authority; and*
- (b) *Whereby or under any law, power is given to a public authority, to determine or vary the salaries and conditions of employment of employees of the public authority, that power shall be exercised subject to this Act.*”

E.8 Non-Compliance with the Audit Act 1989

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

- *Kumul Minerals Holding Limited (formerly Petromin Limited);*
- *National Development Bank Limited; and*
- *PNG Air Services Limited.*

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

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

- Bank reconciliation statements not being prepared in a timely manner or not being prepared at all;
- Transactions not having supporting documentation;
- Fixed asset registers not being properly kept or maintained;
- No consistent and proper valuation of assets;
- Physical asset stock-takes not being carried out;
- Property being acquired or disposed of without proper procedures being followed;
- Failure to comply with International Financial Reporting Standards in the preparation of the financial statements;
- Travel and other allowances not being fully acquitted;
- Internal Revenue Commission (IRC) regulations on payment of taxes not being followed;
- Entities paying housing allowances and Board members allowances without tax;
- Accounting, administrative and procedural manuals not being available;
- Public servants serving on Statutory Boards receiving Board allowances contrary to regulations;
- Ineffective internal audit functions; and
- Ineffective budget controls.

The above factors contributed to the limitations on the scope of my audits which resulted in the issuance of Disclaimer of Opinion in respect of reports issued during the year, as shown in **Attachment ‘D(iii)’**.

E.10 Poor Financial Management

Over a number of years, I have expressed my concern about public bodies’ poor accounting records, weaknesses in internal controls and management information systems, and non-compliance with legislative requirements and the International Financial Reporting Standards. I also consider that a large number of Chief Executive Officers do not pay sufficient attention to financial management in their entities.

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

E.11 Recommendations for Improvement

Consistent with comments in previous years' Reports, I will report to the Parliament in future that proper accounting records and adequate internal control systems must exist in all public entities subject to my audit.

For that to be achieved, I believe that Chief Executive Officers are required to exercise proper leadership that provides an environment where there is:

- *Timely submission of financial statements;*
- *Improved record keeping and documentation;*
- *Maintenance and provision of quality information;*
- *Effective implementation of internal control systems;*
- *Sound financial management implemented and adopted by qualified and experienced accountants; and*
- *Implementation of my audit recommendations.*

E.12 Improvement Strategies

In my view, for improvement to occur:

- Chief Executive Officers must employ well trained and professionally qualified accounting staff to manage the financial affairs of the organisation;
- Chief Executive Officers must understand the value of and how to implement a strong governance framework and their performance should be regularly assessed against implementation of the framework; and
- Parliament must increase its reviews of the management of public entities and provide Chief Executive Officers with incentives to improve their management structures.

E.13 Structure of the Report

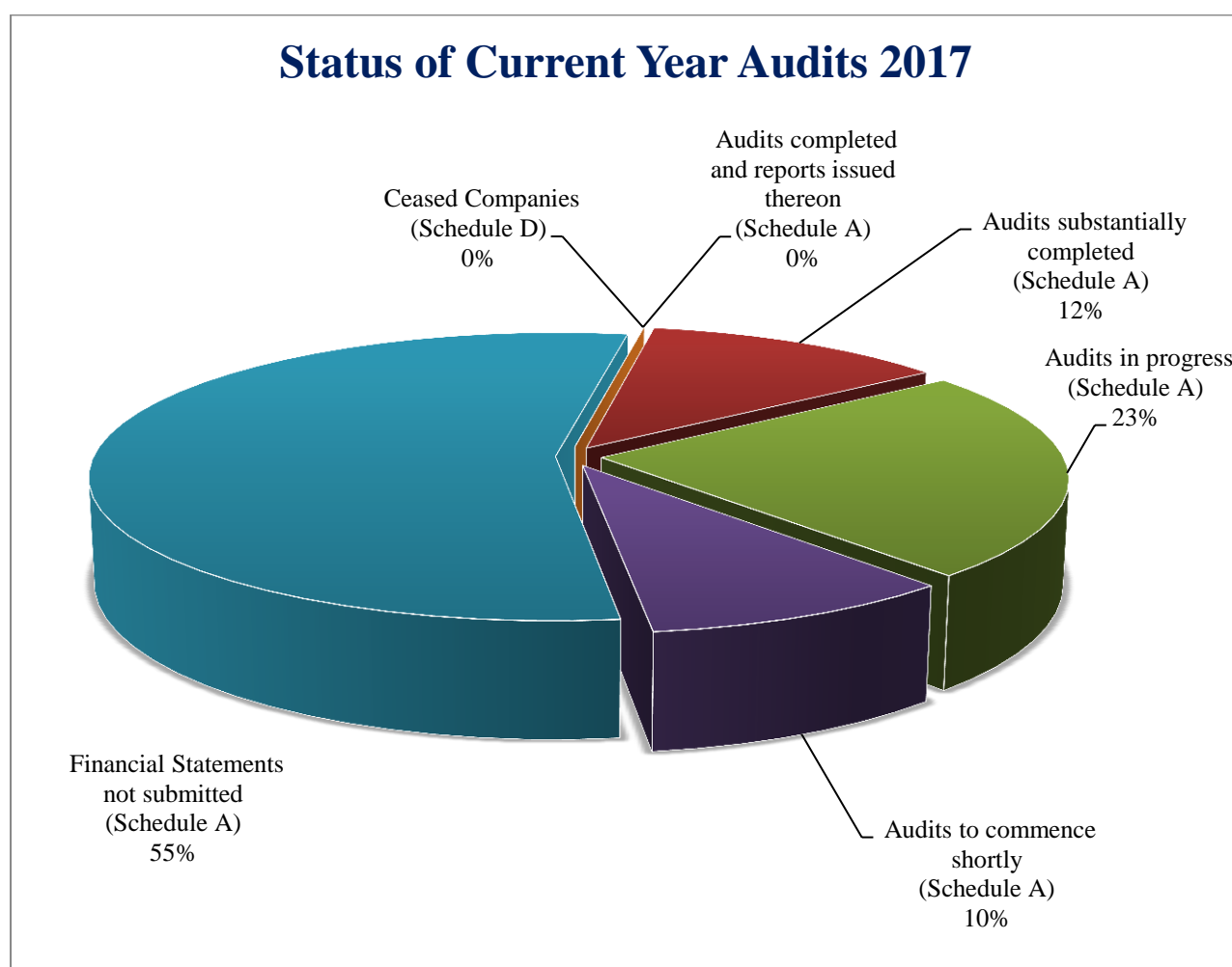
This Report is structured as follows:

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

ATTACHMENT 'A'

STATUS OF CURRENT YEAR AUDITS 2017

No.	Status of Current Year Audits	Number of Entities	
		2017/2018	2016/2017
1	Audits completed and reports issued thereon (Schedule A)	0	20
2	Audits substantially completed (Schedule A)	14	4
3	Audits in progress (Schedule A)	27	15
4	Audits to commence shortly (Schedule A)	11	5
5	Financial Statements not submitted (Schedule A)	63	60
6	Ceased Entities (Schedule D)	0	1
		115	105

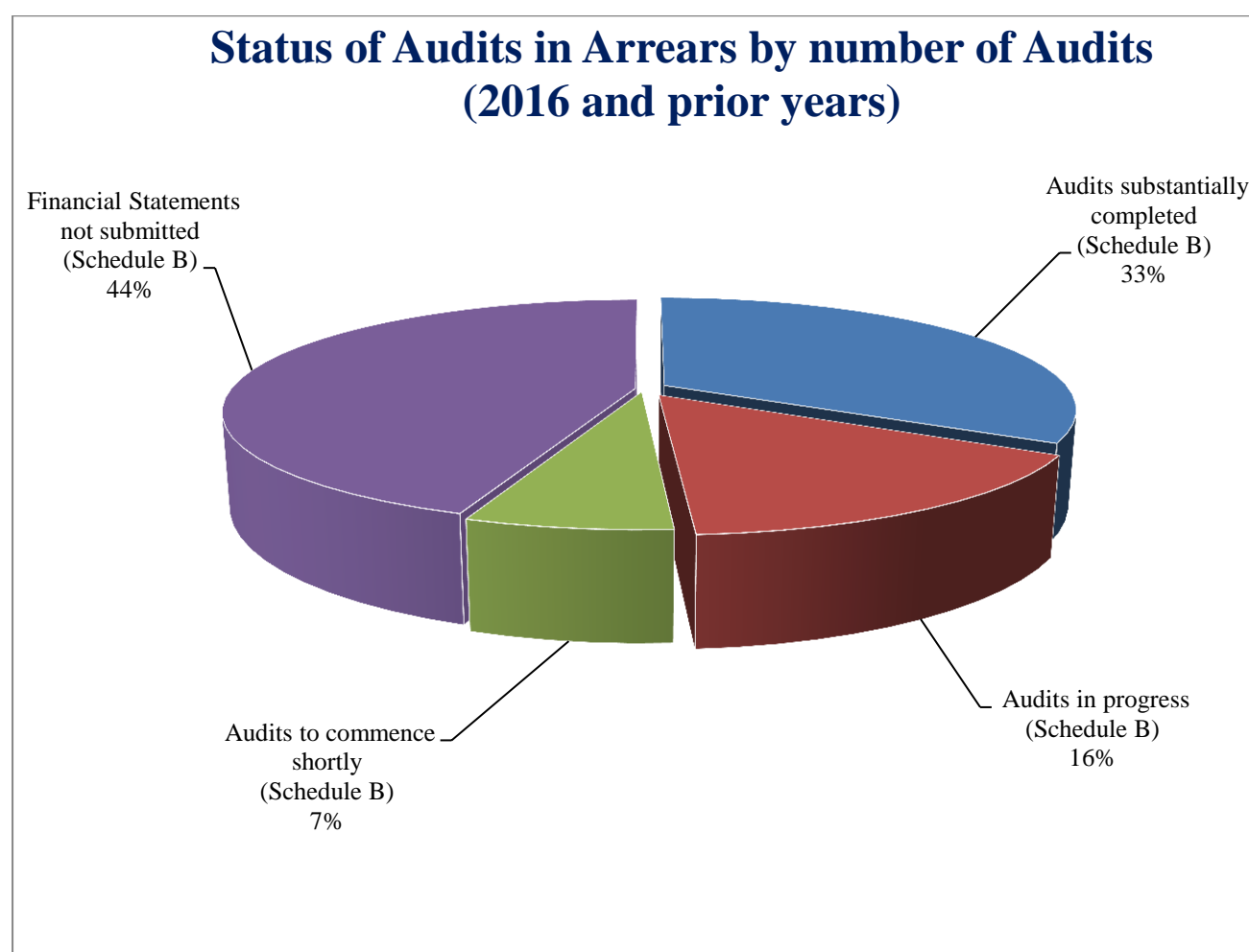


Please refer to details in Schedule 'A' on Pages 247 to 249.

ATTACHMENT 'B'

**STATUS OF AUDITS IN ARREARS BY NUMBER OF AUDITS
(2016 AND PRIOR YEARS)**

No.	Status of Audits in Arrears by No. of Audits (2016 & prior years)	Number of Audits	
		2017/2018	2016/2017
1	Audits substantially completed (Schedule B)	65	21
2	Audits in progress (Schedule B)	31	24
3	Audits to commence shortly (Schedule B)	13	10
4	Financial Statements not submitted (Schedule B)	87	70
		196	125

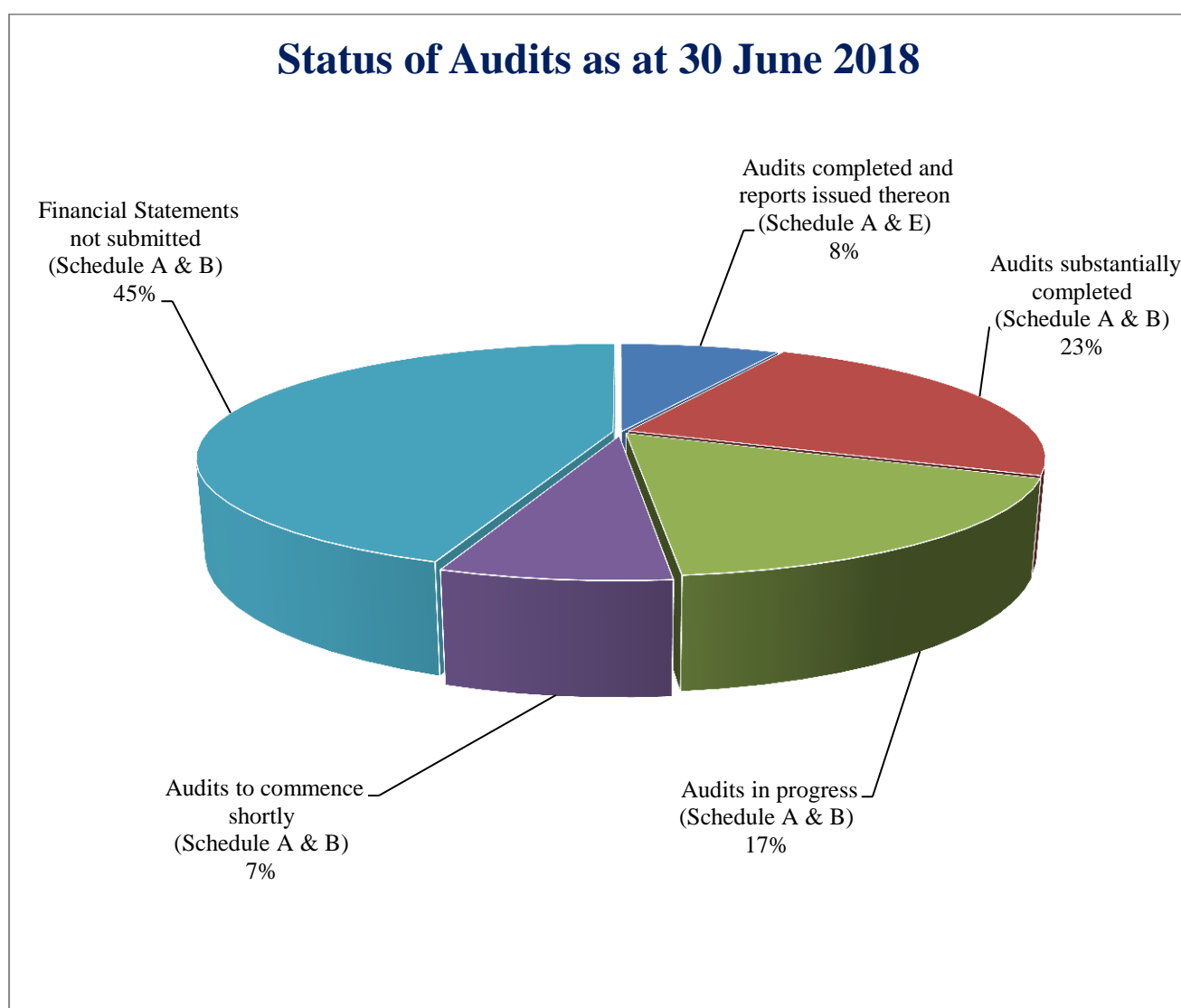


Please refer to details in Schedule 'B' on Pages 250 to 252.

ATTACHMENT 'C'

STATUS OF AUDITS AS AT 30 JUNE 2018

No.	Status of Audits	Number of Audits	
		2017/2018	2016/2017
1	Audits completed and reports issued thereon (Schedules A & E)	26	105
2	Audits substantially completed (Schedules A & B)	79	25
3	Audits in progress (Schedules A & B)	58	39
4	Audits to commence shortly (Schedules A & B)	24	15
5	Financial Statements not submitted (Schedules A & B)	150	130
		337	314



Please refer to details in Schedules 'A', 'B' and 'E' on Pages 247 to 249, 250 to 252 and 256 to 267 respectively.

ATTACHMENT 'D'

TYPES OF AUDIT OPINIONS ISSUED

(i) UNQUALIFIED OPINION

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	16	Kumul Consolidated Holdings	2015	1
2	A	50	Papua New Guinea University of Technology	2015 & 2016	2
3	A	51	Parliamentary Members' Retirement Benefits Fund	2016	1
4	A	55	Tourism Promotion Authority	2016	1
5	B	61A	Link-PNG Limited	2015	1
6	B	65	Motor Vehicles Insurance Limited	2016	1
7	B	68	Papua New Guinea Ports Corporation Limited	2016	1
8	B	72	Post (PNG) Limited	2016	1
9	B	73A	DATEC (PNG) Limited	2015	1
10	B	73D	PNG Directories Limited	2015	1

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(ii) QUALIFIED OPINION

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	4	Civil Aviation Safety Authority of Papua New Guinea	2016	1
2	A	16A	General Business Trust	2015	1
3	A	16C	PNG Dams Limited	2015	1
4	A	18	Mineral Resources Authority	2014	1
5	A	36	National Training Council	2016	1
6	A	54	Small and Medium Enterprises Corporation	2013 - 2015	3
7	B	61	Air Niugini Limited	2015	1

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(iii) DISCLAIMER OPINION

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	16B	Kumul Technology Development Corporation Limited	2015	1
2	A	28	National Housing Corporation	2014	1
3	A	38	National Youth Commission	2012 & 2013	2
4	A	45	Papua New Guinea Institute of Medical Research	2015	1
5	A	52	Public Curator of Papua New Guinea	2013	1

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ATTACHMENT ‘E’

COMPARATIVE AUDIT OPINIONS ISSUED (2013–2017)

No.	Section	Para. No.	Entity	Comparative Years				
				2017	2016	2015	2014	2013
1	A	2	Bank of Papua New Guinea		Unqualified	Unqualified	Unqualified	Unqualified
2	A	3	Border Development Authority					Disclaimer
3	A	3A	Papua New Guinea Maritime Transport Limited					
4	A	4	Civil Aviation Safety Authority of Papua New Guinea		Qualified	Qualified	Qualified	Qualified
5	A	5	Climate Change and Development Authority					
6	A	6	Cocoa Board of Papua New Guinea			Qualified	Qualified	Qualified
7	A	6A	Cocoa Pod Borer Project Fund			Unqualified	Unqualified	Unqualified
8	A	6B	Cocoa Stabilisation Fund			Unqualified	Unqualified	Unqualified
9	A	7	Cocoa Coconut Institute Limited of Papua New Guinea					Disclaimer
10	A	8	Coffee Industry Corporation Limited					Disclaimer
11	A	8A	Coffee Industry Fund					Disclaimer
12	A	8B	Patana No.61 Limited					Disclaimer
13	A	9	Government Printing Office				Disclaimer	Disclaimer
14	A	10	Independence Fellowship Trust		Unqualified	Qualified	Qualified	Unqualified
15	A	11	Independent Consumer and Competition Commission		Unqualified	Qualified	Qualified	Unqualified
16	A	12	Industrial Centres Development Corporation			Qualified	Qualified	Qualified
17	A	13	Internal Revenue Commission	New Inclusion				
18	A	14	Investment Promotion Authority		Unqualified	Unqualified	Unqualified	Unqualified
19	A	15	Kokonasi Industri Koporesen		Unqualified	Unqualified	Unqualified	Unqualified
20	A	15A	Papua New Guinea Coconut Extension Fund		Unqualified	Unqualified	Unqualified	Unqualified
21	A	15B	Papua New Guinea Coconut Research Fund		Unqualified	Unqualified	Unqualified	Unqualified
22	A	16	Kumul Consolidated Holdings			Unqualified	Unqualified	Unqualified
23	A	16A	General Business Trust			Qualified	Qualified	Disclaimer
24	A	16B	Kumul Technology Development Corporation Limited			Disclaimer	Disclaimer	Disclaimer
25	A	16C	PNG Dams Limited			Qualified	Disclaimer	Disclaimer
26	A	17	Legal Training Institute					Qualified
27	A	18	Mineral Resources Authority				Qualified	Qualified
28	A	19	National Agriculture Quarantine and Inspection Authority			Qualified	Qualified	Qualified
29	A	20	National Agricultural Research Institute		Unqualified	Unqualified	Unqualified	Unqualified
30	A	21	National AIDS Council Secretariat				Disclaimer	Disclaimer
31	A	22	National Broadcasting Corporation				Disclaimer	Disclaimer
32	A	23	National Capital District Commission					Disclaimer
33	A	23A	National Capital District Botanical Enterprises Limited					
34	A	23B	Port Moresby City Development Enterprises Limited					
35	A	23C	Port Moresby Nature Park Limited					Qualified
36	A	24	National Cultural Commission					Disclaimer
37	A	25	National Economic and Fiscal Commission		Qualified	Qualified	Qualified	Qualified
38	A	26	National Fisheries Authority				Qualified	Qualified
39	A	27	National Gaming Control Board				Qualified	Qualified
40	A	27A	National Gaming Control Board Community Benefit Fund Trust				Qualified	Qualified
41	A	28	National Housing Corporation				Disclaimer	Disclaimer

No.	Section	Para. No.	Entity	Comparative Years				
				2017	2016	2015	2014	2013
42	A	28A	National Housing Estate Limited					
43	A	29	National Information and Communications Technology Authority (NICTA)				Disclaimer	Disclaimer
44	A	30	National Maritime Safety Authority		Unqualified	Unqualified	Qualified	Qualified
45	A	31	National Museum and Art Gallery				Disclaimer	Disclaimer
46	A	32	National Narcotics Bureau					
47	A	33	National Research Institute		Qualified	Unqualified	Unqualified	Unqualified
48	A	34	National Road Safety Council			Unqualified	Unqualified	Unqualified
49	A	35	National Roads Authority			Unqualified	Qualified	Qualified
50	A	36	National Training Council		Qualified	Qualified	Qualified	Qualified
51	A	37	National Volunteer Service		Qualified	Qualified	Qualified	Qualified
52	A	38	National Youth Commission					Disclaimer
53	A	39	Oil Palm Industry Corporation					
54	A	40	Ombudsman Commission of Papua New Guinea			Unqualified	Qualified	Unqualified
55	A	41	Papua New Guinea Accident Investigation Commission					
56	A	42	Papua New Guinea Customs Service	New Inclusion				
57	A	43	Papua New Guinea Forest Authority					
58	A	44	Papua New Guinea Immigration and Citizenship Service Authority			Disclaimer	Disclaimer	Qualified
59	A	45	Papua New Guinea Institute of Medical Research			Disclaimer	Disclaimer	Disclaimer
60	A	46	Papua New Guinea Institute of Public Administration					Qualified
61	A	47	Papua New Guinea Maritime College				Disclaimer	Disclaimer
62	A	48	Papua New Guinea National Institute of Standards and Industrial Technology			Qualified	Qualified	Qualified
63	A	49	Papua New Guinea Sports Foundation					Disclaimer
64	A	50	Papua New Guinea University of Technology		Unqualified	Unqualified	Qualified	Qualified
65	A	50A	National Analytical and Testing Services Limited					
66	A	50B	Unitech Development and Consultancy Company Limited					Adverse
67	A	51	Parliamentary Members' Retirement Benefits Fund		Unqualified	Unqualified	Unqualified	Unqualified
68	A	52	Public Curator of Papua New Guinea					Disclaimer
69	A	53	Security Industries Authority				Qualified	Qualified
70	A	54	Small and Medium Enterprises Corporation			Qualified	Qualified	Qualified
71	A	55	Tourism Promotion Authority		Unqualified	Unqualified	Unqualified	Unqualified
72	A	56	University of Goroka				Disclaimer	Disclaimer
73	A	56A	Unigor Consultancy Limited					Disclaimer
74	A	57	University of Natural Resources and Environment				Disclaimer	Qualified
75	A	58	University of Papua New Guinea					Qualified
76	A	58A	Unisave Limited					
77	A	58B	Univentures Limited					
78	A	59	Water PNG				Disclaimer	Disclaimer
79	B	61	Air Niugini Limited			Qualified	Qualified	Qualified
80	B	61A	Link-PNG Limited			Unqualified		
81	B	62	Kumul Petroleum Holdings Limited		Unqualified	Unqualified	Unqualified	
82	B	62A	Eda Oil Limited		Unqualified			
83	B	62B	Kumul Exploration (Asia) Limited	New Inclusion				
84	B	62C	Kumul Gas Foreland 239 B.V	New Inclusion				
85	B	62D	Kumul Gas Foreland 261 B.V	New Inclusion				
86	B	62E	Kumul Gas Foreland 268 B.V	New Inclusion				
87	B	62F	Kumul Gas Foreland 269 B.V	New Inclusion				
88	B	62G	Kumul Gas Niugini B.V	New Inclusion				

No.	Section	Para. No.	Entity	Comparative Years				
				2017	2016	2015	2014	2013
89	B	62H	Kumul Lending Co Pte Limited	New Inclusion				
90	B	62I	Kumul LNG Limited		Unqualified	Unqualified	Unqualified	
91	B	62J	Kumul Petroleum (Development) Limited		Unqualified	Unqualified	Unqualified	
92	B	62K	Kumul Petroleum (Investments) Limited		Unqualified	Unqualified	Unqualified	
93	B	62L	Kumul Petroleum (Kroton) Limited		Unqualified			
94	B	62M	Kumul Petroleum (Pipeline) Limited		Unqualified			
95	B	62N	Kumul Petroleum (Tech and Advisory) Limited			Unqualified		
96	B	62O	Kumul Petroleum Marketing Pte Limited	New Inclusion				
97	B	62P	Kumul Security Agent Limited	New Inclusion				
98	B	62Q	NPCP Oil Company Pty Limited	New Inclusion				
99	B	63	Livestock Development Corporation Limited					
100	B	64	Mineral Resources Development Company Limited				Disclaimer	Disclaimer
101	B	65	Motor Vehicles Insurance Limited		Unqualified	Qualified	Qualified	Qualified
102	B	66	National Airports Corporation Limited					
103	B	66A	Airport City Development Limited					
104	B	66B	Airports Investments Limited	New Inclusion				
105	B	67	NCD Water and Sewerage Limited (Eda Ranu)				Qualified	Qualified
106	B	68	Papua New Guinea Ports Corporation Limited		Unqualified	Unqualified	Qualified	Qualified
107	B	69	PNG Air Services Limited			Qualified	Qualified	Qualified
108	B	70	PNG DataCo Limited				Unqualified	
109	B	71	PNG Power Limited			Disclaimer	Disclaimer	Disclaimer
110	B	72	Post (PNG) Limited		Unqualified	Unqualified	Unqualified	Unqualified
111	B	73	Telikom (PNG) Limited				Qualified	Qualified
112	B	73A	DATEC (PNG) Limited			Unqualified	Unqualified	
113	B	73B	Kalang Advertising Limited					Unqualified
114	B	73C	Media Niugini Limited (EMTV)	New Inclusion				
115	B	73D	PNG Directories Limited			Unqualified	Unqualified	Unqualified

ATTACHMENT 'F'

AUDITS IN ARREARS (2016 AND PRIOR YEARS) COMPLETED
DURING 2017/2018 AUDIT CYCLE

No.	Section	Para. No.	Entity	Audits Completed and Reports Issued	Total Units	Audits Substantially Completed	Total Units
1	A	3	Border Development Authority			2014	1
2	A	4	Civil Aviation Safety Authority of Papua New Guinea	2016	1		
3	A	6	Cocoa Board of Papua New Guinea			2016	1
4	A	6A	Cocoa Pod Borer Project Fund			2016	1
5	A	6B	Cocoa Stabilisation Fund			2016	1
6	A	7	Cocoa Coconut Institute Limited of Papua New Guinea			2014-2016	3
7	A	9	Government Printing Office			2015	1
8	A	13	Internal Revenue Commission			2014 & 2015	2
9	A	16	Kumul Consolidated Holdings	2015	1	2016	1
10	A	16A	General Business Trust	2015	1	2016	1
11	A	16B	Kumul Technology Development Corporation Limited	2015	1	2016	1
12	A	16C	PNG Dams Limited	2015	1	2016	1
13	A	17	Legal Training Institute			2014-2016	3
14	A	18	Mineral Resources Authority	2014	1		
15	A	19	National Agriculture Quarantine and Inspection Authority			2016	1
16	A	23	National Capital District Commission			2014 & 2015	2
17	A	23C	Port Moresby Nature Park Limited			2014 & 2015	2
18	A	24	National Cultural Commission			2014	1
19	A	26	National Fisheries Authority			2015	1
20	A	27	National Gaming Control Board			2015	1
21	A	27A	National Gaming Control Board Community Benefit Fund Trust			2015	1
22	A	28	National Housing Corporation	2014	1		
23	A	29	National Information and Communications Technology Authority (NICTA)			2015	1
24	A	31	National Museum and Art Gallery			2015	1
25	A	35	National Roads Authority			2016	1
26	A	36	National Training Council	2016	1		
27	A	38	National Youth Commission	2012 & 2013	2	2014-2016	3
28	A	41	Papua New Guinea Accident Investigation Commission			2013-2016	4
29	A	43	Papua New Guinea Forest Authority			2013	1
30	A	44	Papua New Guinea Immigration and Citizenship Service Authority			2016	1
31	A	45	Papua New Guinea Institute of Medical Research	2015	1		
32	A	46	Papua New Guinea Institute of Public Administration			2014	1
33	A	47	Papua New Guinea Maritime College			2015 & 2016	2
34	A	48	Papua New Guinea National Institute of Standards and Industrial Technology			2016	1
35	A	50	Papua New Guinea University of Technology	2015 & 2016	2		

No.	Section	Para. No.	Entity	Audits Completed and Reports Issued	Total Units	Audits Substantially Completed	Total Units
36	A	51	Parliamentary Members' Retirement Benefits Fund	2016	1		
37	A	52	Public Curator of Papua New Guinea	2013	1		
38	A	53	Security Industries Authority			2015	1
39	A	54	Small and Medium Enterprises Corporation	2013-2015	3		
40	A	55	Tourism Promotion Authority	2016	1		
41	A	56	University of Goroka			2015 & 2016	2
42	A	58	University of Papua New Guinea			2014	1
43	A	59	Water PNG			2015	1
44	A	61	Air Niugini Limited	2015	1		
45	A	61A	Link-PNG Limited	2015	1		
46	A	62N.	Kumul Petroleum (Tech and Advisory) Limited			2016	1
47	A	65	Motor Vehicles Insurance Limited	2016	1		
48	A	66	National Airports Corporation Limited			2013-2016	5
49	A	66A	Airport City Development Limited			2013-2016	5
50	A	66B	Airports Investments Limited			2016	1
51	A	68	Papua New Guinea Ports Corporation Limited	2016	1		
52	A	70	PNG DataCo Limited			2015	1
53	A	71	PNG Power Limited			2016	1
54	A	72	Post (PNG) Limited	2016	1		
55	A	73A	DATEC (PNG) Limited	2015	1	2016	1
56	A	73B	Kalang Advertising Limited			2014-2016	3
57	A	73D	PNG Directories Limited	2015	1		
					26		65

SECTION A

PUBLIC BODIES AND THEIR SUBSIDIARIES

1. FOREWORD

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

The auditing and reporting requirements of the public bodies and their subsidiaries are stipulated in *Section 8* of the *Audit Act*. My findings in that regard are detailed in paragraphs **2** to **59** of this part of my Report.

2. BANK OF PAPUA NEW GUINEA

2.1 INTRODUCTION

2.1.1 Legislation

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

2.1.2 Objectives of the Bank

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

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

2.1.3 Functions of the Bank

The primary functions of the Bank are to:

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

2.1.4 Structural Reforms at the Bank

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

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

Each of these Acts provides additional responsibilities to the Bank.

2.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Bank for the year ended 31 December 2017 had been completed and the audit reports were being finalised.

3. BORDER DEVELOPMENT AUTHORITY

3.1 INTRODUCTION

3.1.1 Legislation

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

3.1.2 Objectives of the Authority

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

3.1.3 Functions of the Authority

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

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

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

3.1.4 Subsidiary of the Authority

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

3.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December 2014 had been completed and the audit reports were being finalised.

The Authority had submitted its financial statements for the years ended 31 December 2015, 2016 and 2017 for my inspection and audit and arrangements were being made to commence the audits shortly.

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

3A.1 INTRODUCTION

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

3A.1.1 Functions of the Company

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

3A.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Company had not submitted its financial statements for the years ended 31 December 2013, 2014, 2015, 2016 and 2017 for my inspection and audit despite numerous reminders.

4. CIVIL AVIATION SAFETY AUTHORITY OF PAPUA NEW GUINEA

4.1 INTRODUCTION

4.1.1 Legislation

The Civil Aviation Safety Authority of Papua New Guinea was established on 1 January 2010 after the enactment of the *Civil Aviation Act 2000 (as amended)*.

4.1.2 Functions of the Authority

The principal functions of the Authority are to:

- Undertake activities that promote safety in civil aviation at a reasonable cost;
- Ensure the provision of air traffic services, aeronautical communications services and aeronautical navigation services; and
- Ensure the provision of meteorological services and science.

4.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

4.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Authority for the year ended 31 December 2016 was issued on 21 August 2017. The report contained a Qualified Opinion.

“BASIS FOR QUALIFIED OPINION

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

Section 147E of the *Civil Aviation Act 2000* stipulates for the NAC and the PNGASL to remit a percentage of airport facility charges, security levies and upper airspace aeronautical charges to CASA. Given the technical and logistical difficulties, it has been difficult for CASA to have independent data to compute its share of the revenue. As a result, CASA could not compute the amount of revenue receivable from the two entities. The current situation places CASA in a position where it is unable to accurately record and collect the income owing by NAC and PNGASL. The income and the related receivables from those two entities are material, which can potentially affect the financial statements and disclosures of CASA as at the reporting date.

Due to those limitations, I was not able to verify the completeness and accuracy of revenue and receivable balances reported in the financial statements for the year ended 31 December 2016.

Fixed Assets

In 2010, the former Civil Aviation Authority (CAA) was restructured into three new separate entities, namely National Airport Corporation (NAC), PNG Air Services Limited (PNGASL) and Civil Aviation Safety Authority (CASA). However, at the time of separation there has been disagreement amongst the three entities over the ownership of the assets owned by the former CAA. On 29 January 2016, the Minister for Civil Aviation allocated the former CAA assets to the three entities through the *National Gazette* No. G39. Although determination for ownership and use of the former CAA assets and properties was done by the Minister, CASA had not accounted for its share of the assets in the books in 2016. I also noted that no valuation was performed of the assets and properties used in the operations.

Further, it had not been possible for me to confirm whether all the property assets recorded on the fixed assets register at the year end were owned by the Authority. Consequently, I was unable to satisfy myself on the completeness, existence, valuation, accuracy and ownership of the fixed assets and the related depreciation charges for the year ended 31 December 2016.

QUALIFIED OPINION

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

- (a) the financial statements of Civil Aviation Safety Authority for the year ended 31 December, 2016:
 - (i) give a true and fair view of the financial position and the results of its operations for the year then ended;
 - (ii) the financial statements have been prepared in accordance with the Finance Instructions issued under the *Public Finances (Management) Act, 1995*.
- (b) proper accounting records have been kept by the Authority as far as it appears from my examinations of those records; and
- (c) I have obtained all the information and explanation that were required.”

4.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act*, on the inspection and audit of the accounts and records of the Authority for the year ended 31 December 2016 was issued on 21 August 2017. The report contained the following observations:

GST Reconciliation

CASA had not performed GST reconciliations between the general ledger balances and the statement of account per the Internal Revenue Commission (IRC). CASA's book balance for GST was K316,580 and the IRC's statement of account balance showed K34,125 giving an unreconciled difference of K282,455. Also, penalty for late GST payment of K105,280 was imposed by IRC in 2016. I recommended the management to lodge GST returns on time to avoid penalties and obtain statement of account from IRC for preparation of timely reconciliations.

The management responded as follows:

"There is ongoing dialogue with the IRC to address account reconciliation issues both for Group Tax and GST. Monthly reconciliations will be done on the basis of IRC statement. CASA has opted for GST Accounting Option of "Cash Accounting" which will fairly record the GST liability for actual debit output collected."

Group Tax payments

I noted that Group Tax Returns for certain months of 2016 were not lodged within the time set by IRC. As a result, K193,387 was charged as penalty by the Internal Revenue Commission (IRC). I recommended to the management that group tax must be paid to IRC within the prescribed time. The management responded that, *"Group Taxes are remitted monthly to avoid penalty charges."*

Bank Reconciliations

I noted that reconciling items in the monthly bank reconciliation were not corrected in a timely manner. These reconciling items included:

- Cancelled cheques were still shown in the general ledger;
- Duplicated cheques were noted as outstanding. CASA used both manual and system generated cheques in 2016 promoting the duplication; and
- Cheques cleared by bank not recorded in the general ledger.

I recommended that management should minimize the issuance of manual cheques to avoid cheques duplication and all bank reconciliation should be reviewed and approved by the appropriate person other than the preparer.

Management responded that; *“the main cause of delayed action on reconciliation was maintenance of dual bank reconciliations. The system based bank reconciliation was not updated due to its functionalities not being fully understood by finance staff and the situation will improve and monthly bank reconciliations maintained. Issuance of manual cheques will cease and automated account disbursements will be installed.”*

4.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and examination of the financial statements of the Authority for the year ended 31 December 2017 had been completed and the results were being evaluated.

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

5.1 INTRODUCTION

5.1.1 Legislation

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

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

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

5.1.2 Objectives of the Authority

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

5.1.3 Functions of the Authority

Major functional responsibilities of the Authority are:

- Policy development:
 - Adopt and incorporate national strategies and plans on climate change compatible development into the national development strategies and plans;

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

5.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Authority had not submitted its financial statements for the years ended 31 December 2013, 2014, 2015, 2016 and 2017 for my inspection and audit despite my numerous reminders.

6. COCOA BOARD OF PAPUA NEW GUINEA

6.1 INTRODUCTION

6.1.1 Legislation

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

6.1.2 Functions of the Board

The principal functions of the Board are:

- To control and regulate the growing, processing, marketing and export of cocoa and cocoa beans and the equalisation and stockholding arrangements within the cocoa industry;
- To promote research and development programmes for the benefit of the cocoa industry; and
- To promote the consumption of PNG cocoa beans and cocoa products.

6.1.3 Subsidiary of the Board

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

6.1.4 Stabilisation Funds and Projects

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

6.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts records and the examination of the financial statements of the Board for the period ended 30 September 2016 had been completed and the audit reports were being finalised.

The financial statements for the period ended 30 September 2017 had not been submitted for my inspection and audit.

6A. COCOA POD BORER PROJECT FUND

6A.1 INTRODUCTION

6A.1.1 Framework

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

6A.1.2 Objectives of the Project Fund

The Principal objectives of the Project Fund are:

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

6A.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the audit of the accounts and records and the examination of the financial statements of the Project Fund for the period ended 30 September 2016 had been completed and the audit reports were being finalised.

The Project Fund had not submitted its financial statements for the period ended 30 September 2017 for my inspection and audit.

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

6B.1 INTRODUCTION

6B.1.1 Legislation

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

6B.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the audit of the accounts and records and the examination of the financial statements of the Fund for the period ended 30 September 2016 had been completed and the audit reports were being finalised.

The financial statements of the Fund for the period ended 30 September 2017 had not been submitted for my inspection and audit.

7. COCOA COCONUT INSTITUTE LIMITED OF PAPUA NEW GUINEA

7.1 INTRODUCTION

7.1.1 Legislation

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

7.1.2 Functions of the Company

The principal functions of the Company are:

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

7.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2014, 2015 and 2016 were completed and the results were being evaluated.

The Company had not submitted its financial statements for the year ended 31 December 2017 for my inspection and audit.

8. COFFEE INDUSTRY CORPORATION LIMITED

8.1 INTRODUCTION

8.1.1 Legislation

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

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

8.1.2 Functions of the Corporation

The principal functions of the Corporation are:

- To engage in research, extension, promotion, marketing, administration, management and control of the coffee industry in PNG;
- To act in the best interests of coffee producers; and
- To promote development of the coffee industry in PNG.

8.1.3 Subsidiaries of the Corporation

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

8.2 STATUS OF FINANCIAL STATEMENTS

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

The Corporation had not submitted the financial statements for the years ended 31 December 2015, 2016 and 2017 for my inspection and audit.

8A. COFFEE INDUSTRY FUND

8A.1 INTRODUCTION

The *Coffee Industry Corporation (Statutory Functions and Powers) Act 1991* provided for the establishment of the Coffee Industry Fund (CIF). The main purpose of the Coffee Industry Fund is to stabilise the coffee industry by giving the Coffee Industry Corporation the financial ability to implement schemes relating to stabilisation and equalisation of coffee prices and stock holdings of coffee.

8A.2 STATUS OF FINANCIAL STATEMENTS

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

The Fund had not submitted the financial statements for the years ended 31 December 2015, 2016 and 2017 for my inspection and audit.

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

8B.1 INTRODUCTION

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

8B.2 STATUS OF FINANCIAL STATEMENTS

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

The Company had not submitted the financial statements for the years ended 31 December 2015, 2016 and 2017 for my inspection and audit.

9. GOVERNMENT PRINTING OFFICE

9.1 INTRODUCTION

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

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

9.1.1 Objective of the Office

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

9.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Printing Office for the year ended 31 December 2015 had been completed and the audit reports were being finalised.

The financial statements of the Printing Office for the year ended 31 December 2016 had been submitted and arrangements were being made to commence the audit shortly.

The Printing Office had not submitted its financial statements for the year ended 31 December 2017 for my inspection and audit.

10. INDEPENDENCE FELLOWSHIP TRUST

10.1 INTRODUCTION

10.1.1 Legislation

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

10.1.2 Objective of the Trust

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

10.1.3 Functions of the Trust

The functions of the Trust are to:

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

10.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the audit of the accounts and records and the examination of the financial statements of the Trust for the year ended 31 December 2017 had been completed and the audit reports were being finalised.

11. INDEPENDENT CONSUMER AND COMPETITION COMMISSION

11.1 INTRODUCTION

11.1.1 Legislation

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

11.1.2 Functions of the Commission

The main functions of the Commission are:

- To formulate and submit to the Minister policies in the interest of consumers;
- Consider and examine and where necessary, advise the Minister on the consolidation or updating of legislation providing protection to the consumers;
- Liaise with Departments and other agencies of Government on matters relating to consumer protection legislation;
- Receive and consider complaints from consumers on matters relating to the supply of goods and services;
- Investigate any complaint received;
- Make available to consumers general information affecting the interests of consumers;
- Liaise with business, commercial and professional bodies and associations in order to establish codes of practice to regulate the activities of their members in their dealings with consumers;
- Advise consumers of their rights and responsibilities under laws relating to consumers protection;
- Promote and participate in consumer education activities;
- Establish appropriate systems whereby consumer claims can be considered and redressed;
- Liaise with consumer organisations, consumer affairs authorities and consumer protection groups overseas and to exchange information on consumer issues with those bodies;
- Arrange for the representation of consumers in court proceedings relating to consumer matters; and
- To do all other things relating to consumer affairs.

11.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the audit of the accounts and records and the examination of the financial statements of the Commission for the year ended 31 December 2017 had been completed and the audit reports were being finalised.

12. INDUSTRIAL CENTRES DEVELOPMENT CORPORATION

12.1 INTRODUCTION

12.1.1 Legislation

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

12.1.2 Functions of the Corporation

The main functions of the Corporation are:

- Overall planning and implementation of the Government's industrial centre development programme;
- Preparation of feasibility studies in order to identify appropriate forms of industrial development;
- To identify therewith or otherwise, regions and sites in the country for industrial centres; and
- To do such supplementary, incidental or consequential acts, as are necessary for the development and promotion of industrial centres in PNG.

12.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Corporation had not submitted its financial statements for the years ended 31 December 2016 and 2017 for my inspection and audit despite numerous reminders.

13. INTERNAL REVENUE COMMISSION

13.1 INTRODUCTION

13.1.1 Legislation

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

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

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

13.1.2 The Objective of the Commission

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

13.1.3 The Powers and Functions of the Commission

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

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

13.2 STATUS OF FINANCIAL STATEMENTS

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

The fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Commission for the year ended 31 December 2015 had been completed and the results were being evaluated.

The financial statements of the Commission for the years ended 31 December 2016 and 2017 were submitted and arrangements were being made to commence the audit shortly.

14. INVESTMENT PROMOTION AUTHORITY

14.1 INTRODUCTION

14.1.1 Legislation and Objective of the Authority

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

14.1.2 Functions of the Authority

The principal functions of the Authority are to:

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

14.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December 2017 had been completed and the management responses were being awaited to finalise the audit reports.

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

15.1 INTRODUCTION

15.1.1 Legislation

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

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

15.1.2 Functions of the Koporesen

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

15.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Koporesen for the year ended 31 December 2017 had been completed and the audit reports were being finalised.

15A. PAPUA NEW GUINEA COCONUT EXTENSION FUND

15A.1 INTRODUCTION

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

15A.1.1 Objective of the Fund

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

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

15A.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Extension Fund for the year ended 31 December 2017 had been completed and the audit reports were being finalised.

15B. PAPUA NEW GUINEA COCONUT RESEARCH FUND

15B.1 INTRODUCTION

15B.1.1 Legislation and Objective of the Fund

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

15B.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Research Fund for the year ended 31 December 2017 had been completed and the audit reports were being finalised.

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

16.1 INTRODUCTION

16.1.1 Legislation

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

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

A major impact of the amendments made was that the Corporation, the Trusts, the State Owned Enterprises or any other enterprises in which the Corporation, the Trusts or a State Owned Enterprise holds any interest shall not be subject to the *PFMA*. The amended Act also excludes the Corporation from the application of the *Public Services (Management) Act 1995* and the *Salaries and Conditions Monitoring Committee Act 1988*. These amendments came into operation on 8 June 2007.

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

16.1.2 Objectives of the Corporation

The objectives of the Corporation are to:

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

16.1.3 Functions of the Corporation

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

16.1.4 Trust of the Corporation

The Trust of the Corporation is *General Business Trust*. Comments in relation to the Trust are contained in paragraph 16A of this Report.

16.1.5 Subsidiaries of the Corporation

The subsidiaries of the Corporation are *Kumul Technology Development Corporation Limited (formerly Port Moresby Private Hospital Limited)* and *PNG Dams Limited*. Comments in relation to these subsidiaries are contained in paragraphs 16B and 16C of this Report.

16.1.6 Projects of the Corporation

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

16.2 AUDIT OBSERVATIONS

16.2.1 Comments on Financial Statements

My report to the Minister under *Section 8(4)* of the *Audit Act* on the financial statements of the Corporation for the year ended 31 December 2015 was issued on 26 October 2017. The report did not contain any qualification.

16.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the audit of the accounts and records and the examination of the financial statements of the Corporation for the year ended 31 December 2016 had been completed and the results were being evaluated.

The fieldwork associated with the audit of the accounts and records and the examination of the financial statements of the Corporation for the year ended 31 December 2017 was in progress.

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

16A.1 INTRODUCTION

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

16A.1.1 Objectives of the Trust

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

16A.2 AUDIT OBSERVATIONS

16A.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Trust's financial statements for the year ended 31 December 2015 was issued on 15 November 2017. The report contained a Qualified Opinion.

“BASIS FOR QUALIFIED OPINION

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

Note 2(d) to the financial statements of the Trust classifies its investments in unquoted equity securities as *available for sale financial assets* in accordance with *International Accounting Standards (IAS) 39, Financial Instruments: Recognition and Measurement* at 31 December 2015. Further, *Note 14* to the financial statements disclosed K4,781,355,435 as the total Investments under Non-Current Assets of which K3,846,815,394 was stated as investments under State Owned Enterprises (SOEs).

The fair value increment recorded for the investments in Kumul Technology Development Corporation Limited (formerly, Port Moresby Private Hospital Limited (POMPH) at a carrying value of K100,145,000 (2014: K79,601,000) and recorded a fair value gain of K20,544,000 in the Comprehensive Income for the year ended. However, I was unable to obtain sufficient appropriate audit evidence to determine the fair value of this investment as at 31 December 2015 and the gain recognised in the other comprehensive income for the year then ended.

Further, the investment in PNG Dams Limited was carried at K304,300,000 (2014: K466,500,000) and has recorded a reduction in fair value of K162,200,000 in other comprehensive income for the year then ended at 31 December 2015. I was unable to obtain sufficient appropriate audit evidence to determine the fair value of this investment as at 31 December 2015 and the reduction in fair value recorded in the other comprehensive income for the year then ended.

As such, I was unable to determine whether any adjustments might have been required to the carrying value of the Trust's Investments for POMPH and PNG Dams Limited for the year ended. Consequently, I was unable to determine the accuracy and the measurement of the Trust's unquoted investments in the State Owned Enterprises as at 31 December 2015.

Investments in Lae-Port Project

Note 14(b) of the financial statements disclosed K278,571,300 as total investments in Projects under construction. Included in the above investments was K268,950,312 (2014: K230,300,279) as investment made in the Lae-Port Development Project (LPDP) as at 31 December 2015. However, I was unable to obtain sufficient appropriate audit evidence to determine the completeness of costs incurred and monies advanced by the Trust for the LPDP. As a result, I was unable to determine whether any adjustments are required to be made to the carrying value of the Trust's investments in Lae-Port Development Project (LPDP) disclosed at K268,950,312.

Investment in Properties

Note 2(f) to the financial statements, investment properties are carried by the Trust at fair value in accordance with *International Accounting Standard (IAS) 40, Investment Properties*. The POM Fairfax Harbour Investment property is recorded at K771,204,508, which reflects its purchase cost including capitalized interest, and the Trust has not recorded a fair value gain or loss in the net income for the year ended. I was unable to obtain sufficient appropriate audit evidence to support the fair value of this investment property at 31 December 2015 and gain or loss recognised in net income for the year then ended. Consequently, I was unable to determine whether any adjustment to these amounts was necessary for the accuracy and measurement of the Trust's Projects under construction as at 31 December 2015.

QUALIFIED OPINION

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

- (a) the financial statements of General Business Trust for the year ended 31 December 2015:
 - (i) give a true and fair view of the financial position and cash flows for the year ended on that date; and
 - (ii) the financial statements have been presented in accordance with *International Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea; and
- (b) proper accounting records have been kept by the Trust; and
- (c) I have obtained all the information and explanations as required.”

16A.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Trust for the year ended 31 December 2015 was issued on 15 November 2017. The report contained the following comments:

Investment Corporation of Papua New Guinea (ICPNG)

This Corporation (ICPNG) was vested with KCH (formerly: IPBC) in pursuant to *Gazettal Notice No. 33* dated 6 April 2004. The value of this property was taken up in the financial statements as K8,660,957 for the last ten (10) years. The conditions attached with the vesting notice was not to use the GBT assets (money) for the disposal of remaining assets and settle the liabilities and submit all the outstanding financial statements to my office to enable me to complete the audit and issue the reports. However, my repeated requests to provide the financial statements for the years since 2002 were not responded positively by the respective managements in place in the years.

Investments in Niugini Insurance Corporation Limited (NIC)

This Niugini Insurance Corporation was corporatized and the business was transferred to Pacific MMI Insurance limited in 1998 except to keeping the insurance liability and assets attached with the liabilities remained with the Corporation. However, in 2010, KCH (formerly: IPBC) informed my office that they filed an application for deregistration of the company but no documentation was made available for my review to determine the appropriateness of the claim.

Investment made in Aquarius No. 21 Limited by Motor Vehicles Insurance Trust Limited, now owned by IPBC

The Aquarius No. 21 Limited (the Company) which owns this vacant land portion 1570 (now 2500) was acquired by the Motor Vehicles Insurance Trust Limited (MVITL) in 1998 at a cost of K5.0 million, whereas the valuation report of the vacant land subsequent to the purchase indicated that the market value was K2.5 million. However, since 1999 the value of the land was taken up at K950,000 in the books, by which MVITL (now MVIL) has incurred a loss of K4.0 million through this investment.

This company was transferred to KCH (formerly: IPBC) as per restructured deed of agreement entered into between Motor Vehicles Insurance Limited (MVIL) and Privatisation Commission dated 3 April 2002.

The document made available for review disclosed that an Urban Development Lease (UDL) over Portion 1570 (now 2500) was granted to Glory Estate Limited (then known as Kembis Holding Limited) in 2009. Further, the advice given by a law firm evident that KCH (formerly: IPBC) lost all avenues to reclaim this vacant land.

IPBC and MVIL had failed to apply for a new State lease for this vacant land, in spite of mentioning this requirement in my management letters and reports since 2002.

KCH (formerly: IPBC) Board had written-off this investment in the GBT books and advised me that the Company was deregistered in 2015. However, no deregistration certificate from IPA was made available for my review and verification.

16A.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Trust for the year ended 31 December 2016 had been completed and the results were being evaluated.

The fieldwork associated with the audit of the accounts and records and the examination and inspection of the financial statements of the Trust for the year ended 31 December 2017 was in progress.

16B. KUMUL TECHNOLOGY DEVELOPMENT CORPORATION LIMITED (Subsidiary of Kumul Consolidated Holdings)

16B.1 INTRODUCTION

16B.1.1 Legislation

This Company was initially registered under the *Companies Act* on 1 August 1994 with a name Negliw No. 81 Limited. On 30 September 1994, Negliw No. 81 Limited was acquired as a subsidiary by the Motor Vehicles Insurance (PNG) Trust, now the Motor Vehicles Insurance Limited and on 20 March 1996 changed its name to Port Moresby Private Hospital.

Port Moresby Private Hospital Limited was later transferred to the General Business Trust on 2 August 2002. Subsequently, on 20 April 2016 the Company changed its name from Port Moresby Private Hospital Limited to Kumul Technology Development Corporation Limited.

16B.1.2 Objective of the Company

The objective of Kumul Technology Corporation Limited is to construct, furnish and equip a building to operate as a hospital.

16B.2 AUDIT OBSERVATIONS

16B.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act* on the financial statements of the Company for the year ended 31 December 2015 was issued on 25 October 2017. The report contained a Disclaimer of Opinion.

“BASIS FOR DISCLAIMER OF OPINION

Fair Valuation of Investment Properties

Statement of Comprehensive Income of the financial statements disclosed K5.01 million (2014: K6.92 million) as gain on change in fair value of investment properties for the year ended 31 December 2015. However, I was unable to obtain sufficient and appropriate audit evidence that would support the fair value recognised in the statement of financial position at K100,145,000 (2014: K95,131,000) and the gain on change in fair value as shown in the statement of comprehensive income as at 31 December 2015.

Therefore, I was unable to determine whether any adjustment might have been found necessary to the statement of financial position as at 31 December 2015 or the statement of comprehensive income, statement of cash flows or statement of changes in equity and related notes to the financial statements for the year then ended.

DISCLAIMER OF OPINION

Because of the significance of the matter described in the Basis for Disclaimer of Opinion, I have not been able to obtain sufficient and appropriate audit evidence and accordingly, I am unable to express an opinion on the financial statements of Kumul Technology Development Corporation Limited for the year ended 31 December 2015.”

16B.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2016 had been completed and the results were being evaluated.

The audit of the accounts and the records and the examination of the financial statements of the Company for the year ended 31 December 2017 was in progress.

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

16C.1 INTRODUCTION

16C.1.1 Legislation

PNG Dams Limited was incorporated under the *Companies Act* on 5 June 2002. This Company was established under *Section 3(1)* of the *Electricity Commission (Privatisation) Act 2002 (the 'Act')* by transferring to it the Sirinumu Dam and Yonki Dam from PNG Electricity Commission (ELCOM). This was gazetted through *Gazettal Notification No. G114* dated 16 July 2002. The Company was vested with the IPBC through the *Gazettal Notification No. G125* dated 2 August 2002.

16C.1.2 Objective of the Company

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

16C.2 AUDIT OBSERVATIONS

16C.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act* on the financial statements of the Company for the year ended 31 December 2015 was issued on 25 October 2017. The report contained a Qualified Opinion.

“BASIS FOR QUALIFIED OF OPINION

Limitation of Scope on Opening Balances

My report for the prior year, 31 December 2014 was a disclaimer of opinion as a result of lack of sufficient and appropriate audit evidence to support the fair value of the investment properties which are fundamental in the preparation of the financial statements. I was unable to obtain the necessary audit evidence on the opening balances through other audit procedures. Since these opening balances entered into the determination of the results of the financial performance for the year ended 31 December 2015, I was unable to determine whether any adjustment to the results of the operation and changes in financial position might have been necessary for the year ended 31 December 2015.

QUALIFIED OPINION

Certain balances as at 31 December 2014 also entered into the determination of financials for the year ended 31 December 2015. Because of the existence of a disclaimer of opinion in opening balances as described in the basis for qualification above, I am unable to form an opinion on the statement of comprehensive income, statements of changes in equity and the related disclosures for the year ended 31 December 2015.

In my opinion, except for the matter described in the basis for qualified opinion paragraph above, and except for the possible effects of such adjustments, if any, as might have been determined to be necessary to the statement of comprehensive income had the limitations on the scope of work as described above in the paragraph of basis of qualification not existed:

- (a) the financial statements of PNG Dams Limited for the year ended 31 December 2015:
 - (i) give a true and fair view of the financial position and cash flows for the year ended on that date; and
 - (ii) the financial statements have been presented in accordance with International Financial Reporting Standards and other generally accepted accounting practices in Papua New Guinea;
- (b) proper accounting records have been kept by the Company; and
- (c) I have obtained all the information and explanation as required.”

16C.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2016 had been completed and the results were being evaluated.

The fieldwork associated with the audit of the accounts and records and the examination and inspection of the financial statements of the Company for the year ended 31 December 2017 was in progress.

17. LEGAL TRAINING INSTITUTE

17.1 INTRODUCTION

17.1.1 Legislation

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

17.1.2 Functions of the Institute

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

17.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Institute for the years ended 31 December 2014, 2015 and 2016 were completed and results were being evaluated.

The financial statements for the year ended 31 December 2017 had not been submitted by the Institute for my inspection and audit.

18. MINERAL RESOURCES AUTHORITY

18.1 INTRODUCTION

18.1.1 Legislation

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

18.1.2 Objectives of the Authority

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

18.1.3 Functions of the Authority

The functions of the Authority are described as follows:

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

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

18.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

18.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Authority for the year ended 31 December 2014 was issued on 15 June 2017. The report contained a Qualified Opinion.

“BASIS FOR QUALIFIED OPINION

Production Levies

Reported in the statement of comprehensive income is an amount of K21,832,817 being for production levies (Non-Alluvial) income. During the audit, completeness and accuracy of the production levies account could not be verified. I noted that the Authority does not have proper controls and procedures to capture all production levies.

Production levies are calculated based on 0.25% of assessable income of producing mines. I noted during audit that not all producing mines remit their production levies.

Additionally, the Authority does not have a process to verify and ascertain the base and assessable income as declared by the producing mines to calculate and remit the production levies.

Unallocated Receipts

Reported in the statement of financial position is an amount of K1,706,765 being for unallocated receipts. During the audit, the nature of these funds received could not be determined. Most of the funds were dated back as far as 2009. This could result in material misstatements to the revenue and debtor accounts.

QUALIFIED OPINION

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements of the Mineral Resources Authority for the year ended 31 December 2014:

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

Reported on Other Legal and Regulatory Requirements

Internal Audit

I have noted non-compliance with the *MRA Act, 2005, Section 39 (5)* which states that MRA is required to appoint an internal auditor who is to provide a written audit report not less than quarterly to the Minister and Treasury. My enquiries revealed that whilst an internal auditor was appointed, no internal audit work was carried out for the financial year ended 31 December 2014.

Statutory Audit

The audit of the 2014 Statutory Financial Statements was not finalised by 31 May 2015 due to weaknesses in the Authority's accounting system and overall internal control environment. As such, management was unable to meet the deadline required by *Section 36(1)* of the *Mineral Resource Authority Act 2005* which requires audited financial statements of the Authority to be furnished to the Minister before 31 May 2015."

18.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act*, on the inspection and audit of the accounts and records of the Authority for the year ended 31 December 2014 was issued on 15 June 2017. The report contained the following observations:

OTHER MATTERS

- **Internal Control Environment**

During the course of my audit, I identified several weaknesses in the Authority's accounting system and overall internal control environment operated during the year ended 31 December 2014: Management information are insufficient and reconciliations are not performed for items included in the Statement of Financial Position and/or reconciliations between the general ledger and sub ledgers which resulted in significant delays in receipt of information for the audit.

I recommended that management implement a system whereby reconciliations are prepared for each item stated on the Statement of Financial Position and that reconciling items followed up promptly and resolved. Management should also ensure that reconciliations are performed between the general ledger and sub-ledgers and that reconciling items followed up promptly in order to ensure completeness and accuracy of data for reporting purposes.

- **Internal Audit Function**

I also noted non-compliance with the *Mineral Resources Act (MRA) Act section 39 (5)* which states that MRA is required to appoint an internal auditor who is to provide a written audit report not less than quarterly to the Minister and Treasury. There was no internal audit work undertaken by an internal auditor. Further, my discussions with the internal auditor revealed non-existence of adequate audit manuals, work programs and written work programs.

I recommended that management ensure internal audit manuals and work plans are developed to assist the internal audit department in performing tasks against a set of guidelines and to furnish reports to the Minister and Treasury as required by the MRA Act.

The management responded as follows:

"An internal audit manual is not developed for MRA as yet. Currently we have adopted the "Practice Guide for Internal Auditors" being applied as an Internal Audit Manual in the Public Sector, issued by the Department of Finance for National Departments, Statutory Bodies and Provincial Local Level Governments in PNG. Internal Audit Work Plans are incorporated as part of the yearly Internal Audit Plan which is endorsed by the Audit Committee. Internal Audit written Test Programs are developed for each business unit or branch once sanctioned for audit review. Development of audit programs for each respective branch are continuing and updated regularly as an ongoing process."

- **Royalty Trust Deeds**

It was noted during my review that the MRA keeps in its books royalty funds for Simberi Gold and New Guinea Gold landowners. These monies or funds were noted to be held without a proper royalty trust deed in place setting out the rights and responsibilities of all parties including the operator, the mine, the landowners and MRA. In the absence of a royalty trust deed, any legal issues arising from the use of those funds would affect MRA in the future.

I recommended to the management that all future trust funds held for and on behalf of land owners should come with a properly executed trust deed.

The management responded as follows:

“Board has asked management to look into this matter and pay money back to the various custodians by June 2017.”

- **Fixed Assets Register Maintenance**

During my review, I noted that there were no proper controls in place in maintaining the Fixed Assets Register (FAR). Further, there was no physical asset verification conducted in 2014. Best practice requires that companies should perform a physical inventory at least annually to ensure the physical accountability of all fixed assets and the completeness and accuracy of financial records. No regular physical verification of assets may result in control deficiencies in monitoring the assets existence and condition as the assets may not be able to be identified or located or some assets may have been fully depreciated and disposed of during the year and not considered in the financial statements.

I also noted that the fixed asset verification exercise was carried out in 2015. As such, I recommended that management should develop cost-effective physical asset verification procedures to ensure its fixed assets are properly safeguarded, maintained, utilized and monitored and controls around the maintenance of the fixed assets should be improved.

The management responded as follows:

“Fixed Asset verification is now a regular exercise and the fixed asset register continually updated. Monthly depreciation is now being captured in the system.”

- **Ineffective Controls in Invoicing**

I noted that all accounts receivable/sales transaction have no (sequential) invoice nor substantial documentation for the calculation of the assessable income and production levy except for receipt copies and payment advise from miners. As a result of this, I was unable to perform testing to address the misstatement in the revenue account. Ineffective ways of raising invoices can encourage fraudulent activities.

I recommended that the Authority should establish an effective accounting method to address the risk of inaccurate billing which may result in potential losses and other impeding issues leading to incorrect revenue recognition.

The management responded as follows:

“We have now in placed an improved invoicing system in our new computerized accounting system which requires an invoice for all debtors and creditors.”

- **Acquittal of Staff Advance**

I noted that MRA personnel were not in compliance with the acquittal process as stipulated in *Section 8.5* of the MRA policy. For the six (6) samples selected for testing, no supporting documents were provided for an advance payment of K49,700. I was unable to verify that these payments were acquitted because 100% of the sample tested had no supporting documents. As a result of the reconciliation performed after the audit, K102,276 was written off to the expense account.

I recommended that management should reiterate the importance of complying with the policy for acquitting funds and also ensure that non-compliance measures are effected to avoid such issues in the future.

The management responded as follows:

“Taken up in the audit adjustment. All staff advances are now being reconciled monthly and recovered by salary deduction through payroll.”

- **PIP Reimbursable**

I noted that MRA had a total of K604,049 that is reimbursable from PIP that is classified as a current debtor in the financials. Although we verified that these amounts were receivable, we were not certain that these are current (receivable within 12 months from 31/12/14). MRA had made a provision of K526,170 for this balance.

I recommended that management take into consideration feasible ways of ensuring that a written agreement and consensus is reached by both parties (PIP & MRA) for any services carried out by MRA to be reimbursed.

The management responded as follows:

“Expenditures paid by MRA are now being reimbursed as soon as PIP authorised signatories are available. Management is now embarking on recovering amounts owed which were all prior to 2014.”

- **Production Levy (Non-Alluvial Income)**

I noted that the production levies are being calculated and remitted by producing mines (thus “self-invoicing”). Production levies income is calculated based on 0.25% of assessable income of producing mines and accounts for almost 70% of the Authority’s income. The Authority did not test the veracity of the “self-invoiced” revenue and the Authority did not maintain a register of mining companies that are required to pay these production levies.

As a result, of the lack of control around the raising of production levy income, it is highly likely that not all producing mines are remitting the required production levy to the Authority. This causes uncertainty around the completeness and accuracy of production levy income recorded.

I recommended that management implement policies and procedures whereby it is mandatory for all producing mines to declare their assessable income to the Authority regardless of whether they made a profit or a loss for the relevant financial period.

The management responded as follows:

“This is now being addressed through a concerted effort whereby our regulatory operations compiles the annual data, which is collected every month through Form 25 and this forms the basis of determining the production levy due (in best approximate value). There will be a small variance and this will be due to the underlying fact that this levy is based on all assessable income and therefore the Mining Company will have to report all that on top of the production levy which will be based production data we (MRA) collect.”

18.2 STATUS OF FINANCIAL STATEMENTS

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

The Authority had not submitted its financial statements for the years ended 31 December 2016 and 2017 for my inspection and audit.

19. NATIONAL AGRICULTURE QUARANTINE AND INSPECTION AUTHORITY

19.1 INTRODUCTION

19.1.1 Legislation

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

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

19.1.2 Objectives of the Authority

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

19.1.3 Functions of the Authority

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

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

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

19.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December 2016 had been completed and the results were being evaluated.

The financial statements of the Authority for the year ended 31 December 2017 had not been submitted for my inspection and audit.

20. NATIONAL AGRICULTURAL RESEARCH INSTITUTE

20.1 INTRODUCTION

20.1.1 Legislation

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

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

20.1.2 Objectives of the Institute

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

- Any branch of biological, physical and natural sciences related to agriculture;
- Cultural and socioeconomic aspects of the agricultural sector, especially of the smallholder agriculturalists; and
- Matters relating to rural development, relevant to PNG.

20.1.3 Functions of the Institute

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

- Generate and adapt agricultural technologies and resource management practices appropriate to the needs, circumstances and goals of smallholder agriculturalists;
- Promote and facilitate applied and adaptive research in food crops, livestock, alternative cash crops, and resource management;
- Promote the use of appropriate agricultural technologies and provide essential technical services to improve the productivity, income, nutritional status and food security, resource base and quality of life of rural households and communities;
- Develop and promote ways of improving the output, quality, harvesting, post-harvesting, handling and processing, and marketing of food crops, livestock produce and alternative crops;

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

20.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and examination of the financial statements of the Institute for the year ended 31 December 2017 had been completed and the results were being evaluated.

21. NATIONAL AIDS COUNCIL SECRETARIAT

21.1 INTRODUCTION

21.1.1 Legislation

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

21.1.2 Objectives of the Council

The objectives of the Council are to take multi sectoral approaches with a view to:

- Prevent, control and to eliminate HIV/AIDS transmission in PNG;
- Organise measures to minimise the personal, social and economic impact of HIV/AIDS; and
- Safeguard personal privacy, dignity and integrity in the face of the HIV/AIDS epidemic in PNG.

21.1.3 Functions of the Council

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

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

21.2 STATUS OF FINANCIAL STATEMENTS

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

The Council had not submitted the financial statements for the years ended 31 December 2016 and 2017 for my inspection and audit, despite numerous reminders.

22. NATIONAL BROADCASTING CORPORATION

22.1 INTRODUCTION

22.1.1 Legislation

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

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

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

22.1.2 Functions of the Corporation

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

The Corporation's other functions are to:

- Ensure that the services that it provides, when considered as a whole, reflect the drive for national unity and at the same time give adequate expression to the culture, characteristics, affairs, opinions and needs of the people of the various parts of the country and in particular of rural areas;
- Do all in its power to preserve and stimulate pride in the indigenous and traditional cultural heritage of PNG;
- Take extreme care in broadcasting material that could inflame racial or sectional feelings; and
- Co-operate with the Government in broadcasting social, political, economic and educational programs.

22.2 STATUS OF FINANCIAL STATEMENTS

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

The Corporation had not submitted its financial statements for the years ended 31 December 2016 and 2017 for my inspection and audit.

23. NATIONAL CAPITAL DISTRICT COMMISSION

23.1 INTRODUCTION

23.1.1 Legislation

The *National Capital District Government (Preparatory Arrangements) Act 1982* established the National Capital District Interim Commission. The purpose of this Act was to establish an interim government for the NCD and make preparatory arrangements for the establishment of a government for the NCD as required by *Section 4(4)* of the National Constitution. The *National Capital District Government (Preparatory Arrangements) (Amendment) Act 1986* came into operation in 1987.

The *National Capital District Commission Act 1990*, which became operational on 5 November 1990, established the NCD Commission. The introduction of this Act resulted in the amalgamation of Motu Koitabu Interim Assembly with the NCD Commission. Consequently, the assets, liabilities and the obligations of the Interim Assembly were absorbed by the Commission on the commencement date.

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

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

23.1.2 Functions of the Commission

The functions of the NCD Commission are to:

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

23.1.3 Subsidiaries of the Commission

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

23.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Commission for the years ended 31 December 2014 and 2015 had been completed and the results were being evaluated.

The fieldwork associated with the inspection and audit of the accounts and records and examination of the Commission's financial statements for the year ended 31 December 2016 was in progress.

The financial statements of the Commission for the year ended 31 December 2017 had not been submitted for my inspection and audit.

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

23A.1 INTRODUCTION

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

23A.1.1 Objective of the Company

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

23A.1.2 Functions of the Company

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

23A.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Company had not submitted its financial statements for the years ended 31 December 2013, 2014, 2015, 2016 and 2017 for my inspection and audit, despite numerous reminders.

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

23B.1 INTRODUCTION

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

23B.1.1 Functions of the Company

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

23B.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Company had not submitted its financial statements for the years ended 31 December 2013, 2014, 2015, 2016 and 2017 for my inspection and audit. The Commission advised that this entity was no longer in operation and in the process of deregistering from the Investment Promotion Authority (IPA). However, no documents were produced to my Office in relation to deregistration.

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

23C.1 INTRODUCTION

23C.1.1 Legislation

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

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

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

23C.1.2 The Objective of the Company

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

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

23C.1.3 Functions of the Company

The functions of the Company include:

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

23C.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2014 and 2015 had been completed and the results were being evaluated.

The fieldwork associated with the inspection and audit of the accounts and records and examination of the financial statements of the Company for the year ended 31 December 2016 was in progress.

The Company had not submitted its financial statements for the year ended 31 December 2017 for my inspection and audit.

24. NATIONAL CULTURAL COMMISSION

24.1 INTRODUCTION

24.1.1 Legislation

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

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

24.1.2 Functions of the Commission

The main functions of the Commission are to:

- Perform the cultural functions of the former National Cultural Committee and in this connection, to assist and facilitate, preserve, protect, develop and promote the traditional cultures of the indigenous people of PNG;
- Encourage the development, promotion and protection of the contemporary cultures of PNG;
- Facilitate the marketing of selected and approved aspects of the cultures of PNG;
- Co-ordinate with related Government and Non-Government agencies on cultural matters;
- Co-ordinate cultural activities with provincial cultural bodies;
- Liaise with Non-Government organisations on cultural matters; and
- Liaise with international cultural organisations.

24.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Commission for the year ended 31 December 2014 had been completed and the management responses were being awaited to finalise the audit reports.

The Commission had not submitted its financial statements for the years ended 31 December 2015, 2016 and 2017 for my inspection and audit.

25. NATIONAL ECONOMIC AND FISCAL COMMISSION

25.1 INTRODUCTION

25.1.1 Legislation

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

25.1.2 Functions of the Commission

The main functions of the Commission are to:

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

25.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the audit of the accounts and records and the examination of the financial statements of the Commission for the year ended 31 December 2017 had been completed and the audit reports were being finalised.

26. NATIONAL FISHERIES AUTHORITY

26.1 INTRODUCTION

26.1.1 Legislation

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

26.1.2 Functions and Powers of the Authority

The primary functions and powers of the Authority are to:

- Manage the fisheries within the fisheries waters in accordance with this Act, taking into account the international obligations of PNG in relation to tuna and other highly migratory fish stocks;
- Make recommendations to the Board on the granting of licences and implement any licensing scheme in accordance with this Act;
- Liaise with other agencies and persons, including regional and international organisations and consultants, whether local or foreign, on matters concerning fisheries;
- Operate research facilities aimed at the assessment of fish stocks and their commercial potential for marketing;
- Subject to the *Pure Foods Act*, the *Commerce (Trade Descriptions) Act*, the *Customs Act*, the *Customs Tariff Act* and the *Exports (Control and Valuation) Act* control and regulate the storing, processing and export of fish and fish products;
- Appraise, develop, implement and manage projects, including trial fishing projects;
- Prepare and implement appropriate public investment programmes;
- Collect data relevant to aquatic resources;
- Act on behalf of the government in relation to any domestic or international agreement relating to fishing or related activities or other related matters to which the Independent State of PNG is or may become a party;
- Make recommendations on policy regarding fishing and related activities;
- Establish any procedures necessary for the implementation of this Act, including tender procedures; and
- Implement any monitoring, control, and surveillance scheme, including co-operation, agreements or arrangements with other States or relevant international, regional or sub-regional organisations, in accordance with this Act.

- The Authority has, in addition to the powers otherwise conferred on it by this Act and any other law, full powers to do all things that are necessary or convenient to be done for or in connection with the performance of its functions and the achievement of its objectives.

26.2 STATUS OF FINANCIAL STATEMENTS

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

The fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December 2016 was in progress.

The Authority had not submitted its financial statements for the year ended 31 December 2017 for my inspection and audit.

27. NATIONAL GAMING CONTROL BOARD

27.1 INTRODUCTION

27.1.1 Legislation

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

27.1.2 Functions of the Board

The principal functions of the Board are to:

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

27.1.3 Subsidiary of the Board

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

27.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Board for the year ended 31 December 2015 had been completed and the audit reports were being finalised.

The Board had not submitted its financial statements for the years ended 31 December 2016 and 2017 for my inspection and audit.

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

27A.1 INTRODUCTION

27A.1.1 Legislation

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

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

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

The CBF started its operations in 2008.

27A.1.2 Objectives of the Fund

The objectives of the Fund Trust are to:

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

27A.1.3 Functions of the Fund

The principal function of the Fund is to provide for and apply the income and capital of the fund towards generally charitable purposes, including but not exclusive of the following areas:

- provision and improvement of social welfare;
- development of sports and improvement of recreational facilities;
- improvement of education and learning tools (not including school fees);
- assistance to churches and religious groups;
- provision of medical assistance;
- assistance to education, health and law and order projects; and
- undertake research into problems on gambling and promote community awareness and education on negative aspects of gambling.

27A.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the audit of the accounts and records and the examination of the financial statements of the Fund for the year ended 31 December 2015 had been completed and the audit reports were being finalised.

The Fund had not submitted its financial statements for the years ended 31 December 2016 and 2017 for my inspection and audit.

28. NATIONAL HOUSING CORPORATION

28.1 INTRODUCTION

28.1.1 Legislation

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

28.1.2 Functions of the Corporation

The principal functions of the Corporation are to:

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

28.1.3 Subsidiary of the Corporation

The National Housing Corporation has a subsidiary Company, National Housing Estate Limited. Comments in relation to the National Housing Estate Limited are contained in paragraph 28A of this Report.

28.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

28.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Corporation's financial statements for the year ended 31 December 2014 was issued on 21 November 2017. The report contained a Disclaimer of Opinion.

“BASIS FOR DISCLAIMER OF OPINION

Management’s Declaration of Disclaimer on Financial Statements

The management made a declaration on deficiencies in the preparation and fair presentation of the financial statements of the Corporation due to ongoing major internal control lapses including lack of proper accounting system, lack of proper record keeping, non-existence of accounting manual, absence of fixed assets management and registers and lack of debtors control system.

The declaration indicates that the Directors and the Management had failed to comply with the requirements of the *Public Finances (Management) Act 1995 (as amended) (PFMA)* by not maintaining proper records and books of accounts to enable me to conduct the audit in time as required by *Section 63(3) (c)* of the *PFMA*.

Limitation of Scope due to Opening Balances

My Report for the prior year, 31 December 2013 was a disclaimer of opinion. I was not able to satisfy myself as to the accuracy and completeness of the opening balances of fixed assets, trade payables, provisions and other liabilities, cash and cash equivalents, advance from PNG government, and government equity. Since these opening balances entered into the determination of the results of operations and cash flows of the Corporation for the financial year ended 31 December 2014, I was unable to determine whether adjustments to the results of operations and cash flows might have been necessary for the year then ended.

Revenues and Expenses

The Income Statement reported total revenue of K17,348,235, total expense of K18,660,119 and a net loss of K1,311,884 for the year ended 31 December 2014. However, I could not confirm these figures as there was no reliable system in place to ensure that all billed amounts in rental, mortgage and other revenues were collected and properly accounted for through a debtor’s ledger system. In addition, schedules and accounting records for all the revenue and expense account balances reported in the financial statements were not made available for my review. I also noted serious internal control weaknesses with payment procedures that could affect the balance and classification of various expense items stated in the financial statements. Further, included in *Note 11* of the financial statements was an amount of K10,388,900 stated as *Proceed from Disposal of Properties*. This figure could not be confirmed as documents and records in respect of the sale of the properties were not made available for my review. As a result, I could not confirm the accuracy and completeness of the revenue and operational costs as reported for the year ended 31 December 2014.

Cash and Cash Equivalents – (K1,230,351)

The *Cash and Cash Equivalents* balance was an overdraft of K1,230,351 as reported in the financial statements as at 31 December 2014. There were no bank reconciliation statements, cash books and ledgers. I was therefore unable to verify and confirm the accuracy and existence of the cash and cash equivalent balance existed as at 31 December 2014.

Trade Receivables – K-Nil

The *Trade Receivables* had *nil* balance as at 31 December 2014. This was a major omission as the Corporation would have debtors while it operates property rentals and sales schemes. A proper debtors' ledger system has not been maintained from which a reliable debtors' balance could be obtained.

Other Debtors – K356,277

Other debtors balance as at 31 December 2014 comprised of *Prepayment of K32,936*, *Staff Emergency Assistance Fund of K25,747* and *Salary Advance of K297,594*. All these balances were not supported by schedules and accounting records.

Fixed Assets – K10,981,938

The carrying value of *Properties, Plants and Equipment* as at 31 December 2014 was K10,981,938 as reported in the balance sheet. A Fixed Assets Register was not maintained and listings and schedules were not available in support of the carrying value. A physical stock-take was not carried out on fixed assets and periodic valuations were not done on properties owned by the Corporation. As a result, I was unable to confirm the completeness, existence, valuation and accuracy of the fixed assets balance as reported.

Investments

The National Housing Estate Limited (NHEL), a subsidiary of the National Housing Corporation was established and incorporated in 2007. However, the Corporation had not taken up the value of the investment in NHEL in the financial statements for the year ended 31 December 2014.

Accruals, Provisions and Other Liabilities

The balance for *Accruals, Provisions and Other Liabilities* as at 31 December 2014 was K9,316,484 as stated in the financial statements. According to *Note 9* of the financial statements this value consisted of *Accrued Expenses* of (K66,900), *GST Refund* of (K4,822), *Group Tax Provision* of K9,496,119 and *Payroll Liabilities* of (K107,914).

There was no acceptable accounting records, documentation and schedules available to substantiate these balances. As such, I was not able to verify and confirm the existence and accuracy of the balances as at 31 December 2014.

Government Advance

The financial statements reported a balance of K7,779,200 as *Government Advance* as at 31 December 2014. No acceptable record, document or confirmation was available for me to confirm this balance.

State's Equity

An amount of K27,668,800 was stated as balance of *State's Equity* as at 31 December 2014. There was no acceptable record, document or confirmation to confirm the accuracy and existence of this balance as at year end.

Retained Earnings

A value of K1,630,715 was stated as the balance of retained earnings as at 31 December 2014. I could not rely on the balance due to lack of supporting schedules and documentations to confirm the opening balance.

Historical Balancing

A value of K31,778,745 (2013: K27,994,279) was reported in the Balance Sheet as at 31 December 2014. *Note 2.3* of the financial statements disclosed that the balance was MYOB reconciliation items for posting to correct accounts. The historical balancing has been reported in the financial statements for a number of years without taking necessary steps to reconcile and allocate to correct accounts. Therefore, I was unable to determine the validity of the amount reported in the financial statements.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence and accordingly I am unable to and do not express an opinion on the financial statement of the National Housing Corporation for the year ended 31 December 2014.”

28.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Sections 8(2)* of the *Audit Act*, on the inspection and audit of the accounts and records of the Corporation for the year ended 31 December 2014 was issued on 21 November 2017. The report contained the following observations:

Financial Statements

The Corporation's financial statements for the year ended 31 December 2014 was not prepared from a properly maintained accounts and records and lacked sufficient supporting documentation and evidence. The errors, omissions, irregularities and misstatements were so significant which formed the basis for a *Disclaimer of Opinion* in my *Section 8(4)* Report on the 2014 financial statements.

Internal Control Environment

The internal control weaknesses in management accounting, record keeping and payment procedures had negatively impacted the reliability, validity, completeness and correctness of the financial information disclosed in the financial statements. I noted following weaknesses in relation to internal control environment:

i) Accounting System

The Corporation's financial transaction records in the MYOB accounting system were not properly maintained and up to date. I noted lengthy time lag between the dates of transactions and postings to the cash book and general ledgers. Also, the general ledgers maintained in the MYOB accounting system were not integrated.

The cashbook, revenue and expenses, and accounts payable ledgers were maintained in the MYOB accounting system while the debtors' ledger was kept in a standalone database called the "Housing Debtors System". Payroll was also done using another standalone system.

I noted that lack of skills and training on information technology had contributed to the ineffective use of the management accounting system. In addition, the Corporation had no accounting manual in 2014.

I recommended to the management to seriously consider taking appropriate actions to improve on management accounting system and general record keeping.

ii) Revenue and Accounts Receivables

Controls over billing, collection of revenues, and accounting of debtors and revenues were very deficient. The Corporation's incomes were not properly managed and exposed to abuse and fraud. The debtors' subsidiary ledger system was not properly maintained and lacked integration with the general ledger.

I recommended to the management to create a debtors subsidiary ledger system to integrate with billing and cash receipting system, and general ledger.

iii) Fixed Assets Management

The Corporation did not maintain a Fixed Assets Register in 2014. This is a very serious internal control lapse. Non existence of Fixed Assets Register poses a high risk for loss of its properties. Also, valuation of the properties had not been done periodically to establish fair values at any given point of time. I carried out property inspection in NCD, Lae, Madang and Goroka and noted that the Corporation had in its custody properties with values that could run into hundreds of millions of Kina.

I recommended to the management to maintain a Fixed Asset Register to form evidence of ownership and control over them and to ensure their values at any given point of time are fair and reliable.

Payment Procedures and Anomalies

- a) The Corporation issued many cashable cheques in 2014 to its staff members and other service providers. I advised that issuing cashable cheque promotes fraud, abuse and corruption and is not an acceptable business practice;
- b) Segregation of duty was lacking in certain payments. In two instances payments totaled K142,000 was made to a company for capital works done dating back to 2010. I noted that the Managing Director solely approved the purchase requisition, direct immediate payment and signed the cheques. There was no sufficient documentation to justify the formal contract entered into and work done in 2010.
- c) I noted instances of tax evasion in the payment procedures. The Corporation did not withhold 10% GST on a payment of K12,446 made to a firm having no certificate of compliance from the IRC. I also noted two payments totaled K18,000 were made to an accounting firm in "PAY CASH" without retaining the 10% GST.
- d) In three (3) instances, payments totaled K36,500 made to consultants did not have contract of engagement and detailed terms of reference in the vouchers. Further, the consultants were not appointed using proper procurement procedures but done at the sole discretion of the Managing Director.
- e) Two (2) payments totaled K89,000 made to a legal firm lacked full and proper supporting documentations.
- f) In six (6) instances, officers of the NHC were paid money in lieu of sick leave credits totaled K44,835. Payment of money in lieu of sick leave credits is not allowed as per provisions of the General Orders.

- g) An amount of K80,000 was paid through cheque no. 248696 on 17 March 2014 to Pacific International Hospital. The payment was stated as *“being payment for emergency medical services for NHC employees and management”*. I was not provided with all the necessary documentations including management resolution and formal agreement entered into with the hospital.
- h) A payment of K10,000 was made to a senior executive at NHC on a *“Pay Cash”* cheque no. 249415 on 23 October 2014. The amount was to assist him to meet medical cost of his spouse. It is compulsory that any salary advance to staff member is recoverable through payroll deduction. I was not provided with any documentary evidence to indicate the amount was recovered.
- i) In eight (8) instances, monthly rental payments totaled K81,439 were made for certain staff members. No documentary evidence was available to confirm whether the officers were fully entitled to housing being condition of their employment.
- j) Six (6) payments for motor vehicle hires in Port Moresby cost NHC K151,000. Most of the vehicle hires were committed by the Managing Director at the rate of K1,000 per day. The very high daily rate of K1,000 in big cities like Port Moresby had been considered extravagant.
- k) An amount of K34,677 was paid to a firm for construction of billboards. There was in-adequate supporting documentation including evidence of three quotes obtained and subsequent award of the contract to the firm, nature and scope of the work to be undertaken and formal contract agreement.
- l) A former Managing Director’s final entitlement payout was set at K1,000,000. In September 2014, final balance of K619,112 was paid. The amount was beyond the authority to pre-commit expenditure limit of K100,000 for any CEO. Therefore, Board and Minister’s approval was necessary.

There was no evidence of Board authorization for the final payout made. Also, I could not obtain all necessary schedules required to determine correctness and validity of the provision made for the final entitlement payout.

- m) A special Board meeting (SB 3/2014) was convened in Madang on 22 May 2014. Total costs incurred valued at K79,014 which comprised of K15,969 in airfares and K63,045 in other costs. I noted that the meeting was for one day only, however, the Minister, Managing Director and Board Secretary each received K5,000 in travelling allowances. Also, the Managing Director had taken with him K3,000 as entertainment allowance and K5,000 being emergency funds. No acquittals were available as required under the General Orders.

- n) In four (4) instances, stipend payments totaled K115,747 were made to the Board members for the first quarter of 2014. Schedules and documentations to ensure compliance with *Board Fees and Allowance Act* were not available. The basis used for calculation and accuracy of the payments made could not be verified.
- o) A “Pay Cash” cheque worth K23,100 was raised on 13 May 2014 to meet duty travel expenses. The Managing Director, Legal Principal Officer and General Manager (properties) were to take official trip to Kerema from 13-14 May 2014 (two days). However, the allowances calculated were for three days at K567 per day. The daily allowance exceeded the required daily allowance of K200. Also, the Managing Director received K5,000 as entertainment allowance. There were no acquittals for me to ascertain whether the official trip had actually taken place.
- p) My review of a number of payments made to the Minister for Housing and Urbanization in 2014 revealed irregularities and noncompliance issues as detailed below:
- 1) On 17 April 2014 a “PAY CASH” cheque no. 559939 for an amount of K10,000 was made to the Minister upon his request to personally donate it to Paramana United Church. There was no receipt and any form of acknowledgement from the church to confirm the payment was actually received by the church;
 - 2) On 25 June 2014 a “PAY CASH” cheque no. 248987 for an amount of K60,000 was paid to the Minister as assistance towards his wife’s funeral expense. The amount was so significant and for personal expenses which was outside of the normal business operations. Therefore, Board approval was necessary. However, the caretaker Managing Director alone approved the payment;
 - 3) The Minister for Housing instructed the Managing Director to make available K10,000 to meet protocol expenses for a foreign delegate of investors in relation to the Duram Farm Housing Project through his memo dated 11 June 2014. A “PAY CASH” cheque no. 248967 was raised on 12 June 2014. There was no acquittal to confirm whether the money was used for the right purpose;
 - 4) A “PAY CASH” cheque no. 249447 valued K70,415 was paid to the Minister for an overseas trip. The Minister indicated to take with him a delegate of six (6) officers from the Corporation. The Managing Director while approving the payment narrated that the Prime Minister had endorsed the travel.

I could not sight the endorsement letter from the Prime Minister's Office, and also there was no acquittal to substantiate the travel had actually taken place;

- 5) Rental arrears for accommodation of the Minister for Housing and Urbanization valued K66,328 was paid for by cheque no. 248747 to a company on 31 March 2014. Housing allowance and accommodation of Members of Parliament were determined by the Salaries and Remuneration Commission and provided for through the budget and paid through fortnightly salaries. This payment resulted in "double dipping" by the Minister;
 - 6) In five (5) instances, payments totaled K57,307 were made to a security firm for security services provided at the residence of the Minister for Housing and Urbanization. The payments were in breach of the Salary and Remuneration Commission (SRC) determinations;
 - 7) On 18 August 2014 the Minister for Housing and Urbanization directed the acting Managing Director through a memo to provide some funds for his trip to overseas for medical treatment. The acting Managing Director's approval footnote read *"Approved. Kindly prepare ticket for both Minister and wife, including hospital bills and accommodation. I suggest we pay K50,000 in total"*. A "PAY CASH" cheque no. 249228 was raised on 2 September 2014. The payment was in breach of the Public Finance Management Act and Salaries and Remunerations Committee determinations;
 - 8) Two (2) payments totaled K14,666 were made to a company for hire of motor vehicles for the Minister's electoral use. Per the invoice, the above payments were for two days hire of vehicle and for damages caused to the vehicle during the period of the hire. Electoral vehicle allowances for Members of Parliament are provided for under the SRC determinations and paid through Minister's fortnightly salary. This expense had been extravagant and in breach of the SRC determinations.
- q) In a number of instances, unlawful and irregular payments were made to the Managing Director which amounted to double dipping and breach of SRC determinations, General Orders and Financial Instructions. These observations are detailed as follows:
- 1) In eight (8) instances, payments totaled K26,000 were made as entertainment allowances to the Managing Director. These payments even exceeded the annual entertainment allowances provided for and paid through payroll as per the SRC determinations.

The Managing Director did not acquit the business entertainment allowances paid to him;

- 2) In three (3) instances, payments totaled K24,000 were made to a company for production of the Managing Directors portrait. The expense was personal in nature and could not use the public funds;
 - 3) In four (4) instances, payments totaled K20,100 were paid to guards escorting the movements of the Managing Director. This was in contravention of the SRC determinations and double dipping by the Managing Director as security allowances were paid fortnightly through his pay;
 - 4) On 17 April 2014 the Managing Director's Office through a memo directed a payment of K5,000 donation to Paramana United Church. A "PAY CASH" cheque no. 248816 was raised on the same day. There was no receipt and any form of acknowledgement from the church to confirm the payment was actually received by the church; and
 - 5) In four (4) instances, "PAY CASH" cheques totaled K4,000 were issued to the Managing Director's Office for purchase of phone credits. The practice was fraudulent in nature as the Managing Director's telephone allowances are determined by the SRC and paid together in fortnightly pays.
- r) In fifteen (15) instances, payments totaled K131,500 were issued as cashable cheques to meet various expenses for which acquittals were not made available. Most of the payments related to Duram Farm Housing Project funded under the Public Investment Program (PIP).

Sale of Properties

The Corporation in 2014 sold some of its properties with a total value of K10,388,900 as disclosed in the income statement. Documents and records in relation to sale of the properties including tender documents, contract of sale, and settlement statements were not provided for my review. Record keeping was very deficient and the management was unable to retrieve and provide all the necessary information and documents on the properties sold.

Governance

(i) Minutes of Board Meetings

I was not provided with minutes of all Board meetings held in 2014. Therefore, I was unable to determine the implication of the decisions made by the Board on the financial statements and affairs of the Corporation.

(ii) Internal Audit

My review of the internal audit function noted that the Internal Audit Unit had not fully implemented its work plans partly due to staff constraints. Also, work plans performed in 2014 were on ad hoc instructions received from the top management.

The matters contained in this report had been conveyed to the management on 20 August 2017, however, no responses were received from the management.

28.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Corporation for the years ended 31 December 2015, 2016 and 2017 had been submitted and arrangements were being made to commence the audit shortly.

28A. NATIONAL HOUSING ESTATE LIMITED (A Subsidiary of National Housing Corporation)

28A.1 INTRODUCTION

28A.1.1 Legislation

National Housing Estate Limited (NHEL) was incorporated on 28 September 2007 under the *Companies Act*. The incorporation of the company was based on the *National Executive Council (NEC) Decision No. 304/2006* in accordance with *Section 27* of the *National Housing Corporation Act 1990*.

Subsequently, the *NEC Decision No. 70/2007* endorsed its establishment as a Special Purpose Company of the National Housing Corporation.

The Company commenced its normal operations from 1 January 2010.

28A.1.2 Objective of the Company

The principal purpose of the company was to manage certain National Housing Corporation owned properties for commercial development in Port Moresby, to generate income for the National Housing Corporation to deliver its mandate.

28A.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Company had not provided the financial statements for the years ended 31 December 2010, 2011, 2012, 2013, 2014, 2015, 2016 and 2017 for my inspection and audit despite my numerous reminders.

29. NATIONAL INFORMATION AND COMMUNICATIONS TECHNOLOGY AUTHORITY (NICTA)

29.1 INTRODUCTION

29.1.1 Legislation and Objectives of the Authority

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

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

Under the *Post and Telecommunication Corporation (Corporatisation) Act 1996* assets, rights and liabilities as well as employees of the Corporation were transferred to PANGTEL as per the allocation statement approved by the then Minister for Communications at the net book value recorded in the books of the Corporation as at 31 December 1996. In the same manner, the assets, rights and liabilities as well as employees of PANGTEL were transferred to NICTA by virtue of *Section 305* of the *National Information and Communications Technology Act*.

29.1.2 Functions of the Authority

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

29.2 STATUS OF FINANCIAL STATEMENTS

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

The inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December 2016 was in progress.

The Authority had not submitted its financial statements for the year ended 31 December 2017 for my inspection and audit.

30. NATIONAL MARITIME SAFETY AUTHORITY

30.1 INTRODUCTION

30.1.1 Legislation

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

30.1.2 Functions of the Authority

The functions of the Authority are to:

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

30.2 STATUS OF FINANCIAL STATEMENTS

At the of time preparing this Report, the fieldwork associated with the audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December 2017 had been completed and the audit reports were being finalised.

31. NATIONAL MUSEUM AND ART GALLERY

31.1 INTRODUCTION

31.1.1 Legislation

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

31.1.2 Functions of the Museum

The main functions of the Museum are to:

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

31.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the audit of the accounts and records and the examination of the financial statements of the Museum for the year ended 31 December 2015 had been completed and the audit reports were being finalised.

The Museum had not submitted its financial statements for the years ended 31 December 2016 and 2017 for my inspection and audit despite my reminders.

32. NATIONAL NARCOTICS BUREAU

32.1 INTRODUCTION

32.1.1 Legislation

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

32.1.2 Functions of the Bureau

The principal functions of the Bureau are to:

- make recommendations to the Board on policies, plans, matters or projects relating to abuse of drugs;
- coordinate and monitor the Government and Non-Government drug education, awareness and rehabilitation programs, and
- conduct surveys and gather and evaluate information, on the consumption cultivation, trafficking and manufacture of drugs.

32.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Bureau had not submitted its financial statements for the years ended 31 December 2013, 2014, 2015 and for the period ended 01 January to 12 May 2016. As per *Ministerial Determination* in *National Gazette No. G228* of 12 May 2016, the functions of the National Narcotics Bureau was transferred to the Department of Justice and Attorney-General. It is unlikely that the financial statements for the above period will be submitted to enable me to carry out the audit. As such, I intend to dispense the audit of the outstanding financial statements for the above mentioned periods in the next audit cycle. The subsequent audits and reports will be covered in my Part II Report to Parliament.

33. NATIONAL RESEARCH INSTITUTE

33.1 INTRODUCTION

33.1.1 Legislation

The National Research Institute (NRI) was established under the *Institute of Applied Social and Economic Research Act (Chapter 165)*. The name of the Institute was changed from ‘PNG Institute of Applied Social and Economic Research’ to ‘National Research Institute’ following the approval of the NEC through its Decision No. 42/90 of 7 March 1990.

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

33.1.2 Functions of the Institute

The functions of the Institute include:

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

33.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the audit of the accounts and records and the examination of the financial statements of the Institute for the year ended 31 December 2017 had been completed and the results were being evaluated.

34. NATIONAL ROAD SAFETY COUNCIL

34.1 INTRODUCTION

34.1.1 Legislation

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

34.1.2 Functions of the Council

The principal functions of the Council are to:

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

34.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Council for the years ended 31 December 2016 and 2017 had not been submitted for my inspection and audit despite my reminders.

On 5 August 2014, Road Traffic Authority succeeded National Road Safety Council but the Authority came into operation only in 2016 as such my next report for National Road Safety Council will be issued under the Road Traffic Authority.

35. NATIONAL ROADS AUTHORITY

35.1 INTRODUCTION

35.1.1 Legislation

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

35.1.2 Objectives of the Authority

The objectives of the Authority are to:

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

35.1.3 Functions of the Authority

The functions of the Authority are to:

- Establish and operate a Road Fund from road user charges, budget and other sources;
- Establish resources and an organisation to enable the Authority to perform its functions;
- Maintain and manage updated data on asset conditions using the Road Asset Management System, Bridge Inventory and Bridge Maintenance and other approved systems;
- Formulate and determine prioritised annual road maintenance plans and programmes using the Road Asset Maintenance System, Bridge Inventory and Bridge Maintenance and other approved systems to be supported by the road sector cost recovery revenues;
- Establish annual road maintenance funding requirements in accordance with the future annual road maintenance plans;
- Determine and implement road user charges in accordance with the financial resource requirements of the annual road maintenance plans;
- Deliver the required routine, specific and emergency road maintenance in accordance with the maintenance service levels established for each class or type of road, through the contracting of independent contractors, and to monitor and supervise the contracts as they are executed;

- Deliver road improvement, and road restoration when required, by undertaking the design studies necessary for the programmed road improvement or rehabilitation projects by:
 - *Preparing corresponding construction plans, specifications, cost estimates, and the other documents required for the proper tendering of the programmed works;*
 - *Monitoring and supervising the works as are executed, by such qualified consultants and/or contractors as are engaged; and*
 - *Ensuring safety audits on design, construction, maintenance and safety aspects of road;*
- Establish and sustain contract management capacity to ensure the validity of contracts and the effective management of contracts awarded for the execution of agreed road maintenance works and rehabilitation and reconstruction projects;
- Ensure that all contracts are tendered through a transparent and competitive procedure to ascertain economic efficiency and sustainability in delivery of road maintenance and rehabilitation works;
- Keep adequate records and to maintain a management information system which provides the Board and staff with accurate and timely information on commitments, expenditures and revenue for the purchase of consultancy and contracting services and other purchases and outlays;
- Report publicly and transparently on collection of user charges, revenues, and in detail on the use of the revenues on the road maintenance programs in accordance with internationally accepted accounting principles;
- Establish environmental management capacity;
- Provide a continuing programme of professional staff development and required skills training for non-professional staff; and
- Construct, erect or affix signs or marks on road transport infrastructure in accordance with the *Motor Traffic Act (Chapter 243)*.

35.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statement of the Authority for the year ended 31 December 2016 had been completed and the audit reports were being finalised.

The fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December 2017 had been completed and the results were being evaluated.

36. NATIONAL TRAINING COUNCIL

36.1 INTRODUCTION

36.1.1 Legislation

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

36.1.2 Objectives of the Council

The objectives of the Council are to:

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

36.1.3 Functions of the Council

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

36.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

36.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Council for the year ended 31 December 2016 was issued on 28 February 2018. The report contained a Qualified Opinion.

“BASIS FOR QUALIFIED OPINION

Fixed Assets – K703,940

My review of the Fixed Assets Register maintained by the Council revealed that it was not properly maintained. The Fixed Assets Register was kept in Microsoft Access Database but not updated. As a result, there was a difference of K510,223 between the general ledger closing balance of K193,717 and the financial statement balance of K703,940. Further, I noted that the Council disclosed assets totalling K278,960 disposed during the year. However, there was no supporting documentations to verify the disposals made. In addition, there was no stock-take undertaken by the Council during the year under review. As such, I was unable to determine the value, condition and existence of assets totalling K703,940 disclosed by way of notes in the financial statements.

QUALIFIED OPINION

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

- (a) the financial statements of the Council are based on proper accounts and records; and
- (b) the financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Council as at 31 December 2016 and the results of its operations for the year then ended.”

36.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Council for the year ended 31 December 2016 was issued on 28 February 2018. The report contained the following observations:

1. Accounting System

My review of the accounting system maintained by the Council revealed that the transactions were manually maintained on excel spread sheets.

The manual recording and accounting was susceptible to errors, omissions and lack proper backup for loss of data and information. There was no proper accounting system/software used for accounting and reporting purposes. Further, the general ledger (cashbook) details were not systematically kept.

I recommended Management to liaise with Finance Department for the use of the Integrated Financial Management System (IFMS) as a basis for recording transactions and producing reports.

The Management concurred with my comments and added that they would do their best to shop for small suitable accounting software compatible to National Training Council.

2. Personnel Files Management

My review of the human resources and payroll management revealed that most of the personnel files for employees did not contain the following vital personnel information;

- The updated salary/wages declaration forms;
- Dependants' declarations and identifications such as marriage certificates, birth certificates for children or statutory declarations for dependants were not filed.

These vital information are needed to properly determine their taxes, rebates and leave fare entitlements. Consequently, *Section 23.3* of the General Orders was breached.

I recommended Management to ensure that the annual salaries/wages declaration forms were completed with proper declaration of dependants and timely updated.

I brought these issues to the attention of the Management and was advised that corrective actions would be taken.

3.0 Expenditure Control Weaknesses

3.1 Travel Advance Register and Acquittals

My review of the travel and subsistence expenses revealed that the Council did not maintain a proper Travel Advance Register with acquittal files. I noted that advances totalling K178,472 were not acquitted at year end. Consequently, the Council had breached the provisions of *Public Finances Management Act*, Financial Management Manual and the Finance Instructions in relation to travel advances.

I recommended Management to take necessary steps to address this issue.

Management concurred with my comments and advised that necessary steps will be taken to address it.

3.2 Payments Made as “Pay Cash” Cheques

I noted that on numerous instances cheques were raised as “pay cash” for expenses instead of raising cheques in suppliers’ or person’s name. Such practises create opportunities for malpractices to occur and must be avoided.

I recommended Management to ensure “*pay cash*” cheques be limited only to petty cash transactions and all cheques be raised in the payee name.

Management took note of my comments and agreed to ensure compliance.

3.3 Director’s Financial Assistance

I noted that the Training Council had assisted the Director with a total of K9,500 as its contribution towards the repatriation of his late father’s body to his village in November 2015. At the same time, a total of K39,500 was split and paid in two (2) different pay cash cheques for the same purpose. Again in July 2016, the Training Council paid a sum of K38,100 which was also split into two (2) different pay cash cheques to meet some traditional obligations for his late father bringing the total to K87,100. The expenses were classified under other operational expenses.

Per his contract, such entitlements including costs of repatriation of deceased bodies of his declared dependents and his parents were not included or provided. In addition, I noted that his contract is between the Secretary for Department of Labour and Industrial Relations. As such, the Director can approve any request by officers under him within his limits whilst his own request should be approved by the Chairperson or the Secretary.

In my view, the raising of separate cheques for the same purpose was a deliberate way to circumvent the proper approval process via splitting payments. Finally, with the exception of K9,500, the additional financial assistance totalling K77,600 was excessive and considered as abuse of procuring procedures and misuse of public funds thus should be fully recovered within his contract term.

36.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Council for the year ended 31 December 2017 had not been submitted for my inspection and audit.

37. NATIONAL VOLUNTEER SERVICE

37.1 INTRODUCTION

37.1.1 Legislation

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

37.1.2 Functions of the Service

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

37.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Service had not submitted the financial statements for the year ended 31 December 2017 for my inspection and audit.

38. NATIONAL YOUTH COMMISSION

38.1 INTRODUCTION

38.1.1 Legislation

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

38.1.2 Functions of the Commission

The functions of the National Youth Commission are to:

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

38.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

38.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Commission for the years ended 31 December 2012 and 2013 were issued on 29 November 2017. The reports contained similar Disclaimer of Opinions, hence, only the 2013 report is reproduced as follows:

“BASIS FOR DISCLAIMER OF OPINION

Variances between the General Ledger and Financial Statements

The general ledger forms the basis of the balances on the financial statements. During my review of the Commission’s expenditure accounts, I observed that there were significant variances between the general ledger balances and the financial statement balances totaled K2,120,817. As such, I was unable to verify the accuracy of these balances.

Consequently, I was unable to conclude on the accuracy of the closing balance of the Statement of Receipts and Payments disclosed in the financial statements at year end.

Internal Control Environment

During my examination of accounts and records and the internal control system of the Commission for the year ended 31 December 2013, I noted that the Commission's overall internal control environment was very weak. The internal control processes and procedures were not implemented in the Commission. I also noted frequent staff reshuffle and lack of segregation of duties within the Corporate Services Division of the Commission. The staff employed by the Commission both permanent and casual lacked necessary skills and qualifications to undertake the accounting and finance and other tasks allocated to them. I further noted that they were not familiar with the *Public Finance (Management) Act (1995)*, *General Orders* and other *Financial Manuals and Instructions* to strengthen the internal control system of the Commission. As such, I was unable to rely on the overall internal control system of the Commission during the year under review. Consequently, I was unable to place reliance on the Commission's financial statements for the year ended 31 December 2013.

Cash at Bank – K888,044

My review of the Commission's both Operating and Commonwealth Youth Ministers Meeting Fund Account bank reconciliations revealed that the bank reconciliations were not prepared, checked and approved by senior finance officers of the Commission in the year under review but were prepared in 2014. I was also not provided with the independent bank confirmation of the Commonwealth Youth Ministers Meeting Fund Account to ascertain the completeness and accuracy of the bank account disclosed in the financial statements. As a result, I was not able to verify and confirm the accuracy and completeness of the balance nor place reliance on the effectiveness of the controls maintained by the Commission over cash.

Fixed Assets – K1,844,988

My review of the Fixed Assets Register of the Commission for the year ended 31 December 2013 revealed that the Commission did not maintain a complete Fixed Assets Register to record details of all fixed assets worth K1,844,988. There was also no physical stock take undertaken by the Commission to confirm the existence of assets. The Assets Register provided for my verification was incomplete and did not capture all assets purchased during the year. As such, I was unable to conclude on the accuracy, valuation, existence and ownership of the fixed assets disclosed by the Commission as at 31 December 2013.

Consultancy Fees – K812,641

During my review, I noted that the Commission engaged a number of consultants to provide various consultancy services to the Commission. However, there were no valid or proper consultancy contracts or terms of references drawn up to engage them during the year under review. I further noted that most consultants were engaged on engagement letters or notice of engagements without specifying any fee for engagements and scope of work to be done. As a result, I was unable to verify the validity and correctness of the payments made to the consultants totaled K812,641.

DISCLAIMER OF OPINION

Because of the significance of the matters referred to in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements of the Commission for the year ended 31 December 2013.”

38.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2) of the Audit Act* on the inspection and audit of the accounts and records of the Commission for the years ended 31 December 2012 and 2013 were issued on 29 November 2017. The reports contained similar significant matters, hence only the 2013 report is reproduced:

Accounting and Administration Procedural Manual

During my review, I noted that the Commission did not have an accounting and administration procedural manual in place for its staff to carry out tasks in accordance with the required procedures and guidelines applicable to the Commission. I observed that the Commission’s staff were not adhering to the processes and procedures of the *Public Finance (Management) Act 1995*, *General Orders* and other *Financial Manuals* and *Instructions*. As a result, I noted significant internal control weaknesses within the Commission during the year under review.

I drew this to the attention of the management and they responded as follows;

“The Accounting and Administration Manual has been developed and in its draft form, the Management still needs to finalise this Manual before it can be used for the operations of the Commission.”

MYOB General Ledger Postings

My review of the MYOB general ledger account postings and updates revealed that the Commission's data entry were not done in a timely manner during the year under review, but were done after a year in 2014. I further noted that the data entry was done by Officers with no experience at all in MYOB. The Officers were on training whilst doing data entry into the MYOB. Hence, there were no verifications and approvals for account codes and amounts posted to the MYOB system. As a result, I observed misclassification and mispostings to wrong accounts almost in all the expenditure accounts. The management responded to my query as follows;

“There was no accounting system in place during this period, the system/software that the acting Manager Finance and Administration and the Senior Accounts Officer were using was excel. When the MYOB system was installed, the finance officers were on in-house training on the MYOB system that was when the time entries were done for 2012, thus the accounts for 2012/2013 were entered during that period.”

Travel Advance Acquittal Register

During my review, I noted that there was a complete breakdown in the internal control system of payments and monitoring of the usage and acquittals of the various travel related expenses and advances that were paid to officers of the Commission. The Commission provided an incomplete acquittal register. However, these registers lacked full supporting documents of hotel receipts/statement of accounts, hire car receipts; airline tickets/boarding passes, incidental allowances receipts, and cash advance acquittals etc. Most of the duty travels taken were not properly and fully acquitted by the concerned officers. As a result, I was unable to trace and authenticate travel advances and related expenses amounting to K463,504 during the year under review. The management responded that the management through the Corporate Services Division had continuously been issuing internal memorandums reminding officers of the importance of acquitting, however, it is through ignorance and carelessness of officers that this measure was not fully addressed.

Internal Control Weaknesses

Following internal controls breakdown and weaknesses were noted during my audit:

- (i) I observed on a number of instances that the Commission did payments without obtaining three (3) written quotations from reputable suppliers when making payments for expenditure exceeding K5,000 and totaled K134,727. I further noted that some payments were executed on quotations and not on the basis of official suppliers invoice.

- (ii) During my review, I noted some payments had no delivery dockets/consignment and other supporting documents attached to confirm if the actual goods purchased had been delivered to the Commission for their intended purposes.
- (iii) My review on pay cash payments made to paymaster totaled K172,939 for various expenses had no proper acquittals attached to determine or confirm if the funds had been utilized for the intended purposes.
- (iv) I noted cheques were issued open for encashment. I further noted that this practice was in place in the prior years and continue to exist up to the time of audit in 2016. It was the Commission's practice to raise pay cash cheques for most of its payments and not directly to the suppliers of goods and services. It was further noted that these payments were not properly acquitted with proper supporting documents. This practice makes the internal control system very weak and exposes the Commission to irregularities and malpractices.
- (v) I was unable to comment on the Commission's spending on its operational and programs/projects expenditure against its budget due to non-provision of revised and approved budgets and annual work plans for 2013.
- (vi) My review of overtime revealed that overtime was claimed by officers who occupied positions at grade 10 levels and above. Further, hours claimed on overtime sheet were not approved by immediate supervisor or manager to verify the hours claimed by staff before payments were made.
- (vii) My review on motor vehicles revealed that one (1) motor vehicle was purchased in 2013 and nine (9) in prior years were all not registered under government Z plates.

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

38.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the audit of the accounts and records and the examination of the financial statements of the Commission for the year ended 31 December 2014, 2015 and 2016 had been completed and the audit reports were being finalised.

The financial statements of the Commission for the year ended 31 December 2017 had been submitted for my inspection and audit and arrangements were being made to commence the fieldwork shortly.

39. OIL PALM INDUSTRY CORPORATION

39.1 INTRODUCTION

39.1.1 Legislation

The Oil Palm Industry Corporation was established by the *Oil Palm Industry Corporation Act 1992* which came into operation on 1 June 1992. Under the Act, all assets (other than land held by the State) and liabilities previously held or occupied by the Division of the Department of Agriculture and Livestock responsible for the provision of extension services to oil palm industry, were transferred to the Corporation at commencement date.

39.1.2 Functions of the Corporation

The main functions of the Corporation are to:

- promote the development of the oil palm industry;
- encourage the increase in productivity by efficient provision of extension services to smallholders;
- provide advice and disseminate information and educate smallholders regarding oil palm production methods; and
- consult, liaise and collaborate with the State and other agencies involved in the oil palm industry.

39.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Corporation had not submitted its financial statements for the years ended 31 December 2012, 2013, 2014, 2015, 2016 and 2017 for my inspection and audit, despite numerous reminders from my Office.

40. OMBUDSMAN COMMISSION OF PAPUA NEW GUINEA

40.1 INTRODUCTION

40.1.1 Legislation

The Ombudsman Commission was established under *Section 217* of the Constitution of the Independent State of PNG. The principal objectives of the Commission are: to ensure that all governmental bodies are responsive to the needs and aspirations of the people; to help in the improvement of the work of governmental bodies and the elimination of unfairness and discrimination by them; to help in the elimination of unfair or otherwise defective legislation and practices affecting or administered by governmental bodies; and to supervise the enforcement of the Leadership Code.

40.1.2 Functions of the Commission

The functions of the Commission are:

- To investigate on its own initiative or on complaint by a person affected, any conduct on the part of any State or provincial or local governmental, or other governmental body or a member or officer or employee of any such body, any member of the personal staff of the Governor-General, Minister or the Leader or Deputy Leader of the Opposition, or any other body or person as may be declared by an Organic Law or an Act of Parliament, to which the Leadership Code applies;
- To investigate any defects in any law or administrative practice appearing from any such investigation;
- To investigate any case of an alleged or suspected discriminatory practice within the meaning of a law prohibiting such practices; and
- Any functions conferred upon it by *Part III Division 2 (Leadership Code)* of the National Constitution.

40.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Commission had submitted its financial statements for the year ended 31 December 2016 and arrangements were being made to commence the audit shortly.

The Commission had not submitted its financial statements for the year ended 31 December 2017 for my inspection and audit.

41. PAPUA NEW GUINEA ACCIDENT INVESTIGATION COMMISSION

41.1 INTRODUCTION

41.1.1 Legislation

The *Papua New Guinea Accident Investigation Commission* was established under *Section 218 of the Civil Aviation Act 2000 (as amended)* and came into operation in January 2011.

41.1.2 Objectives of the Commission

The principal purpose of the Commission is to determine the circumstances and causes of accidents and incidents with a view to avoiding similar occurrences in the future, rather than to ascribe blame to any person.

41.1.3 Functions of the Commission

- The principal function of the Commission is the Investigation of aviation accidents and incidents;
- The Minister may, by notice in the National Gazette, direct the Commission to investigate any serious land or marine transport accident or incident;
- Where a direction is given under *Subsection (2)* all references to an “*aircraft*” shall be read as a reference to the vehicle or vessel or other form of transport involved in the accident or incident to be investigated;
- Without limiting the principal function under *Subsection (1)* the Commission shall also have the following functions:
 - Make such inquiries and investigations as it considers appropriate in order to ascertain the cause or causes of accidents or incidents;
 - Co-ordinate and direct all such inquiries and investigations and to determine which other parties, if any, should be involved in the investigation;
 - Prepare and publish findings and recommendations, if any, in respect of any such inquiries and investigation;
 - Where requested by the Minister, to deliver a written report on each investigation to the Minister, including any recommendations for changes or improvements that it considers will ensure avoidance of accidents and incidents in the future;
 - Co-ordinate and co-operate with other accident investigation organisations of Contracting States, including taking or collecting evidence on their behalf;

- Request from the Authority or PNG Air Traffic Services (PNGATS) or any other person such information as it considers appropriate regarding any accident or incident that the Commission believes that it is required to investigate under this Act;
- Perform any other function or duty conferred on the Commission under any Act or prescribed by regulations; and
- With the consent of the Minister, to provide consulting services, training and management services relating to any of its functions, whether in PNG or overseas.

41.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and examination of the financial statements of the the Commission for the years ended 31 December 2013, 2014, 2015 and 2016 had been completed and the results were being evaluated.

The financial statements of the Commission for the year ended 31 December 2017 had been submitted for my inspection and audit and arrangements were being made to commence the audit shortly.

42. PAPUA NEW GUINEA CUSTOMS SERVICE

42. INTRODUCTION

42.1.1 Legislation

The National Executive Council (NEC) in its meeting on 24 July 2014, *Decision No: 216/2014* approved that the Papua New Guinea Customs Service be transformed from the National Public Service into an Independent Statutory Authority through a separate Act of Parliament.

In accordance with the NEC Decision, the *Papua New Guinea Customs Service Act 2014* was drafted and certified on 21 October 2014, establishing the Papua New Guinea Customs Service as a Statutory Authority.

Prior to November 2014, the Papua New Guinea Customs Service was operating as a Department of the National Public Service.

42.1.2 The Functions of the Service

The functions of the Papua New Guinea Customs Service are to:

- administer and enforce the customs laws;
- promote compliance with the customs laws;
- take such measures as may be required to improve service provided to importers and exporters with a view to improving efficiency and maximising revenue collection;
- take such measures as may be required to counteract customs fraud and other forms of duty evasion;
- advise the State on matters relating to customs and to liaise with relevant stakeholders on such matters;
- represent the State internationally in respect of matters relating to customs; and
- carry out such functions as are given to the Papua New Guinea Customs Service under this Act or any other law.

42.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Service for the period ended 21 October 2014 to 31 December 2014 and for the years ended 31 December 2015 and 2016 were in progress.

The Service had not submitted its financial statements for the year ended 31 December 2017 for my inspection and audit.

43. PAPUA NEW GUINEA FOREST AUTHORITY

43.1 INTRODUCTION

43.1.1 Legislation

The Papua New Guinea Forest Authority was established under the *Forestry Act 1991* which came into operation on 25 June 1992.

The prime objective of the Authority is to provide for and to give effect to the National goals and the directive principles regarding:

- Management, development and protection of the Nation's forest resources and environment in such a way as to conserve and renew them as an asset for succeeding generations;
- Maximisation of PNG's participation in the wise use and development of the forest resources as a renewable asset;
- Utilisation of the Nation's forest resources to achieve economic growth, employment creation and increased "downstream" processing of the forest resources;
- Encouragement of scientific study and research into forest resources so as to contribute towards a sound ecological balance, consistent with the national development objectives;
- Increased acquisition and dissemination of skills, knowledge and information in forestry through education and training; and
- Pursuit of effective strategies, including improved administrative and legal machinery, for managing forest resources and the management of National, Provincial and Local interests.

The Authority was formed by the amalgamation of the Department of Forests, the Forest Industries Council, the Provincial Divisions of Forestry, the Forestry College in Bulolo, the Timber Industry Training College and the Research Institute in Lae.

With the establishment of the Authority the following Acts were repealed: the *Forest Industries Council Act (Chapter 215)*; the *Forestry Act (Chapter 216)*; and the *Forestry (Private Dealings) Act (Chapter 217)*.

43.1.2 Functions of the Authority

The principal functions of the Authority are to:

- Provide advice to the Minister on forest policies and legislation pertaining to forestry matters;

- Prepare and review the National Forest Plan and recommend it to the NEC for approval;
- Through the Managing Director, to direct and supervise the National Forest Service;
- Negotiate Forest Management Agreements;
- Select operators and negotiate conditions on which timber permits, timber authorities and licences may be granted in accordance with the provisions of the *Forestry Act*;
- Appoint and supervise the State Marketing Agency;
- Subject to the *Customs Act Customs Tariff Act and Exports (Control and Valuation) Act* to control and regulate the export of forest produce;
- Oversee the administration and enforcement of the *Forestry Act* and any other legislation pertaining to forestry matters, and of such forestry policy as approved by the NEC;
- Undertake the evaluation and registration of persons desiring to participate in any aspect of the forestry industry;
- Act as agent for the State, as required, in relation to any international agreement relating to forestry matters; and
- Carry out such other functions necessary to achieve its objectives or given to it under the Act or other relevant law.

43.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December 2013 was completed and the results were being evaluated.

The fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December 2014 was in progress.

The Authority had not submitted its financial statements for the years ended 31 December 2015, 2016 and 2017 for my inspection and audit.

44. PAPUA NEW GUINEA IMMIGRATION AND CITIZENSHIP SERVICE AUTHORITY

44.1 INTRODUCTION

44.1.1 Legislation

The *Papua New Guinea Immigration and Citizenship Service Authority* was established under the *Immigration and Citizenship Service Act 2010*. This Act came into operation on 9 July 2010.

Under this Act, all assets used for the Authority services (other than land held by the State) which immediately before the coming into operation of this Act, were held by the Department of Foreign Affairs and Trade and which, by agreement between the Departmental Head of that Department and the Authority are necessary to be transferred to the Authority for the purposes of the Authority are on that coming into operation, transferred to and become assets of the Authority.

44.1.2 Objectives of the Authority

The objectives of the Authority are the following:

- The management, development and protection of the nation's interest in so far as the security of the nation is protected;
- Elimination of corruption and increase in accountability;
- Provision of a more flexible operational working environment;
- Increased operational and management efficiency in financial management, accountability and performance management;
- Provision of a mechanism for the achievement of best practice;
- Provision of financial and administrative autonomy;
- Increased levels of client service delivery;
- Encouragement of study and research in areas which will contribute to the protection and security of the nation;
- Increased acquisition and dissemination of skill, knowledge and information in immigration and citizenship through education and training;
- Pursuit of effective strategies including improved administrative and legal machinery for managing immigration, citizenship and passport matters; and
- Ensure the Authority retains its primacy and leadership role with regard to the provision of effective border control and security through the effective management of entry and stay of people in PNG.

44.1.3 Functions of the Authority

The functions of the Authority are to:

- Perform the functions and exercise the powers conferred on an authorised person or an officer under the *Migration Act (Chapter 16)* or the *Passports Act (Chapter 17)*;
- Assist the Minister responsible for the administration of the *Migration Act (Chapter 16)* and *Passport Act (Chapter 17)* in the performance of their functions under those Acts respectively;
- Assist the Minister responsible for citizenship in the performance of his/her functions under Part IV of the *Constitution* and the *Citizenship Act (Chapter 12)*;
- Collect fees, penalties and other revenue authorised under the *Migration Act (Chapter 16)*, *Passport Act (Chapter 17)* and *Citizenship Act (Chapter 12)*;
- Administer the APEC Business Travel Card Scheme under the *Migration Act (Chapter 16)*;
- Collect, monitor, secure and maintain information and technological systems to enable fully integrated and supported immigration, citizenship and passport operations;
- Undertake development of legislation and policy to support the operations of the Authority and the effective administration of the *Migration Act (Chapter 16)*, *Passport Act (Chapter 17)* and the *Citizenship Act (Chapter 12)*;
- Advise the Minister on policy issues which relate to this Act and the effective administration of the *Migration Act (Chapter 16)*, *Passport Act (Chapter 17)* and the *Citizenship Act (Chapter 12)*;
- Exercise and carry out such functions and powers and perform all duties which under any other written law are or may be or become vested in the Authority or delegated to the Authority by this Act or any other law; and
- Carry out such other duties as are necessary, supplementary, incidental to or consequential to achieve the objectives or the discharge of its functions under this Act.

44.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December 2016 had been completed and the audit reports were being finalised.

The Authority had not submitted its financial statements for the year ended 31 December 2017 for my inspection and audit.

45. PAPUA NEW GUINEA INSTITUTE OF MEDICAL RESEARCH

45.1 INTRODUCTION

45.1.1 Legislation

The Papua New Guinea Institute of Medical Research was established by the *Institute of Medical Research Act (Chapter 166)* on 1 January 1980.

45.1.2 Functions of the Institute

The primary functions of the Institute are to conduct and foster research into any branch of medical science or biology, anthropological and sociological aspects of health, and matters relating to public health generally, that are of relevance to PNG.

45.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

45.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Institute's financial statements for the year ended 31 December 2015 was issued on 28 February 2018. The report contained a Disclaimer of Opinion.

“BASIS FOR DISCLAIMER OF OPINION

LIMITATION OF SCOPE

Closing Balance – K7,638,636

I was unable to confirm the correctness of the opening balance as at 1 January 2015 due to a material difference of K8,581,190 noted between the closing balance of the Statement of Receipts and Payments (K10,189,157) and the aggregate closing bank balance (K18,770,346) in 2014. As a result of this material variance, I was unable to perform the necessary audit procedures to verify the completeness and the accuracy of the opening balance for the year ended 31 December, 2015. Since the opening balance has a bearing on the closing balance of the Institute, I was unable to state whether the closing balance of Statement of Receipts and Payments (K7,638,636) and aggregate closing bank balance (K15,953,457) had been fairly stated in the accounts at the year end. Since the Institute adopts the “*cash basis*” of accounting, the closing balance of Statement of Receipts and Payments must agree to the aggregate closing bank balance at year end. I noted these discrepancies over the years.

Bank Accounts – K15,953,457

I noted that during 2015, the Institute maintained thirty-six (36) bank accounts and three (3) fixed term deposit accounts. My review of the bank reconciliations and their related records revealed that bank reconciliations for six (6) bank accounts were not provided to my Office for my review and examination. Further, three (3) bank accounts were not properly and timely reconciled resulting in variances. I was not provided any explanation for these variances.

As such, I was unable to determine the accuracy of the bank balances and their aggregate closing balance of K15,953,457 as at 31 December 2015.

Statement of Receipts and Payments and the Ending Bank Balance

I noted that the Institute's accounts are prepared using the cash basis of accounting. This accounting method recognizes cash transactions and does not take into account those that are payable and receivable on an accrual basis. The difference between total receipts and payments should agree to the bank balance. During my review, I noted a material difference of K8,581,190 between the total bank balances and the Statement of Receipts and Payments net balance. I was not provided any valid explanations for this variance. As such, I was unable to conclude on the accuracy of the closing balance of the receipts and payments and the aggregate bank balance stated at year end.

Fixed Assets – K38,129,000

My review of the Fixed Assets Register and capital expenditures revealed that the Register was not properly maintained and updated on a timely basis. The Register did not contain details of asset classes for Boat and MB-F Equipment disclosed in the financial statements. In addition, the closing balance in the Asset Register did not reconcile with the balance disclosed in the financial statements. The Institute's accounts are prepared using the "cash basis" of accounting therefore; the Fixed Assets Register not only forms part of the financial statements but is the only record that keeps track of the Institute's fixed assets. Consequently, I could not perform all my planned audit procedures to satisfy myself on the amount stated in the accounts. As such, I was unable to conclude on the accuracy, valuation and existence of the fixed assets balance of K38,129,000 disclosed in the financial statements.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements of Papua New Guinea Institute of Medical Research for the year ended 31 December 2015."

45.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act*, on the inspection and audit of the accounts and records of the Institute for the year ended 31 December 2015 was issued on 28 February 2018. The report contained the following observations:

Budget and Reviews

I was not provided with the Institute's budget for the year under review. As a result, I was unable to verify whether a budget was prepared to monitor the expenses of the Institute. Further, I noted that the Institute's management did not conduct periodic review of annual receipts and expenditures against its budget or appropriation records. This exercise would help management to ensure that receipts were flowing in as forecasted and expenditures were kept within their approved ceilings.

I recommended that the Institute prepare a comprehensive budget and follow the approved budget. Any amendments to the budget should be submitted to management for approval. In addition, regular review on spending should be done and monthly reports should be prepared for the management purposes to ensure expenditures were kept within their approved levels.

Management concurred with my comments.

Fixed Assets Register

My review of the Fixed Assets Register (FAR) and capital expenditures for the year revealed that the FAR provided for audit verification was incomplete and did not capture all assets under the custody of the Institute as at 31 December 2015. The Institute's accounts are prepared using the "*cash basis*" of accounting. As such, FAR not only forms part of the financial statements but is the only record that keeps track of an entity's fixed assets which are off the "*cash radar*".

Again I drew management's attention to *Section 62* of the *Public Finances (Management) Act, 1995* that requires all Public Bodies to maintain adequate controls over their assets or assets in their custody. I recommended management to conduct a thorough stock-take of all its assets and record them accordingly in the Fixed Assets Register. Assets should also be labeled for custody, control, movement and monitoring purposes. The management acknowledged my comments and stated that Fixed Assets Management has been an issue that they were continuously working on to improve.

Income Tax Payable

I noted that the Institute had not filed its income tax returns with the Internal Revenue Commission since 2013. I brought this to the attention of management and cautioned the Institute that possible additional tax penalties may be imposed for not complying with the *Income Tax Act, 1959*.

The management responded that they have a positive dialogue with the Taxation Office and was making payments on an installment basis for the arrears.

Non-Acquittal of Travel Advances

My review of the travel and subsistence expenses revealed that the advances were not acquitted on a timely manner. The Travel Advance Register maintained and provided for my verification was not a complete representation of all travels taken during the year. The Register was not updated as it only recorded travel and subsistence for Corporate Affairs section only and did not have records of travels from other cost centers. In addition, an acquittal file for travels and subsistence was not kept for the year under review.

It is a requirement as per the *Financial Management Manual Part 20 paragraph 11.2* that cash advanced to officers travelling overseas on official duty to acquit travel advances within 14 days of return from duty travel. Also, *Part 20 paragraph 12.10* of the same manual stipulates that advances to officers for domestic duty travels to be acquitted within 7 days of return from duty travel by submitting an acquittal form. As such, the Institute had breached the *Public Finances (Management) Act 1995* by not maintaining a proper Travel Advances Register.

45.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Institute had not submitted its financial statements for the years ended 31 December 2016 and 2017 for my inspection and audit.

46. PAPUA NEW GUINEA INSTITUTE OF PUBLIC ADMINISTRATION

46.1 INTRODUCTION

46.1.1 Legislation

The Papua New Guinea Institute of Public Administration was established in 1993 under the *Papua New Guinea Institute of Public Administration Act 1993*.

46.1.2 Functions of the Institute

The functions of the Institute are to plan, organise, conduct and assess a wide range of practices and relevant training programmes in the Country and, if applicable, in the South Pacific Region and to undertake relevant research and consultancies on issues and problems of management and administration and to act as a centre for collection, storage, retrieval and dissemination of information.

46.2 STATUS OF FINANCIAL STATEMENTS

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

The financial statements for the years ended 31 December 2015, 2016 and 2017 had not been submitted by the Institute for my inspection and audit despite my reminders.

47. PAPUA NEW GUINEA MARITIME COLLEGE

47.1 INTRODUCTION

47.1.1 Legislation

The Papua New Guinea Maritime College was established under the *Papua New Guinea Maritime College Act (Chapter 355)*. It was previously known as the Nautical Training Institute. However, by virtue of the *Nautical Training Institute (Change of Name) Act 1985* which became effective on 25 July 1985, the names of Nautical Training Institute and *Nautical Training Institute Act* were changed to PNG Maritime College and *PNG Maritime College Act* respectively.

47.1.2 Functions of the College

The principal functions of the College are to provide training and other instructional facilities for the theoretical and practical training of persons in maritime skills and any other objects incidental or ancillary thereto.

47.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the audit of the accounts and records and the examination of the financial statements of the College for the years ended 31 December 2015 and 2016 were completed and the audit reports were being finalised.

The College had not submitted its financial statements for the year ended 31 December 2017 for my inspection and audit.

48. PAPUA NEW GUINEA NATIONAL INSTITUTE OF STANDARDS AND INDUSTRIAL TECHNOLOGY

48.1 INTRODUCTION

48.1.1 Legislation

The Papua New Guinea National Institute of Standards and Industrial Technology was established by the *National Institute of Standards and Industrial Technology Act 1993* and came into operation on 3 January 1994.

The *National Standards Act (Chapter 378)* and the *National Technical Standards Act (Chapter 379)* were repealed, and all funds standing to the credit of and on accounts operated under the authority of the repealed acts and all assets and liabilities owned or held by the bodies established under the repealed acts were transferred to and became the assets and liabilities of the Institute on the commencement of the new Act.

48.1.2 Objectives of the Institute

The objectives of the Institute are: to carry out scientific and technological research and to develop a National Standards system; to co-operate with international organisations of measurement and technical standards; to promote and undertake industrial integrated standardisation and quality assurance; and to enter into any agreement both within and outside PNG to further the objectives and functions of the Institute.

48.1.2 Functions of the Institute

The main functions of the Institute are to:

- Safeguard PNG against the dumping and supply of unsafe, unhealthy and inferior or substandard products;
- Establish and co-ordinate the National Standardisation system;
- Provide education, training and industrial extension and consultative services to assist industries;
- Promote public and industrial welfare, health and safety;
- Recognise as testing authorities, bodies and institutions;
- Establish a National Certification System of conformity;
- Assist industries overcome technical barriers on its products and services to international trade; and
- Assist industries to produce quality products and services.

48.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Institute for the year ended 31 December 2016 had been completed and management responses were being awaited to finalise the audit report.

The financial statements of the Institute for the year ended 31 December 2017 had not been submitted by the Institute for my inspection and audit.

49. PAPUA NEW GUINEA SPORTS FOUNDATION

49.1 INTRODUCTION

49.1.1 Legislation

The Papua New Guinea Sports Foundation was established by the *Papua New Guinea Sports Foundation Act 2005*. This Act was certified on 8 August 2006 and became operational on the same date and replaced the *Papua New Guinea Sports Commission Act 1992*.

Under this Act, all assets held or occupied by and all liabilities and obligations of the Papua New Guinea Sports Commission prior to the operation of this Act were transferred to and became assets and liabilities and obligations of the Foundation at commencement.

49.1.2 Objectives of the Foundation

The principal objectives of the Foundation are: to encourage the private sector to contribute to the funding of sports to supplement assistance by the government of Papua New Guinea; to provide leadership in the development of Papua New Guinea's performance in sports; and to encourage increased participation and '*Sport for All*' by Papua New Guineans in sports.

49.1.3 Functions of the Foundation

The principal functions of the Foundation are to:

- Advise the Minister in relation to the development of sports;
- Co-ordinate activities in Papua New Guinea for the development of sports and to develop and implement programs to promote equality of access to and participation in sports by all Papua New Guinea;
- Develop and implement programs for the recognition and development of persons who excel, or who have the potential to excel in sports and persons who have the potential to achieve standards of excellence as sports coaches, umpires, referees or officials essential to the conduct of sports;
- Initiate, encourage and facilitate research and development in relation to sports;
- Undertake research development related to sports science and sports medicine and to provide sports medicine services and sports science services to persons participating in programs of the Foundation;
- Establish, manage, develop and maintain facilities for the purposes of the Foundation;

- Collect and distribute information and provide advice on matters related to the activities of the Foundation;
- Fostering co-operation in sports between Papua New Guinea and other countries and to provide access to persons from other countries to the resources, services and facilities of the Foundation;
- Raise money through the National Sports Trust or by other means for the purposes of the Foundation and to administer and expend money appropriated by the Parliament or raised in accordance with and for the purpose of the Foundation;
- Consult and co-operate with appropriate authorities of the National Government or the Provinces and Local-level Governments and with other persons, associations and organisations on matters related to the activities of the Foundation;
- Provide advice on matters related to sports to the Papua New Guinea National Olympic Committee or other persons, bodies or associations; and
- Co-operate with districts, provincial, national and international sporting organisations in aiming to foster a sporting environment that is free from the unsanctioned use of performance enhancing drugs and doping methods.

49.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Foundation for the years ended 31 December 2014 and 2015 were submitted and arrangements were being made to commence the audit shortly.

The Foundation had not submitted its financial statements for the years ended 31 December 2016 and 2017 for my inspection and audit.

50. PAPUA NEW GUINEA UNIVERSITY OF TECHNOLOGY

50.1 INTRODUCTION

50.1.1 Legislation and Objectives of the University

The Papua New Guinea University of Technology was established under the *University of Technology Act (Chapter 170)*. The University's aims are to provide tertiary educational facilities and to produce qualified men and women to play an important part in the development of Papua New Guinea.

50.1.2 Functions of the University

The University's principal functions are to encourage and provide facilities for study, education and training of technological subjects and branches of learning at tertiary level, and to assist in research and the practical application of technological branches of learning.

50.1.3 Subsidiaries of the University

The University has two wholly owned subsidiary companies, *National Analytical and Testing Services Limited* and *Unitech Development and Consultancy Company Limited*, which were incorporated under the *Companies Act*.

Comments in relation to the subsidiary Companies are contained in paragraphs 50A and 50B of this Report respectively.

50.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

50.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the University's financial statements for the years ended 31 December 2015 and 2016 were issued on 25 October 2017 and 07 December 2017 respectively. The reports did not contain any qualification.

50.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the University for the years ended 31 December 2015 and 2016 were issued on 25 October 2017 and 07 December 2017 respectively. The reports contained similar comments, hence only the 2016 report is reproduced as follows:

Salaries and Wages

I had reviewed the salaries and wages of the University and noted that the tax value of both motor vehicle and housing benefit, as prescribed by the *Income Tax Act 1959 (as amended)*, was not included in the gross taxable income of each employees to calculate the salary income tax. Therefore, the staff of the University were paying lesser salaries and wages tax. I recommended to management to ensure that group tax had been calculated correctly and remitted to tax office.

The management responded that:

“It has been discussed with Finance and General Purpose Committee (FGPC) and Senior Executive Management Team (SEMT) meeting for non-compliance of the tax calculation. Registrar advised that it will be implemented from 01-01-2018 onwards through new payroll system, Chris HR software.”

Non-compliance with the Public Finances (Management) Act 1995

The Papua New Guinea University of Technology had not prepared and submitted its financial statements prior to 30 June for the year ending 31 December proceeding, to enable me to conduct audit and report the results before these deadline, resulting in breach of *Section 63(2)* and *Section 63(4)* of the *Public Finances (Management) Act 1995*.

50.3 STATUS OF FINANCIAL STATEMENTS

The University had not submitted its financial statements for the year ended 31 December 2017 for my inspection and audit.

50A. NATIONAL ANALYTICAL AND TESTING SERVICES LIMITED (Subsidiary of University of Technology)

50A.1 INTRODUCTION

The National Analytical and Testing Services Limited was initially incorporated as Champion No: 67 Limited on 10 March 2011. However, on 24 March 2011 the former Company name (Champion No: 67 Limited) was changed to what is now the National Analytical and Testing Services Limited.

The shareholders of the Company are Unitech Development and Consultancy Limited and Star Mountains Institute of Technology Limited, each holding 61% and 39% of the total issued shares respectively.

50A.1.1 Functions of the Company

The functions of the Company are to provide analytical, pathological and mineral testing services:

- Analytical testing including tests for food, water, soil, mining or industrial waste;
- Pathology testing relating to test for human diseases; and
- Mineral (geo) testing involving testing for mineral compositions.

50A.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2012 and 2013 were in progress.

The Company had not submitted its financial statements for the years ended 31 December 2014, 2015, 2016 and 2017 for my inspection and audit.

50B. UNITECH DEVELOPMENT AND CONSULTANCY COMPANY LIMITED (Subsidiary of University of Technology)

50B.1 INTRODUCTION

Unitech Development and Consultancy Limited is a Company incorporated under the *Companies Act*.

50B.1.1 Functions of the Company

The primary function of the Company is to carry on the business and activities of consultants, and to render management, industrial, commercial, financial, secretarial, public relations, industrial relations and other related services to any person, firm or corporation engaged in any business, trade or activity. The Company also carries on a business of insect farming.

50B.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Company for the years ended 31 December 2014, 2015, 2016 and 2017 had not been submitted for my inspection and audit.

51. PARLIAMENTARY MEMBERS' RETIREMENT BENEFITS FUND

51.1 INTRODUCTION

51.1.1 Legislation

The Parliamentary Members' Retirement Benefits Fund was established under the *Parliamentary Members' Retirement Benefits Fund Act 1997* which came into operation on 16 July 1997.

51.1.2 Objectives of the Fund

The objectives of the Fund are to provide pensions and retirement benefits for Members and former Members of Parliament and the former House of Assembly and to provide benefits to dependant spouses and juvenile dependants. This Act repealed the *Parliamentary Members' Retirement Benefits Act* which came into operation in 1982.

51.2 AUDIT OBSERVATIONS

51.2.1 Comments on Financial Statements

My report to the Minister under *Section 8(4)* of the *Audit Act* on the Fund's financial statements for the year ended 31 December 2016 was issued on 28 February 2018. The report did not contain any qualification.

51.2.2 Audit Observations Reported to the Minister

My examination in accordance with *Section 8(2)* of the *Audit Act* generally revealed satisfactory results.

51.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Fund had not submitted its financial statements for the year ended 31 December 2017 for my inspection and audit.

52. PUBLIC CURATOR OF PAPUA NEW GUINEA

52.1 INTRODUCTION

52.1.1 Legislation

The Office of the Public Curator of Papua New Guinea was established under the *Public Curator Act (Chapter 81)*.

52.1.2 Functions of the Public Curator

The main functions of the Public Curator are to act as an administrator of estates; an executor appointed under a will by a member of the public; and/or an official trustee.

52.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

52.2.1 Comments on the Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Public Curator's Office financial statements for the year ended 31 December 2013 was issued on 18 October 2017. The report contained a Disclaimer of Opinion.

“BASIS FOR DISCLAIMER OF OPINION

Limitation of Scope – Opening Balances

My reports for the years ended 31 December, 2009 to 2012 were disclaimed due to limitation on the scope of audit on opening balances. I was unable to confirm the opening balances resulting from non-submission of financial statements for the years ended 31 December 2004 to 2008. I was therefore, unable to satisfy myself as to the accuracy and completeness of the opening balances of term deposits, deceased estate accounts, minor & insolvency accounts and suspense accounts of Port Moresby, Lae and Rabaul.

Since these opening balances entered into the determination of the results of operations and cash flows of the Public Curator's Office in 2013, I was unable to determine whether adjustments to the results of operations, receipts and payments might have been necessary for the year ended 31 December 2013.

Limitation of Scope – Accounting Records

The Public Curator's Office did not maintain proper books of accounts in 2013 and in prior years. The financial statements were prepared from manually maintained records on excel spread sheets.

The statements were prepared from incomplete and insufficient records without proper supporting reconciliations and documentations resulting in the limitation on the scope of my audit. As a result, it was impracticable for me to carry out all my planned audit procedures to determine the accuracy of the year end balances as disclosed in the financial statements.

Receipts and Payments

I noted that the Curator's Office disclosed total receipt of K12,775,282 and total payment of K12,224,732 in its financial statements during the year. However, of these totals I was not provided with the detailed receipts together with their summaries. I was unable to establish the total net deceased estate funds received during the year, total amount charged for Public Curator's commission and fees, rental fees for estate properties managed by the Regional Offices, repayment of advances and other receipts.

Further, I was unable to determine the total payments made to beneficiaries out of their respective Deceased Estate Trust Accounts, payments made in relation to the operations of each Regional Offices as well as Head Office, advances made to beneficiaries of the Estate Accounts and costs incurred in relation to the maintenance of properties managed by the Regional Offices.

As such, I was unable to determine the accuracy and completeness of the total receipts of K12,775,282 and payments of K12,224,732 made during the year.

Suspense Account – K17,773,063

My examination of this account revealed that the account has been maintained as a clearing account to keep track of proceeds from deceased individuals and transfers between various estate accounts pending reconciliation, proper identification and allocation to their respective estate accounts. However, I noted that proper, accurate and timely reconciliations were not done over the years to allocate these funds to their respective estate accounts to clear this Suspense Account. In addition, the records in relation to this cumulative balance over the years were not made available to me for my examination and verification. Consequently, the beneficiaries to these estate accounts may have been denied of their rights to have access to these funds. Accordingly, I was unable to determine the validity and accuracy of this account as at year end.

Deceased Estate Trust Accounts – K6,166,573

My review of the Deceased Estate Trust Accounts maintained by the Regional Offices revealed that the accounts not only hold and maintain records of the deceased estate accounts but also transactions of the Public Curator's Corporate Trust Accounts from the same Cash Book and Bank Accounts.

The income generated in terms of the commissions, administrative fees, interests charged on advance payments made to beneficiaries and other receipts for the year and their related payments thereon were not identified, dissected and properly recorded in separate ledgers in each region.

Further, I noted that the Momase Regional Office had been making payments to purported beneficiaries using the Kundupe banking facility. I noted that there was no audit trail maintained using this banking facility. I was unable to link the payees to their respective deceased estates' records to determine whether the payees were the proper beneficiaries.

As such, I was unable to establish and determine the accuracy of the year end balances for the Deceased Estate Trust Accounts at the year.

Deceased Estate Properties

I noted that the Public Curator's Office was in possession of unrealised and personal properties of deceased estates that were identified and administered by the Office. These properties were not valued and disclosed by way of notes to the financial statements as the proceeds from the disposal of these assets would be properly identified and credited to their respective estate accounts or transferred (non-liquid form) to the beneficiaries at a later date. As such, I was unable to satisfy myself as to the completeness and accuracy of the final trust balances disclosed in the financial statements at year end.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements of Public Curator's Office for the year ended 31 December 2013."

52.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Public Curator's Office for the year ended 31 December 2013 was issued on 18 October 2017. The report contained the following comments:

Accounting System and Lack of Audit Trail

I noted that the financial statements of the Curator's Office were prepared on excel spread sheets from records manually entered and maintained. The receipts and payments for all deceased estate trust accounts are manually maintained in each region and Head Office.

There was no proper audit trail for the trust accounts maintained in the regions. I recommended Management to source a suitable computer application software that will integrate deceased estate data from the Regions as well as Head Office and produce timely reports. Management concurred with my comments and stated that to replace the current system with an appropriate integrated system had not been fruitful due to funding constraints.

Internal Control Weakness

During my review, I noted that the internal control environment of the Public Curator's Office was generally weak. I observed that some key positions like the assistant estate officers, property officers and officers responsible for basic accounting functions had not been properly assessed in each region and filled. Consequently, a single officer was made to perform functions that could better be done by several officers. This could compromise the effective control as a result of lack of segregation of duties. I brought this issue to the attention of the Management for necessary action and Management concurred with my comments and added that Management had taken necessary steps to fill some positions.

Bank and Deceased Estate Account Reconciliations

My review of the Public Curator's bank and deceased estate account reconciliations for Head Office and the Regional Offices revealed that the reconciliations had not been properly done. As a result, there was a significant material balance in the suspense (clearing) account that had been accumulated over the years which Management had to reconcile and clear. I recommended Management to ensure that bank and estate accounts reconciliations be done on a monthly basis to correctly identify individual estate receipts/proceeds and post them to their respective individual estate accounts.

Trust Instruments (Deeds)

My review of the Public Curator's trust accounts revealed that there were no trust instruments or deeds maintained by the Office governing the operations of each trust bank account. Trust Instruments and deeds govern the operations of every trust account operated by any government agencies. In the absence of trust instruments and deeds maintained by the Public Curator as the Official Trustee of deceased estates, the trust funds could be susceptible to misapplication, misuse and abuse.

Kundupe and Single Cheque Payment (Batch files)

My review of the deceased estate payments made to beneficiaries during the year revealed that the Momase Regional Office had been making payments using the Kundupe banking facility.

My examination of two (2) batch payments made available to me revealed that a total of K151,621 was paid to various payees without stating their respective estate names. Further, I observed that a total of K94,921 was paid to persons other than the beneficiaries apart from the service providers. I was unable to link all the payments made to various payees using this banking facility. In addition, I noted that Port Moresby Office had raised single cheques for various deceased estate accounts. Both of these methods lack proper audit trails therefore I was unable to determine whether the payees were the proper beneficiaries. These payment methods were in breach of trust instruments.

Management responded to my concern as follows; *“Kundu batch payments totaling K151,621 and K94,921, all payments were made fraudulently without any deceased estate involved. The Kundu Batch Payment listing that was detected during your audit engagement was only the tip of an ice berg and there are even more similar payments made through Kundu Payment System that requires further investigation immediately.”*

52.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Public Curator’s Office for the year ended 31 December 2014 was submitted and arrangements were being made to commence the audit shortly.

The financial statements for the years ended 31 December 2015, 2016 and 2017 had not been submitted by the Public Curator’s Office for my inspection and audit.

53. SECURITY INDUSTRIES AUTHORITY

53.1 INTRODUCTION

53.1.1 Legislation

The Security Industries Authority was established under the *Security (Protection) Industry Act 2004*. This Act came into operation on 1 March 2005. The Authority commenced its operations in April 2005.

53.1.2 Functions of the Authority

The principal functions of the Authority are to:

- Grant licenses and permits under the Act;
- Fix minimum standards of training applicable to holders of licenses and permits respectively;
- Establish, provide or approve training institutions and facilities or permit such training institutions or facilities as it may approve, to conduct training or to be used for training for the purpose of training of persons who intend to perform security officers duties or security guard duties;
- Approve any equipment other than firearms used by a holder of a license or permit or required by a customer to be installed on his premises or property;
- Ensure that the holder of a license or permit operates or carries out his duties or performs his functions in accordance with the terms and conditions of the license or permit and subject to the provisions of this Act;
- Formulate a Code of Conduct governing the disciplinary matters and work ethics within the Industry; and
- Undertake such other functions and exercise such powers as may be conferred on it by this Act or any other law.

53.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December 2015 had been completed and the audit reports were being finalised.

The Authority had not submitted its financial statements for the years ended 31 December 2016 and 2017 for my inspection and audit.

54. SMALL AND MEDIUM ENTERPRISES CORPORATION (Formerly Small Business Development Corporation)

54.1 INTRODUCTION

54.1.1 Legislation

The Small and Medium Enterprises Corporation (formerly Small Business Development Corporation) was established under the *Small and Medium Enterprises Corporation Act 2014*. This Act came into operation on 10 February 2015.

54.1.2 Functions of the Corporation

The functions of the Corporation are to:

- (a) co-ordinate, monitor and evaluate the implementation of the policies, strategies and programs for small and medium enterprises in accordance with the Small and Medium Enterprises Policy, the Master Plan of the Government as directed by the Small and Medium Enterprises Development Council and the Ministry responsible for trade, commerce and industry matters;
- (b) undertake studies concerning the development of small and medium enterprises;
- (c) liaise with the National Executive Council or relevant Ministry in the implementation of the policies, strategies and programmes for small and medium enterprises;
- (d) being responsible for collecting, sourcing, keeping and disseminating information on small and medium enterprises;
- (e) act as the Secretariat to the Council;
- (f) in the manufacturing and services sectors –
 - (i) to undertake promotional activities to promote growth of small and medium enterprises;
 - (ii) to promote co-operation amongst small and medium enterprises;
 - (iii) to encourage industrial linkages with the large industries;
 - (iv) to develop human resource in the small and medium enterprises; and
- (g) undertake any work and investments necessary to promote and grow the small and medium enterprises sector in the economy.

54.2 AUDIT OBSERVATIONS AND RECOMMENDATION

54.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Corporation for the years ended 31 December 2013, 2014 and 2015 were issued on 14 September 2017. The reports contained similar qualified opinions, hence, only the 2015 report is reproduced.

“BASIS FOR QUALIFIED OPINION

Fixed Assets – K3,154,755

During my review of the fixed assets of the Corporation for the year ended 31 December 2015, I noted that the Fixed Assets Register maintained by the Corporation was incomplete and has not been updated with necessary details. I further noted that no proper stock-take carried out during the year and prior years to ascertain the proper value, condition and existence of assets held at year end. Consequently, I was not able to confirm and conclude on the accuracy and completeness of the fixed assets amount disclosed as K3,154,755 in the financial statements.

Non-Consolidation – Small Industry Centre (SIC)

The Small Industry Centre (SIC) is one of the divisions of the Corporation maintaining its own financial transactions and records separately. Although the division is part of Small and Medium Enterprises Corporation (SMEC), the accounts of SIC were not consolidated in the Corporation’s books for the year ended 31 December 2015 to comply with the requirements of the *International Accounting Standards (IAS 1 and 27)*. Further, I was not able to rely on the financial transactions and records provided by SIC for my examination which contained material differences and lacked integrity. As such, the financial statements of SMEC for the year ended 31 December 2015 did not fairly reflect the results of the entire entity.

Financial Incentive Scheme – K1,987,847

As disclosed by the Corporation at 31 December 2015, the Financial Incentive Scheme amounted to K1,987,847. The scheme was established with various financial institutions as a security deposit to assist small to medium enterprises owned by PNG citizens. During my review, I noted that K1,000,000 and K150,000 were placed with the National Development Bank (NDB) in 2005 and Nationwide Microbank in 2008 respectively. Of these, K411,935 and K133,917 were disclosed by the Corporation at balance date.

However, I was not provided with sufficient appropriate information relating to the amounts received by participants and their respective loan drawdown summaries to reconcile with the balance disclosed at the year end. According to the information obtained from the banks, the loans with NDB exceeded the security deposit of K1,000,000 by K693,386 as at 31 March 2015 while K12,464 remained with the Nationwide Microbank as at 31 December 2014 was transferred to the main operating account in April 2015. As such, I was unable to confirm and verify whether amounts disbursed were properly monitored and used for the intended purposes. Further, I was unable to conclude on the accuracy and completeness of the balance disclosed at year end.

Staff and Other Debtors – K563,988

Staff and Other Debtors totalling K563,988 comprised of several sub-accounts detailed in Note# 3 in the financial statements. During my review, I was not provided with the supporting documentation relating to sundry/other debtors and security deposit of K209,113 and K9,933 respectively for my verification. As such, I was unable to confirm the accuracy and correctness of these respective balances and the overall balance representing Staff and Other Debtors disclosed in the financial statements at year end.

GST Refundable – K3,408,589

My examination of GST Refundable account revealed that the Corporation included K132,341 (10% of K1,323,414) pertaining to office rental in determining the refundable amount at year end. However, I am of the view that since the amount was paid directly by the Government through the Government Office Allocation Committee the treatment was incorrect as payment was not made from the Corporation. I also noted that the full amount of K1,323,414 was treated as income and expensed out during the same financial year. Consequently, the balance representing GST refundable was overstated in the financial statements.

QUALIFIED OPINION

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

- (a) the financial statements of the Corporation are based on proper accounts and records; and
- (b) the financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Corporation as at 31 December 2015 and the results of its financial operations and cash flows for the year then ended.”

54.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Corporation for the years ended 31 December 2013, 2014 and 2015 were issued on 14 September 2017. The reports contained similar observations, hence, only the 2015 report is reproduced.

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

Section 63(2) and (4) of the *Public Finances (Management) Act 1995* requires the Corporation to furnish to the Minister before 30 June in each year, a performance and management report of its operations for the year ending 31 December preceding, together with financial statements. Before furnishing financial statements to the Minister, the Corporation shall submit them to the Auditor-General who shall report to the Minister. However, the Corporation had not prepared and submitted its financial statements for the year ended 31 December 2015 to enable my office to complete the audit as specified in the Act. Accordingly, the Corporation had breached *Section 63(2) and (4)* of the *Public Finances (Management) Act 1995*.

I brought this to the attention of the management and they responded as follows:

“We take heed of the recommendation made and will ensure the accounts are up to date going forward in compliance with the relevant legislations, in particular, the Public Finances (Management) Act 1995 and the Audit Act 1989.”

2. The Board

During my review, I noted that the Board’s term expired on 28 March 2014 and the positions were not filled until 15 April 2016. The Corporation was operating without a governing board for almost two (2) years. As a result, I was not able to comment on whether proper procedures were followed when making major investments, procurement decisions and other general administration of the Corporation. I recommended that management be proactive to establish a new board as soon as possible to oversee the management of the Corporation.

Management took note of my finding and recommendation.

3. Internal Audit Function

During my review of the internal audit function, I noted that the Corporation did not fully utilize the function to review various processes and systems and to provide necessary recommendation for the management to improve on the internal control weaknesses noted in the prior year audits. This issue on the role of the internal audit function and its lack of performance was brought to the attention of the management during my prior year audits, however, I noted that not much improvement had taken place. Therefore, I was unable to state whether internal processes were systematically and timely reviewed by the internal audit division promptly. The management responded to my concern as follows:

“Management will review and ensure it is operationalize to undertake its functions with an Audit Charter, Work Plan, Audit Methodologies, etc in place for its effectiveness.”

4. Bank Reconciliations

The Corporation maintained four (4) bank accounts in 2015. During my review, I noted that these accounts’ bank reconciliations were not prepared, reviewed nor verified by senior officers of the Corporation on a timely basis. They were prepared a year later only in 2016. As a result, I was not able to place reliance on the effectiveness of the controls surrounding the bank reconciliation process during the year under review. I also caution the management that lack of timely bank reconciliation pose a risk of fraudulent activities to go undetected.

I brought this issue again to the attention of the management and was advised that, bank reconciliations were not prepared on a timely basis due to changes in personnel in the accounts section. Management was also utilizing the MYOB accounting system which will assist minimize the risk of fraudulent activities.

5. Travel Advance – K336,044

My review of the duty travel advances revealed that the Corporation did not maintain a Travel Advance Register to keep proper records of all the duty travel advances and related expenses. I also noted that travel advances amounting to K336,044 were not acquitted in 2015. It is a requirement under *Financial Management Manual Part 20 Paragraph 12.2* that a Financial Delegate/Authorizing officer shall maintain a Register of Advances to officers on duty travel.

Further, it should also be noted, that it is a requirement under the *Financial Management Manual Part 20 Paragraphs 11.2 and 12.10* that cash advanced to officers on official duty overseas must be acquitted within fourteen (14) days of return from travel and advances to officers for domestic duty travels to be acquitted within seven (7) days of return from duty travel by submitting the acquittal form. In the absence of a Travel Advance Register and the corresponding travel advance and expense acquittal documents, I was unable to confirm whether the travels made were for official purposes.

6. Recreational Leave Fares

During the year under review, a total of K109,031 was paid as leave fares to officers of the Corporation. However, I was not able to verify and confirm the dependents and the amounts claimed and paid due to the absence of birth certificates and tax declarations. As such, I was unable to comment whether the Corporation had complied with the *General Orders (GO 14.41)* in the administration of leave fares during the year.

I brought this issue to the attention of management and it responded that necessary action would be taken by the Corporation.

7. Missing Assets

During my physical examination of fixed assets owned by the Corporation, I noted that assets valuing K19,012 were not accounted for. These assets were in the custody of former senior employees of the Corporation. In the absence of proper stock-take, those assets that were stolen and/or misplaced could not be identified and recorded at correct values. As a result, I was unable to comment whether the fixed assets balance was fairly disclosed in the financial statements. Further, I was not able to place any reliance on the internal controls surrounding the use and custody of the fixed assets.

54.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Corporation had submitted its financial statements for the year ended 31 December 2016 and arrangements were being made to commence the audit shortly.

The Corporation had not submitted its financial statements for the year ended 31 December 2017 for my inspection and audit.

55. TOURISM PROMOTION AUTHORITY

55.1 INTRODUCTION

55.1.1 Legislation

The Tourism Promotion Authority was established under the *Tourism Promotion Authority Act 1993*. This Act came into operation on 3 June 1993 thereby repealing the *Tourism Development Corporation Act 1990*. The Authority commenced its operational activities on 1 April 1993.

Under the *Tourism Promotion Authority Act* all assets held by and obligations and liabilities imposed on the Tourism Development Corporation which related to the functions of the Authority were transferred to it (the Authority), and the rest of the assets and liabilities were transferred to the National Cultural Committee on 3 June 1993.

55.1.2 Functions of the Authority

The principal functions of the Authority are to:

- foster the development of tourism in PNG;
- formulate a tourism policy for consideration by the NEC and to implement the tourism policy approved by the NEC;
- promote PNG overseas as a tourist destination;
- co-ordinate the overseas promotional efforts of the PNG tourism industry;
- encourage the provision, development and expansion of tourism infrastructure, facilities and products in PNG; and
- enhance awareness within PNG of the tourism industry and tourism opportunities.

55.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

55.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Authority's financial statements for the year ended 31 December 2016 was issued on 12 October 2017. The report did not contain any qualification.

55.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Tourism Promotion Authority for the year ended 31 December 2016 was issued on 12 October 2017. The report contained the following matters:

Staff Debtors – K66,779

The Authority disclosed staff debtors as K66,779 at 31 December, 2016. During my review, I noted that the Authority had not effectively managed and monitored the staff advances. Further, I observed inconsistencies in repayment through salary deductions and huge salary advances granted with low repayment rates. As a result, the staff debtors amounting K45,817 were well over 180 days and represented 69% of the total staff debtors. The Authority did not have any specific policy guidelines on staff advances to provide guidance on staff advances and monitor staff repayments. I brought this matter to the attention of the Authority and the management responded as follows:

“The Authority lacks specific written policies in the types of “Staff Advances” and “Repayment Schedule and Process” for effective control over management of staff advances. This year, we have put in place strict controls regarding salary advances.

These policies include a complete cessation on salary advances except for emergency cases. Our internal Financial Procedures Manual is due for review. However, has been shelved due to funding constraints. Management of staff advances will be one of the many policies we will incorporate when the review is underway.”

Contract of Employment for Chief Executive Officer

I was unable to authenticate the validity of the final entitlements totalled K395,596 paid to the former Authority’s Managing Director during the year under review as the signed copy of the *Contract of Employment* effective from 2011 was not provided for my audit verification by the Authority. The Authority advised that it had not received a signed *Contract of Employment* from *Department of Personnel Management (DPM)* since his appointment in 2011. The Management had followed up with the *National Executive Council (NEC)* and *Department of Personnel Management* and were advised thereon that the signed contract of employment could not be located.

I also noted during the review of the personnel files that the Authority’s current Managing Director’s *Contract of Employment* was also not available for my examination. The Authority advised that the employment contract for the current Managing Director was in progress and management would continue to follow up with the DPM.

Staff Salary History Cards

My review of the personnel files for certain selected officers of the Authority revealed that management had maintained the salary history cards in their respective personnel files. However, the salary history cards were not updated by the Human Resource Section in terms of base salary, higher duty allowances and other allowances.

I further noted that leave records for each employee such as recreational, sick, compassionate and long service were not updated.

The Authority responded to my observation as follows:

“We admit that salary history cards for some employees have yet to be maintained and updated in their personnel files. The Human Resource section is currently transferring all individual employee salary and allowances including leave records onto the template. It is hoped that we should have this issue resolved within this year for audit inspection next year.”

55.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Authority had submitted its financial statements for the year ended 31 December 2017 and arrangements were being made to commence the audit shortly.

56. UNIVERSITY OF GOROKA

56.1 INTRODUCTION

56.1.1 Legislation

The University of Goroka was established under the *University of Goroka Act 1997*. This Act came into operation on 1 January 1997.

Under this Act, the Goroka Campus of the University of PNG was transferred to the University of Goroka together with all staff and students, buildings and grounds, equipment, teaching and research facilities, and other assets and liabilities both within and outside the Campus.

56.1.2 Objectives of the University

The objectives of the University are dedicated to the pursuit, advancement and dissemination of knowledge, understanding and wisdom; the paying of particular attention to the human resource development and other development needs of PNG; and endeavouring to achieve academic and professional excellence to meet those needs through teaching, research and community service.

56.1.3 Powers of the University

The University shall have the power to:

- Grant such degrees as are authorised by the Statutes and such diplomas, certificates or other academic awards as it determines;
- Provide instruction and facilities for study, education and research to persons registered as preparing for degrees, diplomas, certificates or other awards of the University;
- Provide facilities for extramural study and continuing education to persons, whether members of the University or not, in such fields and in such manner as the University may from time to time determine;
- Co-operate in pursuance of any of the objectives of the University with any other bodies or persons to enter into agreements authorised by Statute with institutions for their affiliation with or incorporation into the University;
- Subject to the *Salaries and Conditions Monitoring Committee Act* to appoint academic, administrative and other staff on such terms and conditions of service as the University may determine;
- Provide for promoting the health and general welfare of the students of the University, including the establishment and supervision of residence;

- Regulate and enforce discipline among the employees and students of the University by such measures as the University may determine;
- Cancel, annul or revoke any act done in the exercise of these powers; and
- Do all such other acts or things as may be done under the provisions of this Act or these powers or as may be conducive to the exercise of the attainment of any of the objectives of the University.

56.1.4 Subsidiary of the University

The University has a Subsidiary Company, *Unigor Consultancy Limited*. Comments in relation to this Company are contained in paragraph 56A of this Report.

56.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and examination of the financial statements of the University for the years ended 31 December 2015 and 2016 had been completed and the results were being evaluated.

The University had not submitted its financial statements for the year ended 31 December 2017 for my inspection and audit.

56A. UNIGOR CONSULTANCY LIMITED (Subsidiary of the University of Goroka)

56A.1 INTRODUCTION

Unigor Consultancy Limited is 100% owned by the University of Goroka. It was incorporated in March 2000 as a consultancy company under the *Companies Act*.

56A.1.1 Objectives of the Company

The Company's objectives are to:

- Advance, promote, assist and encourage the educational purposes of the University through;
 - Short term programs for and on behalf of the University tailored to the needs of clients; and
 - Research, consultancy and publication of all educational materials for commercial purposes;
- Conduct or undertake any other business activity both within and outside of PNG; and
- Expand and diversify business activities to maximise profits and to promote the interest of the Shareholder from time to time.

56A.1.2 Functions of the Company

The core function of the Company is to provide services in four key areas:

- Professional consultancy services, teaching and dissemination of knowledge;
- Merchandising of textbooks, educational supplies and stationary;
- Printing and publication of educational materials, textbooks, business documents and all other forms of print material; and
- Catering and cafeteria services.

56A.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Company had not submitted its financial statements for the years ended 31 December 2014, 2015, 2016 and 2017 for my inspection and audit, despite numerous reminders.

57. UNIVERSITY OF NATURAL RESOURCES AND ENVIRONMENT

57.1 INTRODUCTION

57.1.1 Legislation

The University of Vudal was established under the *University of Vudal Act 1997*. This Act came into operation on 1 January 1997. The University changed its name to University of Natural Resources and Environment in 2008 and became operative in the same year.

Under this Act, the Vudal University College Campus of the PNG University of Technology was transferred to the University of Vudal with all staff and students, buildings and land, equipment, teaching and research facilities, and other assets and liabilities both within and outside the College Campus.

Although the new entity was created by the Act in 1997, the finance and accounting function was transferred to the University of Vudal only on 1 January 1998.

57.1.2 Objectives of the University

The Act states the objectives of the University as: dedication to the pursuit, advancement and dissemination of knowledge, understanding and wisdom; the paying of particular attention to the human resource development and other development needs of PNG; and endeavouring to achieve academic and professional excellence to meet those needs through teaching, research and community service.

57.1.3 Powers of the University

Section 6 of the Act enshrines the University as having the power to:

- Grant such degrees as are authorised by the Statutes and such diplomas, certificates or other academic awards as it determines;
- Provide instruction and facilities for study, education and research to persons registered as preparing for degrees, diplomas, certificates or other awards of the University;
- Provide facilities for extramural study and continuing education to persons, whether members of the University or not, in such fields and in such manner as the University may from time to time determine;
- Co-operate in pursuance of any of the objectives of the University with any other bodies or persons to enter into agreements authorised by Statute with institutions for their affiliation with or incorporation into the University;

- Subject to the *SCMC Act* appoint academic, administrative and other staff on such terms and conditions of service as the University may determine;
- Provide for promoting the health and general welfare of the students of the University, including the establishment and supervision of residences;
- Regulate and enforce discipline among the employees and students of the University by such measures as the University may determine;
- Cancel, annul or revoke any act done in the exercise of these powers; and
- Do all such other acts or things as may be done under the provisions of this Act or these powers or as may be conducive to the exercise of the attainment of any of the objectives of the University.

57.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the University had not submitted its financial statements for the years ended 31 December 2015, 2016 and 2017 for my inspection and audit despite numerous reminders.

58. UNIVERSITY OF PAPUA NEW GUINEA

58.1 INTRODUCTION

58.1.1 Legislation

The University of Papua New Guinea was established under the *University of Papua New Guinea Act (Chapter 169)*.

58.1.2 Objectives of the University

The objectives of the University include the:

- Provision of facilities for study and education;
- Giving of instruction and training in all such branches of learning as are provided for by the Statutes;
- Aiding by research and other means the advancement of knowledge and its practical application;
- Conferring, after examination, of the degrees of Bachelor, Master and Doctorate and such other degrees, diplomas, certificates and other academic honours as are authorised by the Statutes;
- Provision of facilities for university education throughout the country by the affiliation of educational institutions, and by the establishment of tutorial classes, correspondence classes, university extension classes, and vacation classes, and by such other means as the Council thinks appropriate; and
- Liaison, collaboration and reciprocation with other universities and institutions of learning, within or outside the country, in the provision of facilities, the recognition of degrees and other status, and the interchange of staff, students and information, and in any other way not inconsistent with its status as the University.

58.1.3 Subsidiaries of the University

The University has two subsidiaries, Unisave Limited and Univentures Limited, which were incorporated under the *Companies Act*.

Comments in relation to the subsidiaries are contained in paragraphs 58A and 58B of this Report.

58.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the University for the year ended 31 December 2014 had been completed and the audit reports were being finalised.

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

The University had submitted its financial statements for the year ended 31 December 2016 for my inspection and audit and arrangements were being made to commence the audit shortly.

The University had not submitted its financial statements for the year ended 31 December 2017 for my inspection and audit.

58A. UNISAVE LIMITED (Subsidiary of University of Papua New Guinea)

58A.1 INTRODUCTION

58A.1.1 Legislation

Unisave Limited was incorporated under the *Companies Act* on 18 October 2011.

The incorporation of Unisave Limited was as a result of a Memorandum of Agreement (MOA) signed between the Univentures Limited, (a company 100% owned by University of PNG) and S.I.T Co. Limited of the Republic of South Korea.

58A.1.2 Objective of the Company

The parties to this MOA shall endeavor to create mutual commercial benefits through assembly and sales of Information Communication Technology (ICT) products and various projects which have price and quality competitiveness compared with other organisations in PNG. This will be achieved by combining of infrastructures and marketing power in PNG provided by Univentures and the technical know-how and successful long-term various experience in Korean ICT market provided by S.I.T.

The main business of the Company is to assemble TVs, PCs, laptops, monitors and other items which can be included under mutual consent, such as systems integration, systems administration and maintenance in information technology.

58A.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Company for the years ended 31 December 2012, 2013, 2014, 2015, 2016 and 2017 had not been submitted for my inspection and audit, despite numerous reminders.

58B. UNIVENTURES LIMITED (Subsidiary of University of Papua New Guinea)

58B.1 INTRODUCTION

58B.1.1 Legislation

Univentures Limited was incorporated under the *Companies Act*, on 2 August 2007. The Company has a total issued capital of one ordinary share of K1.00 and is wholly owned by the University of Papua New Guinea.

58B.1.2 Functions of the Company

The activities of the Company are to sell and print books in the Bookshop and the Printery respectively, as a business arm of the University of Papua New Guinea.

58B.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Company had not submitted its financial statements for the years ended 31 December 2012, 2013, 2014, 2015, 2016 and 2017 for my inspection and audit despite numerous reminders from my Office.

59. WATER PNG (Formerly PNG Water Board)

59.1 INTRODUCTION

59.1.1 Legislation

PNG Waterboard was established by the *National Water Supply and Sewerage Act 1986*, which came into operation on 1 January 1987. The 1986 Act repealed the *National Water Supply and Sewerage Act (Chapter 393)* and thereby abolished the National Water Supply and Sewerage Board. On 10 December 2010 PNG Water Board changed its name to Water PNG.

59.1.2 Functions of Water PNG

Water PNG is entrusted with co-ordinating, planning, designing, construction, management and charging for water supply and sewerage services throughout the country.

59.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Board for the year ended 31 December 2015 had been completed and the audit reports were being finalised.

The fieldwork associated with the inspection and audit of the accounts and records and examination of the Board's financial statements for the year ended 31 December 2016 was in progress.

The Board had submitted its financial statements for the year ended 31 December 2017 for my inspection and audit and arrangements were being made to commence the audit shortly.

SECTION B

NATIONAL GOVERNMENT OWNED COMPANIES

60. FOREWORD

This Section of my Report deals with Companies in which the Government of PNG holds more than 50% of the Issued Share Capital. On 26 January 1983, the *NEC's Decision No. 12/93* expanded my responsibilities to include the audit of National Government Owned Companies and subsidiaries thereof. The audit of Government Owned Companies is also conferred to me through *Section 3* of the *Audit Act*.

The auditing and reporting requirements of these companies are stipulated under *Section 200* of the *Companies Act*, which includes:

- (a) The work done by the auditor;
- (b) The scope and limitations of the audit;
- (c) The existence of any relationship the auditor has with the Company;
- (d) Whether all information and explanations required have been obtained;
- (e) Whether in the auditor's opinion, proper accounting records have been kept;
- (f) Whether in the auditor's opinion, the financial statements comply with generally accepted accounting practice and, where they do not, the respects in which they fail to comply; and
- (g) Whether in the auditor's opinion, the financial statements give a true and fair view of the matters to which they relate and, if not, the respects in which they fail to give such a view.

My audit of Government owned Companies is conducted in accordance with the requirements of the *Companies Act*. Under *Section 8 (2) of the Audit Act*, I am also expected to report to the Minister for Finance, the matters of significance to do with the accounts and records, the financial transactions and the assets and liabilities. The management of the Company are also informed of the same.

Comments in relation to the companies are detailed in paragraphs **61** to **73D**.

61. AIR NIUGINI LIMITED

61.1 INTRODUCTION

61.1.1 Legislation

Air Niugini Limited was incorporated under the *Companies Act*. It was formed to be the successor company of National Airline Commission, following the NEC decision of 20 June 1996 to corporatise the National Airline Commission in accordance with *Section 45* of the *National Airline Commission Act*.

As a result of the NEC decision, all assets, liabilities, staff and operations of the National Airline Commission were transferred at the written down book value (as at 31 August 1996) to Air Niugini Limited. Air Niugini Limited is a 100% State Owned Company.

61.1.2 Objectives of the Company

The principal objectives of the Company are to:

- Carry on the business of airline operators, general carriers, freight forwarders and forwarding agents, warehouse operators, shippers and general agents, ship owners charterers, hospitality and general traders, stevedores, cool store operators, flight contractors, carriers by land, air and water, insurers and insurance brokers and other business which may be usefully carried on in connection with such business;
- Provide transport service, carrier freight transport, courier, taxi truck, light or heavy haulage and delivery services which involves the use of aircraft, railways, ship, road vehicle or any other means of conveyance by land, road, railway, sea, river, canal, water or air to carry and convey passengers, mails, containers, packages, parcels, bulk commodities, goods, merchandise, livestock and produce and property of every description;
- Carry, collect, receive, load, unload, store, consign, distribute, transfer and deliver property of every description by any mode of transportation; and
- Carry passengers by air, road, rail, land, sea or water and to operate any taxi service and to obtain any necessary licences for such purposes.

61.1.3 Subsidiary of the Company

The Company has a subsidiary Company, Link PNG Limited. Comments in relation to that Company are contained in paragraph 61A of this Report.

61.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

61.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act* on the inspection and audit of the accounts and records of the Company for the year ended 31 December 2015 was issued on 13 December 2017. The report contained a Qualified Opinion.

“BASIS FOR QUALIFIED OPINION

Valuation of Rotables and Engines

Air Niugini (the Company) has a policy to revalue its rotables and engines once in every three years, with the last valuation being performed in 2010. I noted that the company did not perform valuations of these assets in 31 December 2013, 31 December 2014 and 31 December 2015. The Board has concluded that the book value of these assets was an appropriate measure as at 31 December 2015, 31 December 2014 and 31 December 2013.

As a result, it is impractical for me to determine the value of rotables and engines as at 31 December, 2015 and 31 December, 2014 and as such I am unable to determine what adjustments might have been necessary to the statement of financial position as at 31 December 2015 and 31 December 2014 and the statement of comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December, 2015 and for the comparative year ended 2014.

Componentisation of Assets

IAS 16 Property Plant and Equipment requires that “for each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.” I noted that the Company does not depreciate the components of the aircraft that it owns or finance leases in accordance with IAS 16, rather the aircraft are depreciated as a whole. Due to the difficulty in identifying and separating the rotatable components and calculating the estimated depreciation over their useful lives, I am unable to quantify the effect on the financial statements, however I believe the accumulated effect would be material.

Due to the fact that the Company records its aircraft at fair value based on valuations completed as at 31 December each year, the error would not have any effect on the net assets of the Company at year end and any difference in the statement of financial position as at year end would be a difference between the Revaluation Reserve and the Company’s Retained Earnings.

However, I am unable to determine what adjustments might be necessary to the statement of financial position as at 31 December 2015 and 31 December 2014 and the statement of comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December, 2015, and for the comparative year ended 31 December, 2014.

Useful Life of Aircraft

I noted that when an aircraft is revalued each year subsequent to its year of purchase, the original useful life of the aircraft is used to depreciate the new value of the aircraft and not the remaining useful life based on the purchase date. I further noted that certain aircraft have been in service for periods exceeding their original useful lives used for depreciation purposes. As a result, the Company is not formally re-assessing the useful lives of the aircraft at each balance date. This may result in a number of different errors in depreciation calculations, and also in the revaluation increments when aircraft are subsequently revalued.

As with componentisation of assets, due to the aircraft being revalued every year, depreciation errors would not have an effect on the net assets of the Company at year end. However, I was unable to determine what adjustments might be necessary to the statement of financial position as at 31 December 2015 and 31 December 2014 and statement of comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December, 2015, and for the comparative year ended 31 December, 2014.

Valuation of Land and Building

The Company carries its land and building at revaluation amounts as required by the revaluation model under the IAS 16 Property, Plant and Equipment. In 2015 an external valuer was engaged to perform the valuation of land and buildings. Based on the revaluation the Company revalued the carrying value of land and buildings from PGK207,452,087 to PGK256,879,450 at year end. A revaluation loss of PGK1,319,841 was recognized in profit or loss while the revaluation gain of PGK50,747,204 was recognized in other comprehensive income.

I was unable to obtain from the external valuer sufficient appropriate audit evidence regarding the inputs used in their valuation, particularly in respect of sales evidence underlying selected capitalization rates and estimated income, as well as the calculations and inputs underlying the estimated depreciated replacement cost. Consequently, I was unable to determine what adjustments might be necessary to the statement of financial position at 31 December 2015, the statement of comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2015.

QUALIFIED OPINION

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

- (a) the consolidated financial statements of Air Niugini Limited for the year ended 31 December, 2015:
 - (i) give a true and fair view of the financial position and the results of its operations and cash flows for the year ended on that date; and
 - (ii) the financial statements have been presented in accordance with the *Companies act 1997, International Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea;
- (b) proper accounting records have been kept by the Company; and
- (c) I have obtained all the information and explanation as required except for the matter referred to in qualification paragraphs.”

61.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Company for the year ended 31 December 2015 was issued on 13 December 2017. The report contained the following significant matters:

Information Technology (GITC)

During the 2015 audit and prior years, I was unable to take a full control approach to the audit as many of the Company’s General IT controls (“GITC”) were not effective. This results in a far more substantive audit approach including more intrusive and time consuming procedures. The lack of effective GITC’s should also be a concern for the Company as it indicates existence of a higher possibility of misstatement or fraud.

A number of GITC controls tested in the past were found to be ineffective. These have been set out in my management letter. It is important that a company of Air Niugini’s size and complexity have a functioning internal control environment.

I recommended for review of all IT controls (general and application) be conducted to find all deficiencies, and a project be conducted to work towards eliminating those deficiencies. A number of specific deficiencies found had been detailed in my management letter.

Information Technology (Other)

Other IT matters noted during the audit include:

- existence of users who have been terminated from the Company;
- absence of a formal disaster recovery plan;
- no IT asset management system in place;
- the administration of the Skychain (Cargo) application had been performed by the staff of the Cargo Group and not managed by the IT team and the IT team had no visibility of the status of the application;
- Air Niugini Limited had been using Microsoft Windows XP which was no longer supported by Microsoft; and
- there is a lack of IT resources and knowledge gaps across critical functions.

Some of these matters were considered by management and addressing them was in progress. However, I believe a full assessment of the IT environment should be undertaken and appropriate action taken to ensure a secure and functional environment.

Insufficient Human Resources in the Reporting Function

I noted that the Company did not possess sufficient human resources to address its IFRS reporting needs. The abilities of ANL employees to cope with more complex IFRS issues was very limited. These persons also have extensive management duties which leave little time to address IFRS reporting requirements. The level of IFRS knowledge of accountants in the accounting department was very low. Their level of motivation to prepare and provide information necessary for preparation of IFRS financial statements on a timely basis seems to be inadequate. On the other side Air Niugini Limited is a complex business whose reporting requirements require in-depth understanding of the IFRS standards and significant time devoted to this area. These situations led to very significant delays in providing financial information necessary for preparation of financial statements and audit. Another consequence is lack of ability to prepare financial statements (even with external support) within periods acceptable for potential external investors which can undermine plans to obtain additional capital in the future.

While I recognized inherent difficulties resulting from severe deficit of IFRS qualified accountants across PNG market, and numerous problems inherited from the past, I recommended that management should consider allocating additional human resources to the IFRS reporting function, combined with IFRS training programs.

Hard Close and Pre-year End Procedures

During the audit, I identified several issues where significant amount of time was spent by the Air Niugini finance team during the course of preparing the year-end financial statements and audit processes to resolve these issues. This placed considerable pressure on both teams to assess and resolve these items. There are improvement opportunities in the next financial year for issues to be identified and resolved before the year end and as a result, efficiencies to be gained. Assessing all significant accounting issues within the appropriate timeframe will assist management to comply with its taxation and audit requirements.

Examples as at 31 December 2015 of areas which could have been addressed through proper and detailed hard close and/or pre-year end procedures include:

- identification of key accounting matters for the year;
- assessment of systems and controls;
- adequate timing to allow for a detailed system testing over revenue;
- interim testing of transactions; and
- assessment of other key matters in the financial statements.

Management Contract between Air Niugini Limited and Link PNG Limited

I noted during the audit that although income for the applicable routes of Link PNG Limited and the relevant direct expenditure had been booked to a separate trial balance, appropriate supporting agreements for the operations of the subsidiary did not appear to be fully formalized.

Service level agreement between Air Niugini Limited and Link PNG Limited had only been finalized towards the end of 2016. However, upon inspection of the agreement, I noted differences between the agreement and costs recorded in the trial balance. The service level agreement seems to cover only 4% of purchases made by Link PNG Limited from Air Niugini Limited. The major part of transactions between Air Niugini Limited and Link PNG Limited were not based on any written agreements.

Documentation of Agreements with Other Parties

I noted that the review procedures over some agreements reached by Air Niugini Limited with other parties in the past did not seem to be sufficient. This related to agreements such as:

- finance lease agreements for lease of PXT and PXU aircraft (clause about transfer of ownership at the end of the lease term was unclear or incorrectly worded which led to a disagreement with the lessor and Air Niugini Limited finally obtained ownership in exchange for an additional payment of USD 7.5 million);
- agreement entered by Air Niugini Limited and NAC in respect of some airport charges – the agreement was reached in verbal form only (not documented in writing). NAC honored it over some period, later the change of NAC's management led to a dispute for over PGK30 million which was settled only in 2017; and
- loan agreements with BSP which contained a clause allowing the bank to vary the amount and timing of any repayment installment (supplemented by an unwritten agreement with BSP that this clause would not be triggered).

These agreements were entered into several years ago and it is possible that these problems have been the oversights inherited from the past. Nevertheless, they indicate that review and approval of agreements should be subject to tighter controls. I recommended that:

- all important agreements are formalized in a written form; and
- all important agreements are subject to a detailed review and approval of both operating department requesting them, lawyers and the finance department (CFO or his deputy or equivalent) so that their financial consequences are analyzed in detail before they are signed off.

Fixed Asset Register on Cost Basis

IAS 16, Property, Plant and Equipment, requires that if items of property, plant and equipment are stated at revalued amounts, the Company should disclose for each revalued class of property, plant and equipment, the carrying amount that would have been recognized, had the assets been carried under the cost model.

I noted that this had not been disclosed and the management had not been able to provide me with an asset register containing this information. A fixed asset register and depreciation schedule should be maintained based on original cost.

Operating Leases

I have noted during the audit that some of the operating leases of the Company have escalations rates. In accordance with *IAS 17, Leases*, “*Operating leases shall be recognized as an expense on a straight-line basis over the term of the lease term unless another systematic basis is more representative of the pattern of the user's benefit.*”

The Company did not book its rent expense on a straight-line basis but instead based on invoices received from the vendors. I estimated that liabilities could be understated by K17 million due to the fact that operating leases were not accounted for on a straight-line basis.

I understand that management do not believe that accounting for rent expense on a straight-line basis appropriately reflects the economic basis of the transaction. However, it is my opinion that the Company's method is not compliant with *IAS 17*.

Land valued but without Title

In 2014 management identified 28 blocks of land for which the Airline was paying rates and taxes, however, these were not included in the Airline's asset register or financial statements until 2015. The Management was unable to provide me the acquisition documentation with the original purchase price. Management obtained an independent valuation and included the fair value of K7 million as an increment to Property, Plant and Equipment and the Revaluation Reserve.

I had not been provided with title deeds of the properties, nor any information in respect of the properties' original acquisition. I was unable to determine whether ownership of the land remains with the Airline.

I recommended that management establish clear title to the property and ensure title deeds or evidence of clear title is maintained for all the properties.

Useful Life of Buildings

During the audit I noted that the useful lives of some buildings appear to be inconsistent with most standard expectations for commercial and residential buildings. Although there may be reasons for the useful lives used (e.g. asset acquired part way through its life), these reasons were not documented and current management was unaware as to why these useful lives had been used. No assessment as to what is the remaining useful life on these assets has been conducted.

I believe that an assessment of useful lives of all the buildings should be conducted as soon as possible. In addition, the Company should also undertake an assessment of useful lives of all property, plant and equipment to ensure they are appropriate.

Reasonableness of End of Lease Liabilities

The Company creates 2 types of end of lease accruals ("*provisions*") called:

- (a) "*Dead Rent*" – set up to account for the cost incurred for aircraft not flying (thus no revenue recognized) due to required repairs and maintenance to be done before the return of the aircraft to a lessor.

This provision also includes additional rental expense to be incurred in case a lease is extended due to the delay of return of aircraft because of the required repairs and maintenance. The balance of dead rent accrual is amortized over the lease term of the aircraft.

The dead rent should not be recognized in the statement of financial position because:

- (1) the rent for the period during which an aircraft is subject to repairs and maintenance is an integral part of minimum lease payments and shall be included in the calculation of lease expense on a straight-line basis.
 - (2) additional rental expense will be incurred only when there is a delay in the return of the aircraft, thus, this is only a contingent liability rather than a liability.
- (b) “*General Provision*” - made to account for repair and maintenance of an aircraft at the end of the operating lease term. The general provision is amortized over the lease term of an aircraft.

The Company provided USD500,000 of general provision for the operating lease aircraft (per aircraft) which reflects expected costs to be incurred based on actual costs incurred for some aircraft already returned. However, no supporting calculation of the USD500,000 was available. I checked reasonableness of the balance based on actual costs incurred on C-checks and major overhauls included in deferred expenditure and noted that it was underestimated by K3 million.

The Company should continuously assess the reasonableness of these liabilities and appropriately document the assumptions used in their calculations.

Incorrect Measurement of Refundable Deposits

I noted that the Company records its long term refundable deposits denominated in foreign currencies at its nominal value instead of its fair value and did not subsequently measure at amortized cost. These security deposits were not part of lease payments and therefore they are within the scope of *IAS 39 Financial Instruments: Recognition and Measurement*. As a result deposits’ balance was overstated by PGK2,004,000 as at 31 December 2015.

I recommended that management ensure proper accounting treatment of their refundable deposits in accordance with *IAS 39*. If management decides to continue using the current simplified method of accounting, the impact of error should still be calculated to ensure it is not material.

Erroneous Entries in the Tax Fixed Asset Register

I noted that the Company's tax fixed asset register requires improvement in quality as it contains erroneous entries; for instance, the aircraft PXP was recorded in the register with nil written down value, while the correct written down value should be at least PGK 12 million (depending on components to be included in the value of the aircraft). As a result, the aircraft was not depreciated for tax purposes and the gain on sale of this aircraft was incorrectly calculated.

This situation can lead to potential errors in current tax and deferred tax calculations.

I recommended that management considers comprehensive review of the tax fixed assets register, covering both its opening balance and any changes (additions and disposals), combined with verification of entered amounts to source documents. Such review could be re-performed periodically e.g. every quarter, month or at least annually.

61.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2016 was in progress.

The Company had not submitted its financial statements for the year ended 31 December 2017 for my inspection and audit.

61A. LINK-PNG LIMITED (Subsidiary of Air Niugini Limited)

61A.1 INTRODUCTION

61A.1.1 Legislation

The Link-PNG Limited came into existence on 26 June 2014 after the name changed from PNG Link Limited. Link-PNG Limited was incorporated under the *Companies Act 1997* on 4 May 2010. This Company was bought by Air Niugini Limited from Steamships Limited on 05 August 2014 for a consideration of K100.

This Company is a 100% subsidiary of Air Niugini Limited. The Company commenced the business of air travel for the PNG Domestic markets since November 2014.

61A.1.2 The Objective of the Company

The key objective of the Company is to:

- Be the leading domestic airline in Papua New Guinea, delivering safest, cost effective air travel to the communities.

61A.2 AUDIT OBSERVATIONS

61A.2.1 Comments on Financial Statements

My reports in accordance with the provisions of the Companies Act on the inspection and audit of the accounts and records of the Company for the year ended 31 December 2015 was issued on 13 December 2017. The report did not contain any qualification.

61A.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2016 was in progress.

The Company had not submitted its financial statements for the year ended 31 December 2017 for my inspection and audit.

62. KUMUL PETROLEUM HOLDINGS LIMITED (formerly NPCP Holdings Limited)

62.1 INTRODUCTION

62.1.1 Legislation

This Company was incorporated under the *Companies Act* on 4 March 2014 and was established in accordance with the *NEC Decision No. 108/2011* dated 7 July 2011. As a result of the enactment of the *Kumul Petroleum Holdings Limited Authorisation Act 2015* the issued shares of the Kumul Petroleum Holdings Limited previously owned by Independent Public Business Corporation (IPBC) was transferred to the Kumul Petroleum Trustee. On 25 September 2015, the Company changed its name from NPCP Holdings Limited to Kumul Petroleum Holdings Limited.

62.1.2 Objective of the Company

Kumul Petroleum Holdings Limited and its wholly owned subsidiaries are the only group of State Owned Companies from which the State would nominate one or more of them to participate in all future Petroleum Projects as State nominee for the purposes of *Section 165* of the *Oil and Gas Act 1998*.

62.1.3 Subsidiaries of the Company

The Subsidiaries of the Kumul Petroleum Holdings Limited are; Eda Oil Limited, Kumul Exploration (Asia) Limited, Kumul Gas Foreland 239 B.V, Kumul Gas Foreland 261 B.V, Kumul Gas Foreland 268 B.V, Kumul Gas Foreland 269 B.V, Kumul Gas Niugini B.V, Kumul Lending Co Pte Limited, Kumul LNG Limited, Kumul Petroleum (Development) Limited, Kumul Petroleum (Investments) Limited, Kumul Petroleum (Kroton) Limited, Kumul Petroleum (Pipeline) Limited, Kumul Petroleum (Tech and Advisory) Limited, Kumul Petroleum Marketing Pte Limited, Kumul Security Agent Limited and NPCP Oil Company Pty Limited. Comments in relation to these Subsidiaries are contained in paragraphs 62A to 62Q of this Report.

62.2 STATUS OF THE FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2017 was in progress.

62A. EDA OIL LIMITED (Subsidiary of Kumul Petroleum Holdings Limited)

62A.1 INTRODUCTION

This Company was incorporated under the *Companies Act*. The Company has two (2) shares and Petromin was the 100% shareholder of the Company. As a result of the enactment of the *Kumul Petroleum Holdings Limited Authorisation Bill 2015*, Eda Oil Limited and Kumul LNG Limited were transferred to Kumul Petroleum (Development) Limited, a subsidiary of Kumul Petroleum Holdings Limited on 30 June 2016 by Petromin PNG Holdings Limited.

62A.1.2 Objective of the Company

The main objective of the Company is the investment in development and production of hydrocarbons in the Moran Joint Venture in Papua New Guinea.

The Company has a direct participation on the Moran Petroleum Project, through 20.3% License Interest it directly holds in PDL 5 and an initial 11.275% Unit Interest in Unit Operation under MOUA and an indirect participation in the PNG LNG Project through its holdings of the only issued share in the share capital of Kumul LNG Limited.

62A.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2017 was in progress.

62B. KUMUL EXPLORATION (ASIA) LIMITED (Subsidiary of Kumul Petroleum Holdings Limited)

62B.1 INTRODUCTION

62B.1.1 Legislation

The Kumul Exploration (Asia) Limited was incorporated in Singapore under the *Companies Act of Singapore* on 02 March 2017. Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Exploration (Asia) Limited.

62B.1.2 Objective of the Company

The Company's main objective is service activities incidental to oil and gas extraction (excluding surveying and engineering design and consultancy services supporting mining, oil and gas extraction and offshore exploration activities).

62B.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2017 was in progress.

62C. KUMUL GAS FORELAND 239 B.V (Subsidiary of Kumul Petroleum Holdings)

62C.1 INTRODUCTION

62C.1.1 Legislation

The Kumul Gas Foreland 239 B.V was incorporated in Amsterdam, Netherlands under the *Netherlands Civil Code* on 12 October 2011 (amended on 30-06-2017). Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Gas Foreland 239 B.V.

62C.1.2 Objectives of the Company

The Company's objectives are; to incorporate, to finance, to participate in, to manage and to supervise companies and other enterprises; to raise funds, to acquire, to dispose of, to manage, to exploit, to develop and to commercialise in any other way real estate, securities and other assets, including patents, permits, copyrights, trademarks, licenses, secret processes or formula's, designs and other industrial and intellectual property rights, to render administrative, technical, financial, economic, commercial or managerial services to companies, partnerships and other enterprises; engage in all activities, whether or not in collaboration with others, which directly or indirectly relate to those objects, all this in the broadest sense.

62C.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2017 was in progress.

62D. KUMUL GAS FORELAND 261 B.V (Subsidiary of Kumul Petroleum Holdings Limited)

62D.1 INTRODUCTION

62D.1.1 Legislation

The Kumul Gas Foreland 261 B.V was incorporated in Amsterdam, Netherlands under the *Netherlands Civil Code* on 12 October 2011. Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Gas Foreland 261 B.V.

62D.1.2 Objectives of the Company

The Company's objectives are; to incorporate, to finance, to participate in, to manage and to supervise companies and other enterprises; to raise funds, to acquire, to dispose of, to manage, to exploit, to develop and to commercialise in any other way real estate, securities and other assets, including patents, permits, copyrights, trademarks, licenses, secret processes or formula's, designs and other industrial and intellectual property rights, to render administrative, technical, financial, economic, commercial or managerial services to companies, partnerships and other enterprises; engage in all activities, whether or not in collaboration with others, which directly or indirectly relate to those objects, all this in the broadest sense.

62D.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2017 was in progress.

62E. KUMUL GAS FORELAND 268 B.V (Subsidiary of Kumul Petroleum Holdings Limited)

62E.1 INTRODUCTION

62E.1.1 Legislation

The Kumul Gas Foreland 268 B.V was incorporated in Amsterdam, Netherlands under the *Netherlands Civil Code* on 12 October 2011 (amended to 30-06-2017). Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Gas Foreland 268 B.V.

62E.1.2 Objectives of the Company

The Company's objectives are; to incorporate, to finance, to participate in, to manage and to supervise companies and other enterprises; to raise funds, to acquire, to dispose of, to manage, to exploit, to develop and to commercialise in any other way real estate, securities and other assets, including patents, permits, copyrights, trademarks, licenses, secret processes or formula's, designs and other industrial and intellectual property rights, to render administrative, technical, financial, economic, commercial or managerial services to companies, partnerships and other enterprises; engage in all activities, whether or not in collaboration with others, which directly or indirectly relate to those objects, all this in the broadest sense.

62E.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2017 was in progress.

62F. KUMUL GAS FORELAND 269 B.V (Subsidiary of Kumul Petroleum Holdings Limited)

62F.1 INTRODUCTION

62F.1.1 Legislation

This Company was incorporated in Amsterdam, Netherlands under the *Companies Act of Netherlands*. On 12 October 2011 the Company was incorporated under the name of Kumul Gas Foreland 269 B.V. Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Gas Foreland 269 B.V.

62F.1.2 Objective of the Company

The objective of the Company are to finance, to participate in, to manage and to supervise companies and other enterprises; to raise funds, to acquire, to dispose of, to manage, to exploit, to develop and to commercialise in any other way real estate, securities and other assets, including patents, permits, copyrights, trademarks, licenses, secret processes or formulas, designs and other industrial and intellectual property rights, to render administrative, technical, financial, economic, commercial or managerial services to companies, partnerships and other enterprises; engage in all activities, whether or not in collaboration with others, which directly or indirectly relate to those objects, all this in the broadest sense.

62F.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2017 was in progress.

62G. KUMUL GAS NIUGINI B.V (Subsidiary of Kumul Petroleum Holdings Limited)

62G.1 INTRODUCTION

62G.1.1 Legislation

The Kumul Gas Niugini B.V was incorporated in Amsterdam, Netherlands under the *Netherlands Civil Code* on 12 October 2011 (amended on 11-05-2017). Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Gas Niugini B.V.

62G.1.2 Objectives of the Company

The Company's objectives are; to incorporate, to finance, to participate in, to manage and to supervise companies and other enterprises; to raise funds, to acquire, to dispose of, to manage, to exploit, to develop and to commercialise in any other way real estate, securities and other assets, including patents, permits, copyrights, trademarks, licenses, secret processes or formula's, designs and other industrial and intellectual property rights, to render administrative, technical, financial, economic, commercial or managerial services to companies, partnerships and other enterprises; engage in all activities, whether or not in collaboration with others, which directly or indirectly relate to those objects, all this in the broadest sense.

62G.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2017 was in progress.

62H. KUMUL LENDING CO PTE LIMITED (Subsidiary of Kumul Petroleum Holdings Limited)

62H.1 INTRODUCTION

62H.1.1 Legislation

The Kumul Lending Co Pte Limited was incorporated in Singapore under the *Companies Act of Singapore* on 08 August 2016. Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Lending Co Pte Limited.

62H.1.2 Objective of the Company

The key objective of the Company is to undertake fund management activities.

62H.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2016 and 2017 were in progress.

62I. KUMUL LNG LIMITED (Subsidiary of Kumul Petroleum Holdings Limited)

62I.1 INTRODUCTION

This Company was incorporated under the *Companies Act*. On 19 May 2009 the Company was incorporated under the name of Kumul LNG Limited. The Company has one (1) share and Eda Oil Limited is the sole shareholder of the Company. Eda Oil Limited is 100% subsidiary of Petrolmin PNG Holdings Limited. This Company was established as a special purpose entity to hold Petromin's interests in the LNG Projects. As a result of the enactment of the *Kumul Petroleum Holdings Limited Authorisation Bill 2015*, both Eda Oil Limited and Kumul LNG Limited were transferred to Kumul Petroleum Holdings Limited on 30 June 2016 by Petromin PNG Holdings Limited.

62I.1.1 Objective of the Company

The Company has 0.20% interest in the PNG LNG Project. The Project interest is connected to Eda Oil Limited's license interest in PDL 5 (20.5% License Interest in PDL 5) and the Moran Petroleum Interest.

62I.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2017 was in progress.

62J. KUMUL PETROLEUM (DEVELOPMENT) LIMITED (Subsidiary of Kumul Petroleum Holdings Limited)

62J.1 INTRODUCTION

62J.1.1 Legislation

This Company was incorporated under the *Companies Act* on 19 September 2014 in accordance with the *NEC Decision No. 108/2011* dated 7 July 2011. Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Petroleum Development Limited. On 25 September 2015 the Company changed its name from NPCP Pipeline and Gas Supply Limited to Kumul Petroleum Development Limited. On 28 January 2016 the Company changed its name from Kumul Petroleum Development Limited to Kumul Petroleum (Development) Limited.

62J.1.2 Objective of the Company

The objective of the Company is to provide pipeline facilities to the upcoming various Liquefied Natural Gas (LNG) projects. In 2014, the Company purchased 100% shareholding in Cue PNG Limited at a cost of US\$7 million and changed the name as NPCP Oil Company Limited registered in Port Moresby, PNG.

62J.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2017 was in progress.

62K. KUMUL PETROLEUM (INVESTMENTS) LIMITED (Subsidiary of Kumul Petroleum Holdings Limited)

62K.1 INTRODUCTION

62K.1.1 Legislation

This Company was incorporated under the *Companies Act* on 15 October 2014 in accordance with the *NEC Decision No. 108/2011* dated 7 July 2011. Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Petroleum Investments Limited. On 25 September 2015, the Company changed its name from NPCP Investments Limited to Kumul Petroleum Investments Limited.

62K.1.2 Objective of the Company

The Principal objective of the Company is to hold the State's shareholding interest in Oil Search Limited and other Investments by the State in oil and gas in Papua New Guinea. In this respect, on 4 March 2014, Independent State of PNG (ISPNG) acquired 10.01% shareholding (149,390,244 shares) in Oil Search Limited (OSL) at a price of AUD8.20 per share for a total consideration of AUD1.225 million. The funding for purchase of the ISPNG interest in OSH was provided by UBS Australia. On 23 December 2014, ISPNG transferred its 10.01% shareholding interest in OSL and the obligations arising from the loan facilities provided by UBS to Kumul Petroleum Investments Limited and Kumul Petroleum Holdings Limited.

62K.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2017 was in progress.

62L. KUMUL PETROLEUM (KROTON) LIMITED (Subsidiary of Kumul Petroleum Holdings Limited)

62L.1 INTRODUCTION

62L.1.1 Legislation

This Company was incorporated under the *Companies Act* and was acquired by IPBC on 24 November 2008.

IPBC was approved as the State's nominee in the PNG Liquefied Natural Gas (PNG LNG) Project as resolved by *NEC in its Meeting No.36/2008* through *Decision No. 223/2008*. NPCP Holdings Limited is the 100% Shareholder of National Petroleum Company of PNG (Kroton) Limited as per *NEC Decision No. 108/2011* dated 7 July 2011, which came into effect in 2013. All the Company's shares held by IPBC were transferred to NPCP Holdings Limited in 2013. On 25 September 2015, the Company changed its name from National Petroleum Company of PNG (Kroton) Limited to Kumul Petroleum (PNG LNG) Limited. On 28 January 2016 the Company changed its name from Kumul Petroleum (PNG LNG) Limited to Kumul Petroleum (Kroton) Limited.

62L.1.2 Objective of the Company

The objective of Kumul Petroleum (Kroton) Limited is to invest in the PNG LNG Project as PNG State's nominee holding 16.57% equity in the Project.

62L.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2017 was in progress.

62M. KUMUL PETROLEUM (PIPELINE) LIMITED (Subsidiary of Kumul Petroleum Holdings Limited)

62M.1 INTRODUCTION

This Company was incorporated under the *Companies Act*. On 30 October 2015 the Company incorporated under the name of Kumul Petroleum Pipeline Limited. On 28 January 2016 the Company changed its name to Kumul Petroleum (Pipeline) Limited. Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Petroleum (Pipeline) Limited.

62M.1.2 Objective of the Company

The Company holds the interest of Kumul Petroleum Holdings Limited in the Western Pipeline (Strategic Pipeline) Project.

62M.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2017 was in progress.

62N. KUMUL PETROLEUM (TECH & ADVISORY) LIMITED (Subsidiary of Kumul Petroleum Holdings Limited)

62N.1 INTRODUCTION

62N.1.1 Legislation

The Company was incorporated under the *Companies Act* on 8 September 2014 in accordance with the *NEC Decision No. 108/2011* dated 7 July 2011. Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Petroleum Technical Institute and Consulting Limited. On 25 September 2015, the Company changed its name from NPCP Technical Institute and Consulting Limited to Kumul Petroleum Technical Institute and Consulting Limited. Subsequently, the Company changed its name from Kumul Petroleum Technical Institute and Consulting Limited to Kumul Petroleum (Tech & Advisory) Limited on 28 January 2016.

62N.1.2 Objective of the Company

The principal objective of the Company is to provide professional and other business services. In 2015, the Company bought 12.5% shares in Orion Enga Children's Fund JV Limited. Orion Enga Children's Fund JV owns South Pacific Employment Institute which is registered as a business name which runs the Port Moresby Technical College (now known as Kumul Petroleum Academy).

62N.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2016 was completed and the results were being evaluated.

The fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2017 was in progress.

620. KUMUL PETROLEUM MARKETING PTE LIMITED (Subsidiary of Kumul Petroleum Holdings Limited)

620.1 INTRODUCTION

620.1.1 Legislation

The Kumul Petroleum Marketing Pte Limited was incorporated in Singapore under the *Companies Act* of Singapore on 28 April 2017. Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Petroleum Marketing Pte Limited.

620.1.2 Objective of the Company

The Company engaged in Marketing of Liquefied Natural Gas, Condensate and other related products.

620.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2017 was in progress.

62P. KUMUL SECURITY AGENT LIMITED (Subsidiary of Kumul Petroleum Holdings Limited)

62P.1 INTRODUCTION

62P.1.1 Legislation

The Kumul Security Agent Limited was incorporated in Singapore under the *Companies Act* of Singapore on 31 August 2016. Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Security Agent Limited.

62P.1.2 Objective of the Company

The key objective of the Company is to undertake fund management activities.

62P.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2016 and 2017 were in progress.

62Q. NPCP OIL COMPANY PTY LIMITED (Subsidiary of Kumul Petroleum Development Limited)

62Q.1 Introduction

Cue PNG Oil Company Pty Limited, a subsidiary of Cue Energy Limited of Australia was incorporated in Australia under the *Companies Act* of Australia on 8 February 1996. This Company was bought by Kumul Petroleum (Development) Limited on 20 November 2014 at a cost of US\$7,109,144. The Company changed its name to NPCP Oil Company Pty Limited on 20 January 2015. Kumul Petroleum (Development) Limited is the sole shareholder of NPCP Oil Company Pty Limited. Now the Company is incorporated in PNG under *Companies Act* of PNG.

62Q.1.2 Objective of the Company

The principal objectives of the Company are exploration and production of hydrocarbons. The Company holds certain exploration and development licenses in PNG, namely PDL 3, PRL 14, PRL 19, and PL2.

62Q.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2015, 2016 and 2017 were in progress.

63. LIVESTOCK DEVELOPMENT CORPORATION LIMITED

63.1 INTRODUCTION

63.1.1 Legislation

The Livestock Development Corporation Limited was incorporated under the *Companies Act*. The share capital is wholly owned by the National Government.

63.1.2 Functions of the Corporation

The main activities of the Corporation are breeding and slaughtering cattle and pigs, purchasing and exporting insects, growing vegetables and fruits, and raising poultry.

63.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Corporation had not submitted its financial statements for the years ended 31 December 2010, 2011, 2012, 2013, 2014, 2015, 2016 and 2017 for my inspection and audit.

I expressed my concern to the Minister for Agriculture and Livestock through my letters dated 11 March 2015 and 26 April 2016 for the long delay by the Corporation in submitting its financial statements to enable me to perform the audit for the years stated above. I was not formerly notified on the current status of the Company by the Minister as such I intend to exclude this entity from my future reports to Parliament.

64. MINERAL RESOURCES DEVELOPMENT COMPANY LIMITED

64.1 INTRODUCTION

64.1.1 Legislation

The Mineral Resources Development Company Limited (MRDC) was incorporated under the *Companies Act*. The Company is wholly owned by the National Government. The authorised capital of the Company was increased from 10,000 Ordinary Shares to 10,000,000 Ordinary Shares of K1 each, in June, 1992. An additional 4,906,015 shares were issued to the Independent State of PNG in June 1992, converting the Government grant and the shareholders loan to equity. The Company also acquired the Government's 20% interest in Misima Mines Limited.

64.1.2 Objective of the Company

The principal objective of the Company is to hold the Government's equity in mineral and petroleum development ventures within PNG.

64.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2015 and 2016 were in progress.

The Company had not submitted its financial statements for the year ended 31 December 2017 for my inspection and audit.

65. MOTOR VEHICLES INSURANCE LIMITED

65.1 INTRODUCTION

65.1.1 Legislation

The Motor Vehicles Insurance (PNG) Trust Limited was incorporated under the *Companies Act* following the *NEC Decision No. 4/98* of January 1998. It was formed to change the status of the then existing Motor Vehicles Insurance (PNG) Trust to conform to the intentions of the NEC for the then PNG Banking Corporation Holding Company No. 1 Limited to acquire the business of the Trust as part of the reform of the financial services sector.

The Trust was incorporated under the *Companies Act* as Motor Vehicles Insurance (PNG) Trust Limited (MVITL). The shares of this entity which were held by the Independent State of PNG were subsequently sold to the then PNG Banking Corporation, an entity also owned and controlled by the State.

On 31 December 1998, as part of the corporatisation and restructuring programme of the then PNG Banking Corporation Group, PNGBC Limited, PNGBC Holding Co. No. 1 Limited and Motor Vehicles Insurance (PNG) Trust Limited were amalgamated under the provisions of the *Companies Act* to form an amalgamated Company, PNGBC Limited. The ultimate parent Company of PNGBC Limited was Finance Pacific Limited, a Company wholly owned and controlled by the Independent State of PNG.

With effect from 1 January 1999, Motor Vehicles Insurance Limited (MVIL) was incorporated under the *Companies Act* to underwrite the third party insurance under the Act in succession to the Trust and MVITL.

The assets of MVITL immediately before the amalgamation with the then PNGBC Limited were transferred to MVIL when it took over the responsibility for providing third party insurance.

65.2 AUDIT OBSERVATION AND RECOMMENDATION

65.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act* on the Company's financial statements for the year ended 31 December 2016 was issued on 6 February 2018. The report did not contain any qualification.

65.2.2 Audit Observation Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act* on the inspection and audit of the accounts and records of the Company for the year ended 31 December 2016 was issued on 6 February 2018. The report contained the following observation:

Investments

In 2016 through an NEC Decision, MVIL was requested through Kumul Consolidated Holdings (KCH) to transfer all its shares in Pacific MMI Limited (PMMI) by way of vesting notice to be effected through the form of a dividend to KCH for an amount equal to the book value of PMMI. The book value of PMMI recorded by MVIL based on the 2015 audited financial statements was K20,906,004. There were no MVIL board deliberations and approval on this transaction undertaken in 2016.

I recommended that any transaction undertaken in 2016 should be brought to the full board for rectification in subsequent board meetings.

Management responded as follows:

“The decision to transfer Pacific MMI to KCH was made by way of a vesting by KCH as the shareholder to MVIL. At the time the decision was made, it was done in the absence of a legally constituted Board of Directors. There was no Board in place as this was during the transition period from the old Board to the new Board. The appointment of the new Board took some time. The interim Board at the time were not in a position to make decision hence the whole process done by the shareholder.”

65.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2017 had been completed and the audit reports were being finalised.

66. NATIONAL AIRPORTS CORPORATION LIMITED

66.1 INTRODUCTION

66.1.1 Legislation

National Airports Corporation Limited was incorporated under the *Companies Act*. The Company had begun operations in October 2009 after its incorporation on 6 October 2009. This Company was established in accordance with *Section 132* of the *Civil Aviation Act 2000 (as amended)*.

National Airports Corporation Limited is regulated by the *Civil Aviation Authority Act 2000 (as amended)* as a Company having its own operating certificates. Except for the governance requirements specified in the *Civil Aviation Act*, it operates independently. The two shares issued by the Company are equally held by the Minister for Civil Aviation and the Minister for Finance on behalf of the Independent State of Papua New Guinea.

66.1.2 Functions of the Corporation

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

66.1.3 Subsidiary of the Corporation

The Corporation has subsidiary companies, *Airport City Development Limited* and *Airports Investments Limited*. Comments in relation to these companies are contained in paragraph 66A and 66B of this Report.

66.1.4 Project of the Corporation

The National Airports Corporation Limited also manages the *Civil Aviation Development Investment Program (CADIP)* which is funded by Asian Development Bank and counter funded by the Government of PNG (GoPNG). Comments in relation to the Project are contained in my **Special Project Audit Report** to the Parliament.

66.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with inspection and audit of the accounts and records and examination of the financial statements of the Company for the years ended 31 December 2012, 2013, 2014, 2015 and 2016 had been completed and the audit reports were being finalised.

The financial statements of the Company for the year ended 31 December 2017 had been submitted for my inspection and audit and arrangements were being made to commence the audit shortly.

66A. AIRPORT CITY DEVELOPMENT LIMITED (Subsidiary of National Airports Corporation Limited)

66A.1 INTRODUCTION

The Airport City Development Limited was incorporated on 20 August 2009 and was deregistered on 20 April 2010. However, the Company was reinstated on 19 September 2011 as a subsidiary company of the National Airports Corporation Limited. The Company came into operation on 19 September 2012.

66A.2 CHARTER OF THE COMPANY

The Company was incorporated to establish and manage the design, construction and operating stages of the Airport City Project to ensure economic, technically sound and expeditious completion of the Project.

66A.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2012, 2013, 2014, 2015 and 2016 were completed and the audit reports were being finalised.

The financial statements of the Company for the year ended 31 December 2017 had been submitted and arrangements were being made to commence the audit shortly.

66B. AIRPORTS INVESTMENTS LIMITED (Subsidiary of National Airports Corporation Limited)

66B.1 INTRODUCTION

66B.1.1 Legislation

The Airports Investments Limited is a wholly owned subsidiary of the National Airports Corporation Limited. The Company was initially registered as Helios No. 129 Limited on 23 October 2014 under the *Companies Act*. The Company changed its name to Airports Investments Limited on 27 April 2015. The Company commenced its operations on 1 January 2016.

66B.1.2 Objective of the Company

Primary objective of the Airports Investments Limited is to maximize full utilization of airport assets to generate revenue to support core airport activities relating to safety and security.

66B.1.3 Function of the Company

Functions of the Company include: utilization of large assets base of the airports to realize large revenue potential; generating revenue to fund the operations of the terminal facilities and runways; and utilizing return from commercialising the airport assets to assist rural airstrips.

66B.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2016 had been completed and the audit reports were being finalised.

The Company had submitted its financial statements for the year ended 31 December 2017 for my inspection and audit and arrangements were being made to commence the audit shortly.

67. NCD WATER AND SEWERAGE LIMITED (Trading as Eda Ranu)

67.1 INTRODUCTION

67.1.1 Legislation and Objectives of the Company

The NCD Water and Sewerage Limited was incorporated on 23 February 1996 under the *Companies Act*. The *NCDC (Transfer of Assets) Act 1996* provided for the vesting in the Company of the assets required for the supply of treated water and the treatment of sewerage from the NCDC.

67.1.2 Functions of the Company

The principal functions of the Company are to provide the supply of treated water, and the treatment and disposal of sewerage within the NCD.

67.2 STATUS OF FINANCIAL STATEMENTS

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

The Company had not submitted its financial statements for the years ended 31 December 2016 and 2017 for my inspection and audit.

68. PAPUA NEW GUINEA PORTS CORPORATION LIMITED (Formerly PNG Harbours Limited)

68.1 INTRODUCTION

68.1.1 Legislation

PNG Harbours Limited was incorporated under the *Companies Act* on 19 June 2002. This initiative was in accordance with the privatisation policy approved by the NEC in 1999. The Company changed its name to Papua New Guinea Ports Corporation Limited on 7 March 2006.

68.1.2 Functions of the Company

The general functions of PNG Ports Corporation Limited include the regulation, management, control and operation of declared ports; the movement of shipping therein; and the maintenance of light ships, buoys, beacons, moorings, wharves, docks, piers, jetties, landing stages, slips, landing ramps and platforms.

68.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

68.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act* on the inspection and audit of the accounts and records of the Company for the year ended 31 December 2016 was issued on 15 November 2017. The report did not contain any qualification.

68.2.2 Audit Observations Reported to the Minister

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and the audit of the accounts and records of the Company for the year ended 31 December 2016 was issued on 15 November 2017. The report contained the following significant matters:

Internal Audit

I noted that following issues under internal audit division:

No regular internal audit reporting system in place. The latest internal audit made available to me was dated 25 April 2014.

Number of critical recommendations by the internal audit division had not been implemented to date. Some of them are as follows:

- a) Existence of standard service agreement with major shipping companies and agents;
- b) Utility bills paid by clients; and
- c) Shipping registers operation report.

I recommended to the management that internal audit to be empowered and effectively designed and operate as per their scope and work, and must be approved by the management. Also, implement the recommendations of internal audit at the earliest for the benefit of the Corporation.

Management responded that, *“the above matter is noted and are working on it to have them implemented.”*

Fixed Assets Not Accounted

In 2016 PNG Ports Corporation Limited (PNGPCL) sold the following Land Sections located within Port Moresby Port Area:

Land Area	Value in Kina
Lot 11, Sec 12, Granville, Port Moresby	1,000,000
Lot 11, Sec 12, Granville, Port Moresby	1,000,000
Lot 2, Sec 56, Granville, Port Moresby	2,800,000
Lot 23, Sec 51, Granville, Port Moresby	2,800,000

However, these assets were not recorded in the Fixed Assets Register in prior years, which raise concern that significant fixed assets owned by the Corporation may not be recorded in the Fixed Assets Register, which gives an incomplete Fixed Asset Register, and valuation might also be understated. I recommended to the management to take a stock count of all unrecognised assets, its value and update the Fixed Assets Register of PNGPCL.

Management responded that, *“this is an on-going matter and our lands officer within the property section working on to resolve it including having proper titles.”*

Utility Bills - Water Bills Lae Port

I noted significant variation between budgeted and actual expense of water bills paid for Lae Port as follows:

Amount Budgeted	K 700,000.00
Actual expense incurred	<u>K 1,750,527.00</u>
Excess	<u>K 1,050,527.00</u>

Further, I noted irregular collection of utility reimbursement from the tenants using the port offices and facilities in various ports, mainly in Lae Port, resulted in PNGPCL bearing the tenants utility cost and loss of revenue to the Corporation. I recommended to the management to justify the significant variance of the water bill expense paid in Lae Port; and also to take appropriate action to recover the water utility expenses incurred by the tenants regularly and implement proper control and monitoring mechanism at the Lae Port.

Management responded that, *“they are working on the issue by putting in place process to address the leakage in port services and recoupment thereof.”*

Absence of Accounting Manual

As noted in prior year audits, the Corporation still had not maintained a proper accounting manual. In the absence of a detailed accounting manual, it would be difficult for the Corporation to monitor and implement the new and revised accounting standards. I suggested the management to consider the implications of the foregoing standards on the preparation of the Corporation’s financial statements, both for internal and statutory reporting purposes. I further suggested that the Corporation personnel involved in accounting and preparation of financial statements attend training courses related to these new standards. This issue was raised in my 2015 audit and management responded that they were in the process of preparing an accounting manual.

However, the management responded as follows:

“We are using the IAS as the standard guide to account for major or significant transactions undertaken by the Corporation.”

68.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Corporation for the year ended 31 December 2017 was in progress.

69. PNG AIR SERVICES LIMITED

69.1 INTRODUCTION

69.1.1 Legislation

PNG Air Services Limited was incorporated under the *Companies Act*. The Company began its operation in January 2008 after its incorporation on 30 April 2007. The Company was established in accordance with *Section 143(6) of the Civil Aviation Act 2000 (as amended)* which envisaged the establishment of a Company to deliver “*air traffic services, aeronautical navigation services and aeronautical communication services and all related services in Papuan New Guinea and the airspace for which it is responsible.*”

PNG Air Services Limited as a State Aviation Enterprise (SAE) is an independent self-funding Company. The two shares issued by the Company are equally held by the Minister for Civil Aviation and the Minister for Finance on behalf of the Independent State of Papua New Guinea. The Company has its own operating certificates and operates independently from other Aviation Entities established under the *Civil Aviation Act 2000 (as amended)*.

69.1.2 Functions of the Company

PNG Air Services Limited was established with a purpose of delivering safe and efficient air navigation services to the aviation industry and the travelling public. It ensures provision of quality Communication, Navigation, Surveillance (CNS) and Air Traffic Management (ATM) services to both domestic and international customers who operate within the PNG airspace, at a reasonable cost, hence to be a leader in providing world standard air navigation services. PNG Air Services Limited makes sure that the radio coverage in PNG both VHF and HF are improved and that efficient and effective air traffic services are maintained.

69.2 STATUS OF FINANCIAL STATEMENTS

The Company had advised me as per the letter dated 14 November 2016 that it would appoint its own auditor for the 2016 audit. However, I advised the Company of my responsibility under the PNG Constitution 214(3) to inspect and audit and report to Parliament on all bodies set up by the Act of Parliament.

At the time of preparing this Report, the Company had not submitted its financial statements for the years ended 31 December 2016 and 2017 for my inspection and audit.

70. PNG DATACO LIMITED

70.1 INTRODUCTION

70.1.1 Legislation

The PNG DataCo Limited came into existence on 2 December 2010 after the name changed from Whittlesea Limited. Whittlesea Limited was incorporated under the *Companies Act* on 21 April 2010.

On 6 February 2014, the National Executive Council (NEC) in its *Decision No: 32/2014* approved for immediate operations of the PNG DataCo Limited as a 100% Majority State Owned Enterprise (SOE) to oversee and implement the National Transmission Network (NTN) Impact Project Strategy and Objectives as approved by the NEC *Decision No: 268* of 2010, NEC *Decision No: 107* of 2011 and NEC *Decision No: 108* of 2012.

PNG DataCo Limited is governed by the *Companies Act*, the *Independent Public Business Corporation of PNG Act*, and the regulator – *National Information and Communication Technology Authority Act*. The Company came into operations in February 2014.

70.1.2 Objectives of the Company

The key objectives of the Company are to:

- Work towards the PNG Government's Policy on ICT to refurbish the existing transmission network, extend its availability across the country, allow new transmission networks to develop, and to increase technical capabilities to support high-speed broadband;
- Develop the National Transmission Network (NTN) as the efficient domestic and international telecommunication transmission network and that the NTN is available on a wholesale and non-discriminatory basis to all licensed operators of the telecommunication industry to stimulate and foster social and economic developments in Papua New Guinea using State Owned assets and new network investments;
- Provide internet gateway services at the international gateway;
- Improve the availability of broadband transmission telecommunication services within PNG and internationally;
- Improve performance of telecommunication services in terms of responsiveness;
- Lower the cost of telecommunication services to end users; and
- Ensure the current network operations are scalable, standardise network and IT, invest in required capabilities to build low-cost position, develop deal making capabilities, and best-in-class execution capabilities.

70.1.3 Functions of the Company

The main functions of the Company are to:

- Develop the National Transmission Network (NTN) as the efficient domestic and international transmission network; and
- Supply high value and market driven suite of data services on a wholesale and non-discriminatory basis to all licensed operators and ISPs (i.e. holders of a Network or applications licenses) leveraging its exclusive network asset base.

70.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2015 had been completed and the signed financial statements were being awaited to issue the report.

The fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2016 was in progress.

The financial statements of the Company for the year ended 31 December 2017 had been submitted and arrangements were being made to commence the audit shortly.

71. PNG POWER LIMITED

71.1 INTRODUCTION

71.1.1 Legislation

PNG Power Limited (PPL) was incorporated by the Privatisation Commission under *Section 3(1)* of the *Electricity Commission (Privatisation) Act 2002* as the successor company to the PNG Electricity Commission (ELCOM), a statutory corporation established under the *Electricity Industry Act (Chapter 78)*.

- The *Electricity Commission (Privatisation) Act* transferred to PNG Power Limited:
 - (i) All of ELCOM's right, title and interest to any and all assets other than those transferred to PNG Dams pursuant to item 1(a) and (c), including, without limitation, the electricity generation assets located in the areas of Sirinumu Dam and Yonki Dam;
 - (ii) All of ELCOM's liabilities other than those transferred to PNG Dams pursuant to item 2(b); and
 - (iii) All water use permits held by ELCOM and referred to in *Section 7(1)* of the *Act*.
- Transferred all of the employees of ELCOM to the employment of PNG Power Limited;
- Declared PNG Power Limited as a "*Specified Entity*" for the purposes of *Section 8* of the *Act*;
- In accordance with the privatisation policy of the Privatisation Commission, all the issued shares of PNG Power were transferred to the Privatisation Commission (and deemed transferred to the successor to the Privatisation Commission, the Independent Public Business Corporation of Papua New Guinea (IPBC of PNG) as the trustee of the General Business Trust under the *IPBC of PNG Act*; and
- The consideration for the transfers referred to in items (i) and (ii) was nil.

71.1.2 Functions of the Company

The functions of the Company are to plan and co-ordinate the supply of electricity throughout the country; to generate, transmit, distribute, reticulate and sell electricity; and to provide to the public bodies and the State, services related to sale, consumption and use of electricity.

71.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2016 had been completed and the audit reports were being finalised.

The fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2017 was in progress.

72. POST (PNG) LIMITED

72.1 INTRODUCTION

72.1.1 Legislation

Post (PNG) Limited was incorporated on 24 December 1996 under the *Companies Act*. This Company was formed following the *NEC Decision No. 18/96* of 17 April 1996 to corporatise the Post and Telecommunications Corporation (PTC) and separate it into three entities, namely: Telikom PNG, Post PNG and PNG Telecommunication Authority (PANGTEL) now known as National Information and Communications Technology Authority (NICTA) as established by *Section 8* of the *National Information and Communications Act*.

As a result of the NEC Decision, all assets, rights, liabilities, staff and regulatory powers and business of the PTC relating to Postal Services were, as per the allocation statement approved by the Minister for Communications, transferred on 31 December 1996 at net book value to Post (PNG) Limited. Post (PNG) Limited is a 100% state-owned Company and it commenced trading on 1 January 1997.

72.1.2 Objectives of the Company

The primary objectives of the Company are to:

- Provide domestic and international postal services to meet the reasonable needs of the people, Government, non-governmental organisations and business enterprises of PNG;
- Manufacture and market postage stamps, philatelic products and other products for use in connection with services provided by Post PNG;
- Provide money transfer services within the Independent State of PNG and between PNG and other places;
- Engage in research relating to postal products and activities;
- Provide packet and parcel carrying services;
- Provide courier and freight services;
- Provide mail house, documents exchange and contract mail management services;
- Carry on any business or activity that is related, incidental, ancillary or complementary to the provision of domestic and international postal services;
- Provide fund transfer services, act as agent on behalf of other entities, bodies and organisations in relation to banking arrangements and in the collection of premium rates, licence fees, other like services and operate a savings bank; and
- Perform functions relating to the provision of postal services in a manner consistent with PNG's obligations under any convention.

72.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

72.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act* on the inspection and audit of the accounts and records of the Company for the year ended 31 December 2016 was issued on 11 September 2017. The report did not contain any qualification.

72.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Company for the year ended 31 December 2016 was issued on 11 September 2017. The report contained the following significant matters:

Inventory Management

My review of the internal controls relating to inventory management revealed that the Company's stock count sheets had not been signed off by the officers and managers responsible for the count to confirm that the stock counts were conducted and verified by officers of the company. I advised the management that stock count must be done periodically and officers involved in the count must sign off the count sheets and supervisor or manager of a higher rank must also counter sign to certify the stock count sheets as true inventory records of the Company. A periodic stock count is necessary to safeguard inventories from theft, misuse, obsolescence, and to ensure the inventory values are fairly reported at the balance date. I also advised that segregation of duties involving counting, recording, verifying, approving and posting to general ledger is very important.

The management's response was as follows:

"We agree and accept recommendation on stock counts and verification. However, it would be impractical for some Post Office sites where the company has only 2 staff working. The Company cannot afford an independent person for usually smaller post offices with not much business activity and carry less or no inventory."

The company has now recruited a qualified Inventory Manager who commenced in early May and will manage stock take issues from Head Office. To have more stringent controls, the company has a team of internal auditors to check and ensure that inventory is well managed and correctly reported."

The Management considers this area will not be an issue but to accept the auditor's recommendation for stock counting and verification going forward."

Payroll Processes

I noted from examining the internal controls governing the payroll processes that there was a lack of review, verification and confirmation of almost all fortnightly pay calculations by the Human Resource (HR) Manager.

I recommended to the management that the HR Manager must always review, verify and authorize every fortnightly pays before funds get disbursed into individual employee's account as this is an integral part of the control within the payroll cycle. I also advised the management that there exists high risks of not detecting fraud, intentional or accidental errors and inaccurate pay calculations in a timely manner.

The management's response was as follows:

"We disagree as payroll is approved by Human Resource Manager and CEO through online banking after payroll manager completes his job. The BSP Payroll System is programmed or designed in such a way that as long as correct hours are input into the system, one person has to process and the other checks and approves the payroll. Therefore, Post PNG has a payroll system where checks and balances are done prior to approval and payment by different payroll system users at different reporting lines."

Debt Management Policy: Provision for Doubtful Debts

I noted that Post PNG Limited had no Board approved policy on Debt Management at the time of my review. My discussions with the caretaker CFO of the Company revealed that the Company had provided for a full 100% as doubtful for all debts sitting over 120 days. I recommended to the management to have a written policy on debt management which includes provision for doubtful debts.

The management responded as follows:

"We are familiar with the consistency we adopt and that is to provide for total debts sitting over 120 days but consider one on one basis on collection remarks made by our accounts receivable officers on the debts that fall between 91–120 days as a basis for determining Provision for Doubtful Debts at year end. Consistently, we note most of these debtors are Government Departments and few corporate companies such as Digicel who has a monopolistic market but eventually they pay up. Although we have no written policy for debt recovery but the practice we employ above helps recover debts initially provided as bad."

Lodgment of Annual Returns

I noted that the Company had not lodged Annual Returns for the last five (5) years with the Investment Promotion Authority (IPA). I further noted that there was “nil” accrual taken up to cater for the expected penalty fees borne by this non-compliance relating to the past years without lodgment. I advised that non-compliance with statutory and regulatory requirements of the IPA and the *Companies Act 1997* may result in deregistration of the company and incur unbudgeted costs from late lodgment fees.

The management responded as follows:

“Disagree. Management has lately confirmed that the Annual Returns were lodged by NKA Accountants up to 2014. The company has prepared the 2015 Annual Return and awaiting lodgment with the Investment Promotion Authority. The 2016 Annual Return is pending completion of the annual external audit. Management obtained copies of the annual returns from 2009 to 2014 and will submit to IPA to update their online system records. The Company Secretary of Post PNG has liaised and met with acting Company Registrar to have our Annual Return files updated in their system. Penalty fees are most unlikely at this time given the above situation.”

Maintenance of Directors Interest Register

I noted that the Company had not maintained any interest register for the purpose of declaring all interests being held by all Directors. Maintenance of interest register is a statutory requirement stipulated through *Section 164* of the *Companies Act 1997*. This was a non-compliance of statutory requirement. I recommended that the Company to maintain an interest register declaring all interest being held by current Directors.

The management’s response was as follows:

“Agree and accept recommendation. The Board in its recent meeting accepted as a minute discussion to disclose their interests in other businesses or areas. Company Secretary will ensure this be implemented where an interest register to be disclosed in the next external audit.”

72.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2017 was in progress.

73. TELIKOM (PNG) LIMITED

73.1 INTRODUCTION

73.1.1 Legislation

Telikom (PNG) Limited was incorporated under the *Companies Act*. This Company was formed following the *NEC Decision No. 18/96* of 17 April 1996 to corporatise the Post and Telecommunications Corporation (PTC) and to separate it into three entities namely: Telikom (PNG) Limited, Post PNG Limited and National Information and Communication Technology Authority (NICTA) formerly known as (PANGTEL).

As a result of the NEC Decision, all assets, rights, liabilities, staff and regulatory powers and business of the PTC relating to Telecommunication Services were transferred on 31 December 1996 at the net book value to Telikom (PNG) Limited as per the allocation statement approved by the Minister for Communications. Telikom (PNG) Limited is a 100% state owned Company and it commenced trading on 1 January 1997.

73.1.2 Objectives of the Company

The primary objectives of the Company are to:

- Be the successor Company to the Telikom Divisions of PTC within the meaning of and for the purposes of the *Telikom (PNG) Limited Act*;
- Supply telecommunication services within PNG and between PNG and other places;
- Carry on any business or activity relating to telecommunications either inside or outside of PNG;
- Publish telecommunications directories, and to supply directory information service;
- Supply, install and maintain customer equipment and customer lines;
- Develop, manufacture, market and supply facilities and software;
- Supply value added services;
- Utilise its network, installations and facilities for purposes other than telecommunications, to the extent that such network installations and facilities are not fully utilised in the supply of telecommunications;
- Carry on any business incidental to telecommunication;
- Unless otherwise advised to the contrary by the Minister acting in accordance with a directive of the NEC to:
 - Act as an adviser to the Government of PNG on matters relating to telecommunication activities in PNG;

- Represent PNG as a member of, and actively participate, in international bodies concerned with the administration of telecommunication services;
 - Enter into international agreement relating to telecommunication activities; and
 - Perform functions relating to the provision of telecommunication services in a way consistent with PNG's obligations under any convention; and
- Exercise such powers to negotiate, prepare, execute and perform any contracts or management arrangements of the State as may be delegated to it or conferred on it.

73.1.3 Subsidiaries of the Company

The subsidiaries of Telikom (PNG) Limited are *DATEC (PNG) Limited*, *Kalang Advertising Limited*, *Media Niugini Limited (EMTV)* and *PNG Directories Limited*. Comments in relation to these subsidiaries are contained in paragraphs 73A, 73B, 73C and 73D of this Report respectively.

73.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2015 and 2016 were in progress.

The Company had not submitted its financial statements for the year ended 31 December 2017 for my inspection and audit.

73A. DATEC (PNG) LIMITED (Subsidiary of Telikom (PNG) Limited)

73A.1 INTRODUCTION

73A.1.1 Legislation

Datec (PNG) Limited was incorporated under the *Companies Act*. The Company was fully acquired by Telikom (PNG) Limited from Steamships Trading Company Limited on 1 August 2014. The Company is a wholly owned subsidiary of Telikom (PNG) Limited.

73A.1.2 Functions of the Company

Datec (PNG) Limited's principal activity is in the provision and support of technology applied solutions including business critical ICT consulting, solutions and services, IT outsourcing, business process outsourcing, internet services, electronics and computer retail, training and wide-ranging technical support.

73A.2 AUDIT OBSERVATIONS

73A.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act* on the Company's financial statements for the year ended 31 December 2015 was issued on 29 November 2017. The report did not contain any qualification.

73A.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2016 had been completed and the results were being evaluated.

The fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2017 was in progress.

73B. KALANG ADVERTISING LIMITED (Subsidiary of Telikom (PNG) Limited)

73B.1 INTRODUCTION

73B.1.1 Legislation

Kalang Advertising Limited was incorporated under the *Companies Act*. The Company is wholly owned by Telikom (PNG) Limited.

The ownership of the Company changed following the *National Court Order of 9 September 1997* which allowed Telikom (PNG) Limited to convert the debt due from Kalang Advertising Limited into shareholding. Subsequently, Kalang issued 535,424 ordinary shares to Telikom (PNG) Limited on 31 October 1997.

73B.1.2 Functions of the Company

Kalang Advertising Limited was set up primarily to take over the activity of commercial radio broadcasting previously under the National Broadcasting Commission.

The Company carries on the business of producers, consultants and promoters of Broadcast Television, Community Television, Video, Audio, Film, Visual, Cassettes Recordings, Productions and Recordings.

73B.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2014, 2015 and 2016 were completed and results were being evaluated.

The Company had not submitted its financial statements for the year ended 31 December 2017 for my inspection and audit.

73C. MEDIA NIUGINI LIMITED (EMTV) (Subsidiary of Telikom (PNG) Limited)

73C.1 INTRODUCTION

73C.1.1 Legislation

Media Niugini Limited (EMTV) was incorporated under the *Companies Act*. The Company was acquired by Telikom (PNG) Limited from Fiji Television Limited (FijiTV) on 4 February 2016.

The Company was founded in 1985 by two local businessmen in a joint venture with the Nine Network of Australia. In July 1987 the Company commenced broadcasting through its national television service. In 1990 Nine Network acquired 100% ownership of Media Niugini Limited and later sold its interest in the Company to Fiji Television Limited (FijiTV) in December 2004. The Company then operated as a subsidiary of FijiTV.

The Company is now a wholly owned subsidiary of Telikom (PNG) Limited.

73C.1.2 Functions of the Company

Media Niugini Limited, trading as EMTV, provides television broadcasting services in Papua New Guinea.

The Company offers:

- current affairs, national news, weather reports, and special documentaries; and
- shows in the areas of sports, lifestyle, entertainment, drama, children, religion, music and others.

73C.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2016 was in progress.

The Company had not submitted its financial statements for the year ended 31 December 2017 for my inspection and audit.

73D. PNG DIRECTORIES LIMITED (Formerly E. H. O'Brien Limited) (Subsidiary of Telikom (PNG) Limited)

73D.1 INTRODUCTION

Edward H.O'Brien Limited is a Company incorporated under the *Companies Act*. The Company is jointly owned by Telikom (PNG) Limited (54%) and Edward H.O'Brien Enterprise of Sydney, Australia (46%). During the year 2002, the Company changed its name to PNG Directories Limited.

73D.2 AUDIT OBSERVATIONS

73D.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act* on the Company's financial statements for the year ended 31 December 2015 was issued on 22 January 2018. The report did not contain any qualification.

73D.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2016 and 2017 were in progress.

SECTION C

NATIONAL GOVERNMENT SHAREHOLDINGS IN OTHER COMPANIES

74. FOREWORD

This Section of my Report deals with Companies in which the Government owns 50% or less of the issued Share Capital of a Company.

The auditing and reporting requirements of these Companies are stipulated under the *Companies Act*, and these have been elaborated in Paragraph 60 of this Report.

As the Government of PNG does not hold majority interest in these Companies, the accounts of these Companies are audited by Private Auditors.

However, because public monies are invested in these Companies, my responsibilities require the inclusion of the summaries of their accounts and the comments of the Private Auditors' Reports in this Section of my Report. Details of these companies are contained in paragraphs **75** to **78**.

75. BOUGAINVILLE COPPER LIMITED

75.1 INTRODUCTION

Bougainville Copper Limited, formerly Bougainville Copper Pty Limited, was incorporated under the *Companies Act*. The main objectives of the Company are to prospect, explore, quarry, develop, excavate, dredge for, open, work, purchase or otherwise obtain copper and other various metals and minerals.

From 1972 until 1989, the Company operated a large open pit mine and processing facility at Panguna on the island of Bougainville in the North Solomons Province of PNG. It produced concentrate containing copper, gold and silver which was sold primarily under long-term contracts to smelters in Asia and Europe. On 15 May 1989 production was brought to a halt by militant activity and has not recommenced since.

As at 27 March 2017 the issued capital of the Company were 401,062,500 fully paid shares, each carrying one voting right. Of these, the Government of PNG held 76,430,809 shares or 19.06% of the total shares. A further 69,744,640 (17.34%) shares were held through Eda Minerals Limited totalling 36.4%.

The Autonomous Bougainville Government (ABG) holds 146,175,449 shares (36.4%) through Bougainville Minerals Limited.

75.2 REPORT OF THE COMPANY'S AUDITORS

A Private Firm of Auditors conducted the audit of the Company's financial statements including the accounts and records for the year ended 31 December 2017 and the audit report was issued on 27 March 2018. This report contained a Qualified Opinion.

“BASIS FOR QUALIFIED OPINION

The Company's subsidiary holds an investment in an unlisted investment fund classified as an available-for-sale financial asset with a carrying value of K1.1 million at 31 December 2017. Management have not been provided with the 2017 audited financial statements of the investee and there is currently no active market for the sale of units in the investment fund. As a result, we have been unable to satisfy ourselves as to the valuation of K1.1 million of the available-for-sale financial assets recognised in the consolidated balance sheet at 31 December 2017.

QUALIFIED OPINION

In our opinion, except for the possible effects of the matter described in the Basis for qualified opinion section of our report, the accompanying financial statements:

1. comply with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea; and
2. give a true and fair view of the financial position of the Company and the Group as at 31 December 2017, and their financial performance and cash flows for the year then ended.”

76. GOGOL REFORESTATION COMPANY LIMITED

76.1 INTRODUCTION

Gogol Reforestation Company Limited was incorporated under the *Companies Act*. The objective of the Company is to be involved in reforestation.

As at 31 December 2009, the issued and fully paid up capital of the Company comprised 102,001 'A' class ordinary shares of K1.00 each and 98,001 'B' class ordinary shares of K1.00 each. Of these, the Government of PNG held 98,001 'B' class ordinary shares of K1.00 each, representing 49% of the issued Capital at a cost of K98,001.

76.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the audited financial statements and the audit reports of the Company for the years ended 31 December 2010, 2011, 2012, 2013, 2014, 2015, 2016 and 2017 had not been submitted for my verification.

Further, I was informed by management that the Company was no longer in operation since 2011 due to the winding down of the Company.

In 2014, I communicated with IPBC requesting for the winding down documents and IPBC responded that they had not received any winding down application nor deregistration documents with regards to Gogol Reforestation Co. Limited. A Company search with the Investment Promotion Authority (IPA) on 15 June 2018 revealed that the Company was not deregistered.

77. OK TEDI MINING LIMITED

77.1 INTRODUCTION

Ok Tedi Mining Limited, formerly Mt. Fubilan Development Company Limited, was incorporated under the *Companies Act*. The main function of the Company is mining.

As at 31 December 2011, the issued and fully paid up capital of the Company was K195,102,000 (192,700,000 Ordinary Shares with no par value). Of these, the Government of PNG held fully paid 47,000,000 Ordinary Shares valued at K47,000,000 representing 24.4% of the Ordinary Share capital. On 19 September 2013, the Parliament passed the 10th Supplemental Agreement cancelling the 122,200,000 shares of PNG Sustainable Development Program and issuing 122,200,000 new shares to the State of PNG, making the Company a 100% State owned Enterprise.

77.2 REPORT OF THE COMPANY'S AUDITORS

A Private Firm of Auditors conducted the audit of the Company's financial statements for the year ended 31 December 2017 and the audit report was issued on 2 March 2018. The report did not contain any qualification.

78. PNG SUSTAINABLE DEVELOPMENT PROGRAM LIMITED

78.1 INTRODUCTION

78.1.1 Legislation

The PNG Sustainable Development Program Limited was incorporated in Singapore under the *Singapore Companies Act (Cap. 50)* on 20 October 2001.

As a Company limited by guarantee, PNG Sustainable Development Program Limited has no share capital, debentures, share options and unissued shares.

78.1.2 Objective of the Company

The objective of the Company is to promote and improve the quality of life of current and future generations of the people of PNG, especially of Western Province by:

- investing and managing wisely the income and resources of the Company;
- undertaking investments and supporting development programs and projects that are sustainable, providing significant benefits in the short and long-term to the people, local communities, provinces and the nation;
- meeting the best international standards – financial, physical, cultural, social and environmental in our activities; and
- working together with the people of PNG in partnership with the government, churches and other non-government and business partners.

78.1.3 Functions of the Company

The primary functions of the Company are to:

- promote sustainable development in Western Province and PNG more generally; and
- manage the Long Term Fund to support a high level of development expenditure in Western Province in particular and PNG in general for at least 40 years after the closure of the Ok Tedi Mine.

78.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Company had not submitted its audited financial statements and the audit reports for the years ended 31 December 2012, 2013, 2014, 2015, 2016 and 2017 for my verification.

The Company, by way of letter, advised me on 2 July 2018 that the State has no shareholding in the Company, as such I intend to exclude this Company from my future Reports to Parliament.

SECTION D

PROBLEM AUDITS (AUDITS IN ARREARS)

79. FOREWORD

This Section of my Report deals with problem audits, especially audits in arrears. Problem audits denote audit of entities in respect of which I have not been able to carry out audits for circumstances detailed in the respective paragraphs.

79.1 EXCLUSION OF ENTITIES FROM FUTURE REPORTS

Due to amalgamation with respective Departments or their inability to submit long outstanding financial statements, I would exclude the following entities from my future Reports to Parliament.

1. National Narcotics Bureau; and
2. Livestock Development Corporation Limited.

80. AUDITS IN ARREARS

80.1 GENERAL

Audits in arrears are those in respect of which financial statements have not been submitted on time for audit to be undertaken, thus placing my Office in a position where audits are not able to be conducted on a current year basis consistent with the requirements of the *Companies Act* and the *PFMA*. Two serious consequences develop from this. Firstly, it results in a build-up of audits in arrears, and these are all audits other than the current year (2017) audits. The other serious consequence is that audit certificates issued more than a year or two in arrears serve only to meet the administrative or legislative requirements, but their validity from a decision making stand-point may be lost due to the time lag.

80.2 RESPONSIBILITY FOR PREPARATION OF FINANCIAL STATEMENTS

The responsibility for the preparation and presentation of financial statements is that of the management of the auditee organisation. That being the case, the audit of the financial statements by the Auditor-General does not in any way relieve management of its responsibility to have financial statements prepared on time.

This responsibility also requires management to ensure that an adequate and effective internal control system is maintained so as to ensure, inter-alia, that complete and accurate financial statements are produced on a timely basis. To assist management in producing financial statements that meet the qualitative characteristics, the management's responsibility also extends to ensuring that professionally qualified and experienced accounting personnel are engaged.

It is generally true that irrespective of their completeness, accuracy or reliability, financial statements that are unduly delayed, lose their relevance. Although there is no consensus regarding the length of time that ought to be allowed to elapse between the predetermined reporting date and the date when the financial statements lose their relevance, there is a need to weigh the relative merits of preparing them on a timely basis, let alone the legislative requirements.

Relevant and reliable information therefore is useful for decision making when these are timely prepared and made available to concerned parties. Relevance here is relative to the value and usefulness of the audited financial information to management and the parties concerned for decision making. Current information is of more relevance in the fight against corrupt practices than information that is out of date.

80.3 LEGISLATIVE REQUIREMENTS

To ensure the timely preparation of financial statements, *Section 63(3)a* of the *Public Finance (Management) (Amendment) Act 2016* makes it mandatory for statutory bodies to prepare and furnish audited financial statements to the Finance Departmental Head, before end of the fourth calendar month from close of a fiscal year. The fact that audit of **34 entities** as depicted in **Schedule B(iv)** had been in arrears due to non-submission of financial statements is a direct contravention of the requirements of *Section 63(3)a* referred to above.

Strict adherence of this requirement, despite its mandatory nature, has not been enforced by the respective entities' managements and the authorities concerned. My strong contention is that, enforcement of the above requirements by the authorities concerned and the Minister responsible may have been lacking in the past. There may therefore be a need, whilst ensuring timely accountability of public resources, to take certain statutory bodies to task for non-compliance with mandatory statutory requirements.

By virtue of *Section 63(4)* of the *Public Finance (Management) (Amendment) Act 2016*, the Finance Minister is required to table the reports of the respective statutory bodies in Parliament after they are received. The following arrears situation implies that a lot of statutory bodies reports may not have been tabled in Parliament as required, and thus, the accountability to Parliament in these respects has been far short of the desired.

80.4 CURRENT YEAR AUDITS (2017 AUDITS)

Entities totalling **115** subject to audit by the Auditor-General comprise **78** Public Bodies and their subsidiaries, **37** National Government owned companies and **4** companies in which the National Government has shareholdings (referred to as Section 'C' Companies).

TYPES OF ENTITIES SUBJECT TO AUDIT

Table 1

Section	Types of Audit	Number of Entities	
		2017/2018	2016/2017
(A)	Public Bodies and their Subsidiaries	78	78
(B)	National Government Owned Companies	37	26
(C)	National Government Shareholdings in other Companies	4	4
		119	108

Table 1. Shows the total of Types of Entities subject to Audit.

Chart 1

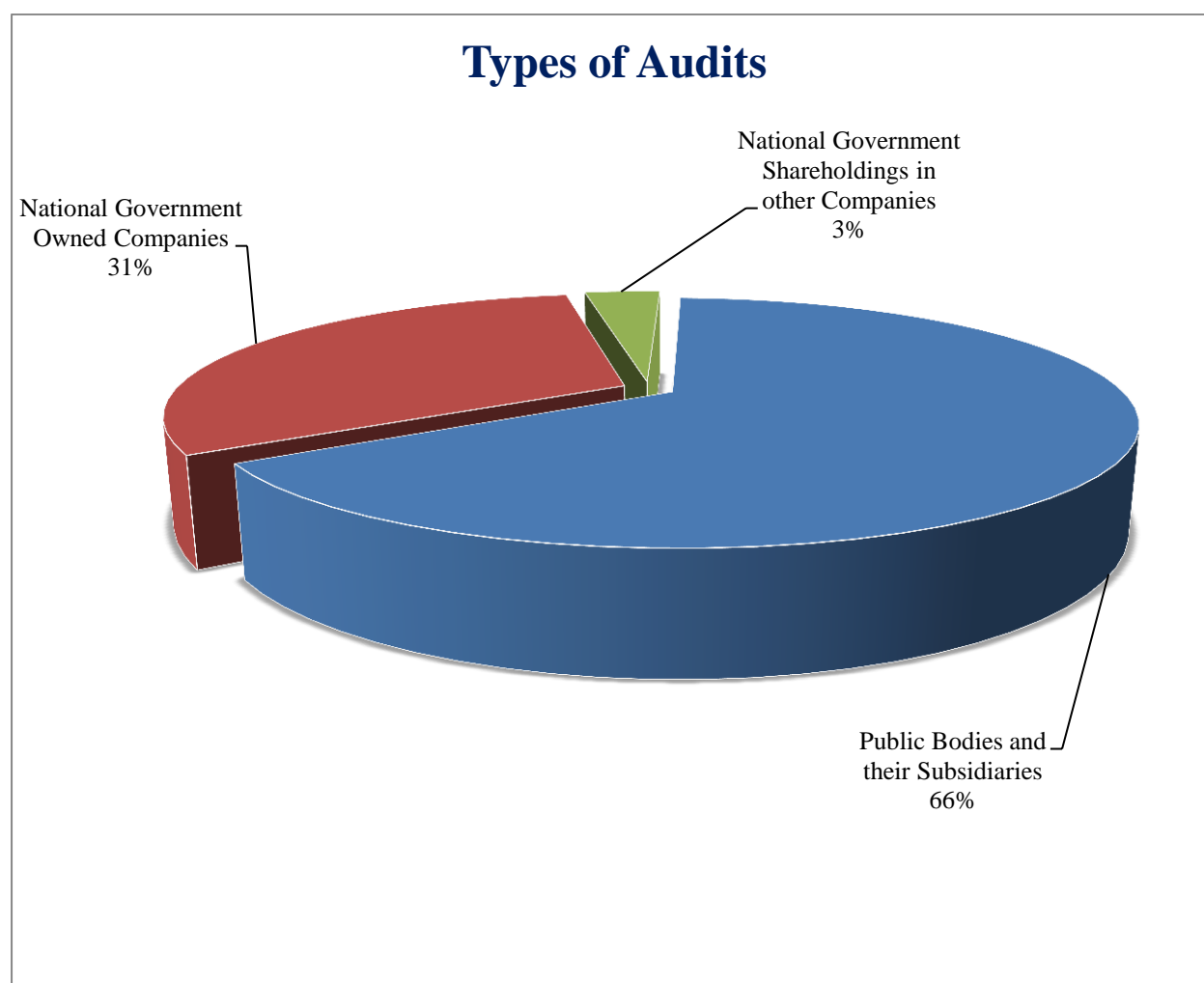


Chart 1. Shows the percentages of Types of Entities subject to Audit during 2017/2018 Audit Cycle.

80.5 STATUS OF CURRENT YEAR AUDITS

Each of the **115** entities, except Section ‘C’ Companies are subject to audit and required under *Section 63(3)c* of the *Public Finance (Management) (Amendment) Act 2016* to submit annual financial statements for audit. Information available in my Office shows that only **52** entities have submitted their financial statements for 2017 (**Schedule A**) for audit up to the time of preparing this Report. A total of **63** entities have not submitted their 2017 financial statements (**Schedule A**) for audit in 2018. It could therefore be logically concluded that, about 55% of the public bodies might not have submitted their annual reports and financial statements for 2017 together with my reports on them, to the respective Ministers for tabling in the National Parliament on or before 30 April 2018.

Table 2 and **Chart 2** shown below, and **Schedule A** attached show the status of the current year audits.

STATUS OF CURRENT YEAR AUDITS 2017

Table 2

No.	Status of Current Year Audits	Number of Entities	
		2017/2018	2016/2017
1	Audits completed and reports issued thereon (Schedule A)	0	20
2	Audits substantially completed (Schedule A)	14	4
3	Audits in progress (Schedule A)	27	15
4	Audits to commence shortly (Schedule A)	11	5
5	Financial Statements not submitted (Schedule A)	63	60
6	Ceased Entities (Schedule D)	0	1
		115	105

Table 2. Shows the total of Status of Current Year (2017) Audits (Schedule A).

Chart 2

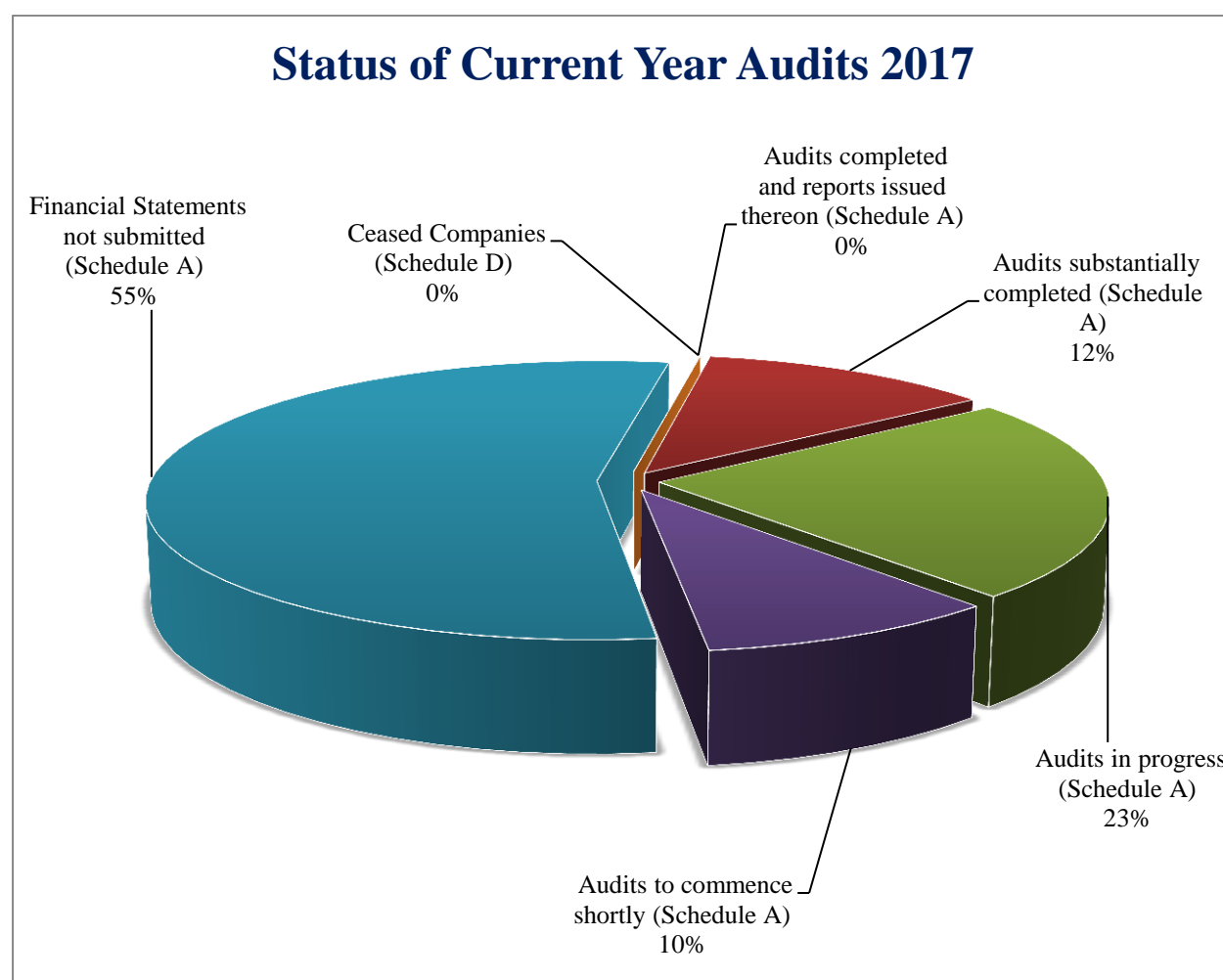


Chart 2. Shows the percentages of Audit Status for the Current Year (2017) during 2017/2018 Audit Cycle. (Schedule A)

80.6 AUDITS IN ARREARS (2016 AND PRIOR YEARS)

Records available in my Office show that a total of **110** entities (196 audits) were in the Audit in Arrears category due to non-submission of financial statements on time. **Table 3** and **Chart 3** shown below, and **Schedule B** attached provide more details of these.

STATUS OF AUDITS IN ARREARS BY NUMBER OF ENTITIES (2016 AND PRIOR YEARS)

Table 3A

No.	Status of Audits in Arrears by No. of Entities (2016 and Prior Years)	Number of Entities	
		2017/2018	2016/2017
1	Audits substantially completed (Schedule B)	41	17
2	Audits in progress (Schedule B)	25	18
3	Audits to commence shortly (Schedule B)	9	6
4	Financial Statements not submitted (Schedule B)	35	31
		110	72

Table 3A. Shows the Status of Audits in Arrears by number of Entities for 2016 and Prior Years during 2017/2018 Audit Cycle. (Schedule B)

Chart 3A

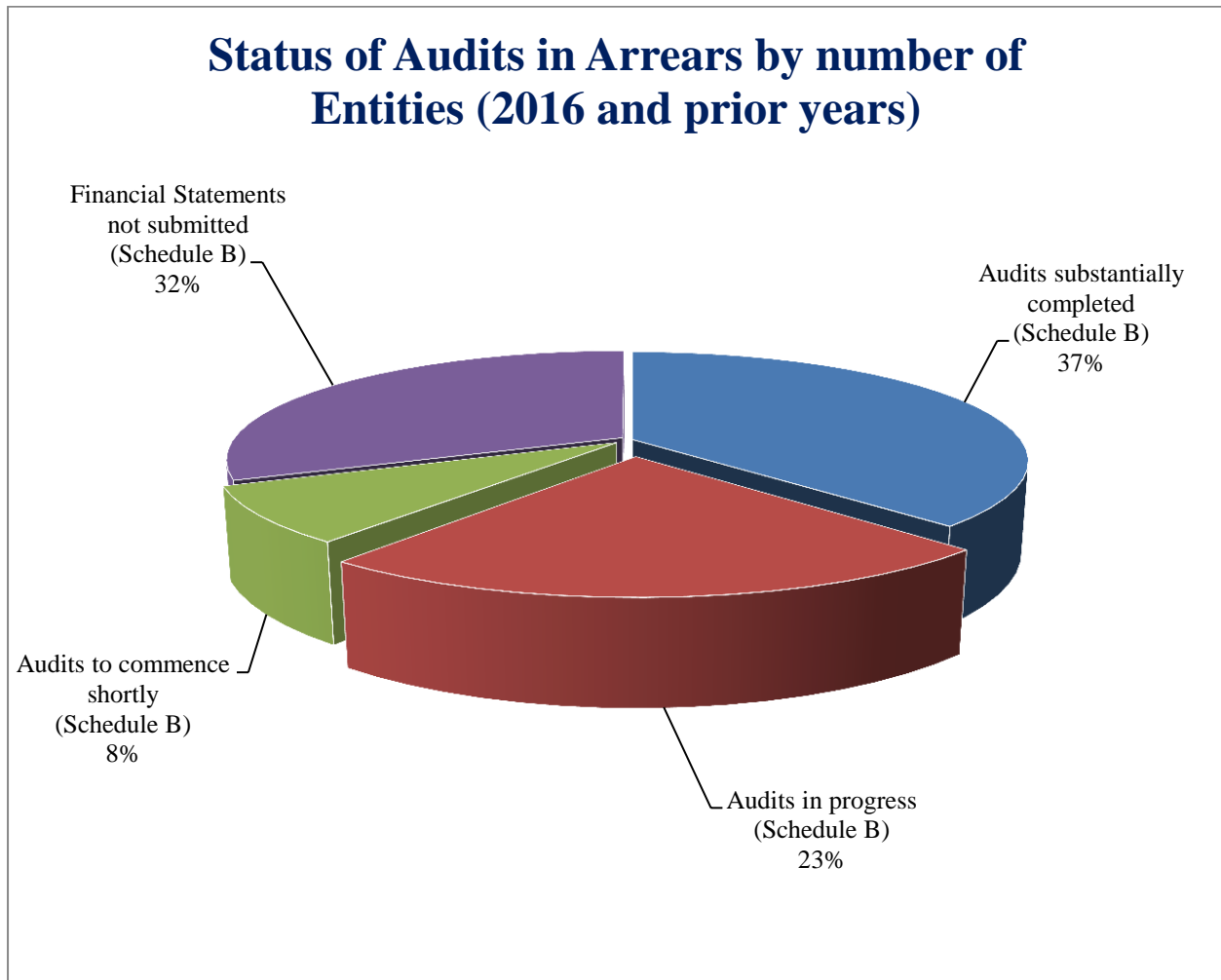


Chart 3A. Shows the percentages of Audit Status for Audits in Arrears by number of Entities for 2016 and Prior Years during 2017/2018 Audit Cycle. (Schedule B).

STATUS OF AUDITS IN ARREARS BY NUMBER OF AUDITS (2016 AND PRIOR YEARS)

Table 3B

No.	Status of Audits in Arrears by No. Of Audits (2016 & prior years)	Number of Audits	
		2017/2018	2016/2017
1	Audits substantially completed (Schedule B)	65	21
2	Audits in progress (Schedule B)	31	24
3	Audits to commence shortly (Schedule B)	13	10
4	Financial Statements not submitted (Schedule B)	87	70
		196	125

Table 3B. Shows the Status of Audits in Arrears by number of Audits for 2016 and Prior Years during 2017/2018 Audit Cycle. (Schedule B).

Chart 3B

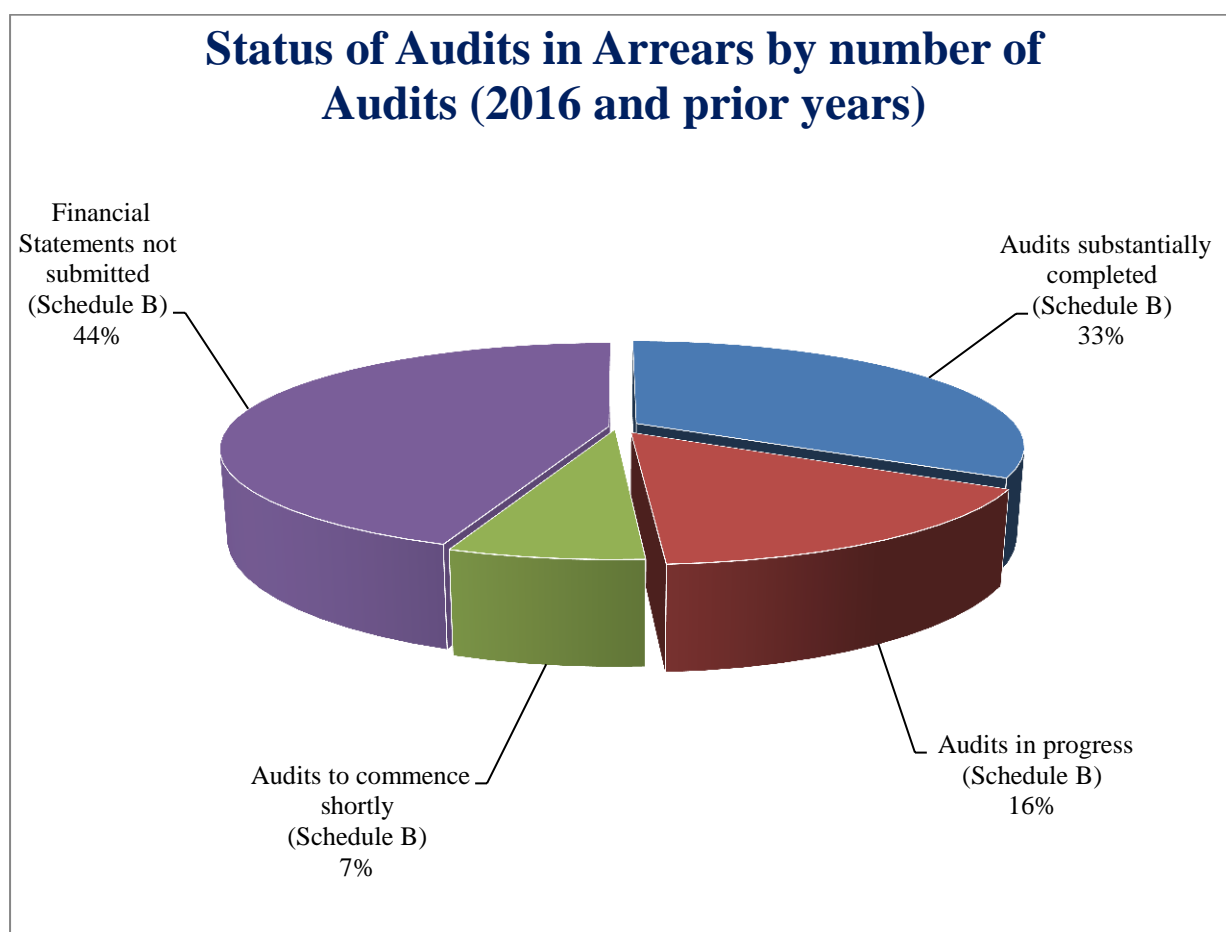


Chart 3B. Shows the percentages of Audit Status for Audits in Arrears by number of Audits for 2016 and Prior Years during 2017/2018 Audit Cycle. (Schedule B).

80.7 LONG OUTSTANDING FINANCIAL STATEMENTS

During this Audit Cycle (2017/2018), **34** audit entities were in the arrears category, increased by three compared to prior year (2016). Of these **34** entities, **87** financial statements for periods ranging from one year to seven years have still not been submitted. In other words, they still have financial statements outstanding for the years from 2010 to 2016. Details of these are shown below in **Table 4, Chart 4** and also in **Schedule C** attached.

LONG OUTSTANDING FINANCIAL STATEMENTS BY NUMBER OF ENTITIES (2016 AND PRIOR YEARS)

Table 4A

No.	Years Outstanding by Entities	Number of Entities	
		2017 Report	2016 Report
1	One Year (Schedule C)	13	9
2	Two Years (Schedule C)	8	12
3	Three Years (Schedule C)	3	5
4	Four Years (Schedule C)	5	4
5	Five Years (Schedule C)	3	0
6	Six Years (Schedule C)	0	1
7	Seven Years (Schedule C)	2	0
		34	31

Table 4A. Shows the total of Long Outstanding Financial Statements by number of Entities during 2017/2018 Audit Cycle. (Schedule C).

Chart 4A

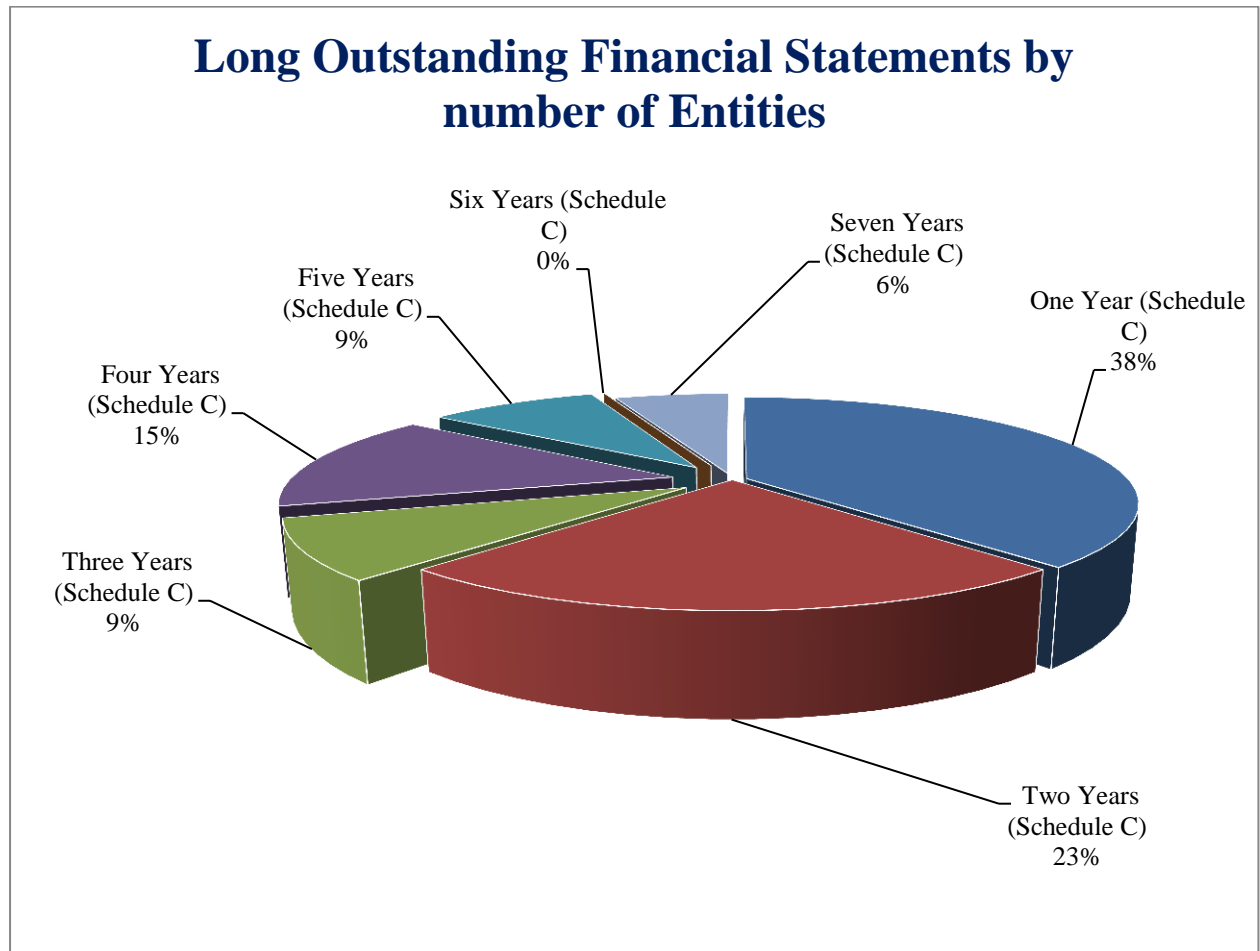


Chart 4A. Shows the percentages of Long Outstanding Financial Statements by number of Entities during 2017/2018 Audit Cycle (Schedule C).

LONG OUTSTANDING FINANCIAL STATEMENTS BY NUMBER OF AUDITS (2016 AND PRIOR YEARS)

Table 4B

No.	Years Outstanding by Audits	Number of Audits	
		2017 Report	2016 Report
1	One Year (Schedule C)	13	9
2	Two Years (Schedule C)	16	24
3	Three Years (Schedule C)	9	15
4	Four Years (Schedule C)	20	16
5	Five Years (Schedule C)	15	0
6	Six Years (Schedule C)	0	6
7	Seven Years (Schedule C)	14	0
		87	70

Table 4B. Shows the total of Long Outstanding Financial Statements by number of Audits during 2017/2018 Audit Cycle. (Schedule C).

Chart 4B

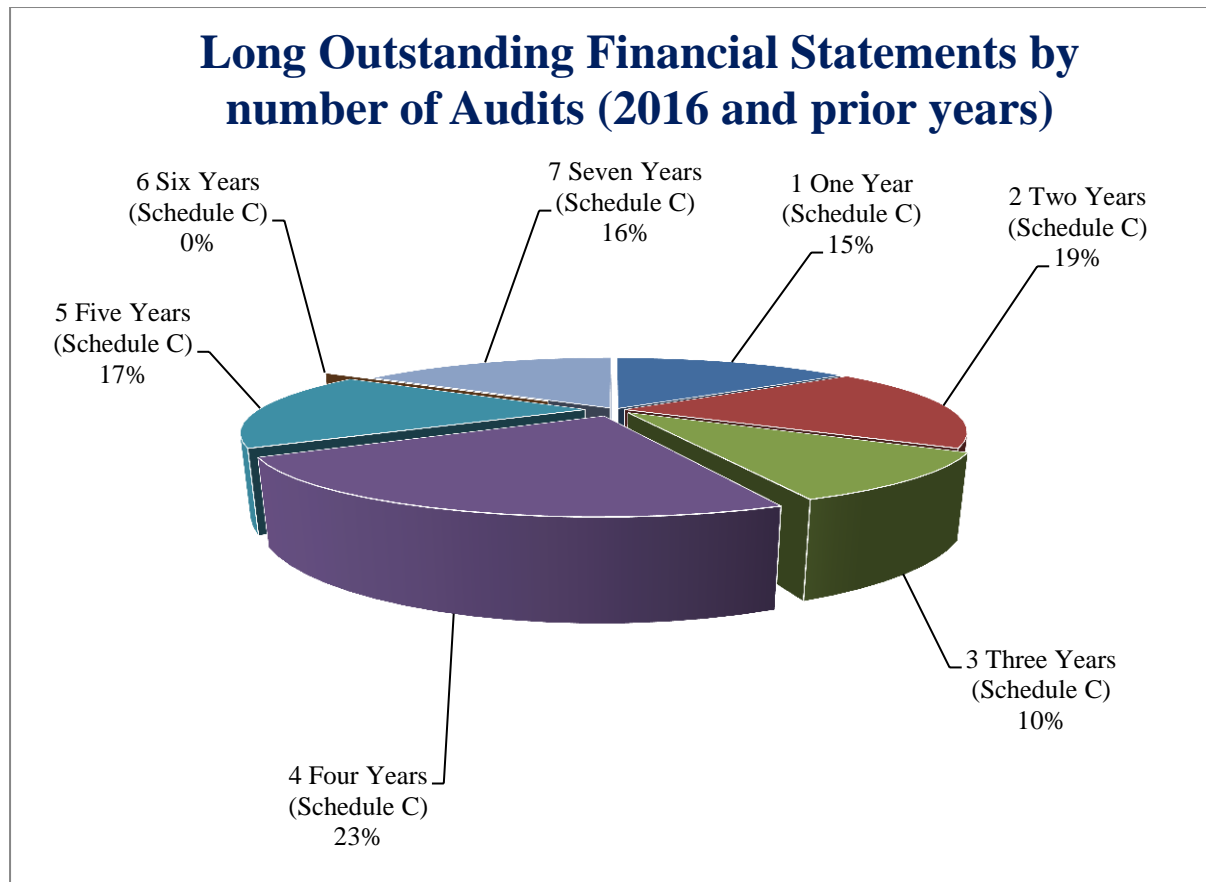


Chart 4B. Shows the percentages of Long Outstanding Financial Statements by number of Audits during 2017/2018 Audit Cycle. (Schedule C).

80.8 STATUS OF AUDITS AS AT 30 JUNE 2018

As illustrated in **Executive Summary Table 1**, during July 2017 and June 2018 Audit Cycle, a **total of 163 audits** were undertaken by the Audit Office. Out of **163 audits** carried out, **26 audit** reports were issued and of the **79 audits** substantially completed, **40 reports** were being finalised and expected to be issued shortly. **Table 5 and Chart 5** shown below provide the details of the Status of Audits during the period July 2017 to June 2018.

STATUS OF AUDITS AS AT 30 JUNE 2018

Table 5

No.	Status of Audits	Number of Audits	
		2017/2018	2016/2017
1	Audits completed and reports issued thereon (Schedules A & E)	26	105
2	Audits substantially completed (Schedules A & B)	79	25
3	Audits in progress (Schedules A & B)	58	39
4	Audits to commence shortly (Schedules A & B)	24	15
5	Financial Statements not submitted (Schedules A & B)	150	130
		337	314

Table 5. Shows the Status of Audits as at 30 June 2018 for the 2017/2018 Audit Cycle. (Schedules A&E and A&B).

Chart 5

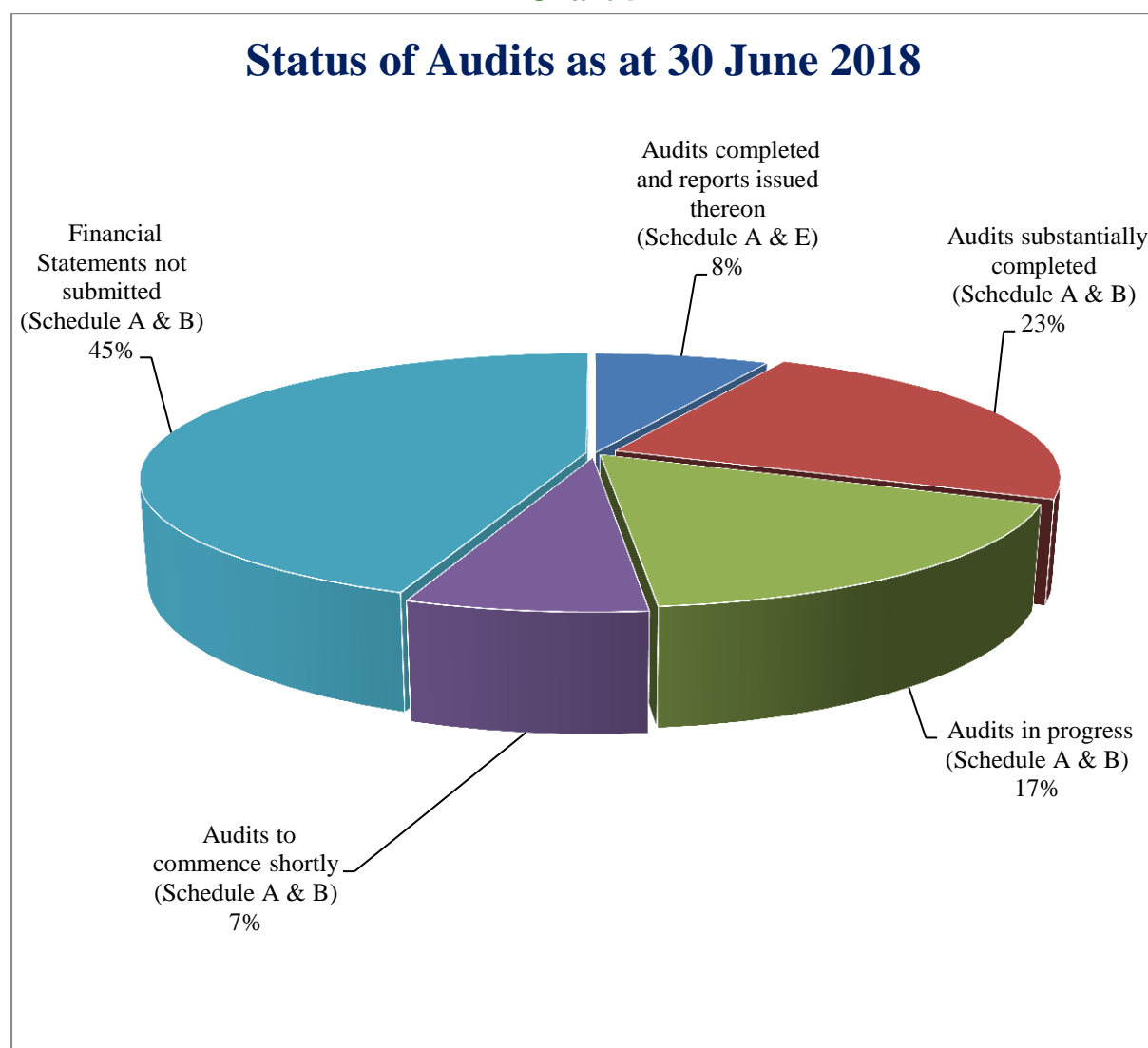


Chart 5. Shows the percentages of Audit Status as at 30 June 2018 for the 2017/2018 Audit Cycle (Schedules A&E and A&B).

ACKNOWLEDGEMENTS

My audit staff worked conscientiously and successfully completed audits entrusted to them. Their devotion to duty, their integrity and loyalty are highly appreciated.

I extend my appreciation and gratitude to the Government Printing Office staff, for their efforts in completing the printing of this Report within the limited time frame available. I also acknowledge the co-operation and the assistance of all Heads of Public Bodies and National Government Owned Companies, and Registered Company Auditors and their staff who assisted as my Authorised Auditors.

I would also like to thank the Chairman and the members of the Permanent Parliamentary Committee on Public Accounts of PNG and the Secretary for the continuous interest shown in my work.

**SIGNED AT WAIGANI ON 20TH JULY
TWO THOUSAND AND EIGHTEEN**



GORDON KEGA

Acting Auditor-General of Papua New Guinea

SCHEDULES

Schedule 'A'

STATUS OF CURRENT YEAR (2017) AUDIT

(i) AUDITS COMPLETED AND REPORTS ISSUED THEREON

No.	Section	Para. No.	Entity	No. of Audits
				0

(ii) AUDITS SUBSTANTIALLY COMPLETED

No.	Section	Para. No.	Entity	No. of Audits
1	A	2	Bank of Papua New Guinea	1
2	A	4	Civil Aviation Safety Authority of Papua New Guinea	1
3	A	10	Independence Fellowship Trust	1
4	A	11	Independent Consumer and Competition Commission	1
5	A	14	Investment Promotion Authority	1
6	A	15	Kokonas Indastri Koporesen	1
7	A	15A	Papua New Guinea Coconut Extension Fund	1
8	A	15B	Papua New Guinea Coconut Research Fund	1
9	A	20	National Agricultural Research Institute	1
10	A	25	National Economic and Fiscal Commission	1
11	A	30	National Maritime Safety Authority	1
12	A	33	National Research Institute	1
13	A	35	National Roads Authority	1
14	B	65	Motor Vehicles Insurance Limited	1
				14

(iii) AUDITS IN PROGRESS

No.	Section	Para. No.	Entity	No. of Audits
1	B	16	Kumul Consolidated Holdings	1
2	B	16A	General Business Trust	1
3	B	16B	Kumul Technology Development Corporation Limited	1
4	B	16C	PNG Dams Limited	1
5	B	62	Kumul Petroleum Holdings Limited	1
6	B	62A	Eda Oil Limited	1
7	B	62B	Kumul Exploration (Asia) Limited	1
8	B	62C	Kumul Gas Foreland 239 B.V	1
9	B	62D	Kumul Gas Foreland 261 B.V	1
10	B	62E	Kumul Gas Foreland 268 B.V	1
11	B	62F	Kumul Gas Foreland 269 B.V	1
12	B	62G	Kumul Gas Niugini B.V	1
13	B	62H	Kumul Lending Co Pte Limited	1
14	B	62I	Kumul LNG Limited	1
15	B	62J	Kumul Petroleum (Development) Limited	1
16	B	62K	Kumul Petroleum (Investments) Limited	1
17	B	62L	Kumul Petroleum (Kroton) Limited	1
18	B	62M	Kumul Petroleum (Pipeline) Limited	1
19	B	62N	Kumul Petroleum (Tech and Advisory) Limited	1
20	B	62O	Kumul Petroleum Marketing Pte Limited	1
21	B	62P	Kumul Security Agent Limited	1
22	B	62Q	NPCP Oil Company Pty Limited	1

No.	Section	Para. No.	Entity	No. of Audits
23	B	68	Papua New Guinea Ports Corporation Limited	1
24	B	71	PNG Power Limited	1
25	B	72	Post (PNG) Limited	1
26	B	73A	DATEC (PNG) Limited	1
27	B	73D	PNG Directories Limited	1
				27

(iv) AUDITS TO COMMENCE SHORTLY

No.	Section	Para. No.	Entity	No. of Audits
1	A	3	Border Development Authority	1
2	A	13	Internal Revenue Commission	1
3	A	28	National Housing Corporation	1
4	A	38	National Youth Commission	1
5	A	41	Papua New Guinea Accident Investigation Commission	1
6	A	55	Tourism Promotion Authority	1
7	A	59	Water PNG	1
8	B	66	National Airports Corporation Limited	1
9	B	66A	Airport City Development Limited	1
10	B	66B	Airports Investments Limited	1
11	B	70	PNG DataCo Limited	1
				11

(v) FINANCIAL STATEMENTS NOT SUBMITTED

No.	Section	Para. No.	Entity	No. of Audits	Last Report Issued	Date of Report
1	A	3A	Papua New Guinea Maritime Transport Limited	1	2012	10/29/2015
2	A	5	Climate Change and Development Authority	1	2012	7/25/2016
3	A	6	Cocoa Board of Papua New Guinea	1	2015	6/15/2017
4	A	6A	Cocoa Pod Borer Project Fund	1	2015	6/15/2017
5	A	6B	Cocoa Stabilisation Fund	1	2016	6/15/2017
6	A	7	Cocoa Coconut Institute Limited of Papua New Guinea	1	2013	9/8/2016
7	A	8	Coffee Industry Corporation Limited	1	2013	10/26/2016
8	A	8A	Coffee Industry Fund	1	2013	11/29/2016
9	A	8B	Patana No.61 Limited	1	2013	5/12/2016
10	A	9	Government Printing Office	1	2014	5/6/2017
11	A	12	Industrial Centres Development Corporation	1	2015	2/28/2017
12	A	17	Legal Training Institute	1	2013	11/2/2016
13	A	18	Mineral Resources Authority	1	2014	6/15/2017
14	A	19	National Agriculture Quarantine and Inspection Authority	1	2015	4/14/2017
15	A	21	National AIDS Council Secretariat	1	2014	10/14/2016
16	A	22	National Broadcasting Corporation	1	2014	11/4/2017
17	A	23	National Capital District Commission	1	2013	3/14/2017
18	A	23A	National Capital District Botanical Enterprises Limited	1	2012	4/5/2015
19	A	23B	Port Moresby City Development Enterprises Limited	1	2012	4/5/2015
20	A	23C	Port Moresby Nature Park Limited	1	2013	4/5/2016
21	A	24	National Cultural Commission	1	2013	8/8/2016
22	A	26	National Fisheries Authority	1	2014	11/25/2016
23	A	27	National Gaming Control Board	1	2014	5/16/2016
24	A	27A	National Gaming Control Board Community Benefit Fund Trust	1	2014	5/16/2016

No.	Section	Para. No.	Entity	No. of Audits	Last Report Issued	Date of Report
25	A	28A	National Housing Estate Limited	1	New Inclusion	
26	A	29	National Information and Communications Technology Authority (NICTA)	1	2014	7/28/2016
27	A	31	National Museum and Art Gallery	1	2014	3/27/2017
28	A	32	National Narcotics Bureau	1	2012	9/22/2014
29	A	34	National Road Safety Council	1	2015	12/5/2017
30	A	36	National Training Council	1	2015	1/30/2017
31	A	37	National Volunteer Service	1	2015	5/31/2016
32	A	39	Oil Palm Industry Corporation	1	2011	9/30/2016
33	A	40	Ombudsman Commission of Papua New Guinea	1	2015	6/29/2017
34	A	42	Papua New Guinea Customs Service	1	2013	11/19/2015
35	A	43	Papua New Guinea Forest Authority	1	2012	2/19/2016
36	A	44	Papua New Guinea Immigration and Citizenship Service Authority	1	2015	6/13/2017
37	A	45	Papua New Guinea Institute of Medical Research	1	2014	9/30/2016
38	A	46	Papua New Guinea Institute of Public Administration	1	2013	8/5/2017
39	A	47	Papua New Guinea Maritime College	1	2014	3/29/2017
40	A	48	Papua New Guinea National Institute of Standards and Industrial Technology	1	2015	7/6/2017
41	A	49	Papua New Guinea Sports Foundation	1	2013	9/3/2017
42	A	50	Papua New Guinea University of Technology	1	2014	10/4/2017
43	A	50A	National Analytical and Testing Services Limited	1	2011	4/4/2016
44	A	50B	Unitech Development and Consultancy Company Limited	1	2013	10/22/2015
45	A	51	Parliamentary Members' Retirement Benefits Fund	1	2015	2/27/2017
46	A	52	Public Curator of Papua New Guinea	1	2012	11/30/2015
47	A	53	Security Industries Authority	1	2014	7/10/2016
48	A	54	Small and Medium Enterprises Corporation	1	2012	2/11/2015
49	A	56	University of Goroka	1	2014	10/24/2016
50	A	56A	Unigor Consultancy Limited	1	2013	11/30/2015
51	A	57	University of Natural Resources and Environment	1	2014	10/29/2016
52	A	58	University of Papua New Guinea	1	2013	8/12/2016
53	A	58A	Unisave Limited	1	2011	8/25/2014
54	A	58B	Univentures Limited	1	2011	6/24/2014
55	B	61	Air Niugini Limited	1	2016	9/27/2016
56	B	61A	Link-PNG Limited	1	2015	12/13/2017
57	B	63	Livestock Development Corporation Limited	1	2009	10/31/2012
58	B	64	Mineral Resources Development Company Limited	1	2014	1/6/2017
59	B	67	NCD Water and Sewerage Limited (Eda Ranu)	1	2014	1/19/2016
60	B	69	PNG Air Services Limited	1	2015	8/8/2016
61	B	73	Telikom (PNG) Limited	1	2014	7/29/2016
62	B	73B	Kalang Advertising Limited	1	2013	7/12/2015
63	B	73C	Media Niugini Limited (EMTV)	1	New Inclusion	
				63		

Schedule 'B'

STATUS OF AUDITS IN ARREARS (2016 AND PRIOR YEARS)

(i) AUDITS SUBSTANTIALLY COMPLETED

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	3	Border Development Authority	2014	1
2	A	6	Cocoa Board of Papua New Guinea	2016	1
3	A	6A	Cocoa Pod Borer Project Fund	2016	1
4	A	6B	Cocoa Stabilisation Fund	2016	1
5	A	7	Cocoa Coconut Institute Limited of Papua New Guinea	2014-2016	3
6	A	9	Government Printing Office	2015	1
7	A	13	Internal Revenue Commission	2014 & 2015	2
8	A	16	Kumul Consolidated Holdings	2016	1
9	A	16A	General Business Trust	2016	1
10	A	16B	Kumul Technology Development Corporation Limited	2016	1
11	A	16C	PNG Dams Limited	2016	1
12	A	17	Legal Training Institute	2014-2016	3
13	A	19	National Agriculture Quarantine and Inspection Authority	2016	1
14	A	23	National Capital District Commission	2014 & 2015	2
15	A	23C	Port Moresby Nature Park Limited	2014 & 2015	2
16	A	24	National Cultural Commission	2014	1
17	A	26	National Fisheries Authority	2015	1
18	A	27	National Gaming Control Board	2015	1
19	A	27A	National Gaming Control Board Community Benefit Fund Trust	2015	1
20	A	29	National Information and Communications Technology Authority (NICTA)	2015	1
21	A	31	National Museum and Art Gallery	2015	1
22	A	35	National Roads Authority	2016	1
23	A	38	National Youth Commission	2014-2016	3
24	A	41	Papua New Guinea Accident Investigation Commission	2013-2016	4
25	A	43	Papua New Guinea Forest Authority	2013	1
26	A	44	Papua New Guinea Immigration and Citizenship Service Authority	2016	1
27	A	46	Papua New Guinea Institute of Public Administration	2014	1
28	A	47	Papua New Guinea Maritime College	2015 & 2016	2
29	A	48	Papua New Guinea National Institute of Standards and Industrial Technology	2016	1
30	A	53	Security Industries Authority	2015	1
31	A	56	University of Goroka	2015 & 2016	2
32	A	58	University of Papua New Guinea	2014	1
33	A	59	Water PNG	2015	1
34	B	62N	Kumul Petroleum (Tech and Advisory) Limited	2016	1
35	B	66	National Airports Corporation Limited	2012-2016	5
36	B	66A	Airport City Development Limited	2012-2016	5
37	B	66B	Airports Investments Limited	2016	1
38	B	70	PNG DataCo Limited	2015	1
39	B	71	PNG Power Limited	2016	1
40	B	73A	DATEC (PNG) Limited	2016	1
41	B	73B	Kalang Advertising Limited	2014-2016	3
					65

(ii) AUDITS IN PROGRESS

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	8	Coffee Industry Corporation Limited	2014	1
2	A	8A	Coffee Industry Fund	2014	1
3	A	8B	Patana No.61 Limited	2014	1
4	A	18	Mineral Resources Authority	2015	1
5	A	22	National Broadcasting Corporation	2015	1
6	A	23	National Capital District Commission	2016	1
7	A	23C	Port Moresby Nature Park Limited	2016	1
8	A	26	National Fisheries Authority	2016	1
9	A	29	National Information and Communications Technology Authority (NICTA)	2016	1
10	A	42	Papua New Guinea Customs Service	2014-2016	3
11	A	43	Papua New Guinea Forest Authority	2014	1
12	A	50A	National Analytical and Testing Services Limited	2012 & 2013	2
13	A	58	University of Papua New Guinea	2015	1
14	A	59	Water PNG	2016	1
15	B	61	Air Niugini Limited	2016	1
16	B	61A	Link-PNG Limited	2016	1
17	B	62H	Kumul Lending Co Pte Limited	2016	1
18	B	62P	Kumul Security Agent Limited	2016	1
19	B	62Q	NPCP Oil Company Pty Limited	2015 & 2016	2
20	B	64	Mineral Resources Development Company Limited	2015 & 2016	2
21	B	67	NCD Water and Sewerage Limited (Eda Ranu)	2014	1
22	B	70	PNG DataCo Limited	2016	1
23	B	73	Telikom (PNG) Limited	2015 & 2016	2
24	B	73C	Media Niugini Limited (EMTV)	2016	1
25	B	73D	PNG Directories Limited	2016	1
					31

(iii) AUDITS TO COMMENCE SHORTLY

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	3	Border Development Authority	2015 & 2016	2
2	A	9	Government Printing Office	2016	1
3	A	13	Internal Revenue Commission	2016	1
4	A	21	National AIDS Council Secretariat	2015	1
5	A	28	National Housing Corporation	2015 & 2016	2
5	A	40	Ombudsman Commission of Papua New Guinea	2016	1
6	A	49	Papua New Guinea Sports Foundation	2014 & 2015	2
7	A	52	Public Curator of Papua New Guinea	2014	1
8	A	54	Small and Medium Enterprises Corporation	2016	1
9	A	58	University of Papua New Guinea	2016	1
					13

(iv) FINANCIAL STATEMENTS NOT SUBMITTED

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	3A	Papua New Guinea Maritime Transport Limited	2013-2016	4
2	A	5	Climate Change and Development Authority	2013-2016	4
3	A	8	Coffee Industry Corporation Limited	2015 & 2016	2
4	A	8A	Coffee Industry Fund	2015 & 2016	2
5	A	8B	Patana No. 61 Limited	2015 & 2016	2
6	A	12	Industrial Centres Development Corporation	2016	1
7	A	18	Mineral Resources Authority	2016	1
8	A	21	National AIDS Council Secretariat	2016	1
9	A	22	National Broadcasting Corporation	2016	1
10	A	23A	National Capital District Botanical Enterprises Limited	2013-2016	4
11	A	23B	Port Moresby City Development Enterprises Limited	2013-2016	4
12	A	24	National Cultural Commission	2015 & 2016	2
13	A	27	National Gaming Control Board	2016	1
14	A	27A	National Gaming Control Board Community Benefit Fund Trust	2016	1
15	A	28A	National Housing Estate Limited	2010-2016	7
16	A	31	National Museum and Art Gallery	2016	1
17	A	32	National Narcotics Bureau	2013-2016	4
18	A	34	National Road Safety Council	2016	1
19	A	39	Oil Palm Industry Corporation	2012-2016	5
20	A	43	Papua New Guinea Forest Authority	2015 & 2016	2
21	A	45	Papua New Guinea Institute of Medical Research	2016	1
22	A	46	Papua New Guinea Institute of Public Administration	2015 & 2016	2
23	A	49	Papua New Guinea Sports Foundation	2016	1
24	A	50A	National Analytical and Testing Services Limited	2014-2016	3
25	A	50B	Unitech Development and Consultancy Company Limited	2014-2016	3
26	A	52	Public Curator of Papua New Guinea	2015 & 2016	2
27	A	53	Security Industries Authority	2016	1
28	A	56A	Unigor Consultancy Limited	2014-2016	3
29	A	57	University of Natural Resources and Environment	2015 & 2016	2
30	A	58A	Unisave Limited	2012-2016	5
31	A	58B	Univentures Limited	2012-2016	5
32	B	63	Livestock Development Corporation Limited	2010-2016	7
33	B	67	NCD Water and Sewerage Limited (Eda Ranu)	2016	1
34	B	69	PNG Air Services Limited	2016	1
					87

Schedule 'C'

LONG OUTSTANDING FINANCIAL STATEMENTS (2016 & PRIOR YEARS)

(i) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN ONE YEAR

No.	Section	Para. No.	Entity	No. of Audits
1	A	12	Industrial Centres Development Corporation	1
2	A	18	Mineral Resources Authority	1
3	A	21	National AIDS Council Secretariat	1
4	A	22	National Broadcasting Corporation	1
5	A	27	National Gaming Control Board	1
6	A	27A	National Gaming Control Board Community Benefit Fund Trust	1
7	A	31	National Museum and Art Gallery	1
8	A	34	National Road Safety Council	1
9	A	45	Papua New Guinea Institute of Medical Research	1
10	A	49	Papua New Guinea Sports Foundation	1
11	A	53	Security Industries Authority	1
12	B	67	NCD Water and Sewerage Limited (Eda Ranu)	1
13	B	69	PNG Air Services Limited	1
				13

(ii) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN TWO (2) YEARS

No.	Section	Para. No.	Entity	No. of Audits
1	A	8	Coffee Industry Corporation Limited	2
2	A	8A	Coffee Industry Fund	2
3	A	8B	Patana No.61 Limited	2
4	A	24	National Cultural Commission	2
5	A	43	Papua New Guinea Forest Authority	2
6	A	46	Papua New Guinea Institute of Public Administration	2
7	A	52	Public Curator of Papua New Guinea	2
8	A	57	University of Natural Resources and Environment	2
				16

(iii) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN THREE (3) YEARS

No.	Section	Para. No.	Entity	No. of Audits
1	A	50A	National Analytical and Testing Services Limited	3
2	A	50B	Unitech Development and Consultancy Company Limited	3
3	A	56A	Unigor Consultancy Limited	3
				9

(iv) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN FOUR (4) YEARS

No.	Section	Para. No.	Entity	No. of Audits
1	A	3A	Papua New Guinea Maritime Transport Limited	4
2	A	5	Climate Change and Development Authority	4
3	A	23A	National Capital District Botanical Enterprises Limited	4
4	A	23B	Port Moresby City Development Enterprises Limited	4
5	A	32	National Narcotics Bureau	4
				20

(v) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN FIVE (5) YEARS

No.	Section	Para. No.	Entity	No. of Audits
1	A	39	Oil Palm Industry Corporation	5
2	A	58A	Unisave Limited	5
3	A	58B	Univentures Limited	5
				15

(vi) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN SEVEN (7) YEARS

No.	Section	Para. No.	Entity	No. of Audits
1	A	28A	National Housing Estate Limited	7
2	B	63	Livestock Development Corporation Limited	7
				14

Schedule 'D'

GOVERNMENT SHAREHOLDING IN COMPANIES

(i) NATIONAL GOVERNMENT MINORITY SHAREHOLDINGS IN OTHER COMPANIES

No.	Section	Para. No.	Entity	Remarks
1	C	75	Bougainville Copper Limited	2017 Audit Report Completed.
2	C	76	Gogol Reforestation Company Limited	Audited Financial Statement for 2010 - 2017 not Submitted
3	C	78	PNG Sustainable Development Program Limited	Audited Financial Statement for 2012 - 2017 not Submitted

(ii) NATIONAL GOVERNMENT MAJORITY SHAREHOLDINGS IN OTHER COMPANIES

No.	Section	Para. No.	Entity	Status of Audit
1	C	77	Ok Tedi Mining Limited	2017 Audit Report Completed

Schedule 'E'

AUDIT IN ARREARS (2016 AND PRIOR YEARS) COMPLETED DURING 2017/2018 AUDIT CYCLE

2016 AUDITS - COMPLETED DURING 2017/2018

No.	Section	Para. No.	Entity	No. of Audits
1	A	4	Civil Aviation Safety Authority of Papua New Guinea	1
2	A	36	National Training Council	1
3	A	50	Papua New Guinea University of Technology	1
4	A	51	Parliamentary Members' Retirement Benefits Fund	1
5	A	55	Tourism Promotion Authority	1
6	B	65	Motor Vehicles Insurance Limited	1
7	B	68	Papua New Guinea Ports Corporation Limited	1
8	B	72	Post (PNG) Limited	1
				8

2015 AUDITS - COMPLETED DURING 2017/2018

No.	Section	Para. No.	Entity	No. of Audits
1	A	16	Kumul Consolidated Holdings	1
2	A	16A	General Business Trust	1
3	A	16B	Kumul Technology Development Corporation Limited	1
4	A	16C	PNG Dams Limited	1
5	A	45	Papua New Guinea Institute of Medical Research	1
6	A	50	Papua New Guinea University of Technology	1
7	A	54	Small and Medium Enterprises Corporation	1
8	B	61	Air Niugini Limited	1
9	B	61A	Link-PNG Limited	1
10	B	73A	DATEC (PNG) Limited	1
11	B	73D	PNG Directories Limited	1
				11

2014 AUDITS - COMPLETED DURING 2017/2018

No.	Section	Para. No.	Entity	No. of Audits
1	A	18	Mineral Resources Authority	1
2	A	28	National Housing Corporation	1
3	A	54	Small and Medium Enterprises Corporation	1
				3

2013 AUDITS - COMPLETED DURING 2017/2018

No.	Section	Para. No.	Entity	No. of Audits
1	A	38	National Youth Commission	1
2	A	52	Public Curator of Papua New Guinea	1
3	A	54	Small and Medium Enterprises Corporation	1
				3

2012 AUDITS - COMPLETED DURING 2017/2018

No.	Section	Para. No.	Entity	No. of Audits
1	A	38	National Youth Commission	1
				1