



Report of the Auditor-General



Hela Provincial Hospital 2016



Report of the Auditor-General

on the
Financial Statements of the
Hela Provincial Hospital

for the year ended

31 December, 2016



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14 December, 2018

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

Dear Mr. Speaker

In accordance with the provisions of *Section 214 of the Constitution of the Independent State of Papua New Guinea*, I have the honor to present to the National Parliament the audit report on the *Hela Provincial Hospital* for the year ended *31 December, 2016*.

Yours sincerely,

GORDON B KEGA, CPA
Acting Auditor-General

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ACRONYMS

AGO	Auditor-General's Office
CEO	Chief Executive Officer
GO	General Orders, Public Service General Orders are issued under the <i>Public Service Management Act, 1995</i>
DFAT	Department of Foreign Affairs and Trade, Australian Government
HPHA	Hela Provincial Health Authority
INTOSAI	International Organization of Supreme Audit Institutions
ISSAI	International Standards of Supreme Audit Institutions (<i>Issued by INTOSAI</i>)
Jurisdiction	The right and power to interpret and apply the law
Legislation	A law or set of laws
Legislature	An officially elected or otherwise selected body of people vested with the responsibility and power to make laws for a sovereign unit, such as a State or Nation.
MTDS	Medium Term Development Strategies
PFMA	<i>Public Finance (Management) Act, 1995 (as amended)</i>
PGAS	Provincial Government Accounting System
PHA	Provincial Health Authority

EXECUTIVE SUMMARY

The Hela Provincial Health Authority was established on 05 October, 2016 after a quick transition from a District to a Provincial Hospital in October, 2014. Health facilities were previously under the Southern Highlands Provincial Administration and as soon as the Province was gazetted by the National Executive Council, the facilities including the Tari District Hospital went thru a blitz transition. The leap occurred when, Tari District Health Centre, a level three (3) Facility was declared a level five (5) provincial hospital without the required infrastructure in place.

These challenges were daunting on the then newly appointed Hela Provincial Hospital Board which was sworn in on 23 November, 2015. The Board envisaged that for the people of Hela to have a healthy and prosperous Hela Society that enjoys quality, affordable, appropriate and equitable health services it must ensure the delivery of improved services through strong leadership, effective governance, strengthened partnership, quality workforce and upholding corporate values (*Hela PHA Corporate Plan 2017-2020*).

In 2016 the Board of the Hela Provincial Health Authority took the mantle from the Provincial Hospital Board after nine (9) months into its operations. The Board took the Hospital's governance structures to newer heights by ensuring strong governance cultures with committed and coherent partnership with stakeholders and to demonstrate transparency, accountability, good governance and astute leadership.

The preparation of the Hela Provincial Hospital's 2016 Financial Statements was a concerted effort of the Board of the Hela PHA to ensure continued accountability by Hospital of which it was entrusted to govern for the final three (3) months of the financial year.

Hela is a remote province in Papua New Guinea and is plagued with sporadic tribal fights and had always been a challenging province to develop and govern and the 2016 audit was the first for the Authority's Board to discharge in its efforts to bring Health as an essential government service to the people of Hela and in ensuring good governance and accountability of public monies. The Board and its management have commenced addressing these challenges by progressively undertaking minor capital works with the limited financial resources provided by the government and with support of development partners including Oil Search Foundation and DFAT among others.

The Board in its efforts to have maximum participation with its stakeholders has secured the services of Mr Peter Botten, the Managing Director of Oil Search Limited as the Chairman and thru him has seen providence of much needed financial and technical support from the company and other stakeholders.

The results of the audit of the Hospital for the year ended 31 December, 2016 portrayed the commitment of the Board in ensuring good governance and accountability. Among the other Hospital Board's and Health Authorities that were audited by me for the 2016 financial year, the Hela Provincial Hospital's results were remarkable.

Making this Report publicly available

This Report will be made available to the public through the AGO website (www.ago.gov.pg) once it has been tabled in the Parliament.

1.0 ENABLING ENTITY LEGISLATION

Hospital Boards and Health Authorities are established under the *Public Hospital Act, 1994* and *Provincial Health Authority Act, 2007* as the case maybe. The Acts provide that the *Public Finance (Management) Act, 1995 (PFMA)* is applicable on matters regarding accounting, financial management and reporting. These Acts also requires that the audit provisions contained in the *Audit Act, 1989 (as amended)* apply to the Hospital Boards and Authorities.

In accordance with *Part 3, Section 8* of the *Audit Act, 1989 (amended)*, I perform annual audits of the accounts and records and financial transactions of Hospital Boards and Health Authorities. I am also required to report to the Minister for Finance and the Minister for Health on the results of these audits.

The audits are performed so that I can obtain reasonable assurance as to whether the financial statements are free of material misstatements and amongst other things, whether the statements are prepared in a form approved by the Minister for Finance. Hospital Boards and Health Authorities being public bodies are required to prepare their statements in accordance with the *Finance Instruction 02/2004: Financial Statement Format, Trading and Non-Trading Public Bodies*. These Instructions are issued under *Section 117* of the *PFMA* and were signed and approved by the then Secretary for Finance.

2.0 POLICIES AND BUDGETS

2.1 Corporate Plan

Corporate governance is the way in which an organisation is controlled and governed in order to achieve its objectives.

The *Hela Provincial Hospital* had a four (4) - year Corporate Plan for the periods 2016 to 2019. However, this Corporate Plan was not endorsed by the Board, and did not last the full term. Subsequently in October, 2016 a new Corporate Plan for the period 2017 to 2020 came into effect. As the Corporate Plan was not endorsed by the Board, I reviewed the Annual Implementation Plans and the Budget for the year as endorsed by the board in February, 2016. However, I was of the view that this document was in draft and relied on the monitoring and implementation of the new Plan for the period 2017 to 2020 to achieve the programed outcomes.

In the current four (4) year Corporate Plan (2017 – 2020) for the Hela Provincial Health Authority (*which the Hospital is now under*) the key result areas are mentioned in seven (7) parts of, **Leadership, Governance, Partnerships, Workforce, Infrastructure, Service Delivery and Organizational Performance**.

Table 1: Hela Provincial Health Authority Corporate Plan 2017-2020

(Hela Provincial Health Authority Corporate Plan 2017-2020, pp: 11)

I have observed that the Hela PHA has an esteemed Governance Culture under the ambit of the *Provincial Health Authority Act, 2007*. The framework adopted ensures that the respective committees (Partnership, Finance & Budgets, Clinical Standards & Patient Care, Capital Works Steering and Audit & Discipline Committee) report accordingly to the Board on matters of risk and prudential management of each faculty of the Hospital and its Authority.

In my next report to Parliament, I will address issues surrounding the implementation, monitoring and evaluation of the Corporate Plan and its key achievement including the performance of the Budget for the year ended 31 December, 2017.

2.2 Policies

Through the Executive management the Board of the *Hela Provincial Hospital* had developed several policies and one of these policies is the Policy on Assets Management. This policy was endorsed by the Board during the year, 2016.

I am grateful to report that *Hela Provincial Hospital* is one of a few hospitals in the country to have an Assets Management Policy.

2.3 Budgets and Reporting

The Hela Provincial Health Authority is also one of the first Health Authorities in the country to have a detailed and comprehensive Budget that is premised on Functions, Activity, Programs and on Health facilities where services are delivered. The *Hela Provincial Hospital* is one of its functioning facilities among a total of 145 rural facilities

All these premises are derived from coordinated planning and resources allocated accordingly and budgeted forecasts are linked to the Chart of Accounts for reporting and monitoring. Consequently, the Chart of Accounts of the *Hela Provincial Hospital* was aligned in this manner so that funding drawn were linked to the respective programs and cost centers for effective service delivery.

I am satisfied that the budget had been stringently curtailed to meet the challenges of the economic downturn in the 2016 fiscal year where appropriated funding was not met by the government.

2.4 Health Functional Grants

An obstacle in the full implementation of the PHA in the country is the transfer of the Health Functional Grant from the Provincial Administration to the respective PHA's. During the time of the audit, I noted that the Hela Provincial Administration had not ensured transfer of funds to the Hela PHA as intended in the financial and administrative reforms made.

There was no financial and performance management reports with the application and use of the Health Functional Grants for the year ended 31 December, 2016. As there were no reports, the PHA was not able to report on these grants except for the Hospital's application and usage of mandated funds. However, efforts are made to ensure that the budgeted expenditure for the Rural Health Facilities are delivered accordingly as soon as the Health Functional Grants are administered by the Hela Provincial Health Authority. Consequently, these grants will be budgeted and presented in detail and separate from the other PHA functions in the province.

I am satisfied that the Board of the Hospital had realized the importance of this and has taken Governance and Accountability arrangements as priority initiatives including reporting under its Corporate Plan for the four (4) years beginning 2017 and ending 2020.

3.0 ROLE OF THE AUDITOR-GENERAL AND AUDIT MANDATE

3.1 Role of the Auditor-General

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

The functions have been amplified by the *Audit Act, 1989 (as amended)*. *Section 33 of the Public Hospital Act, 1994* extends the audit provisions that the accounts of the Board of a Public Hospital shall be audited in accordance with *Part 3 of the Audit Act, 1989 (as amended)*.

3.2 Mandate of the Auditor-General

The Auditor General's authority to audit government organization is provided by *Section 214 of the Constitution of the Independent State of Papua New Guinea*. The detail functions of the Auditor General's Office have been amplified by the *Audit Act, 1989 (as amended)*.

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

- Whether the financial statements, to which the report relates, are based on proper accounts and records;

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

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

4.0 AUDIT SCOPE AND NATURE

4.1 Audit Scope

The audit of the accounts and records of *Hela Provincial Hospital* was directed primarily at the evaluation of internal control systems, together with such other examinations as were considered necessary. The audit procedures applied were intended to reveal system weaknesses, which would result in losses or errors, fraud and mismanagement of public funds.

Moreover, the audit also was directed to examine the reliability and integrity of the Financial Statement presented and other information produced and determining the extent of compliance with applicable laws, regulations and directives.

In addition, internal controls relating to receipts and receivables, payments, purchases and payables, stores and supplies, payroll and assets owned and in the custody of the *Hela Provincial Hospital* were appraised accordingly.

4.2 Nature of Audit

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

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

4.3 Period of Reporting

The audit inspection of *Hela Provincial Hospital* financial statements, accounts and records for the fiscal year ended *31 December, 2016* was carried out in 2017. The management responded to the management letter that was issued and subsequently, an unqualified audit report was issued to the Minister for Health in October, 2017.

5.0 DISPENSATION

5.1 Dispensation of Audits

Section 16(6) of the Audit Act states: "The Auditor-General may, in his discretion, dispense with the whole or any part of the detailed inspection and audit of any accounts, moneys and property referred to in Subsection (2)."

The *Hela Provincial Hospital* had submitted the financial statements for the year ended 31 December, 2016 for my audit. However, those financial statements for the Hela Provincial Hospital during the relevant years were not provided for my examination and audit. I might consider invoking the mentioned provisions should the financial statements tarry and unduly delay my subsequent reports to Parliament.

6.0 RESULTS OF AUDITS

6.1 Audit Opinion

Financial statements audits are an independent examination of the financial accounting and reporting of Hospital Boards and Provincial Health Authorities. The results of the examination are presented in an audit report, which expresses the auditor's opinion on whether the financial statements as a whole and the information contained therein, fairly reflect the results of each entity's operation and financial position. The disclosures and management representations made in the financial statements by the entity are assessed against relevant *Finance Instructions* and accounting standards, legislative and other reporting requirements.

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

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

6.2 Audit Opinion on the Hela Provincial Hospital's 2016 Financial Statements

I reproduce hereunder is the audit opinion I issued on the Hela Provincial Hospital in October, 2017 to the Health Minister for him to table in Parliament.

“AUDIT OPINION

In my opinion, the financial statements of the *Hela Provincial Hospital* for the year ended *31 December, 2016*;

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

OTHER MATTERS

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

As stated in *Note 4* to the financial statements, the *Hela Provincial Hospital* had not produced financial statements for the prior years and the opening balances and the comparatives for the year 2016 were unaudited. Consequently, I am unable to verify and confirm the validity of the disclosures for the year ended *31 December, 2015* that formed the opening balance and the respective comparatives for the year ended *31 December, 2016*.

Control Weaknesses

During my review of the books of accounts and records there were issues of significant control weakness and I include herewith those that are material in nature;

- The total expenditure for the year ended *31 December, 2016* was stated as K8,525,700 in the Consolidated Statement of Receipts and Payments. I was unable to verify and confirm the validity and the correctness of expenditures totaling K464,450 relating to the first three months of the year ended *31 December, 2016* as supporting documents including paid vouchers were not provided for my review.
- Appropriated funds received where spent on other items rather than the items budgeted for and further, there were instances of expenditures incurred out of incorrect vote items totaling K152,612,
- As the Hospital did not maintain a Fixed Assets Register, I was not able to verify and confirm the locations, additions, disposals and movement of assets accordingly. Further, assets purchased valuing K1,518,300 were not recorded and properly accounted for during the year,
- Supplies (*medical, rations, office and building materials*) procured totaling K1,282,012 were not confirmed as received as supporting documentations including delivery dockets and consignment notes were not provided for my review.
- The Hospital did not maintain Advance registers and Acquittal files during the year ended *31 December, 2016*. Consequently, I was unable to verify and confirm the veracity of the un-acquitted advances totaling K697,825.”

6.3 Preparation of Financial Statements

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

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

Common problems with the hospitals' financial statements were:

- The records of medical supplies, accounts receivables and payables, capital commitments and contingent liabilities, were either non-existent or inadequate;
- Accounting records or asset registers were not maintained to record the details of the assets. Consequently, I was not able to verify the completeness, existence, accuracy and valuation of the fixed assets at year-end;
- Opening balances of cash at bank could not be confirmed as correct as these balances did not agree to the corresponding closing balances from the previous year;
- No advance registers were maintained. Travel advances and subsistence were frequently not acquitted. Therefore, this constituted a limitation of scope as I could not ascertain the value of the advances and also whether advances were actually utilised for the intended purposes;
- In several cases, there was no appointment of financial delegates to approve expenditure;
- In several Hospitals the Board members were not duly appointed and sworn in, in accordance with *Section 6* of the *Public Hospital Act 1994*;
- Payment of gratuities in the absence of employment contracts; and
- Overtime payments to employees without approval from the Chief Executive Officer or appropriate authorities.

I am also delighted to report that Hela Provincial Hospital had sound financial management practices which ensured a fairly presented financial statement for the year ended 31 December, 2016.

7.0 OTHER MATTERS

7.1 Introduction

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

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

The interim phase of my audit program was designed to assess the reliance that can be placed on control structures to produce complete, accurate and valid information for financial reporting purposes by the Provincial Hospitals and the Health Authorities that come under my audit mandate.

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

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

7.2 Responsibilities of Management

The primary responsibility for the prevention and detection of fraud rests with those charged with governance. For example, the Chief Executive Officer is the Administrative Head of the Hospital and the Authorities. The Chief Executive Officer is responsible for the preparation and presentation of the financial statements and the information contained therein in accordance with the *Finance Instructions* issued under *Section 117* of the *PFMA*.

The Chief Executive Officer is responsible for the efficient management of administrative services and is also responsible for keeping proper accounting records, for safeguarding the assets of the Provincial Hospital and Provincial Health Authority and for taking reasonable steps for the prevention and detection of fraud and other irregularities included with other operational duties.

7.3 Responsibility of the Auditor-General

My audits are performed in accordance with the *International Standards of Supreme Audit Institutions (ISSAI)* as promulgated by the *International Organization of Supreme Audit Institutions (INTOSAI)* and are designed to provide reasonable assurance that a financial report taken as a whole is free from material misstatement. Reasonable assurance is a concept relating to the accumulation of the audit evidence necessary for the auditor to conclude that there are no material misstatements in the financial report taken as a whole. Reasonable assurance relates to the whole audit process.

7.4 Details of Control Issues

A broad range of internal control issues were raised as part of the interim audit phase. In general, the results of the testing of controls at different entities indicated that overall, there continue to be significant weaknesses in the control environment. Control activities, such as

delegations, authorisations, reconciliations, and data processing were not sufficiently robust to prevent, detect or correct error or fraud.

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

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

7.4.1 Corporate Governance

During the audit I assessed whether the Hela Provincial Health Authority in terms of the Provincial Hospital's operation's control environment included measures that contribute positively to sound corporate governance.

The Board of the Hela PHA has demonstrate strong courage to design and implement competent control environment thru the establishment of regular Board Meetings, formulation of Operational policies, Sub-committees and reporting channels that were proactive and transparent.

7.4.2 Corporate Plan and Annual Management Plan

The HPHA had two (2) four - year Corporate Plans for the periods 2016 to 2019 and 2017 to 2020. The Corporate Plan for the year under review was not endorsed by the Board, and did not last the full period. However, the Annual Implementation Plans and Budgets were approved by the Board in its second meeting of 05/02/16.

Monitoring and Evaluation of the Plans and budgets need to be prioritized at the Corporate Level and reported accordingly. Further, Risk Management can also be factored as a high level priority issue.

7.4.3 Internal Audit

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

The Board of the Hela Provincial Hospital was keen on establishing an Internal Audit Committee in the near future as this would ensure strong, sound and disciplined financial management.

However, in the meantime I encouraged the HPHA to ensure that periodic reviews are undertaken on its operations including its principal objectives to ensure that it is a fully compliant Health Authority in-terms of the Hospital and its other functions.

7.4.4 Appropriation and Budget Management

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

I noted an issue in the allocation of Departmental and Activity Codes of the Authority. Further, in the Merged Structure there were 747 Position of which there were 687 Public Servant Positions and 60 Casuals. Included in the Public Servant Positions were four (4) approved Executive Management positions, 401 Hela Provincial Hospital and 282 Hela Provincial Health Division positions.

I encouraged the HPHA to pursue a speedy conclusion of the Coding issue and the migration of the Staff on a one line Hela Provincial Health Authority Allesco Payroll and Annual Budgets are factored accordingly.

7.4.5 Revenue and Receivables

Provincial Hospitals and Authorities collect income from patient fees and gifts and donations. Over the last several years, management of hospitals has not ensured that revenues were collected promptly and that the rates of fees, charges, and imposts were reviewed annually. In addition, there was no compliance to procedures pertaining to compiling of collector statements, thereby undermining the integrity of the revenue collections.

Other common problems across all entities were:

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

I observed that the *Hela Provincial Hospital* did not maintain a Trust Account to collect non-medical fees, Project and others including Donor allocated funds. Further, the current receipt books used for collection of non-medical fees were not sequentially numbered during printing. The receipt numbers for the receipt leaflets were manually numbered. Further, there were delays in banking of the non-medical fees that were collected.

Management concurred and advised that improvements were considered.

7.4.6 Purchases and Payments

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

It was noted that in most cases there was an extremely high rate of non-compliance with procurement and payment procedures. The instrument of appointment of Provincial Supply and Tenders Board, minutes of Board's meetings and the Register of Tenders and Quotations

were generally not made available for audit review. It was also noted that there was a significant use of legal firms and consultants that was not supported by proper documentation.

Other significant issues were:

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

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

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

7.4.7 Human Resource Management

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

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

I observed a number of instances where salaries files of former Provincial Government members and staff requested for audit were not made available. Consequently, I was unable to verify any deficiencies in the salaries and allowances paid to those staff who have come on the PHA structure.

Personal Files with Provincial Administration

A good number of personnel files for officers transferred from the Hela Provincial Administration under the new governance structure were withheld or were with the

Administration at the time of audit.

Pay Variation Documentation

In most instances I was unable to verify fluctuation in salaries and wages that were paid fortnightly during the year due to unavailability of related documentation such as pay variation advices, staff advices and appraisal forms.

Taxation of Leave entitlements

Contrary to the *Public Service General Orders (GO)*, two (2) dependents over the age of 18 were provided tickets as leave entitlements. Further, all the wages paid during the year were not taxed accordingly and consequently, the Hospital had not complied with the Income Tax Law during the year.

Certification of Fortnightly Salary

There were no fortnightly payroll reconciliations done to verify and confirm the correctness of the payrolls. In the absence of this control, the management was not able to take stock of the variations in the payroll each payday.

7.4.8 Cash Management

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

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

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

Hela Provincial Hospital was an exception.

7.4.9 Assets Management

Provincial Hospitals and Health Authorities expend significant amounts of money on asset purchases, especially on medical equipment, computers and accessories. It is the responsibility of the Chief Executive Officer to account for and safeguard the State's assets.

The maintenance of a reliable asset register that includes adequate information about assets acquired and disposed of, depreciation and asset reconciliations with periodical stocktakes is a prerequisite to effective asset management. Regular reconciliations of the asset register

with the entity's financial systems will help ensure the timely and accurate recognition of asset items and facilitate their physical control.

The *Hela Provincial Hospital* had developed an Assets Management Policy during the year. However, the Fixed Assets Registers maintained were not detailed and comprehensive to record and monitor additions and disposals that occurred during the year. As a result, the additions, disposals and movement of Assets were not checked and verified accordingly. Further, the assets purchased during the year valuing K1,518,300 including an ambulance (vehicle) were not recorded in a Fixed Assets Register for the year ended 31 December, 2016.

8.0 FOLLOW UPS

In the year 2018, I have planned to follow up on the recommendations and their responses to my management letters issued to the Hospital management and report the status accordingly in my 2017 Audit Report.

9.0 ENTITY COMMENTS & RESPONSES

During and after the completion of my audits I have issued management letters to Provincial Hospitals and Health Authorities for their management to respond accordingly to the issues that I have found to be inconsistent, unlawful, noncompliant and improperly disclosed in the financial statements for the years ended.

To be fair and impartial this avenue facilitates management responses so that Parliament is notified accordingly in relation to the lapses that may have been committed in the respective financial years.

The Hela Provincial Hospital had responded accordingly and satisfactorily to the issues that I have raised and I was pleased with the level of support I have received during the audit of the financial statements for the year ended 31 December, 2016.

10.0 STAKEHOLDER EXPECTATIONS

The people of Hela deserve better health care and improved facilities amidst a back ground of poor health indicators for the newly established province. For too long the health services were lacking in most of the remote places of the province. Those facilities that had existed were closed or operating on human kindness and through donor agencies such as Medecins Sans Frontieres and others. Other stakeholders including the Church Run Health Services from faith based groups were operating on ad-hoc basis as policy and direction was lacking from a province that is remote and rugged and often plagued with customary rights and obligations.

I am comforted to report that the Hela Provincial Health Authority thru the *Hela Provincial Hospital* had made head ways with the development of its four year Corporate Plan to capture and address the stakeholder expectations in terms of Health deliverables.

Without strong governance support, service delivery as envisaged by the National Government remains to be frustrated and Hela PHA has embarked on a strong governance culture with effective oversight mechanisms including my Office's participating in ensuring good governance and accountability to further its Corporate Missions and deliverables.

11.0 CONCLUSION

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

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

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

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

Arising from this back drop, the *Hela Provincial Hospital* has set the bench mark for other Hospitals in the country to emulate and work accordingly to achieve a good audit rapport.

12.0 APPENDICES

12.1 Hela Provincial Hospital 2016 Audit Report



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

INDEPENDENT AUDIT REPORT ON THE ACCOUNTS OF HELA PROVINCIAL HOSPITAL FOR THE YEAR ENDED 31 DECEMBER, 2016.

To the Minister for Health

I have audited the accompanying financial statements of the *Hela Provincial Hospital* for the year ended *31 December, 2016*. The financial statements comprises of:

- Statement of Accumulated Funds;
- Consolidated Statement of Receipts and Payments;
- Statement of Receipts and Payments for the Operating Account;
- Statement of Receipts and Payments - Operating Account by Activity Cost Centre;
- Statement of Receipts and Payments made by Other Government Agencies; *and*
- Notes to and forming part of the Financial Statements.

Responsibility for the Financial Statements

The Chief Executive Officer is responsible for the preparation and presentation of the financial statements and the information contained there in accordance with the *Finance Instructions* issued under *Section 117* of the *Public Finances (Management) Act, 1995*.

Additionally, the Chief Executive Officer is responsible for the efficient management of administrative services and is also responsible for keeping proper accounting records, for safeguarding the assets of the Hospital and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Responsibility of the Auditor-General

It is my responsibility to form an independent opinion, based on my audit, on these financial statements prepared on a cash basis and to report in accordance with the *Constitution* and the *Audit Act, 1989 (as amended)*.

The audit was planned and performed in accordance with *International Standards of Supreme Audit Institutions (ISSAI)* as promulgated by the *International Organization of Supreme Audit Institutions (INTOSAI)* to obtain reasonable assurance whether the financial statements are free of material misstatement. The audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

The nature of an audit is influenced by factors such as the use of professional judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. I have considered the risks, based on those assessments, on the internal controls relevant to the preparation and fair presentation of the financial statements in designing audit procedures considered appropriate in the circumstances.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for this report.

AUDIT OPINION

In my opinion, the financial statements of the *Hela Provincial Hospital* for the year ended *31 December, 2016*;

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

OTHER MATTERS

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

As stated in *Note 4* to the financial statements, the *Hela Provincial Hospital* had not produced financial statements for the prior years and the opening balances and the comparatives for the year 2016 were unaudited. Consequently, I am unable to verify and confirm the validity of the disclosures for the year ended *31 December, 2015* that formed the opening balance and the respective comparatives for the year ended *31 December, 2016*.

Control Weaknesses

During my review of the books of accounts and records there were issues of significant control weakness and I include herewith those material in nature:

- The total expenditure for the year ended *31 December, 2016* was stated as K8,525,700 in the Consolidated Statement of Receipts and Payments. I was unable to verify and confirm the validity and the correctness of expenditures totaling K464,450 relating to the first three months of the year ended *31 December, 2016* as supporting documents including paid vouchers were not provided for my review;

- Appropriated funds received were spent on other items rather than the items budgeted for and further, there were instances of expenditures incurred out of incorrect vote items totaling K152,612;
- As the Hospital did not maintain a Fixed Assets Register, I was not able to verify and confirm the locations, additions, disposals and movement of assets accordingly. Further, assets purchased valuing K1,518,300 were not recorded and properly accounted for during the year;
- Supplies (*medical, rations, office and building materials*) procured totaling K1,282,012 were not confirmed as received as supporting documentations including delivery dockets and consignment notes were not provided for my review; and
- The Hospital did not maintain Advance registers and Acquittal files during the year ended *31 December, 2016*. Consequently, I was unable to verify and confirm the veracity of the un-acquitted advances totaling K697,825.

The Hela Provincial Hospital had responded positively to the issues raised in my Management Letter. They indicated that improvements will be made on those issues in 2017 onwards.



PHILIP NAUGA

Auditor-General

12 October 2017

12.2 Hela Provincial Hospital 2016 Certified Financial Statements



HELA PROVINCIAL HOSPITAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER, 2016

A handwritten signature in blue ink, consisting of a stylized 'A' shape.



**HELA PROVINCIAL HOSPITAL
FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER, 2016**



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**HELA PROVINCIAL HOSPITAL
FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER, 2016**



Board Member's Declaration

The Board of Hela Provincial Hospital, being responsible for the annual financial statements and having reviewed the financial statements for the year ended 31 December, 2016 make the following declarations:

- (a) Board Members at the time of this Declaration
1. Peter Botten – Chairman
 2. Rev. Olene Yawai – Deputy Chairman
 3. Mr Yawas Kombiabu – Member
 4. Mr Rodney Ingersoll – Member
 5. Ms Janet Koriama – Member
 6. Mr Amos Libe – Member
 7. Mr Hetra Hekele – Member
 8. Mr George Tagobe – Member
 9. Mr Pascoe Kase – Member
- (b) The accompanying financial statements of Hela Provincial Hospital have been drawn up to give a true and fair view of the receipts and payments and the general operations of the Hospital for the year ended 31 December, 2016.
- (c) The financial statements have been prepared in accordance with Finance Instruction 2/2004 issued under *Section 117 of the Public Finance (Management) Act, 1995 (as amended)* and the *International Public Sector Accounting Standard – Financial Reporting* under the *Cash Basis of Accounting*.
- (d) The Board declares that all records and books of accounts have been properly maintained. Any known omissions have been stated in this financial statements.
- (e) The Board declares that the statement of receipts and payments stated in these financial statements are fair and correct. Any known omissions have been stated in this financial statements.
- (f) As at the date of this declaration there are reasonable grounds to believe that the Hospital will be able to pay its debts as and when they become due and payable.

For and on behalf of the Board

Signed in accordance with a resolution of the Board

Board Chairman



Signed at: Port Moresby this 25th day of September, 2017



**HELA PROVINCIAL HOSPITAL
FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER, 2016**



Management's Declaration

The management of Hela Provincial Hospital being responsible for the day to day operations of the Hospital and in preparing these financial statements for the year ended 31 December, 2016 state that:

- (a) The accompanying financial statements for the Hela Provincial Hospital have been drawn up so as to give a fair view of the receipts and payments of the Hospital for the year ended 31 December, 2016.
- (b) The financial statements have been prepared in accordance with the Financial Instructions 2/2004 and under *Section 117 of the Public Finance Management Act (1995) (as amended)* and the *International Accounting Standards – Financial Reporting Under the Cash Basis of Accounting*.
- (c) We certify that all records and books of accounts have been properly maintained.
- (d) We certify that the statements of receipts and payments for the year ended 31 December, 2016 are correct.
- (e) As at the date of these financial statements there are reasonable grounds to believe that the Hospital will be able to pay its debts as and when they become due and payable.

On behalf of the Management

Signed in Tari this 20th day of September, 2017

 Dr James Kintwa Acting CEO – Hela PHA		 Elizabeth Boyd Acting Director Corporate Services – Hela PHA
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**HELA PROVINCIAL HOSPITAL
FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER, 2016**



**Statement of Accumulated Funds
as at 31 December, 2016**

	<u>Notes</u>	<u>2016 K</u>	<u>2015 K</u>
Accumulated Funds as at 01 January, 2016	14	2,000,700	164,500
Operating surplus / (deficit)		<u>690,800</u>	<u>1,836,200</u>
Accumulated Funds as at 31 December, 2016	14	<u>2,691,500</u>	<u>2,000,700</u>

This is represented by:

Hospital operating bank account	14	2,678,400	2,000,700
Petty cash on hand	14	<u>13,100</u>	<u>-</u>
Net Cash/Funds Available as at 31 December, 2016		<u>2,691,500</u>	<u>2,000,700</u>





HELA PROVINCIAL HOSPITAL
FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER, 2016



Consolidated Statement of Receipts and Payments
for the year ended 31 December, 2016

Notes	Total		Receipts/Payments Controlled by Entity		Receipts/Payments by Other Gov't Entity		Receipts from External Parties		Receipts/Payments Controlled by Entity		Receipts/Payments by Other Gov't Entity		Receipts from External Parties	
	K	2016	K	2015	K	2016	K	2016	K	2015	K	2015	K	2015
RECEIPTS														
Hospital Grants from National Government	5	9,071,000	2,695,600	6,866,100		2,204,900	-		2,695,600		-		-	
Hela Provincial Gov' , support Grants	6	107,600	350,000	107,600		-	-		350,000		-		-	
Other Receipts	7	37,900	88,100	37,900		-	-		14,900		-		73,200	
TOTAL RECEIPTS FOR THE YEAR		9,216,500	3,133,700	7,011,600		2,204,900	-		3,060,500		-		73,200	
PAYMENTS														
Salaries, wages and employee benefits	8	2,915,000	524,100	710,100		2,204,900	-		524,100		-		-	
Supplies and Consumables	9	1,143,000	41,000	1,143,000		-	-		41,000		-		-	
Utilities	10	293,800	-	293,800		-	-		-		-		-	
Administration Expenses	11	779,500	41,000	779,500		-	-		41,000		-		-	
Other Expenses (includes bank charges)	12	615,900	691,400	615,900		-	-		691,400		-		-	
Capital Expenditure	13	2,778,500	-	2,778,500		-	-		-		-		-	
TOTAL PAYMENTS FOR THE YEAR		8,525,700	1,297,500	6,320,800		2,204,900	-		1,297,500		-		73,200	
NET INCREASE/(DECREASE) IN CASH		690,800	1,836,200	690,800		-	-		1,763,000		-		73,200	
Cash as at 1 January 2016	14	2,000,700	164,500											
Increase / (Decrease) in cash		690,800	1,836,200											
Cash as at 31 December 2016	14	2,691,500	2,000,700											



**HELA PROVINCIAL HOSPITAL
FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER, 2016**



**Statement of Receipts and Payments
Operating Account
for the year ended 31 December, 2016**

	<u>Note</u>	<u>2016 K</u>	<u>2015 K</u>
<u>Receipts</u>			
Government grants – CFCs	5	5,846,100	626,600
Special support grant (NDoH)	5	1,000,000	2,000,000
Hela Provincial Gov't support	6	107,600	350,000
NDoH admin support	5	20,000	69,000
Other receipts	7	37,900	88,100
TOTAL RECEIPTS		7,011,600	3,133,700
<u>Expenditure</u>			
111 Salaries & advances		-	-
112 Wages	8	677,000	524,100
113 Overtime		-	-
114 Leave fares	8	9,100	-
116 Contract officers education benefits	8	24,000	-
121 Travel & subsistence	11	326,400	20,500
122 Utilities	10	135,300	-
123 Office materials & supplies	9	80,300	20,500
124 Operational materials & supplies	9	1,062,700	20,500
125 Transport & fuel	11	173,800	20,500
126 Administrative consultancy fees		-	-
127 Rental of properties	10	158,500	-
128 Routine maintenance	11	260,000	-
135 Other operating expenses	12	615,900	691,400
136 Training	11	19,300	-
141 Retirement Benefits, Gratuities & Pensions		-	-
221 Office furniture & equipment	13	152,900	-
222 Purchase of vehicles	13	181,000	-
223 Feasibility studies, project prep/design	13	1,260,000	-
224 Purchase plant & equipment	13	683,300	-
225 Construction, renovation & improve	13	499,600	-
226 Substantial maintenance	13	1,500	-
TOTAL EXPENDITURE		6,320,800	1,297,500
NET INCREASE / (DECREASE) IN CASH		690,800	1,836,200
Cash balance as at 01 January, 2016	14	2,000,700	164,500
Net Increase / (Decrease) in Cash		690,900	1,836,200
Cash balance as at 31 December, 2016	14	2,691,500	2,000,700

These amounts are included in the consolidated financial statements under the respective receipt and payment categories.





**HELA PROVINCIAL HOSPITAL
FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER, 2016**



**Statement of Receipts and Payments
Operating Account by Program & Activity Cost Centre
for the year ended 31 December, 2016**

Note	2016 K	2015 K
Receipts		
Government Grants – CFCs	6,866,100	2,695,600
Hela Provincial Gov't support	107,600	350,000
Other Receipts	37,900	88,100
TOTAL RECEIPTS	7,011,600	3,133,700
Expenditure by Program & Activity		
Executive Management		
Personnel Emoluments	6,900	-
Office of Chief Executive Officer	384,200	-
Office of Hospital Board of Management	114,000	-
Community & Partnership Health	39,700	-
Corporate Services Directorate		
Personnel Emoluments	332,700	20,500
Office of Corporate Services Director	322,400	-
Finance Manager	134,700	-
Human Resource Manager	87,200	20,500
Administration Manager	635,300	20,500
Information Management	19,200	20,500
Transport Management	491,000	-
Catering	224,900	-
Laundry Services	15,800	-
Cleaning & Hygiene Services	35,100	691,400
Security Services	22,000	-
Medical Services Directorate		
Office of Medical Services Director	135,200	-
Oral Health	3,500	-
Medical Laboratory	69,200	-
Pharmacy Services	11,900	-
Rehabilitation Services	8,300	-
Outreach Support Services	60,800	-
Medical Supplies	484,800	-
Medical Equipment	685,700	-
Nursing Services Directorate		
Office of Nursing Services Director	75,900	-
Inpatient Services	1,700	-
Family Support Unit	5,000	-
Capital Infrastructure		
Project Management	7,700	-
Office Infrastructure	177,500	-
Staff Housing Infrastructure	84,400	-
Non Building Infrastructure	1,573,400	-
Facilities Major Maintenance	70,700	-
TOTAL EXPENDITURE	6,320,800	1,297,500
NET INCREASE / (DECREASE) IN CASH	690,800	1,836,200

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**HELA PROVINCIAL HOSPITAL
FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER, 2016**



**Statement of Receipts and Payments
made by Other Government Agencies
for the year ended 31 December, 2016**

	<u>Note</u>	<u>2016 K</u>	<u>2015 K</u>
<u>Receipts</u>			
Funds paid by other gov't agencies	8	2,204,900	-
TOTAL RECEIPTS		2,204,900	-
<u>Expenditure</u>			
111 Salaries & advances	8	2,204,900	-
112 Wages		-	-
113 Overtime		-	-
114 Leave fares		-	-
116 Contract officers education benefits		-	-
121 Travel & subsistence		-	-
122 Utilities		-	-
123 Office materials & supplies		-	-
124 Operational materials & supplies		-	-
125 Transport & fuel		-	-
126 Administrative consultancy fees		-	-
127 Rental of properties		-	-
128 Routine maintenance		-	-
135 Other operating expenses		-	-
136 Training		-	-
141 Retirement Benefits, Gratuities & Pensions		-	-
221 Office furniture & equipment		-	-
222 Purchase of vehicles		-	-
223 Feasibility studies, project prep/design		-	-
224 Purchase plant & equipment		-	-
225 Construction, renovation & improve		-	-
226 Substantial maintenance		-	-
TOTAL EXPENDITURE		2,204,900	-
NET INCREASE / (DECREASE) IN CASH		-	-





**HELA PROVINCIAL HOSPITAL
FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER, 2016**



Notes to and forming Part of the Financial Statements

1. Summary of Significant Accounting Policies

The Hela Provincial Hospital provides health services to the people of Hela Province through funding provided mainly by the Government of Papua New Guinea. The objectives of the Hospital are to maintain and provide curative health services and improve health care to the people of Hela Province.

The Hela Provincial Hospital was established under the *Public Hospitals Act, 1994* which regulates the services and functions of the Hospital, the Board, the CEO and appointment of officers. The Hospital is a public body and functions and reports in compliance to the requirements of the *Public Finance (Management) Act, 1995 (as amended)*.

1.1 Basis of Accounting

The financial statements are general purpose financial statements and have been prepared on a Cash Basis of accounting in accordance with the *International Public Sector Accounting Standards (IPSASs) – Financial Reporting* under the *Cash Basis of Accounting* by the International Federation of Accountants.

The financial statements are in line with requirements for non-for-profit entities in Papua New Guinea as required by the *Finance Instructions 2/2004* issued under *Section 117* of the *Public Finances (Management) Act, 1995 (as amended)*.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 31 December, 2016.

The going concerns basis was used to prepare the financial statements.

1.2 Basis of Consolidation

The financial statements incorporate the operating bank account of the Hospital held with the Bank of South Pacific for the purpose of receiving all government grants and used for the payment of personnel emoluments, goods and services, procurement of fixed assets and related operational requirements.

1.3 Currency of Presentation

The financial statements are presented in PNG Kina which is also the currency of trade.

1.4 Foreign Currency Transactions

Transactions denominated in a foreign currency are converted at the rate of exchange prevailing at the date of the transaction.





**HELA PROVINCIAL HOSPITAL
FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER, 2016**



Notes to and forming Part of the Financial Statements

1.5 Comparative Figures

Where necessary comparative figures have been adjusted to conform with changes in presentation of these financial statements.

1.6 Cash at Bank

Cash at bank comprises of cash on hand as well as cash at bank as at 31 December, 2016. The Hospital does not operate any term deposit accounts nor does it operate any bank overdraft facility.

1.7 Receipts

Government grants are recognized as revenue at the time the cash is received into the Hospital's operating bank account. Non-medical fees are recognized as revenue at the time when cash is collected. Other revenues are recognized as revenue when cash is received or deposit is taken up by the bank in the Hospital's operating account.

Government Budget Appropriations and other cash receipts are deposited into the Hospital's operating bank account and are controlled by the Hospital's Board.

1.8 Payments

Payments are recognized as payments for goods and services at the time the cheque is raised for payment of these goods and services.

1.9 Taxation

The Hospital is exempted from paying any corporate taxes including income tax. This is in accordance with the *Income Tax Act, 1959 Section 24 (a) – Exemption of Public Authorities*.

1.10 Events Since Balance Date

There is no event occurring after the balance date that could materially affect the financial position of the Hospital as at 31 December, 2016.

1.11 Economic Dependency

The Hospital is to a significant extent dependent on the monies received from the National Government to fund its operations. In 2016 funding from the National Government represented 100% (2015: 100%) of total receipts for the year.





**HELA PROVINCIAL HOSPITAL
FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER, 2016**



Notes to and forming Part of the Financial Statements

1.12 Payment by Other Government Entities – Department of Finance

The Hospital benefits from payments made directly by Department of Finance for its staff's Salaries and Allowances. These payments have been appropriated through the National Budget.

The International Public Sector Accounting Standards (IPSASs) – *Financial Reporting* under the *Cash Basis of Accounting* requires separate presentation of the Payments by Other Government Entities in the Consolidated Statements of receipts and payments. These financial statements follow this requirement consistent with the *IPSAS*.

1.13 Fixed Assets

The Hospital did not maintain a fixed assets register and is therefore unable to disclose any value in the financial statements as at 31 December, 2016.

1.14 Liabilities

The Hospital does not maintain a creditor's ledger and is therefore unable to disclose balances for trade creditors and other liabilities in the financial statements as at 31 December, 2016.

1.15 Medical Drug Supplies

The Hospital incurred costs in procuring medical drugs and pharmaceutical products that were not readily available in the Area Medical Store or any other source in the health medical supply system.

2. National Government Grants

The National Government through its annual budget appropriates grants to the Hospital. These grants are channeled through the National Department of Health who transfers the grants into the Hospital's operating account to finance the Hospital's operations.

3. Provincial Health Authority

Hela Province was declared a Provincial Health Authority on 6 October, 2016 with a new Provincial Health Authority Board sworn into office. All functions of the Hospital were integrated under the *Provincial Health Authority Act, 2007* which regulates the services and functions of the Provincial Health Authority, the Board, the CEO and appointment of officers. The Provincial Health Authority is a public body and functions and reports in compliance to the requirements of the *Public Finance (Management) Act, 1995 (as amended)*.





**HELA PROVINCIAL HOSPITAL
FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER, 2016**



Notes to and forming Part of the Financial Statements

3.1 Hospital Operations Under the Provincial Health Authority

While the health system in Hela was integrated into the Provincial Health Authority with a new Board appointed under the Provincial Health Authority, the Hospital continued to function independently and operated as the Provincial Hospital throughout the financial year.

3.2 Financial Impact

The declaration of the Hela Provincial Health Authority on 6 October, 2016 did not have any material impact on the financial statements of the Hospital as at 31 December, 2016.

4. Prior Year Balances

The Hospital did not produce any financial statements in prior years. The prior year comparative balances are unaudited balances generated from the Hospital's operating bank account statements as receipts and payments for the year and confirmed with National Government's Appropriation for that year (2015).

5. Appropriations from the National Government

	2016 K	2015 K
National Government Grants - CFCs	5,646,100	626,600
Other Special Support Grants - Project	1,000,000	2,000,000
NDoH PHA Launch Support	20,000	69,000
Free Health Care	200,000	-
Funds Paid by Other Gov't Agencies - Finance	8,380,200	-
TOTAL	15,246,300	2,695,600

6. Provincial Government Support

	2016 K	2015 K
Integrated Health Promotion Support	57,600	-
MSF Departure Farewell Function Support	20,000	-
PHA Launch Support	30,000	-
TOTAL	107,600	-





**HELA PROVINCIAL HOSPITAL
FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER, 2016**



Notes to and forming Part of the Financial Statements

7. Other Receipts

	2016	2015
	K	K
Non - Medical Fees	6,900	-
Disposal of Assets (Motor Vehicle)	31,000	-
TOTAL	37,900	-

8. Salaries, Wages and Employee Benefits

Personnel emoluments include all payments out of the National Government Appropriation centrally administered and paid by the Department of Finance as well as payments from the Hospital's operating account as at 31 December, 2016.

	2016	2015
	K	K
Wages	677,000	524,100
Leave Fares	9,100	-
Contract Officers Education Benefits	24,000	-
Salaries and Allowances	2,204,900	-
TOTAL	2,915,000	524,100

The Hospital was appropriated full funding in 2016 for positions under the Hospital's new structure approved by the Department of Personnel Management in 2014. Hospital's funding appropriation for Salaries and Allowances (K8,380,200) was not utilized due to technical errors in the Chart of Accounts Agency Coding. The Hospital's staff were recruited and placed under the National Department of Health's salary structure code which incurred expenditure of K2,204,900 in 2016 for Salaries and Allowances for the Hospital's staff.

9. Supplies and Consumables

	2016	2015
	K	K
Office Materials and Supplies	80,300	41,000
Operational Materials and Supplies	1,062,700	-
TOTAL	1,143,000	41,000





**HELA PROVINCIAL HOSPITAL
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Notes to and forming Part of the Financial Statements

10. Utilities

	2016	2015
	K	K
Utilities (Phone/Fax/Electricity)	135,300	-
Rental Properties	158,500	-
TOTAL	293,800	-

11. Administration Expenses

	2016	2015
	K	K
Travel and Subsistence	326,400	41,000
Transport Hire and Fuel	173,800	-
Routine Maintenance	260,000	-
Training	19,300	-
TOTAL	779,500	41,000

12. Other Expenses

	2016	2015
	K	K
Other Expenses	590,100	691,400
Bank Charges	25,800	-
TOTAL	615,900	691,400

13. Capital Expenditure

	2016	2015
	K	K
Furniture and Office Equipment	152,900	-
Motor Vehicle	181,000	-
Feasibility Studies, Project Preparation/Design	1,260,000	-
Plant and Equipment	683,300	-
Construction, Renovation and Improvement	499,600	-
Substantial Maintenance	1,500	-
TOTAL	2,778,300	-





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Notes to and forming Part of the Financial Statements

14. Cash on Hand

	<u>2016</u> <u>K</u>	<u>2015</u> <u>K</u>
Operating Bank Account	2,678,400	2,000,700
Petty Cash – cash on hand	13,100	-
TOTAL	<u>2,691,500</u>	<u>2,000,700</u>

15. Related Party Transactions

The key related parties (as defined by *International Public Sector Accounting Standards 20 – Related Party Disclosure*) of the Hospital are the Minister, Secretary of Department of Health, members of the Hospital Board and members of the Hospital Management.

The Minister did not receive any remuneration from the operations of the Hospital.

The aggregate remuneration of the Board Members and the number of members determined on an annual basis receiving remuneration are:

Aggregate Remuneration	K60,400	Number of Members	5 persons
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Note – There were nine (9) members to the Board of the Hospital from 1 January, 2016 until 6 October, 2016 when the Hospital was integrated as part of the new Hela Provincial Health Authority and a new Board was sworn into the Provincial Health Authority. Majority of the previous Hospital Board continued with only two changes to the provincial staff and National Department of Health representatives appointed on the Board respectively.

From the above 9 Board Members, 2 Members are public servants and do not receive any additional remuneration for their duties as Board Members. The other 2 Members have volunteered to provide their service as Board Members without any aggregate remuneration benefits. The other 5 Members receive remunerations which are detailed above. It should be noted that aggregated remuneration includes sitting allowances as well as annual stipend payments.

The Senior Management group consisted of the Hospital Chief Executive Officer, the Director of Corporate Services and the Director of Nursing Services. The Hospital did not employ a Director of Curative Services as at 31 December, 2016. The Director of Corporate Services and the Director of Nursing Services were recruited towards the later part of the year. Their annual remunerations have been stated as part of the Salaries and Allowances under *Note 8* to these financial statements.





**HELA PROVINCIAL HOSPITAL
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Notes to and forming Part of the Financial Statements

16. Commitments

Commitments for future expenditure include operating and capital commitments from contracts. These commitments are disclosed when considered appropriate and provide additional relevant information to users.

The following are significant contracts entered with suppliers:

	<u>2016</u> <u>K</u>	<u>2015</u> <u>K</u>
Architectus Brisbane Pty Ltd	240,000	-
Staff Accommodation Rental Leases	126,000	-
TOTAL	366,000	-

All amounts shown in the commitments note are nominal amounts inclusive of GST and are payable in PNG Kina.

The Hospital leases privately owned residential properties for its senior staff. The nominal value of lease agreement term remaining is stated in the above amounts.

17. Contingent Assets and Contingent Liabilities

Contingent assets and contingent liabilities are not recognized in the statement of receipts and payments, but are disclosed by way of Note and, if quantifiable, are measured at nominal value. Contingent assets and contingent liabilities are presented inclusive of Goods and services Tax (GST) receivable or payable respectively.

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