



Part IV Report of the Auditor-General 2020

**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.**



Auditor-General's Office of Papua New Guinea



Part IV Report of the Auditor-General 2020



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OFFICE OF THE AUDITOR-GENERAL

30 September 2021

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 forward herewith a copy of my report signed on 30th September 2021 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 MBA, CPA
Auditor-General

2020 AUDITOR-GENERAL'S REPORT – PART IV

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GENERAL

A. FOREWORD

My Annual Report to the National Parliament for the 2020 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 and associated entities.

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 minority 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 and other audits as mandated. These Statutory Bodies 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 to the Medium Term Development Plan III 2018-2022 by attaining an inclusive sustainable economic growth through the following key result areas:

- Increase Revenue and Wealth Creation;
- Quality Infrastructure;
- Sustainable Social Development;
- Improved Law, Justice and National Security;
- Improved Service Delivery;
- Improved Governance;

- Responsible Sustainable Development; and
- Sustainable Population.

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 Finances (Management) Act, 1995 (as amended)

The submission of the financial statements of statutory bodies for audit is required under *Section 63(1) and (3)* of the *Public Finances (Management) Act, 1995 (as amended)*. 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 1997

I am required to audit National Government owned Companies and their Subsidiaries under the provisions of the *Companies Act 1997*. Though these companies are registered under the *Companies Act 1997*, my responsibility to audit them is by virtue of *Section 63* of the *Public Finances (Management) Act (PFMA)* and *Section 3* of the *Audit Act*.

C. AUDIT OF PUBLIC BODIES

C.1 Scope of Audit

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.

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. However, a section has been tasked with the audit of information systems per the recent organisational restructure.

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 and their subsidiaries.

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 2020 to June 2021 (2020/2021 Audit Cycle)**. The Report covers the audits of these entities' financial statements for a number of years, not just 2020.

In **2020** there were **127 public entities** subject to audit by my Office, consisting of **59 Public Bodies** and their **21 Subsidiaries** and **14 National Government Owned Companies** and their **33 Subsidiaries**.

I am also responsible for reporting on the audits of **2 Companies**, in which the National Government has minority 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, performance and cash flows of an organisation. The information is useful to a wide range of stakeholders and the financial statements constitute a formal record of the financial and business activities of an organisation. As such, the financial 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)(a) 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, **69 entities** had not submitted their **2020 financial statements** to be audited in addition to some **128 financial statements for 2019** and prior years that not been submitted for audit (**Refer Table A**). As compared to last year, the situation has deteriorated during this cycle.

Due to Covid-19 pandemic outbreak, Government response has resulted in various lock-downs and reduced economic activities which has resulted in reduction of current year audits to **3** during 2020/2021 cycle. Further, **48 audits** were either substantially completed, in progress or to commence shortly and **69 audits** were unable to commence due to the non-submission of the financial statements during the 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 AS AT 30 JUNE 2021 (END OF 2020/2021 CYCLE)

Year	Audits Completed	Audits Substantially Completed	Audits in Progress	Audits to Commence Shortly	Financial Statements not Submitted	Non Operational Entities/ Ceased Companies	Total 2020/2021	Total 2019/2020
2020	3	-	38	10	69	7	127	-
2019	27	15	19	8	52	1	122	123
2018	24	13	14	6	30	-	87	117
2017	20	7	8	7	19	-	61	83
2016	10	7	1	5	11	-	34	48
2015	7	5	2	3	6	-	23	28
2014	2	5	1	1	4	-	13	18
2013	-	4	-	1	4	-	9	10
2012	2	2	-	1	2	-	7	7
2011	-	2	-	1	-	-	3	3
2010	-	1	-	1	-	-	2	2
Total	95	61	83	44	197	8	488	439

Table A above shows that **239 audits** were either completed, substantially completed or still in progress as at 30 June 2021. The details are graphically depicted in **Attachment ‘C’**, which also included the arrears of prior years.

Table A also shows that of the **127 current year audits (2020)**, only **3 were completed**, with **38 audits** in progress. A further **10 audits** were to commence shortly. Graphical description of the status of current year 2020 audit units (excluding arrears) is given in **Attachment ‘A’**. The list of entities is at **Schedule ‘A’ (i), (ii), (iii), (iv) & (v)**.

E.4 Type of Audit Opinions Issued¹

In the period covered (July 2020 to June 2021) by the audit, **95 audit reports were issued**. Of the **95 audit reports issued**, **23 were unqualified**, **35 were qualified**, **33 were Disclaimer of Opinions** and **4 Adverse Opinion**. The details are captured in **Attachment ‘D’**.

Types of Audit Opinions issued for each entity over the period of nine years from **2012 to 2020** are detailed in **Attachment ‘E’**.

Audit reports issued for certain entities have more than one year covered during the period. The recent audit report of these entities is reproduced in this Report. Further information on other years audit reports can be obtained from the minister responsible, the entity or this office.

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, inadequate capacity and competence of staff ineffective internal control systems. Other issues noted are also highlighted in paragraph **E.9**.

- *Bank reconciliations not being prepared in a timely manner or not at all;*
- *Transactions not having the required supporting documents;*
- *Fixed asset registers not being properly kept or maintained and improper and inconsistent valuation of assets;*
- *Physical count of assets/stock-take not being carried out properly and no proper procedures are being followed in the acquisition and disposal of assets;*

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.

- *Failure to comply with IFRS/IAS in the preparation of financial statements and breach of public finances management and other statutory provisions;*
- *Travel and other allowances not being fully acquitted;*
- *Non remittance of taxes to IRC (Group Tax & GST);*
- *Accounting, administrative and procedural manuals not being available;*
- *Employment contracts, salaries and contract gratuities not available; and*
- *Lack of knowledge, understanding and training in Integrated Financial Managements System (IFMS) in producing general purpose financial statements.*

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 on or 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 on or before 30 April each year for my audit and inspection. However, out of **127 public entities** only **51 (43%)** entities have submitted their financial statements for 2020 (**Refer Schedule A (i), (ii), (iii) & (iv)**) for my audit and inspection up to the time of preparing this Report. A total of **69** entities have failed to comply with this provision (**Refer Schedule A (v)**). The public entities referred to above exclude the **2 Companies** with minority Government shareholdings.

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

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

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 and those charged with governance 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 the rigorous enforcement of the provisions of Section 63 of the PFMA and a legislative requirement be 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, **53** entities have audit units in arrears totaling **128**. Details of audits that have gone into arrears due to non-submission of financial statements since 2012 are given below in **Table B** and **Schedule ‘B(iv)’**.

Table B
Financial Statements Not Submitted

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	4	Border Development Authority	2018 & 2019	2
2	A	4A	Papua New Guinea Maritime Transport Limited	2013 to 2019	7
3	A	7	Cocoa Board of Papua New Guinea	2019	1
4	A	7A	Cocoa Pod Borer Project Fund	2019	1
5	A	7B	Cocoa Stabilisation Fund	2019	1
6	A	8	Cocoa Coconut Institute Limited of Papua New Guinea	2017 & 2018	2
7	A	10	Conservation and Environment Protection Authority	2019	1
8	A	11	Government Printing Office	2019	1
9	A	14	Industrial Centres Development Corporation	2019	1
10	A	15	Internal Revenue Commission	2018 & 2019	2
11	A	17A	Papua New Guinea Coconut Extension Fund	2019	1
12	A	17B	Papua New Guinea Coconut Research Fund	2019	1
13	A	24	National Broadcasting Corporation	2018 & 2019	2
14	A	25A	National Capital District Botanical Enterprises Limited	2013 to 2019	7
15	A	25B	Port Moresby Nature Park Limited	2019	1
16	A	27	National Economic and Fiscal Commission	2019	1
17	A	29	National Gaming Control Board	2018 & 2019	2
18	A	29A	National Gaming Control Board Community Benefit Fund Trust	2018 & 2019	2
19	A	30	National Housing Corporation	2018 & 2019	2
20	A	30A	National Housing Estate Limited	2015 to 2019	5
21	A	34	National Research Institute	2019	1
22	A	37	National Volunteer Service	2017 to 2019	3
23	A	38	National Youth Development Authority	2019	1
24	A	39	Office of the Insurance Commissioner	2019	1
25	A	40	Oil Palm Industry Corporation	2015 to 2019	5
26	A	44	Papua New Guinea Forest Authority	2019	1
27	A	45	Papua New Guinea Immigration and Citizenship Service Authority	2019	1
28	A	50	Papua New Guinea Sports Foundation	2016 to 2019	4
29	A	51	Papua New Guinea University of Technology	2019	1
30	A	51A	National Analytical and Testing Services Limited	2018 & 2019	2
31	A	51B	Unitech Development and Consultancy Company Limited	2018 & 2019	2
32	A	53	Public Curator of Papua New Guinea	2018 & 2019	2
33	A	55	Security Industries Authority	2017 to 2019	3
34	A	58	University of Goroka	2018 & 2019	2

No.	Section	Para. No.	Entity	Year	No. of Audits
35	A	58A	Unigor Consultancy Limited	2016 to 2019	4
36	A	58B	Unigor Humi Catering Limited	2016 to 2019	4
37	A	59	University of Natural Resources and Environment	2016 to 2019	4
38	A	60	University of Papua New Guinea	2018 & 2019	2
39	A	60A	Unisave Limited	2012 to 2019	8
40	A	60B	Univentures Limited	2012 to 2019	8
41	B	62	Air Niugini Limited	2019	1
42	B	62A	Air Niugini Cargo Limited	2019	1
43	B	62B	Air Niugini Properties Limited	2019	1
44	B	62C	Business Travel Centre Limited	2019	1
45	B	62D	Link-PNG Limited	2019	1
46	B	64C	Kumul Gas Foreland 239 B.V	2017 to 2019	3
47	B	64D	Kumul Gas Foreland 261 B.V	2017 to 2019	3
48	B	64E	Kumul Gas Foreland 268 B.V	2017 to 2019	3
49	B	64F	Kumul Gas Foreland 269 B.V	2017 to 2019	3
50	B	64G	Kumul Gas Niugini B.V	2017 to 2019	3
51	B	66	Livestock Development Corporation Limited	2019	1
52	B	67	Mineral Resources Development Company Limited	2019	1
53	B	72	PNG Air Services Limited	2016 to 2019	4

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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;
- 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;
- List of outstanding financial statements were forwarded to the Public Accounts Committee for their necessary action; 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:
 - *Internal Revenue Commission;*
 - *National Capital District Commission;*
 - *National Housing Corporation;*
 - *PNG Customs Service; and*
 - *Tourism Promotion Authority.*

I have set a goal to significantly reduce the audit in 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. However, the current health pandemic (Covid-19) may pose a challenge in achieving this objective.

E.7 Non-Compliance with the Salaries and Conditions Monitoring Committee Act (SCMC)

The SCMC was established as the regulatory mechanism for salaries and wages in the public sector. Despite the regulatory mechanism in place, 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 and other legal provisions 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:

- *Fresh Produce Development Agency;*
- *Kumul Minerals Holding Limited (formerly Petromin Limited);*
- *National Development Bank Limited;*
- *Ok Tedi Mining Limited;*
- *PNG Air Services Limited; and*
- *PNG Sustainable Development Program 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 compliance to internal controls. These deficiencies, which contributed to the limitation on the scope of my audit procedures, included:

- Bank, Creditors and other 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;

- Asset stock-takes not being carried out resulting no proper transfer and consistent valuation of assets;
- Property being acquired or disposed of without proper procedures being followed and lack of timely recovery and disposal of Assets;
- Failure to comply with International Financial Reporting Standards in the preparation of the financial statements;
- Breach of Public Finances Management and other statutory provisions;
- Entities paying housing allowances and Board members allowances without tax;
- Accounting, administrative and procedural manuals not being available;
- Ineffective or no internal audit functions;
- Liabilities as at the wind-up could not be verified of their validity and completeness;
- No proper control mechanisms within the revenue and expenditure cycle;
- No proper control, monitoring and recovery of staff Advances and Trade Debtors;
- Issues surrounding Information Technology (IT) Systems;
- Human Resource, Accountant and Financial Consultant capabilities; and
- Ineffective budget controls.

The above factors contributed to the limitations on the scope of my audits which have been reported in accordance with Section 8(2) of the Audit Act, 1989 (as amended) and resulted in the issuance of Types of Opinion in respect of reports issued during the year, as shown in **Attachment ‘D’**.

E.10 Poor Financial Management

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

In my view, the concept of effective, prudent and efficient financial management is yet to be understood and 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;*
- *Implementation of my audit recommendations;*
- *Regular, adequate and timely training on new accounting system (IFMS).*

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;
- Parliament must increase its reviews of the management of public entities and provide Chief Executive Officers with incentives to improve their management structures;
- Appointing Boards that are result oriented and service driven; and
- Regular performance reviews on entities and those charged with governance.

E.13 Project Audits

My Office is also tasked to undertake projects audits. However, these are special purpose financial statement audits and directed to specific stakeholders thus reported separately.

There are **27** number of audit reports issued during the period covered. All projects funded are under loan agreement with Asian Development Bank (ADB), World Bank (WB), Japan International Cooperation Agency (JICA) and International Fund for Agricultural Development (IFAD) programs it covers Works and Implementation, Water and Sanitation programs, Climate and Maritime Safety programs, Energy Sector programs and Social and Economic Sector Development programs.

E.14 Creation, Amalgamation and Abolishment of Entities

Over the years I have been observing a number of entities being created and later abolished, amalgamated or restructured. The challenges faced by my Office is that soon after creation, amalgamation or winding-up/abolishment, whether through Acts of Parliament or executive directives, these entities do not communicate to my Office for me to exercise my mandated responsibilities. Most of the times, I am placed in situations where I could not determine the actual efforts and resources put into creation of such entities and unfortunately could not do the same when the entities wind-up or cease to exist by decisions of the executive government. The cost and benefits of such actions at this stage could not be correctly ascertained by me.

E.15 Challenges Face by My Office

During the year and prior years, my office had faced a lot of challenges which had affected much of my mandatory duties. One which has limited my responsibilities is lack of sufficient funding. As a Constitutional office, I have not received any funding through Public Accounts Committee (PAC) and Parliament but only through Department of Finance. As a result, necessary funding were not received on time and funding received is not sufficient enough to cater for my operations, specifically, to fund recruitment or employing qualified auditors.

E.16 Structure of the Report

This Report is structured as follows:

Section A – Public Bodies and Their Subsidiaries;

Section B – National Government Owned Companies;

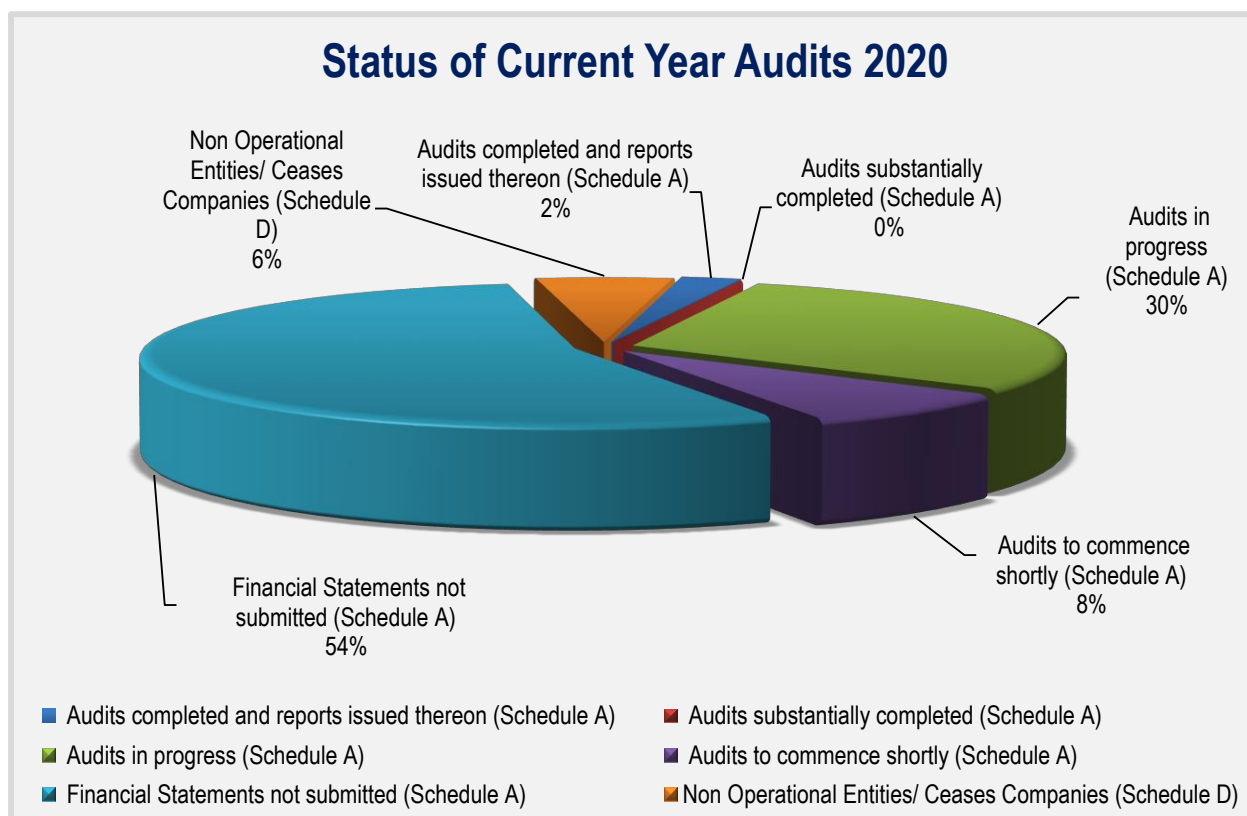
Section C – National Government Shareholdings in Other Companies; and

Section D – Problem Audits (Audits in Arrears).

ATTACHMENT 'A'

STATUS OF CURRENT YEAR AUDITS 2020 BY ENTITIES

No.	Status of Current Year Audits	Number of Entities	
		2020 Report	2019 Report
1	Audits completed and reports issued thereon (Schedule A)	3	3
2	Audits substantially completed (Schedule A)	-	1
3	Audits in progress (Schedule A)	38	32
4	Audits to commence shortly (Schedule A)	10	9
5	Financial Statements not submitted (Schedule A)	69	78
6	Non Operational Entities/Ceased Companies (Schedule D)	7	-
		127	123

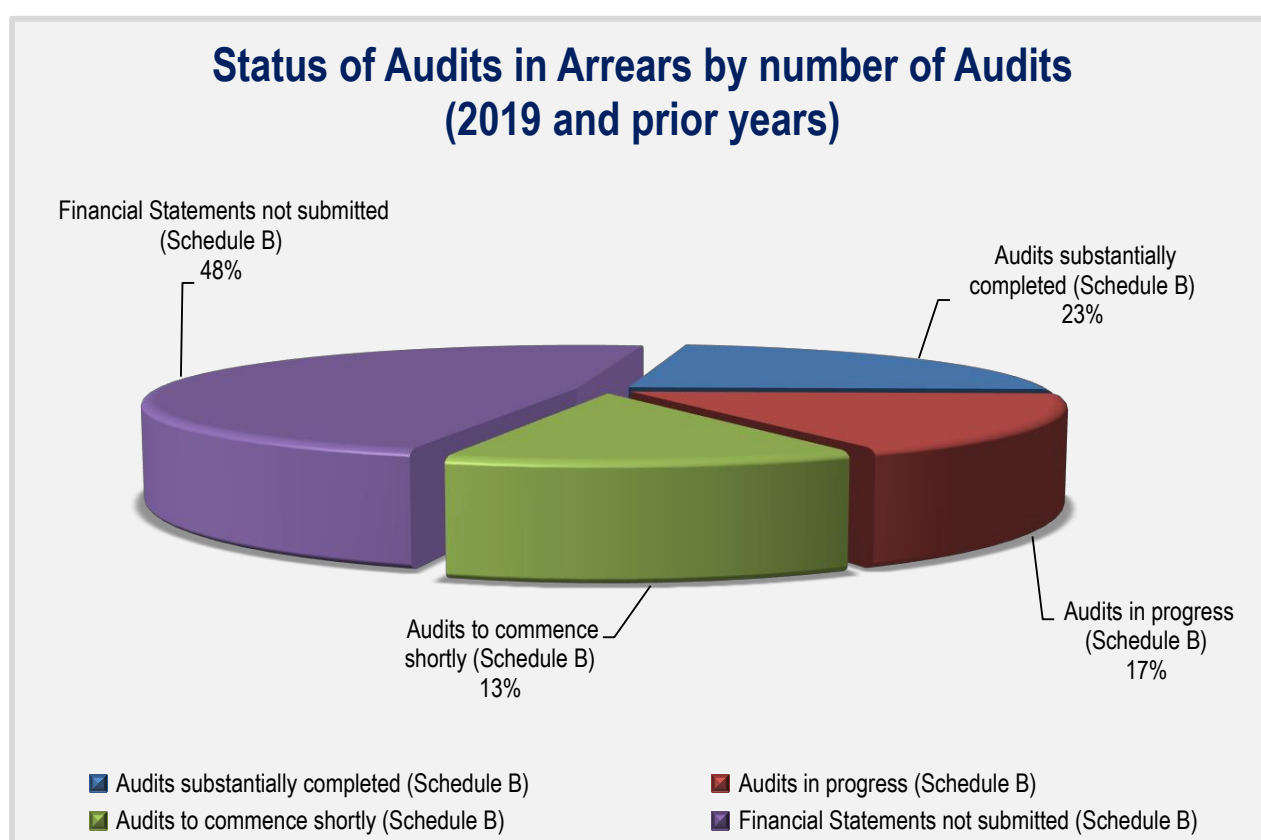


Please refer to details in Schedule 'A' on Pages 413 to 415 and Schedule 'D' on Page 424.

ATTACHMENT 'B'

STATUS OF AUDITS IN ARREARS BY NUMBER OF AUDITS (2019 AND PRIOR YEARS)

No.	Status of Audits in Arrears by No. of Audits (2019 & prior years)	Number of Audits	
		2020 Report	2019 Report
1	Audits substantially completed (Schedule B)	61	48
2	Audits in progress (Schedule B)	45	59
3	Audits to commence shortly (Schedule B)	34	30
4	Financial Statements not submitted (Schedule B)	128	101
		268	238

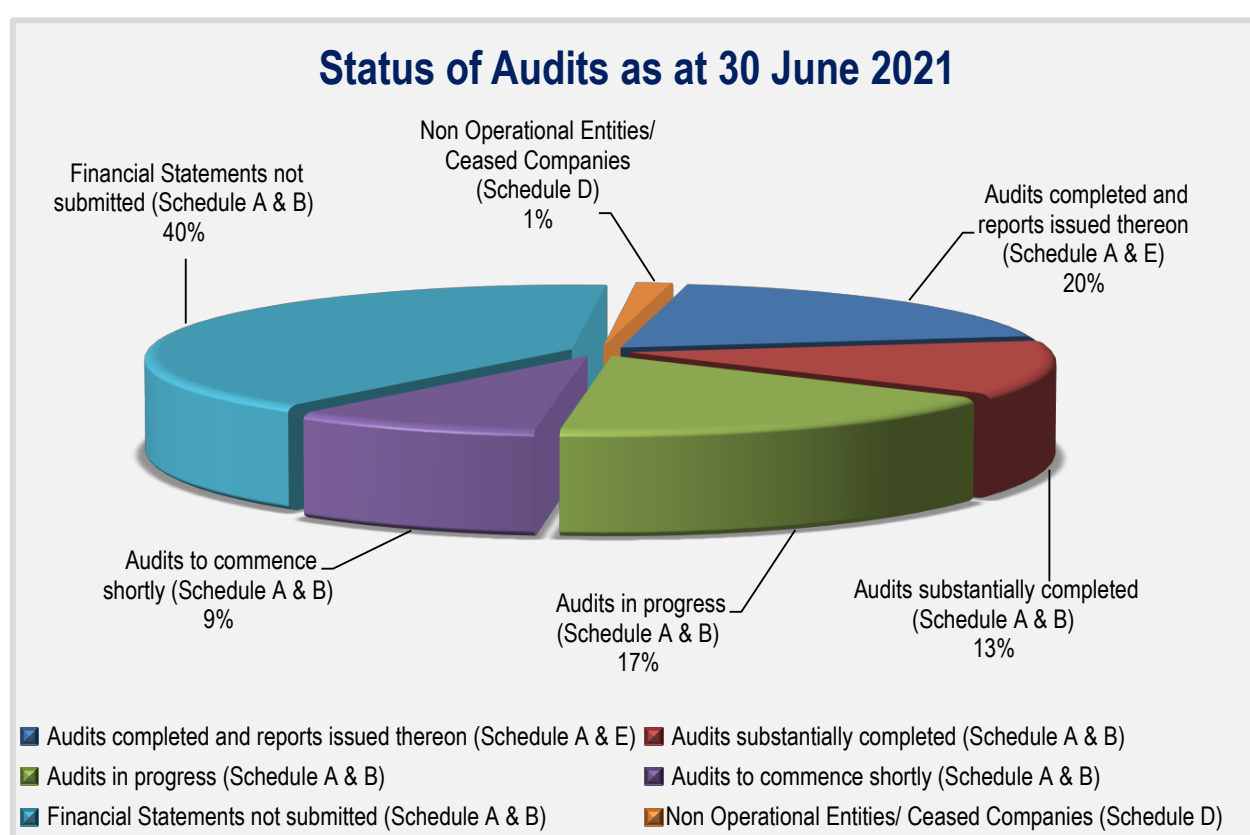


Please refer to details in Schedule 'B' on Pages 416 to 419.

ATTACHMENT 'C'

STATUS OF AUDITS AS AT 30 JUNE 2021

No.	Status of Audits	Number of Audits	
		2020 Report	2019 Report
1	Audits completed and reports issued thereon (Schedules A & E)	95	81
2	Audits substantially completed (Schedules A & B)	61	49
3	Audits in progress (Schedules A & B)	83	91
4	Audits to commence shortly (Schedules A & B)	44	39
5	Financial Statements not submitted (Schedules A & B)	197	179
6	Non Operational Entities/Ceased Companies (Schedule D)	7	-
		487	439



Please refer to details in Schedules 'A', 'B' and 'E' on Pages 413 to 415, 416 to 419 and 425 to 427 respectively.

ATTACHMENT 'D'

TYPES OF AUDIT OPINIONS ISSUED

(i) UNQUALIFIED OPINION

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	13	Independent Consumer and Competition Commission	2019	1
2	A	16	Investment Promotion Authority	2019	1
3	A	17	Kokonas Indastri Koporesen	2019	1
4	A	18	Kumul Consolidated Holdings	2018 & 2019	2
5	A	18C	PNG Dams Limited	2018 & 2019	2
6	A	22	National Agricultural Research Institute	2019 & 2020	2
7	A	25B	Port Moresby Nature Park Limited	2017	1
8	A	32	National Maritime Safety Authority	2019	1
9	A	33	National Museum and Art Gallery	2019	1
10	A	35	National Roads Authority	2019	1
11	A	42	Papua New Guinea Accident Investigation Commission	2020	1
12	A	46	Papua New Guinea Institute of Medical Research	2019	1
13	B	64K	Kumul Petroleum (Investments) Limited	2017 & 2018	2
14	B	65B	PNG DataCo Limited	2017 to 2019	3
15	B	65C.1	DATEC (PNG) Limited	2018 & 2019	2
16	B	74	Post (PNG) Limited	2019	1

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(ii) QUALIFIED OPINION

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	5	Civil Aviation Safety Authority of Papua New Guinea	2019 & 2020	2
2	A	6	Climate Change and Development Authority	2017	1
3	A	14	Industrial Centres Development Corporation	2018	1
4	A	18A	General Business Trust	2018 & 2019	2
5	A	18B	Kumul Technology Development Corporation Limited	2018 & 2019	2
6	A	19	Legal Training Institute	2017 to 2019	3
7	A	20	Mineral Resources Authority	2015 to 2018	4
8	A	23	National AIDS Council Secretariat	2019	1
9	A	26	National Cultural Commission	2018 & 2019	2
10	A	31	National Information and Communications Technology Authority	2016	1
11	A	34	National Research Institute	2017	1
12	A	36	National Training Council	2017 to 2019	3
13	A	42	Papua New Guinea Accident Investigation Commission	2019	1
14	A	46	Papua New Guinea Institute of Medical Research	2018	1
15	A	47	Pacific Institute of Leadership and Governance	2015 to 2017	3
16	A	48	Papua New Guinea Maritime College	2019	1
17	A	51A	National Analytical and Testing Services Limited	2012	1

No.	Section	Para. No.	Entity	Year	No. of Audits
18	B	65C.2	Kalang Advertising Limited	2017 to 2019	3
19	B	65C.4	PNG Directories Limited	2018	1
20	B	71	Papua New Guinea Ports Corporation Limited	2019	1

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(iii) DISCLAIMER OPINION

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	2	APEC Papua New Guinea 2018 Co-ordination Authority	2015 to 2019	5
2	A	6	Climate Change and Development Authority	2015 & 2016	2
3	A	8	Cocoa Coconut Institute Limited of Papua New Guinea	2014 to 2016	3
4	A	9	Coffee Industry Corporation Limited	2017 & 2018	2
5	A	9A	Coffee Industry Fund	2017 & 2018	2
6	A	9C	Patana No.61 Limited	2017 & 2018	2
7	A	11	Government Printing Office	2016 & 2017	2
8	A	24	National Broadcasting Corporation	2016	1
9	A	28	National Fisheries Authority	2017 & 2018	2
10	A	39	Office of the Insurance Commissioner	2018	1
11	A	40	Oil Palm Industry Corporation	2012	1
12	A	58	University of Goroka	2017	1
13	B	65C	Telikom (PNG) Limited	2015 to 2018	4
14	B	65C.4	PNG Directories Limited	2019	1
15	B	69	National Airports Corporation Limited	2019	1
16	B	70	NCD Water and Sewerage Limited (Eda Ranu)	2017 & 2018	2
17	B	77	Water PNG Limited	2018	1

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(iv) ADVERSE OPINION

No.	Section	Para. No.	Entity	Year	No. of Audits
1	B	51B	Unitech Development and Consultancy Company Limited	2015 to 2018	4

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ATTACHMENT 'E'

COMPARATIVE AUDIT OPINIONS ISSUED (2012–2020)

No.	Section	Para. No.	Entity	Comparative Years								
				2020	2019	2018	2017	2016	2015	2014	2013	2012
1	A	2	APEC Papua New Guinea 2018 Co-ordination Authority		D	D	D	D	D			
2	A	3	Bank of Papua New Guinea		UQ	UQ	UQ	UQ	UQ	UQ	UQ	UQ
3	A	4	Border Development Authority								D	Q
4	A	4A	Papua New Guinea Maritime Transport Limited	No reports have been issued since 2013								Q
5	A	5	Civil Aviation Safety Authority of Papua New Guinea	Q	Q	Q	Q	Q	Q	Q	Q	Q
6	A	6	Climate Change and Development Authority				Q	D	D	D	D	D
7	A	7	Cocoa Board of Papua New Guinea				Q	Q	Q	Q	Q	Q
8	A	7A	Cocoa Pod Borer Project Fund				Q	Q	UQ	UQ	UQ	UQ
9	A	7B	Cocoa Stabilisation Fund				UQ	UQ	UQ	UQ	UQ	Q
10	A	8	Cocoa Coconut Institute Limited of Papua New Guinea					D	D	D	D	D
11	A	9	Coffee Industry Corporation Limited			D	D	D	D	D	D	Q
12	A	9A	Coffee Industry Fund			D	D	D	D	D	D	Q
13	A	9B	Kofi Management Services Limited	New Inclusion								
14	A	9C	Patana No.61 Limited			D	D	D	D	D	D	Q
15	A	10	Conservation and Environment Protection Authority				Q					
16	A	11	Government Printing Office				D	D	D	D	D	D
17	A	12	Independence Fellowship Trust		UQ	UQ	UQ	UQ	Q	Q	UQ	UQ
18	A	13	Independent Consumer and Competition Commission		UQ	UQ	UQ	UQ	Q	Q	UQ	Q
19	A	14	Industrial Centres Development Corporation			Q	Q	Q	Q	Q	Q	Q
20	A	15	Internal Revenue Commission						UQ	UQ		
21	A	16	Investment Promotion Authority		UQ	UQ	UQ	UQ	UQ	UQ	UQ	UQ
22	A	17	Kokonasi Industri Koporesen		UQ	UQ	UQ	UQ	UQ	UQ	UQ	UQ
23	A	17A	Papua New Guinea Coconut Extension Fund			UQ	UQ	UQ	UQ	UQ	UQ	UQ
24	A	17B	Papua New Guinea Coconut Research Fund			UQ	UQ	UQ	UQ	UQ	UQ	UQ
25	A	18	Kumul Consolidated Holdings		UQ	UQ	UQ	UQ	UQ	UQ	UQ	Q
26	A	18A	General Business Trust		Q	Q	Q	Q	Q	Q	D	Q
27	A	18B	Kumul Technology Development Corporation Limited		Q	Q	Q	Q	D	D	D	Q
28	A	18C	PNG Dams Limited		UQ	UQ	UQ	UQ	Q	D	D	D
29	A	19	Legal Training Institute		Q	Q	Q	Q	Q	Q	Q	Q
30	A	20	Mineral Resources Authority			Q	Q	Q	Q	Q	Q	Q
31	A	21	National Agriculture Quarantine and Inspection Authority				Q	Q	Q	Q	Q	Q
32	A	22	National Agricultural Research Institute	UQ	UQ	UQ	UQ	UQ	UQ	UQ	UQ	UQ
33	A	23	National AIDS Council Secretariat		Q	Q	UQ	UQ	Q	D	D	D
34	A	24	National Broadcasting Corporation					D	D	D	D	D

No.	Section	Para. No.	Entity	Comparative Years								
				2020	2019	2018	2017	2016	2015	2014	2013	2012
35	A	25	National Capital District Commission			D	D	D	D	D	D	D
36	A	25A	National Capital District Botanical Enterprises Limited	No reports have been issued since 2013								D
37	A	25B	Port Moresby Nature Park Limited				UQ	UQ	UQ	UQ	Q	Q
38	A	26	National Cultural Commission		Q	Q	D	D	D	D	D	D
39	A	27	National Economic and Fiscal Commission			UQ	UQ	Q	Q	Q	Q	Q
40	A	28	National Fisheries Authority			D	D	D	Q	Q	Q	Q
41	A	29	National Gaming Control Board						Q	Q	Q	Q
42	A	29A	National Gaming Control Board Community Benefit Fund Trust						Q	Q	Q	
43	A	30	National Housing Corporation							D	D	D
44	A	30A	National Housing Estate Limited	No reports have been issued since 2010								
45	A	31	National Information and Communications Technology Authority (NICTA)					Q	D	D	D	D
46	A	32	National Maritime Safety Authority		UQ	UQ	UQ	UQ	UQ	Q	Q	Q
47	A	33	National Museum and Art Gallery		UQ	Q	D	D	D	D	D	D
48	A	34	National Research Institute				Q	Q	UQ	UQ	UQ	UQ
49	A	35	National Roads Authority		UQ	UQ	UQ	UQ	UQ	Q	Q	Q
50	A	36	National Training Council		Q	Q	Q	Q	Q	Q	Q	Q
51	A	37	National Volunteer Service					Q	Q	Q	Q	Q
52	A	38	National Youth Development Authority				D	D	D	D	D	
53	A	39	Office of the Insurance Commissioner			D						
54	A	40	Oil Palm Industry Corporation									D
55	A	41	Ombudsman Commission of Papua New Guinea			Q	Q	Q	UQ	Q	UQ	UQ
56	A	42	Papua New Guinea Accident Investigation Commission	UQ	Q	Q	UQ	UQ	UQ	UQ	UQ	UQ
57	A	43	Papua New Guinea Customs Service					Q	Q	Q		
58	A	44	Papua New Guinea Forest Authority							D	D	D
59	A	45	Papua New Guinea Immigration and Citizenship Service Authority				UQ	Q	D	D	Q	Q
60	A	46	Papua New Guinea Institute of Medical Research		UQ	Q	Q	Q	D	D	D	D
61	A	47	Pacific Institute of Leadership and Governance				Q	Q	Q	Q	Q	Q
62	A	48	Papua New Guinea Maritime College		Q	Q	Q	Q	Q	D	D	Q
63	A	49	Papua New Guinea National Institute of Standards and Industrial Technology					Q	Q	Q	Q	Q
64	A	50	Papua New Guinea Sports Foundation						D	D	D	D
65	A	51	Papua New Guinea University of Technology				UQ	UQ	UQ	Q	Q	D
66	A	51A	National Analytical and Testing Services Limited									Q
67	A	51B	Unitech Development and Consultancy Company Limited				A	A	A	A	A	Q
68	A	52	Parliamentary Members' Retirement Benefits Fund					UQ	UQ	UQ	UQ	UQ

No.	Section	Para. No.	Entity	Comparative Years								
				2020	2019	2018	2017	2016	2015	2014	2013	2012
69	A	53	Public Curator of Papua New Guinea								D	D
70	A	54	Road Traffic Authority			UQ	UQ	UQ	UQ	UQ	UQ	
71	A	55	Security Industries Authority					Q	Q	Q	Q	Q
72	A	56	Small and Medium Enterprises Corporation				Q	Q	Q	Q	Q	Q
73	A	57	Tourism Promotion Authority			UQ	UQ	UQ	UQ	UQ	UQ	UQ
74	A	58	University of Goroka				D	D	D	D	D	D
75	A	58A	Unigor Consultancy Limited						D	D	D	D
76	A	58B	Unigor Humi Catering Limited	No reports have been issued since 2011								
77	A	59	University of Natural Resources and Environment							D	Q	Q
78	A	60	University of Papua New Guinea							Q	Q	D
79	A	60A	Unisave Limited	No reports have been issued since 2012								
80	A	60B	Univentures Limited	No reports have been issued since 2012								
81	B	62	Air Niugini Limited						Q	Q	Q	Q
82	B	62A	Air Niugini Cargo Limited	No reports issued since 2017								
83	B	62B	Air Niugini Properties Limited	No reports issued since 2018								
84	B	62C	Business Travel Centre Limited	No reports issued since 2017								
85	B	62D	Link-PNG Limited						UQ			
86	B	63	Kumul Agriculture Limited			A						
87	B	64	Kumul Petroleum Holdings Limited			UQ	UQ	UQ	UQ	UQ		
88	B	64A	Eda Oil Limited			UQ	UQ	UQ				
89	B	64B	Kumul Exploration (Asia) Limited			UQ	UQ					
90	B	64C	Kumul Gas Foreland 239 B.V	No reports been issued since 2017								
91	B	64D	Kumul Gas Foreland 261 B.V	No reports been issued since 2017								
92	B	64E	Kumul Gas Foreland 268 B.V	No reports been issued since 2017								
93	B	64F	Kumul Gas Foreland 269 B.V	No reports been issued since 2017								
94	B	64G	Kumul Gas Niugini B.V	No reports been issued since 2017								
95	B	64H	Kumul Lending Co Pte Limited			UQ	UQ					
96	B	64I	Kumul LNG Limited			UQ	UQ	UQ	UQ	UQ		
97	B	64J	Kumul Petroleum (Development) Limited					UQ	UQ	UQ		
98	B	64K	Kumul Petroleum (Investments) Limited			UQ	UQ	UQ	UQ	UQ		
99	B	64L	Kumul Petroleum (Kroton) Limited			UQ	UQ	UQ				
100	B	64M	Kumul Petroleum (Pipeline) Limited			UQ	UQ	UQ				
101	B	64N	Kumul Petroleum (Tech and Advisory) Limited			UQ	UQ	UQ	UQ			
102	B	64O	Kumul Petroleum Marketing Pte Limited			UQ	UQ					
103	B	64P	Kumul Security Agent Limited			UQ	UQ					
104	B	64Q	NPCP Oil Company Pty Limited	No reports been issued since 2015								
105	B	65	Kumul Telikom Holdings Limited	New Inclusion								
106	B	65A	Bemobile Limited	No reports issued since 2018								
107	B	65A.1	Bemobile (Solomon Islands) Limited	No reports issued since 2018								

No.	Section	Para. No.	Entity	Comparative Years								
				2020	2019	2018	2017	2016	2015	2014	2013	2012
108	B	65B	PNG DataCo Limited		UQ	UQ	UQ	Q	Q	UQ		
109	B	65C	Telikom (PNG) Limited			D	D	D	D	Q	Q	Q
110	B	65C.1	DATEC (PNG) Limited		UQ	UQ	UQ	UQ	UQ	UQ		
111	B	65C.2	Kalang Advertising Limited		Q	Q	Q	UQ	UQ	UQ	UQ	Q
112	B	65C.3	Media Niugini Limited (EMTV)				UQ	UQ				
113	B	65C.4	PNG Directories Limited		D	Q	UQ	UQ	UQ	UQ	UQ	UQ
114	B	66	Livestock Development Corporation Limited	No reports been issued since 2010								
115	B	67	Mineral Resources Development Company Limited					Q	D	D	D	D
116	B	68	Motor Vehicles Insurance Limited		Q	Q	UQ	UQ	Q	Q	Q	Q
117	B	68A	Pacific MMI Insurance Limited	New Inclusion								
118	B	68B	Pacific Re Limited	New Inclusion								
119	B	69	National Airports Corporation Limited		D	D	D	Q	Q	Q	Q	
120	B	69A	Airport City Development Limited			D	D	D	D	D	D	
121	B	69B	Airports Investments Limited			UQ	UQ	UQ				
122	B	70	NCD Water and Sewerage Limited (Eda Ranu)			D	D	Q	Q	Q	Q	Q
123	B	71	Papua New Guinea Ports Corporation Limited		Q	Q	UQ	UQ	UQ	Q	Q	Q
124	B	72	PNG Air Services Limited						Q	Q	Q	Q
125	B	73	PNG Power Limited				D	D	D	D	D	D
126	B	74	Post PNG Limited		UQ	UQ	UQ	UQ	UQ	UQ	UQ	UQ
127	B	75	Water PNG Limited			D	D	D	D	D	D	D

Keys:

UQ Unqualified Opinion

Q Qualified Opinion

D Disclaimer of Opinion

A Adverse Opinion

Grey shades refer to opinions issued in the prior year reports.

ATTACHMENT 'F'

AUDITS IN ARREARS (2019 AND PRIOR YEARS) COMPLETED DURING 2020/2021
AUDIT CYCLE

No.	Section	Para. No.	Entity	Audits Completed and Reports Issued	Total Units	Audits Substantially Completed	Total Units
1	A	2	APEC Papua New Guinea 2018 Co-ordination Authority	2015 to 2019	5		
2	A	4	Border Development Authority			2014	1
3	A	5	Civil Aviation Safety Authority of Papua New Guinea	2019	1		
4	A	6	Climate Change and Development Authority	2015 to 2017	3	2018 & 2019	2
5	A	7	Cocoa Board of Papua New Guinea			2018	1
6	A	7A	Cocoa Pod Borer Project Fund			2018	1
7	A	7B	Cocoa Stabilisation Fund			2018	1
8	A	8	Cocoa Coconut Institute Limited of Papua New Guinea	2014 to 2016	3		
9	A	9	Coffee Industry Corporation Limited	2017 & 2018	2		
10	A	9A	Coffee Industry Fund	2017 & 2018	2		
11	A	9C	Patana No.61 Limited	2017 & 2018	2		
12	A	11	Government Printing Office	2016 & 2017	2	2018	1
13	A	13	Independent Consumer and Competition Commission	2019	1		
14	A	14	Industrial Centres Development Corporation	2018	1		
15	A	15	Internal Revenue Commission			2016 & 2017	2
16	A	16	Investment Promotion Authority	2019	1		
17	A	17	Kokonast Industri Koporesen	2019	1		
18	A	18	Kumul Consolidated Holdings	2018 & 2019	2		
19	A	18A	General Business Trust	2018 & 2019	2		
20	A	18B	Kumul Technology Development Corporation Limited	2018 & 2019	2		
21	A	18C	PNG Dams Limited	2018 & 2019	2		
22	A	19	Legal Training Institute	2017 to 2019	3		
23	A	20	Mineral Resources Authority	2015 to 2018	4		
24	A	22	National Agricultural Research Institute	2019	1		
25	A	23	National AIDS Council Secretariat	2019	1		
26	A	24	National Broadcasting Corporation	2016	1		
27	A	25	National Capital District Commission			2019	1
28	A	25B	Port Moresby Nature Park Limited	2017	1		
29	A	26	National Cultural Commission	2018 & 2019	2		
30	A	28	National Fisheries Authority	2017 & 2018	2		
31	A	29	National Gaming Control Board			2016	1
32	A	29A	National Gaming Control Board Community Benefit Fund Trust			2016	1
33	A	31	National Information and Communications Technology Authority	2016	1	2017	1
34	A	32	National Maritime Safety Authority	2019	1		
35	A	33	National Museum and Art Gallery	2019	1		
36	A	34	National Research Institute	2017	1		
37	A	35	National Roads Authority	2019	1		
38	A	36	National Training Council	2017 to 2019	3		
39	A	39	Office of the Insurance Commissioner	2017	1		
40	A	40	Oil Palm Industry Corporation	2012	1	2013	1
41	A	42	Papua New Guinea Accident Investigation Commission	2019	1		
42	A	43	Papua New Guinea Customs Service			2017 & 2018	2
43	A	44	Papua New Guinea Forest Authority			2015	1
44	A	46	Papua New Guinea Institute of Medical Research	2018 & 2019	2		
45	A	47	Pacific Institute of Leadership and Governance	2015 to 2017	3		
46	A	48	Papua New Guinea Maritime College	2019	1		
47	A	51	Papua New Guinea University of Technology			2018	1
48	A	51A	National Analytical and Testing Services Limited	2012	1	2013 to 2017	5
49	A	51B	Unitech Development and Consultancy Company Limited	2014 to 2017	4		
50	A	52	Parliamentary Members' Retirement Benefits Fund			2017 to 2019	3
51	A	53	Public Curator of Papua New Guinea			2014	1
52	A	56	Small and Medium Enterprises Corporation			2018	1
53	A	57	Tourism Promotion Authority			2019	1
54	A	58	University of Goroka	2017	1		
55	A	58B	Unigor Humi Catering Limited			2011 to 2015	5
56	A	59	University of Natural Resources and Environment			2015	1

No.	Section	Para. No.	Entity	Audits Completed and Reports Issued	Total Units	Audits Substantially Completed	Total Units
57	B	62	Air Niugini Limited			2016	1
58	B	62D	Link-PNG Limited			2016	1
59	B	63	Kumul Agriculture Limited			2019	1
60	B	64	Kumul Petroleum Holdings Limited			2019	1
61	B	64A	Eda Oil Limited			2019	1
62	B	64B	Kumul Exploration (Asia) Limited			2019	1
63	B	64H	Kumul Lending Co Pte Limited			2019	1
64	B	64I	Kumul LNG Limited			2019	1
65	B	64J	Kumul Petroleum (Development) Limited			2018 & 2019	2
66	B	64K	Kumul Petroleum (Investments) Limited	2017 & 2018	2	2019	1
67	B	64L	Kumul Petroleum (Kroton) Limited			2019	1
68	B	64M	Kumul Petroleum (Pipeline) Limited			2019	1
69	B	64N	Kumul Petroleum (Tech and Advisory) Limited			2019	1
70	B	65B	PNG DataCo Limited	2017 to 2019	3		
71	B	65C	Telikom (PNG) Limited	2015 to 2018	4		
72	B	65C.1	DATEC (PNG) Limited	2018 & 2019	2		
73	B	65C.2	Kalang Advertising Limited	2017 to 2019	3		
74	B	65C.3	Media Niugini Limited (EMTV)			2018 & 2019	2
75	B	65C.4	PNG Directories Limited	2018 & 2019	2		
76	B	66	Livestock Development Corporation Limited			2010 to 2018	9
77	B	69	National Airports Corporation Limited	2019	1		
78	B	70	NCD Water and Sewerage Limited (Eda Ranu)	2017 & 2018	2		
79	B	71	Papua New Guinea Ports Corporation Limited	2019	1		
80	B	73	PNG Power Limited			2018	1
81	B	74	Post (PNG) Limited	2019	1		
82	B	77	Water PNG Limited	2018	1		
					92		61

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 **60B** of this part of my Report.

2. APEC PAPUA NEW GUINEA 2018 CO-ORDINATION AUTHORITY

2.1 INTRODUCTION

2.1.1 Legislation

The APEC PNG 2018 Co-ordination Authority was established by the *APEC Papua New Guinea 2018 Co-ordination Authority Act 2014*. The Act came into operation on 23 December 2014.

In relation to providing protection and security to the delegates of the APEC PNG 2018, the Joint Task Force (JTF) was established by *Asia Pacific Economic Cooperation (APEC) Safety and Security Act 2017*. The Act came into operation on 13 April 2017.

2.1.2 Functions of the Authority and the Joint Task Force

1) The functions of the Authority are to:

- liaise and consult with the relevant government departments and State agencies and other stakeholders to ensure the efficient and successful running of the APEC Meetings 2018;
- enter into and perform contracts for the construction and rehabilitation of the APEC Papua New Guinea 2018 venues, ancillary works and services; and
- do all things ancillary to the foregoing.

The Authority shall, in consultation with other government departments and State agencies, organise all logistical matters to ensure that:

- correct protocols are afforded to all delegates;
- all APEC related meetings are held on time;
- all meeting venues and accommodation meet world class standards; and
- all infrastructures associated with APEC meetings meet world class standards and are completed on time.

2) The functions of the Joint Task Force are to:

- assess, detect and respond to threats to the safety and security of APEC 2018, either on land, sea or air, including imminent threats;
- plan, prepare and execute safety and security operations;
- provide logistical and operational support for APEC 2018 safety and security operations;
- implement the operations order;

- plan, design, co-ordinate and implement authorised international partner support for APEC 2018 safety and security operations;
- declare restricted areas;
- establish and maintain a system of accreditation for safety and security purposes;
- establish sector working groups; and
- such other functions as are necessary or incidental to fulfilling its mission.

The Joint Task Force shall carry out its functions subject to the directions of the Commander.

2.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

2.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Authority's financial statements for the years ended 31 December 2015, 2016, 2017, 2018 and 2019 were issued on 5 March 2021. The respective years' reports contained similar Disclaimer of Opinions, hence, only the 2019 report is reproduced:

“DISCLAIMER OF OPINION

Because of the significant of the matters referred to in the Basis for Disclaimer of Opinion paragraphs below, I was not able to obtain sufficient appropriate audit evidence and accordingly, I am unable to and do not express an opinion on the special purpose financial report of the APEC Papua New Guinea-2018 Co-ordination Authority for the year ended 31 December 2019.

BASIS FOR DISCLAIMER OF OPINION

Expenditure Lacking Supporting Documents

Cash payments totaling K21,201,364 were stated under the statement of cash receipts and payments in the special purpose financial report of the Authority for the year ended 31 December 2019. Of the total, payments valued at K16,531,930 were selected for my testing, to ensure, legitimacy, existence and accuracy of the payments and were appropriately supported with documentation and complied with the *APEC Papua New Guinea-2018 Co-ordination Authority Act 2014* (the APEC Act) and relevant legislature mentioned therein.

My review noted that a number of documents were either not provided or partially provided without sufficient and appropriate supporting documentation. Accordingly, I was unable to obtain sufficient and appropriate audit evidence to express an opinion whether the cash payments made were legitimate expenditure of the Authority, made in accordance with the *APEC Act* or that the expenditures were accurately recorded in the special purpose financial report for the year ended 31 December 2019.

Completeness of Receipts from Government – Alesco Payroll

Included in the statement of cash receipts and payments for the year ended 31 December 2019 were cash receipts from Alesco payroll totaling K1,022,401. Funding provided by the Department of Finance, as payments for employees' wages via the Alesco payroll system (Alesco Payroll), has been a significant source of funding for the Authority.

The Authority has determined that it is impracticable to establish control over the recording of funding provided by Alesco payroll prior to entry into its financial records. As the evidence available to me regarding funding from this source was limited, my audit procedures with respect to this funding was restricted to the amounts recorded in the financial records. Accordingly, I was unable to obtain sufficient and appropriate audit evidence regarding whether this funding recorded was complete.

Corresponding Amounts

My audit opinion of the Authority for the year ended 31 December 2018 was disclaimed with respect to:

- expenditure totaling K331,025,203 that lacked sufficient and appropriate supporting documents for me to test the existence, accuracy and completeness of the recorded expenditure items;
- completeness of the receipts from the Department of Finance through the Alesco payroll totaling K10,038,628; and
- completeness of the receipts from the Department of PM&NEC totaling K21,094,853.

These amounts are reflected as comparative amounts in the special purpose financial report.

EMPHASIS OF MATTERS

I draw attention to place emphasis on the following significant matters, whilst not qualifying on these issues:

Outstanding Liabilities – Creditors

Pages 13 to 15 of the financial report includes details of various capital expenditures and liabilities incurred during 2015 to 2019 for conduct of the APEC PNG 2018 meetings. These expenditures include K58,385,368 disclosed under *Note 16(B)* as outstanding liabilities of the Authority as at 31 December 2019. Of the total liability, K38,752,827 was incurred by APEC Authority and K19,632,541 was incurred by Joint Security Task Force (JSTF) respectively. These amounts were subsequently transferred to the Department of Finance. I have not audited these liabilities since sufficient and appropriate documentation were not made available for my review. Therefore, I was unable to determine their existence, accuracy and legitimacy of these liabilities.

Capital Expenditures

Note 16(ii) refers to Infrastructure Investment Capital Expenditure. I noted that the value of APEC Haus built by Oil Search Limited under tax credit scheme was not appropriately disclosed in the financial report. Further, K100 million paid by the State as its contribution for the construction of Hilton hotel purposely built for the APEC events was not disclosed in the financial report. Accordingly, this could materially affect the completeness of the special purpose financial report.”

2.2.2 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 period 1 January 2015 to 31 December 2019 was issued on 5 March 2021. The management responses to the audit findings are excluded, however they can be found in a separate report delivered to Parliament in April 2021. The report contained the following issues:

Required Reports not Prepared or Furnished in a Timely Manner

I noted that the Authority had failed to prepare and furnish various reports as required under the *APEC Papua New Guinea 2018 Co-ordination Authority Act 2014 (the APEC Act)* on the stipulated times. The various reports that were required under the *APEC Act* are as follows:

- Provisions under *Section 6* of the *APEC Act* required the Authority to provide reports on achievement of milestones related to its objectives to the Minister responsible for his review to ensure compliance and achievement of the Authority's objectives. There was no evidence available for me to confirm that the required reports had been prepared and submitted to the Minister responsible.
- Provisions under *Section 15* of the *APEC Act* required the Authority to prepare reports in every 6 month (periodic) or upon request of the Minister responsible or the NEC on the progress and performance in relation to its functions. As evidenced, these reports had not been prepared and furnished to comply with the requirements.
- Provisions under *Section 19* of the *APEC Act* required the Authority to comply with *Public Finances (Management) Act 1995 (as amended)*, in specific, *Part VIII* (other than *Section 54, 55 and 57*), which under *Section 63(4)* requires that the Authority shall be subject to audit for every financial year before 30 June of the following year. As evidenced, all the financial reports of the Authority for the financial years 2015 to 2018 were submitted to me in December 2019 for conduct of the audits.
- Provisions under *Section 29* of the *APEC Act* required the Authority to furnish final report on the activities and performance of the Authority and on its winding up. The report shall include an audit report. However, these reports had been long delayed since the audits of the Authority for the financial years 2015 to 2019 had been delayed.

Accordingly, the Authority had departed from compliance with the relevant requirements set out under the *APEC Act* and the *Public Finances (Management) Act, 1995 (as amended) (PFMA)*. I was unable to determine the causes of not producing the reports or the delays. However, possible causes may include lack of human resource capacity or records not maintained in order and were intact to facilitate timely reporting.

As the Authority was not operational at the time of this Report, I recommended that management of any organization established as a one-time authority must adopt and implement appropriate control measures and processes to ensure the following:

- Adequate and appropriately skilled and knowledgeable personnel are engaged to carry out day-to-day functions including the monitoring and reporting processes;
- All source documents are filed and maintained intact under retention policies and procedures manual, and the records are centralized to enable timely report compilation;
- All required reports are prepared and furnished on the stipulated times;
- Financial reports of such *short-lived* authorities are prepared at least annually;

- A draft copy of the financial reports for each financial year is forwarded to the Office of the Auditor-General before 30 April of the following year to enable the Office to conduct audit and issue report to the Parliament as required under the *Audit Act 1989 (as amended)* and the *Public Finances (Management) Act, 1995 (as amended)*;
- Operational plans, budgets and work plans are drafted, approved by the NEC and must exist as control tools before the public funds are receipted and disbursed; and
- All plans and budgets are monitored on a regular and timely basis and variances that arise must be factored into variance documents with proper approval given by the NEC.

The Authority's Bank Account was opened in 2016 and Trust Account in 2018

Section 22 of the *APEC Act* states that the Authority shall open and maintain bank accounts with Bank of PNG or commercial banks and at all times maintain one such bank account. However, the Authority opened its first bank account with Bank South Pacific (BSP) only in 2016.

This was one (1) year after the *APEC Act* came into force on 23 December 2014 and expenditures on APEC meetings preparation were already committed by the PM&NEC from 2015. Further, receipts and payments by the Authority's bank accounts from 2016 to 2017 had been minimal until the financial year 2018. K176,834,445 was expended by PM&NEC for the financial years 2015, 2016 and 2017 for the APEC meeting.

The Asia Pacific Economic Cooperation (APEC) Trust Account was opened on 22 February 2018 after three (3) years of enactment of the *APEC Act*. However, the controlling public or statutory body of the Trust Account was Department of PM&NEC and not APEC Authority. Also, the mandatory signatories to the account were Secretary and Deputy Secretary for Operation of the Department of Finance and the counter signatories were APEC CEO and Deputy Secretary Operations – Department of PM&NEC.

Further, the Asia Pacific Economic Cooperation (APEC) Security Trust Account was opened on 16 January 2018. However, the controlling public or statutory body of the Trust Account was Department of PM&NEC and not the APEC Authority. Also, the mandatory signatories for the account were Secretary and Deputy Secretary for Operation of Department of Finance and the counter signatories are Commissioner for Royal Papua New Guinea Constabulary (Police) and Secretary for Defence, Department of Defence.

As a result, the following issues were noted to arise:

- Although the *APEC Act* was in force in 2015, the Authority failed to comply with provisions under *Section 22* of the *APEC Act* to open the bank accounts immediately;
- The Department of the PM&NEC continued to receive and disburse funds for and on behalf of the Authority, which was not appropriate. I could not see the NEC decision or documents on any other arrangements that might have been made to decentralize the ultimate financial powers the Authority has under *Section 22, Subsection 2* to receive and disburse all monies through the Authority's own bank accounts; and
- As the receipts and payments related to APEC meetings were handled by 5 different entities, register of transactions and record keeping were not centralized hence, exposed to high risks of abuse of funds and manipulation of records and data.

I recommended that in future the Minister responsible and key stakeholders must ensure that bank accounts of such short-lived authorities are opened and utilized in compliance with the enabling laws. I advised that using the organization's own bank account increases level of centralization in overall governance, monitoring, accounting and record keeping and timely audit of the authorities and to avoid unnecessary delays.

Lack of Centralized Governance Body and Integration of Management Systems

Receipts and payments of the APEC 2018 meetings funds were handled by five (5) different entities namely; the PM&NEC, the Department of Finance, the JSTF, the Department of Defence and the APEC Authority itself. Accordingly, establishment of a central governance body was necessary to oversee and approve all payments processed through the five (5) different channels, and to ensure control over the entire operations of the Authority. *Section 9* of the *APEC Act* requires the establishment of the APEC Operations Task Force to provide oversight of the Authority. However, no meeting minutes of such central governance body were available for my confirmation of their existence.

Further, the five (5) entities operated in isolation using their respective standalone systems to capture their share of APEC meetings related transactions. Hence, there was no system integration to collate, compile and centralize the transaction data from the five (5) payment channels. As a result, transaction listings and payments records provided may be incomplete. I also experienced long delays and difficulties in receiving the requested information for conducting and finalizing the audits of the Authority for the years ended 31 December 2015, 2016, 2017, 2018 and 2019. There was no clear audit trail to ensure completeness and accuracy of the final financial data presented in the financial reports.

I emphasized that where financial functions of an organization are decentralized, it is more appropriate and prudent to establish a central governance body. I recommended that in future the management together with the Minister responsible and relevant key stakeholders must ensure that such organizations:

- establish a central governance body to oversee and approve all payments processed over decentralized financial functions as seen in this case of the APEC Authority; and
- maintain proper accounting records and source documents in line with approved filing and retention policy and procedures manual by the organisation itself and not at every decentralized organisations.

Missing Transaction Listings and Source Documents

My audit procedures to verify appropriateness, completeness and accuracy of the payment figures reported in the financial reports for the years ended 31 December 2015 to 2019 had been limited since a significant number of the documents requested were not received by me at the conclusion of this audit.

The transaction listings provided may be incomplete and about 78% of the payment samples selected for testing could not be provided with all relevant source documents. I noted that proper filing and archiving systems and processes did not appear to be designed and implemented to ensure proper maintenance of all the payments and transactions records pertained to the APEC events.

As the transactions listings provided may not be complete, I could not select samples or perform other substantive procedures over a significant sub-population (number) of the payments. Based on the transaction listings made available, I have requested 1,403 payment samples for testing as presented in column 4 of *Table 1.1* below. Out of the total samples requested only 305 were provided as indicated in column 6 of the table. This means 1,098 or 78% of the payment samples requested could not be provided as shown in columns 5 and 7 of the table.

Even though the management claimed that they have provided 60.4% of the payment documents, most of the payment vouchers were incomplete without underlying documents, including quotes, tender documents, evaluation report, tender board resolution, engagement contracts signed by the relevant authorities, etc.

Table 1.1 Summary of substantive samples by payment channel

Payment Channels (entities)	Total Payments (Kina)	Value of samples requested (Kina)	Number of samples requested	Outstanding samples	Partially received samples	Outstanding samples in (%)
PM & NEC	209,660,951	161,074,797	664	394	270	59%
APEC	288,325,818	175,694,272	168	148	20	88%
JSTF	29,476,439	10,612,681	293	278	15	95%
DoF - Alesco	11,061,028	2,631,561	278	278	0	100%
Total	538,524,235	350,013,311	1,403	1,098	305	78%

I have reported in my other findings that a central governance body did not appear to exist to oversee all payments processed through the 5 payment channels. Also, the systems they used were not integrated to centralize the financial data and records. As a result, transaction listings provided were incomplete and payment samples requested could not be provided in entirety.

Accordingly, I was unable to conclude my audit procedures satisfactorily by alternative means to ensure appropriateness, completeness and accuracy of the financial information reported in the financial reports. I could not confirm whether the payments made have been appropriately approved and paid to genuine service providers that were contracted through proper tendering processes.

I recommended that the management together with the relevant stakeholders to ensure such short-lived authorities that arise in future:

- Design and implement proper filing and archiving systems, processes and controls to ensure that documents pertaining to operational activities are appropriately filed and safely maintained for easiness and fast retrieval whenever needed; and
- A policy and procedures manual are drafted, reviewed, approved, implemented and closely monitored to ensure effective control is attained in respect of the above.

Establishment of Supply and Tenders Board

My requests to the Authority to provide listing of the APEC Papua New Guinea Supply and Tenders Board members, tender register, contract register, approved suppliers and service organization listings, procurement plan, and policies and procedures manual for the five (5) years (2015-2019) could not be provided at the conclusion of my audit.

In addition, minutes of the APEC Papua New Guinea Supply and Tenders Board deliberations and contract agreements duly signed by the Supply and Tenders Board and the NEC according to their financial authority limit to engage contractors were not provided for my review.

Per *Table 1.1* above payment samples totaled 1,403 at a value of K350,013,311 were selected throughout the 5 years. No complete documentation was provided for 78% of the samples which included on the tendering and contract awarding processes, and contracts agreements signed with the Chairman of the APEC Papua New Guinea Supply and Tenders Board and Head of State as required under *Section 21(3)(b)*, *21(4)* and *Section 21(5)* of the *APEC Act* respectively. The Authority was required by provisions under *Section 20* of the *APEC Act* to establish a Supply and Tenders Board (the S&T Board). The provisions under *Section 21* of the *APEC Act* stipulates the functions of the S&T Board. The Chief Secretary shall be the Chairman of the S&T Board.

Due to the lack of supporting documentations including the listing of the Supply and Tenders Board members and their meeting minutes, I was unable to confirm the establishment and existence of the S&T Board. Also, I was unable to ensure legitimacy of all contractors engaged and validity of the payments made to the contractors and goods and service providers.

At the conclusion of this audit, the Authority is extinct. Therefore, I recommended that management must ensure the following in future:

- Establish, implement or enforce all functions or requirements including set up of the Supply and Tenders Board as required under the relevant legislation;
- All appropriate processes and controls are adhered to in line with all applicable laws and be held accountable in instances of non-compliance;
- Implement a suitable policy with regard to record keeping so that filing and storage of all relevant source documents are well maintained for future review and audit; and
- Maintain a centralized governance committee to enforce proper control and monitoring over maintenance of the accounts and source documents to enable conduct of audit within a set time frame.

No SCMC/NEC Approval sighted on the Salaries and Conditions of the Employees

I noted that payments of salaries and allowances of the employees of the Authority were made from all the five (5) payment channels.

My audit procedures identified issues or difficulties are detailed below:

- *Section 11, Sub-sections 6 and 7* of the *APEC Act* states that terms and conditions of employment of the Chief Executive Officer (CEO) of the Authority shall be determined by the National Executive Council (NEC) and the salaries, allowances and benefits of the CEO shall be determined by the Salaries and Conditions Monitoring Committee (SCMC).

- *Section 9(2) of the Salaries and Conditions Monitoring Committee Act 1988 (the SCMC Act)* states that the CEO of the Authority shall be responsible for ensuring that the employees of the Authority are remunerated in accordance with the salaries and conditions approved by the SCMC.

My request for listings of the employees on the Authority's organizational structure, their contracts of employment and the salary structure approved by the SCMC were not provided for my review to ensure the salaries and allowances were paid in accordance with the NEC determined and the SCMC approved conditions.

- *Section 10(1) of the SCMC Act* states that a public body (the Authority) cannot determine or vary the salaries and conditions of employment of any employee on its own accord as such will be void and unenforceable with payment made under such arrangement recoverable by the State.

My request for the listings of all the employees on the Authority's organizational structure and details of performance measures and incentive compensation taken were not provided for my review. Should there be any variations made to the salaries and conditions of the employees, I was unable to determine whether proper approval was sought in accordance with *Section 11(1) of the SCMC Act* and granted by the SCMC.

- I noted instance where allowances were paid at the rate of K500 per day opposing to K200 per day as required under the Public Services General Orders. No NEC approval was provided to substantiate the new daily allowance rate used or the excess allowance paid. The documentations on a significant number of allowances paid under the Joint Security Task Force (JSTF) payments were not provided for my review.
- I have selected samples of payroll and allowance payments for staff including that of the CEO and requested supporting documentations including pay slips, hours worked and rate per hour, proof of identification and signed and dated employment contracts to determine whether the salaries and allowances paid were properly approved and complied with the *SCMC Act*, and that the payees were not factious or fraudulent.

However, none of the documentations requested was made available for my review to ensure validity and legitimacy of the salaries and allowances paid through the various payment channels. Unbelievably, no information was provided for samples selected for my test on payments channeled through the Alesco payroll system.

As a result, I could not ascertain whether the remunerations paid to the Authority's employees and the allowances paid to the security personnel complied with the *APEC Act*, the *SCMC Act*, the *PFMA* and the other regulatory frameworks including the Public Services General Orders.

At the conclusion of this audit, the Authority is extinct. Therefore, I recommended that management of such organization established in future should ensure the following:

- All appropriate processes and controls are implemented, enforced and adhered to in accordance with all the relevant laws that are applicable and be held accountable in instances of non-compliance;
- Implement suitable policies with regard to recordkeeping so that filing and storage of all relevant source documents are well maintained for future review and for the purpose of audit use; and
- Maintain a centralized governance committee to enforce proper control over the overall operations including close monitoring over maintenance of the accounts and source documents to enable conduct of audit within a set time frame.

In-complete Financial Reports

I was provided with the draft financial reports for the financial years ended 31 December 2015, 2016, 2017, 2018, and 2019 backed with majority of the transaction listings. Though, my audit procedures had been designed to reasonably verify the existence, completeness, accuracy and compliance aspects of the sampled transactions presented in these reports, the matter of *completeness* of the data presented in these reports could not be reasonably verified given the following findings:

- The Department of PM&NEC had not maintained separate bank accounts for transacting the APEC meetings related receipts and payments. During the APEC meeting period between 2015 to 2018, K205.6 million was expended from the Department of PM&NEC, however they drew the funds from their main operational bank accounts and merely registered the payments under APEC meetings payments listings/ledgers.

These payments registers/ledgers were then extracted and supplied for drafting the financial reports. It has not been possible for me to trace and agree the APEC meetings related transactions listings amounts with the bank statements amounts; and

- While thousands of operational transactions were made from its respective operational bank accounts in a year, the APEC meetings payments were also channeled from the same operational bank accounts posing high risks for posting errors and fraudulent activities to go undetected. There was a possibility that payments drawn for APEC meetings related expenses may not be registered under the APEC payments register or fictitious payments could be registered under the APEC meetings expenditures.

Due to the fact that the Department of the PM&NEC had not maintained separate bank accounts for transacting the APEC meeting related expenses, I was unable to complete my audit procedures to verify the completeness of the payments made from the channel. Additionally, system generated trial balances which should summarize the capture of all transactions from the four (4) payment channels, and as a basic requirement for maintaining set of accounts was not provided for my review.

I recommended that going forward centralized accounting systems are maintained to facilitate proper record keeping and timely report productions.

Audit Requirements

Section 24 of the APEC Act, states that the Authority shall appoint an independent Probity Auditor, who shall advise the Authority and Chairman of the APEC 2018 Supply and Tenders (S&T) Board on matters of transparency and probity. I was unable to confirm whether a probity auditor had been engaged progressively throughout the years as no service agreements nor their audit reports were furnished to me.

In addition, I noted as per *Section 29 of the APEC Act* that the Authority was to furnish to the Minister a final report on the activities and performance of the Authority and on its winding up. The report was to include an audit report “*prepared by a first-tier firm of auditor and accountants with an office in Port Moresby*” and be tabled in Parliament by the Minister during the first sitting of Parliament after receipt of the report by the Minister.

As detailed in my observation number one (1) of this report, the audit and report on each of the five (5) financial years had been long delayed with high considerations given to the specified time of reporting under applicable legislations.

Furthermore, I noted that *Section 29(2)(a) of the APEC Act* is silent on the Auditor-General of Papua New Guinea conducting the audit of the Authority by stating that a “*first-tier firm of auditors and accountants with an office in Port Moresby*” will report on the financial statements of the Authority. Hence, this provision conflicts with the mandate and powers given to the Auditor-General of Papua New Guinea under *Section 214 of the Constitution* and other enabling Act of Parliament including *Part II of the Audit Act 1989 (as amended)* and *Section 63 of the Public Finances (Management) Act, 1995 (as amended)* to conduct the audit of all public bodies including the statutory authorities and State-owned companies funded by the State.

I recommended that all public bodies and authorities that are established by an Act of Parliament using public funds are subject to audit by the Auditor-General of Papua New Guinea under the requirements of the *Constitution*, the *Public Finances (Management) Act, 1995 (as amended)* and the *Audit Act 1989 (as amended)*.

I also emphasized that probity auditors should be engaged as required by the respective enabling Act. Service agreements and final audit reports of the probity auditors should be filed appropriately for easy reference when needed.

I further highlighted that going forward, enactment of any such laws by Parliament must ensure to avoid such oversight that causes conflict with the existing laws in particular of my constitutional responsibility as the State auditor.

Human Resources Capabilities

Section 9 of the *APEC Act*, states that the APEC Operations taskforce is responsible for providing oversight of the APEC CEO to ensure his functions and that of the Authority are performed properly. *Section 12* further states that the functions of the APEC CEO are to carry out the day-to-day business of the Authority, implement the decision of the Operations Taskforce and administer the staff of the Authority in an efficient and effective manner and in accordance with the Operations Plan 2018. The APEC CEO is also responsible and accountable to the Government in relation to these functions.

Throughout the course of the audit, I faced significant delays and difficulties in receiving the requested documentation as detailed in my observation number three (3) of this report. As part of the risk assessment procedures for APEC audit, I had requested for the meeting minutes of the Authority, fraud registers, budgets and other monitoring tools maintained in relation to the APEC 2018 PNG meetings.

However, these documents could not be provided to me at the conclusion of this audit. I also could not obtain few of the transactions listings which had been outstanding and supporting source documents for some sampled transactions.

As such, I could not comment on whether the Authority had the necessary human resource capabilities employed to effectively and efficiently run the Authority not only in accordance with the relevant legislature but even in line with standard best practice.

I recommended that going forward a proper filing and retention policies and procedures are designed and implemented by such public authorities. Maintenance of accounts and other reporting documents should also be centralized.

Moreover, the Minister and operations taskforce of such public authorities must ensure that management of the authorities are performing their functions as required and are held accountable on a progressive basis. The CEOs of such authorities should also ensure that they have a strong team of staff that have the necessary skills, knowledge and accountability to perform their duties efficiently and effectively.

Lack of Timely Recovery and Disposal of Assets

Section 26 of the *APEC Act*, states that upon winding up of the Authority, all assets of the Authority are to be transferred to the State. *Section 28* further states that surplus funds and assets, after discharging liabilities, shall be disposed in consultation with the Operations Plan 2018 (I was not provided with a copy of the plan to determine whether the plan has been executed as approved by relevant authority). I noted that a total of 326 motor vehicles were purchased by the Government of Papua New Guinea through the bank account of the Department of PM&NEC. The purchases included 40 Maserati's and 3 Bentleys which were luxury vehicles. In addition, the partner countries donated 166 vehicles. Accordingly, a total of 492 vehicles were available for use during the APEC PNG 2018 meetings. I further noted that a significant amount of funds were also spent by JSTF and PM&NEC on hire cars.

Under the instruction by the Secretary of the Department of Finance (DOF), all vehicles should be returned and accounted for. However, at the conclusion of this audit, 109 vehicles out of the 492 were yet to be recovered from certain individuals still in possession of these vehicles according to Department of Finance (DOF) latest information provided to me on 15 February 2021.

I understand that an APEC Assets Disposal Committee had been set up for the purpose of making sure that all vehicles are accounted for and are properly disposed off through public tender process or allocated and distributed to public and statutory bodies, provincial and district government arms, NGO, hospitals and other charitable organisations.

The Department of Finance (DOF) latest report further states that 257 vehicles were distributed to public and statutory bodies, provincial and district government arms, NGO, hospitals and other charitable organisations. 192 vehicles were to be disposed off through public tender, which includes the 109 vehicles yet to be recovered from certain individuals.

I noted that for the luxury vehicles, in particular, 38 Maserati's are yet to be sold and are currently housed in a warehouse. I further noted that the vehicles are currently lying idle and are also uninsured which exposes the State to the risk of losses in an event of a fire or theft. The value of these assets may be also depreciated. I recommended that a full asset register of all assets is prepared and that assets are physically verified. The register must include those transferred to State and disposed. I also recommended that the relevant government departments take proactive measures to ensure that the remaining assets are disposed through transparent tender processes.

In addition, I highlighted that while the assets remain unsold they should be properly stored, monitored and insured to minimise the risk of losses.

Liabilities as at the Winding-Up could not be Verified of their Validity and Completeness

Section 27 of the *APEC Act* states that upon winding up of the Authority, all liabilities of the Authority are to be transferred to the State and discharged by the Department of Finance.

As per the information disclosed in the financial report in page 13, the liabilities of the Authority amounted to K58,385,368 as at 31 December 2019. I was not provided with all relevant supporting documentation to verify the validity of the liabilities. As a result, I was unable to determine the existence and accuracy of the creditor listings provided and payables recorded as at 31 December 2019.

I recommended that going forward, the Authority, Department of Finance and other relevant stakeholders must perform a thorough and proper reconciliation to ensure the accuracy of the creditors which the State is liable to settle.

Payments made to Circumvent the Laws Appeared to Occur

My inspection of the Authority's transaction listings for its five (5) years of operations revealed that certain transactions appeared to have duplicate descriptions, dates and amounts. I have sampled some of these payments suspected of duplication for testing.

Based on the supporting evidences I obtained, invoices with large amounts that exceeded K500,000 were broken down into smaller parts possibly to slip under the approval limits for the purpose of making the approval and payment processes quicker. Such practice has been notably a departure from compliance with *Section 21* of the *APEC Act* which requires amounts over K500,000 to be put up for public tender. The practice also circumvented and breached requirements under the *Public Finances (Management) Act, 1995 (as amended)*.

Majority of such transactions suspected of duplication remain outstanding for testing and lack of supporting documentations for my review. As a result, I was unable to comment on the existence, accuracy or appropriateness of these transactions and the impacts they could have on the respective years' financial reports.

I recommended that going forward proper processes and controls in terms of obtaining approvals and payments must follow prescribed financial authority limit set under such Authority's own Act and the *Public Finances (Management) Act, 1995 (as amended)* for transparency, accountability and compliance. Having noted the suspected payment duplications, I also recommended that reconciling of creditors on a regular basis is necessary to ensure fictitious invoices with intention to increase the creditors balance are not included.

Payments not included in the Authority's Special Purpose Financial Reports

The APEC Haus was constructed for the APEC 2018 meetings in Papua New Guinea.

I understand that the costs to construct the building was done through an arrangement between Oil Search Limited ('OSL') and the Internal Revenue Commission (the 'IRC') in that the tax credits of OSL were used to pay for the construction costs of the building rather than being paid to the IRC.

The construction costs were not taken up in the financial reports of the Authority, however, I do note that this was a significant cost in relation to the APEC 2018 meetings and should have been appropriately disclosed. I have not viewed any documentation on this matter.

I recommended that a separate audit be done on the APEC Haus. This audit should not only cover the appropriateness of the cost of construction of the building but also an assessment of the utilisation of the building and its current earning capacity.

State Contribution to Hilton Hotel

I noted that K100 million (US\$30 million) was paid by the State through Kumul Petroleum Holdings Limited as its contribution for the construction of Hilton Hotel, which was purposely built to accommodate guests for the APEC events. However, this amount was not disclosed in the Financial Reports of the Authority.

2.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Authority ceased to exist as it was set up as a short term entity for the duration of the APEC 2018 meetings preparation and hosting. The 2019 report has been my last Report and I will not report on the Authority in my future Reports.

3. BANK OF PAPUA NEW GUINEA

3.1 INTRODUCTION

3.1.1 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*.

3.1.2 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;
- formulate financial regulation and prudential standards to ensure stability of the financial system in PNG;
- promote an efficient national and international payments system; and
- subject to the above, to promote macro-economic stability and economic growth in PNG.

3.1.3 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.

3.1.4 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 provide additional responsibilities to the Bank.

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 Bank for the year ended 31 December 2020 was in progress.

4. BORDER DEVELOPMENT AUTHORITY

4.1 INTRODUCTION

4.1.1 Legislation

The Border Development Authority was established under the *Border Development Authority Act 2008*. This Act came into operation on 7 October 2008. However, this Act was repealed and abolished Border Development Authority by Parliament through *Border Development Authority (Repeal) Act 2019*.

4.1.2 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.

4.1.3 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.

4.1.4 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 4A of this Report.

4.2 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 but I was unable to evaluate the results and complete the report.

The Authority had submitted its financial statements for the years ended 31 December 2015, 2016 and 2017 for my inspection and audit. However, my efforts to conduct these audits were unsuccessful as the Authority's Office located at the NDB Building in Waigani was locked. In addition, my attempts to locate the current Office were unsuccessful.

The Authority had not submitted its financial statements for the years ended 31 December 2018 and 2019 for my inspection and audit.

However, I noted that the Authority was abolished by Parliament in 2019. Further, I was unable to establish whether proper procedures were followed to account and dispose or transfer assets in the custody of the Authority back to the State.

4A. PAPUA NEW GUINEA MARITIME TRANSPORT LIMITED **(Subsidiary of the Border Development Authority)**

4A.1 INTRODUCTION

4A.1.1 Legislation

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.

I noted that the *Border Development Authority Act 2008* was repealed and abolished Border Development Authority by Parliament through *Border Development Authority (Repeal) Act 2019*.

4A.1.2 Function 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.

4A.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 to 2020 for my inspection and audit despite numerous reminders.

Since the parent entity was abolished in 2019, I will continue to report until Papua New Guinea Maritime Transport Limited is fully liquidated and deregistered.

5. CIVIL AVIATION SAFETY AUTHORITY OF PAPUA NEW GUINEA

5.1 INTRODUCTION

5.1.1 Legislation

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

5.1.2 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.

5.2 AUDIT OBSERVATIONS AND RECOMMENDATION

5.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Authority for the years ended 31 December 2019 and 2020 were issued on 12 August 2020 and 30 June 2021 respectively. The reports contained similar Qualified Opinions, hence, only the 2020 report is reproduced:

“QUALIFIED OPINION

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

- (a) the financial statements of Civil Aviation Safety Authority for the year ended 31 December 2020:
 - (i) give a true and fair view of the financial position and the results of its financial performance and cash flows for the year ended on that date; and
 - (ii) the financial statements have been presented in accordance with the *International Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea.

- (b) Proper accounting records have been kept by the Authority, as far as appears from my examination of those records; and
- (c) I have obtained all the information and explanation required.

BASIS FOR QUALIFIED OPINION

Revenue and Receivables from National Airports Corporation (NAC) and PNG Air Service Limited (PNGASL) (now renamed “NiuSky Pacific Limited”)

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 Civil Aviation Safety Authority (CASA). Those charges comprised 30 percent (%) of CASA’s annual collection in 2020. In respect of monthly invoicing and collections from these two debtors, I noted that CASA’s invoicing is dependent upon calculations and data only available to NAC and PNGASL which are technically not accessible or assessable by 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 the 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 2020.

Value of Land

Note 17 to the financial statements contains the Authority’s property, plant and equipment at a net book value of K5,917,000. The land and building of the Authority should have distinct values per valuation report however, no values were assigned to the land.

I noted that a valuation done in 2018 covered only the buildings while the land on which those buildings are on were not valued nor recorded in the Fixed Assets Register (FAR). As a result, the total fixed assets of the Authority as reported in the financial statements has been materially understated.”

5.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Authority for the years ended 31 December 2019 and 2020 were issued on 12 August 2020 and 30 June 2021 respectively. The reports contained similar observations, hence, only the 2020 observations are reproduced:

Internal Audit Recommendations

I noted numerous internal audit recommendations remain unattended at the year end, and most of these have been carried forward into succeeding years without resolving.

Out of a total of 97 issues flagged by the Internal Audit since 2016, only 22 issues have been resolved and 75 or 77% of the issues were still open for management rectification.

I stressed that every internal audit recommendation must be resolved to ensure that internal system deficiencies are improved and irregularities are prevented thus, adding value to CASA's functions and overall objectives. I recommended the management to allocate staff to immediately attend to and rectify the outstanding internal audit recommendations.

Procurement Policy Manual (PPM) and Finance Policy & Procedural Manual (FPPM)

I was informed that Procurement Policy Manual and Finance Policy & Procedural Manual (FPPM) of CASA were under-going review and approval. However, no draft copies were provided for my review.

I highlighted that updated Financial Policy & Procedural Manual with Standard Operating Procedures on all areas of financial activities are necessary to comply with financial standards and to ensure systematization of procedures. I recommended the management to ensure a comprehensive review, compilation, and completion of the CASA's FPPM.

The management responded as follows:

"The Financial Policy & Procedural Manual is being revised and updated and expected to be completed by end of July 2021. The revision is necessary in the light of the National Procurement Act and various amendments to the Public Finances Management Act."

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

6.1 INTRODUCTION

6.1.1 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 the 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.

6.1.2 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*.

6.1.3 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.

6.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

6.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Authority’s financial statements for the years ended 31 December 2015 were issued on 31 August 2020 and both the 2016 and 2017 on 30 June 2021 respectively. The 2015 and 2016 reports contained Disclaimer of Opinions while the 2017 report contained a Qualified Opinion. For the purpose of this Report:

“QUALIFIED OPINION

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs below, the accompanying financial statements are:

- a) based on proper accounts and records; and
- b) in agreement with those accounts and records, and show fairly the state of affairs of the Authority for the year ended 31 December 2017 and the results of its financial operations and cash flows for the year then ended.

BASIS FOR QUALIFIED OPINION**Opening Balances**

My report for the year ended 31 December 2016 was a disclaimer of opinion on the basis that I could not satisfy myself as to the accuracy, existence and completeness of the cash, fixed assets and all income and expenditure accounts balances reported in the statement of receipts and payments or disclosed in the notes to the financial statements for the year ended 31 December 2016. The cash and fixed assets balances at 31 December 2016 were taken up as opening balances at 1 January 2017, while the income and expenditure balances of 2016 were presented as comparative year figures.

I was unable to perform alternative audit procedures to confirm the valuation, existence, accuracy and completeness of the 2016 closing accounts balances taken up as opening balances at 1 January 2017 or as comparative year figures in the financial statements for the year ended 31 December 2017.

Accordingly, I could not determine what adjustment might be necessary on the opening balances of the cash and fixed assets as at 31 December 2017 and comparative year's income and expenditure figures presented.

Cash at Bank – K419,452

My review of the Authority's Cash and Cash Equivalents balance of K419,452 as disclosed in *Note 4* to the financial statements revealed the following:

- A variance of K281,540 existed between the cashbook balance and the financial statements amount of K419,452 as disclosed in *Note 4* to the financial statements. No explanation was provided for the variance;
- The CCDA Trust Account had a cash balance of K65,130 at the year end. However, no monthly bank reconciliations were prepared during the year. I was not able to perform the necessary audit procedures to ascertain the valuation, accuracy and existence of the K65,130 in the CCDA Trust account as at 31 December 2017;

- I was not provided with the independent bank confirmations on all the Authority's bank accounts balances at year end;
- Various cheques worth K159,989 which related to payments made from the main operating bank account remained unrepresented for more than one (1) year and had become stale. These cheques were not timely investigated and properly written back or adjusted;
- Internal controls surrounding the management and use of petty cash has been very weak. There was no petty cash policy in place to determine the use and acquittal of petty cash advances including the petty cash float amount. Also, petty cash register and supporting documents were not provided for my verification. Accordingly, I was unable to validate petty cash payments totalled K14,620; and
- Overall controls over cash management functions of the Authority has been very weak therefore, it has not been practical to place reliance on the effectiveness of the cash management functions.

As a result of these shortcomings, I was unable to ascertain the accuracy, completeness and existence of the total cash and cash equivalent balance of K419,452 as reported at the year-end.

Fixed Assets – K2,776,232

The Authority disclosed its fixed assets at K2,776,232 in *Note 5* to the financial statements. However, the Authority did not maintain a Fixed Assets Register capturing all the fixed assets acquired over the years to date. In the absence of Fixed Assets Register, I was unable to extend my audit procedures to satisfy myself as to the valuation, accuracy and existence of the fixed assets balance disclosed as at 31 December 2017.

Operating Expenditures – K3,028,896

I noted during my review of the Authority's operating expenditures that payments totaled K273,705 could not be substantiated due to lack of supporting documentations. The payment vouchers requested could not be provided for my verification. As such, I was not able to gain reasonable assurance over the occurrence, reasonableness and authenticity of the above payments. Accordingly, I was unable to conclude on the accuracy and completeness of the total expenditures balance disclosed in the financial statements for the year ended 31 December 2017."

6.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Authority for the years ended 31 December 2015 were issued on 31 August 2020 and both the 2016 and 2017 on 30 June 2021 respectively. These reports contained similar observations, hence, only the 2017 report is reproduced:

Internal Control Environment

My review on the overall internal control environment revealed that the Authority did not have an approved tailor-made accounting and operational policies and procedures specifically in the areas of accounting, procurements, fixed assets and human resources to guide personnel in their routine operational activities as well as to maintain continuity and consistency of operations.

I advised that internal control mechanisms including accounting manuals, operational guidelines and policies promote uniform application of processes across all levels of management for effective operation of any organization. Therefore, I recommended the management to create accounting manuals and other operational guidelines and policies and communicate to all levels of the management for implementation and adherence.

I also stressed that lack of such policies create avenues for abuse of public funds including the risk of fraud and malpractice without detection.

Management concurred with my recommendations and advised that drafting of the manuals are currently in progress with the assistance given by the Building Resilience to Climate Change (BRCC) Project.

Internal Audit Unit

I noted that an Internal Audit Unit has been included in the Authority's organizational structure. However, the Unit has not been established to review internal processes and systems of the Authority and to provide necessary recommendation to the management for improvement. The Internal Auditor position has remained vacant to date.

I brought this to the attention of the management and stressed that lack of internal audit functions encourage system break-downs and weak internal controls which may result in mismanagement and abuse of public resources. Hence, I recommended the management to utilize the internal audit unit and appoint an internal auditor as soon as practicable.

The management noted my finding and responded as follows:

“Position OCCDEX06-Internal Auditor is a permanent position within the current approved structure. However, the position has remained vacant because the successful candidate at the time of recruitment could not be released by the Department of Finance as he was a probationary officer with DoF. Also, the recruitment of this position was put on halt due to DPM instructions on freezing recruitment at that time”.

Non-Compliance with *Public Finances (Management) Act, 1995 (as amended)*

The Authority had not submitted its financial statements for the year ended 31 December 2017 on a timely basis to enable me to conduct the audit and issue the audit report within the time frame prescribed by the *Public Finances (Management) Act, 1995 (as amended)*.

I brought this recurring issue to the attention of the management and the management responded that the 2017 financial statements was not submitted on time due to staff constraints and office relocations. However, they are fully aware of this issue and have now taken measures by providing the financial statements for the other subsequent years to my Office for inspection and audit.

Non-Establishment of the Authority’s Board

Part II, Division 2 of the *Climate Change (Management) Act 2015* requires establishment of a Board with the primary function of providing general control and guidance over the exercise of the functions and powers of the Authority. However, the Authority since its inception has been operating without a Board.

As such, I was not able to comment whether or not the affairs and operations of the Authority for the financial year ended 31 December 2017 were fairly managed, decisions deliberated were in the best interest of the Authority or set objectives were successfully achieved.

I recommended the management of the Authority to consider establishing a Board to be compliant with *Part II, Division 2* of the *Climate Change (Management) Act, 2015*.

The Authority noted my finding and responded that the Board did not meet due to the delay in appointment of the ex-officio members. Further, amendment of the *Climate Change (Management) Act, 2016* is aimed for August 2021 Parliament sitting. After amendments are done and with revenue collections coming in, the Board will be set up as provided for by the law.

Budget Documents

I was not provided with the Recurrent and Development budget documents for the fiscal year 2017 despite numerous requests. As such, I was unable to perform the budget analysis against actual expenditures incurred during the year or comment on the effectiveness of the budget process.

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

“There was a budget submitted to NEC, however the office has moved from three (3) different locations and in the process, it has misplaced the documents. We embrace this issue; subsequently we will ensure all documents are appropriately kept”.

Cash Management

The Authority maintained two (2) bank accounts (CCDA Operating Account and CCDA Trust Account) in 2017. My review of these bank accounts revealed the following control weaknesses:

- Monthly bank reconciliations for the CCDA Trust Account were not prepared in 2017. Hence, the Authority did not comply with the *Financial Management Manual, Part 4, and Division I, Para 4* which requires all Departmental Heads and Statutory Authorities to ensure that their bank accounts are reconciled on a monthly basis;
- The Authority’s monthly bank reconciliations for the main operating account were prepared by the accountant without any reviews performed by an independent and senior manager to validate the accuracy of the amounts stated in the reconciliation statements. Further, the bank reconciliations were not dated as evidence for timely preparation; and
- Internal controls surrounding the management and use of petty cash has been very weak. There was no petty cash policy in place to determine the use and acquittal of petty cash advances including the petty cash float amount. There was no petty cash register and supporting documents to substantiate a total cash payment of K14,620.

I drew management’s attention to the weaknesses identified and recommended for immediate remedial actions.

The management has taken note of my findings and advised that a bank reconciliation officer is now assigned to perform the monthly reconciliations and reviews are done by the accountant.

Fixed Assets Management

I noted that the Authority had not maintained a Fixed Assets Register (FAR) during the year under review. In addition, there was no policy formulated by the Authority in relation to acquisition, capitalization and disposal of its fixed assets. Also, no evidence was provided to substantiate that the Authority conducts routine and annual stock-take of its fixed assets.

I advised the management that FAR is a control measure that registers acquisition of all fixed assets at historic cost values for proper valuation and to have control over them to claim ownership right, and to manage risks of assets being misused or lost through theft. I also stressed that the *Public Finances (Management) Act, 1995 (as amended)* and *Financial Management Manual Instruction, Part 32* requires all public bodies to ensure that adequate control is maintained over its assets, or assets in its custody.

These issues were brought to the management's attention, however, no improvement has been noted to date.

Personnel Emoluments

My review of personnel emoluments paid to casual and short-term contract officers which included wages, leave fares and other employee related benefits that are not paid through the Alesco Payroll revealed the following:

- Salary and Wages Tax (SWT) deducted from short-term contract and casual staff of the Authority including deductions made for manual back payments for Higher Duty Allowances have not been remitted to Internal Revenue Commission (IRC) breaching *Section 299G of the Income Tax Act 1959 (as Amended)*;
- The Authority has not been making contribution to any superannuation fund despite the employees (short-term contract and casual officers) were employed for more than three (3) months. As such, the Authority had not complied with the requirements of the *Superannuation Act 2000* and *General Order 17*;
- Leave fare entitlements totaled K164,371 paid during the year were made direct to the employees and not to Travel Agents or Airline Companies as required for all public servants. The Authority also did not have in place any documented leave and travel policy to provide staff with clear and consistent information on such matters;

- I noted instances where cash payments for wages totaled K46,449 were not signed off and dated on the cash collection sheets by the casual employees as evidence of cash received by the genuine recipients. Further, I noted on two occasions where the cash collections sheets were being signed off by persons other than the recipient raising doubts on the genuineness of the recipients;
- A total of K524,148 were paid to casuals and short-term contract officers in 2017. However, payments were not supported with signed timesheets attached to the vouchers to indicate that the staffs were paid according to the actual number of hours worked;
- I noted an instance where advance in wages for four (4) pay fortnights worth K84,386 was paid in a lump-sum on Pay Cash Cheque number 4729. Pre-paid wages in my view is dubious in nature, however, no explanation was provided for my comfort; and
- I noted payments totaled K43,120 were paid as sitting allowances for CCDA's internal screening committee. Further, a total of K3,500 was paid as allowances for conducting interviews for new recruits. I was not provided with the approved rates/schedules or the necessary documented policy which caters for such practices.

I brought these issues to the attention of the management and advised for appropriate remedial actions.

Management has taken note of my findings and responded that:

- *"CCDA is now paying casual contributions to Nambawan Super;*
- *All casuals are now paid wages through their own bank accounts; and*
- *The senior management allowances paid during the year was in relation to the CCDA Board formation but the secretariat failed to provide the meeting minutes and HR failed to apply the rates on the payments. Management has taken note on the issues and views provided."*

Other Internal Control Weaknesses

Other internal control weaknesses noted during my review were:

- Payments totaled K291,446 in relation to travel and subsistence expenses for the year were not acquitted by the designated staff of the Authority. I also observed that a Travel Advances Register was not maintained by the Authority in 2017 and the prior years, breaching requirements under the *Financial Management Manual Part 20, paragraphs 11.2 and 12.10*;

- A consultant was engaged and was paid K51,001 during the year. I was not provided the contract agreements or supporting explanations. As such, I was not able to confirm whether or not a proper tendering process was followed in engaging the consultant; and
- Payments totaled K216,093 were committed without obtaining three (3) written quotations or without entering into a formal contract agreement as required by *Financial Instructions 2/2013 (point 5.1)*.

I drew management's attention to these weaknesses and the management stated that the issues raised have been taken note of.

6.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the years ended 31 December 2018 and 2019 had been completed and the results were being evaluated.

The Authority had not submitted its financial statements for the year ended 31 December 2020 for my inspection and audit.

7. COCOA BOARD OF PAPUA NEW GUINEA

7.1 INTRODUCTION

7.1.1 Legislation

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

7.1.2 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;
- promote research and development programmes for the benefit of the cocoa industry; and
- promote the consumption of PNG cocoa beans and cocoa products.

7.1.3 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 8 of this Report.

7.1.4 Project and Stabilisation Funds

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 7A and 7B of this Report respectively.

7.2 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 fifteen months period ended 31 December 2018 had been completed and results were being evaluated. The Board had prepared its financial statements to align its accounting period to match with Papua New Guinea's financial year ending 31 December each year instead of cocoa year ending 30 September. As such, I will now be auditing the Board's financial statements for a financial year.

The Board had not submitted its financial statements for the years ended 31 December 2019 and 2020 for my inspection and audit.

7A. COCOA POD BORER PROJECT FUND

7A.1 INTRODUCTION

7A.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.

7A.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;
- 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
- 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.

7A.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 Project Fund for the fifteen months period ended 31 December 2018 had been completed and results were being evaluated. The Project Fund had prepared its financial statements to align its accounting period to match with Papua New Guinea's financial year ending 31 December each year instead of cocoa year ending 30 September. As such, I will now be auditing the Project Fund's financial statements for a financial year.

The Project Fund had not submitted its financial statements for the years ended 31 December 2019 and 2020 for my inspection and audit.

7B. COCOA STABILISATION FUND

(Subsidiary of Cocoa Board of PNG)

7B.1 INTRODUCTION

7B.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.

7B.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 Stabilisation Fund for the fifteen months period ended 31 December 2018 had been completed and results were being evaluated. The Stabilisation Fund had prepared its financial statements to align its accounting period to match with Papua New Guinea's financial year ending 31 December each year instead of cocoa year ending 30 September. I will now be auditing the Stabilisation Fund's financial statements for a financial year.

The Stabilisation Fund had not submitted its financial statements for the years ended 31 December 2019 and 2020 for my inspection and audit.

8. COCOA COCONUT INSTITUTE LIMITED OF PAPUA NEW GUINEA

8.1 INTRODUCTION

8.1.1 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.

8.1.2 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;
- promote research and beneficial programs for these industries;
- provide assistance to all persons and bodies engaged in any aspect of the Cocoa and Coconut industries;
- produce planting materials for the Cocoa and Coconut industries; and
- provide consultancy services.

8.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

8.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Company for the years ended 31 December 2014, 2015 and 2016 were issued on 22 February 2021. The reports contained similar Disclaimer of Opinions, hence, only the 2016 report is reproduced:

“DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs below, 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 accompanying financial statements of Papua New Guinea Cocoa Coconut Institute Limited for the year ended 31 December 2016.

BASIS FOR DISCLAIMER OF OPINION**Cash at Bank – K1,528,341**

In 2016, the Company maintained thirty-eight (38) bank accounts. During my review and examination, unreconciled balances from prior-year of K86,426 were carried forward without proper explanation and supporting documentation. Further, bank reconciliations for seven (7) bank accounts with balances totaling K242,267 were not prepared and reviewed on a timely basis. As a result, I was unable to place reliance on the effectiveness of the controls surrounding the management of the cash, nor validate the existence, accuracy and correctness of the cash balance disclosed as at 31 December 2016.

Fixed Assets – K5,077,681

The Company did not maintain a proper, complete and accurate Fixed Assets Register (FAR) to record necessary particulars of assets including the date and value of purchase, assets serial numbers, and depreciation for assets under its custody. I was unable to physically inspect certain assets against the records to confirm the existence and condition of these assets due to the absence of a proper register. I further noted that the Company did not conduct an annual stock take of its assets to verify the existence, ownership and valuation of assets even dating back over a decade. As a result of these discrepancies, I was unable to conclude on the accuracy and correctness on the fixed assets balance as K5,077,681 at 31 December 2016.

Cash Flow Statement

My review of the Cash Flow Statement revealed that the Company disclosed adjustments to retained earnings totaling K1,535,890 without proper supporting documentation. As a result, I was unable to verify and confirm the cash at bank balance of K1,528,341 disclosed as at year end.

PIP Project Funds

I observed that the Company recognized and disclosed PIP grants as income totaling K13,000,000 since 2013, further contravening the accounting convention under *IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance)*. The Company did not correctly record and disclose the PIP grants to match the project expenses incurred during the year. Consequently, a liability account (deferred income) was not created to reflect the unused portion of the grant at year end resulting in the incorrect treatment and disclosure of the PIP grants. Further, I was not provided with the PIP submission and relevant records detailing the purpose and subsequent use of PIP grants received in 2016.

GST Clearing Account – K492,153

Disclosed under Trade Debtors is the GST Clearing account for GST inputs and outputs. My review revealed that the balance of K492,153 in the GST Clearing account was not supported with the relevant GST lodgements and reconciliations. As a result, I was unable to comment on the appropriateness and validity of the balance disclosed as at 31 December 2016.

Provision for Long Service Leave – K1,009,548

My review of the provision for long service leave revealed that there were no schedules and supporting documents maintained by the Company to confirm the balance as K1,009,548 at balance date. As a result, I was unable to confirm the accuracy of the balance representing Provision for Long Service Leave at year end.

Sale of Londip Plantation

My review of the plantations revealed that the Londip Plantation in East New Britain was about to be sold through tender. I was not provided with copies of shareholders meeting minutes and/or resolutions pertaining to the sale through tender. I was unable to confirm the process involved in the sale of the plantation and whether the sale was in the best interest of the Company, its shareholders and the stakeholders. Further, I was unable to establish the fair value of the Plantation and whether the sale process was successfully completed.”

8.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Company for the years ended 31 December 2014, 2015 and 2016 were issued on 22 February 2021. The reports contained similar matters, hence, only the 2016 report is reproduced:

The Board Meeting Minutes

During my review, I observed that no proper Board Meeting Minutes were maintained by the Company in 2016. As a result, I was unable to comment and conclude on whether there were proper proceedings held and whether all major transactions and decisions passed and transpired were in the best interest of the Company, the Cocoa and Coconut Industry and the State.

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

The Company has not submitted its financial statements for the year ended 31 December 2016 on a timely basis to enable me to conduct the audit and submit the audit report within the time frame prescribed by the *Public Finances (Management) Act, 1995 (as amended)*. Consequently, the Board has breached *Section 63(2) and 63(4) of the Public Finances (Management) Act, 1995 (as amended)*.

Liquidation

At the time of the review of the accounts and records of the Company for the year ended 31 December 2016, I noted that the Company was in the process of being liquidated with core research and extension functions reverted back to the Cocoa Board and Kokonas Industri Koporesen accordingly. However, I was not provided with the appropriate liquidation documents and substantive Ministerial and Board deliberations. Further, I noted that no independent liquidator was appointed to date.

Operational Manuals and Policies

I observed that the Company had no approved Manuals and Policies to ensure proper controls are in place and operating effectively in accordance with *Section 62 of the Public Finances (Management) Act, 1995 (as amended)*. I was unable to place reliance on the overall internal control and governance structure and further establish whether there were clear directions for the management to run the operations of the Company.

Plantation and Sundry Income

My review of the income earned and recorded from sale of produce and other miscellaneous activities revealed severe break-down in the internal controls. The following were noted;

- receipting of income from the Plantation sites and provincial centers lacked proper control and monitoring. Records of sales and income generated outside of the Head Office were not always submitted on a timely basis;
- there was no Receipt Register which the Company keeps records of all receipt books to be used throughout the business segments resulting in lack of audit trail;
- there was no segregation of duties in receipting and banking of sales income. It was noted that the same person issuing the receipt is the one doing the banking; and
- I also noted that banking, in most cases, took more than three days.

I was unable to place reliance on the effectiveness of the controls surrounding the process of receipting, banking and posting of sales income. Further, I was unable to determine whether all income generated was received and correctly recorded in the books of the Company for the year ended 31 December 2016.

GST Receivable – K2,078,871

During my review, I noted that the Company did not prepare and remit to the Internal Revenue Commission (IRC) GST returns on a timely basis. It is a requirement under *Sections 63-66 of the Goods and Services Tax Act, 2003* to remit monthly GST returns to IRC by 21st day after month-end. Failure to remit GST returns on time will result in penalties of additional tax payable at the rate of ten percent (10%) on the amount owing and twenty percent (20%) calculated on an annual basis under *Section 85(1) of the Goods and Services Tax Act, 2003*.

Tax Liability – K6,716,664

During my review, I noted that the Company did not remit Group Tax (Salary and Wages Tax) to IRC on a timely basis. As a result, tax liability has accumulated causing constraints to cash flows and budget. I made reference to the *Income Tax Act, 1959 (as amended)*, that all Group Tax should be remitted to IRC within seven (7) days after month-end. An employer who fails to remit salaries or wages tax in relation to its employees is liable to pay the amount of unpaid tax together with any additional penalties that may be imposed. I further noted that the tax liability disclosed by the Company as at 31 December 2016 was K6,716,664.

I brought this to the attention of the management and was informed that: *“This had been taken up at the shareholders level. Shareholder is liaising with IRC in this regard.”*

Remittance of Employee Superannuation Contributions – K60,778

My review of the superannuation remittances revealed that contributions totaling K60,778 were deducted from employees of the Company but not remitted to the NasFund (formerly National Provident Fund) on a timely basis. I made reference to breaches in *Sections 76 and 77 of the Superannuation (General Provisions) Act, 2000* and the *Superannuation (amended) Regulation, 2004* and further advised that employees may have been disadvantaged of interest accrued on contributions and other superannuation benefits.

The management responded to my comments as follows:

“PNGCCIL was not in a financial position to make these contributions at that time.”

Personnel Emoluments – K7,401,465

During my review, I observed the following weaknesses in areas of human resources and payroll in 2016:

- the Company did not have an updated human resource policy manual for use by all staff in relation to human resources and payroll activities;
- the current staff restructure was not properly approved by the appropriate authorities;
- there was lack of proper records of recruitments and termination maintained by the Company;
- no proper records and schedules of gratuity, higher duty allowances, leave entitlements and other allowances and benefits was maintained;
- lack of proper wages sheets and calculation worksheets;
- no proper attendance register was maintained by the Company relating to laborers employed in plantations; and
- weaknesses in the proper maintenance of personnel files.

I was therefore unable to place reliance on the controls surrounding the Human Resource and gain comfort over the accuracy and correctness of the balance representing personnel emoluments disclosed in the Statement of Income and Expenditure for the year then ended.

Weak Procurement Processes

My review of the expenditures revealed the following weaknesses in the procurement processes;

- payments totaling K51,148 were performed without following proper procedures in obtaining three (3) written quotations from suppliers as required by the *Public Finances (Management) Act, 1995 (as amended)*; and
- there was no approved procurement policy for compliance by the Company.

As a result, I was unable to comment on the effectiveness of the internal controls surrounding the procurement processes of the Company and perform the necessary audit procedures to determine the authenticity of the amounts due to the above limitation on my scope.

The management took note of my findings and responded as follows;

“We agree and take note of the findings. Most payments we made to preferred suppliers as some of them meet our specific requirements especially when purchasing operational material.”

Lack of Travel Acquittals

My review of the travel and subsistence expenses revealed a lack of travel acquittals by concerned staff of the Company during the year. It is a requirement under *Financial Management Manual Part 20, paragraph 11.2* that cash advanced to officers travelling overseas on official duty must acquit travel advances within fourteen (14) days of return from duty travel. *Part 20 paragraph 12.10* of the Manual further stipulates that advances to officers for domestic duty travels to be acquitted within seven (7) days of return from duty travel by submitting an acquittal form. I observed that the Company did not have a travel advance register and a related policy for the year under review. As a result, I was unable to comment on the effectiveness of the internal controls and further verify the validity of travel related payments disclosed as K1,122,610 at 31 December 2016.

8.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Company had not submitted its financial statements for the years ended 31 December 2017 and 2018 for my inspection and audit.

The management had advised that the Company had been liquidated and deregistered in 2018 with research and extension functions reverted to Kokonas Industri Koporesen and Cocoa Board respectively. That being the case, 2018 will be my last year of audit.

9. COFFEE INDUSTRY CORPORATION LIMITED

9.1 INTRODUCTION

9.1.1 Legislation

The Coffee Industry Corporation Limited (CICL) 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.

9.1.2 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;
- act in the best interests of coffee producers; and
- promote development of the coffee industry in PNG.

9.1.3 Fund and Subsidiaries of the Corporation

The Corporation has a Fund and two subsidiary companies namely, *Coffee Industry Fund*, *Kofi Management Services Limited* and *Patana No.61 Limited*. Comments in relation to the Fund and the subsidiaries are contained in paragraphs 9A, 9B and 9C respectively of this Report.

9.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

9.2.1 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 2017 and 2018 were issued on 18 June 2021. The reports contained similar Disclaimer of Opinions hence, only the 2018 report is reproduced:

“DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs below, I have not been able to obtain sufficient appropriate audit evidence and accordingly, I am unable to express an opinion on the financial statements of Coffee Industry Corporation Limited for the year ended 31 December 2018.

BASIS FOR DISCLAIMER OF OPINION**Opening Balances**

My report on the financial statements of the Company for the year ended 31 December 2017 was a disclaimer of opinion due to my inability to ascertain the accuracy and validity of all the assets and liabilities accounts' balances. These balances have been taken up as opening balances for the 2018 financial year. I was unable to perform alternative audit procedures to ascertain the validity and accuracy of the opening balances of all the assets and liabilities taken up at 1 January 2018.

Since the opening balances enter into the determination of the results of operations, equity movements and cash flows of the Company for the year ended 31 December 2018, any adjustment found to be necessary on the opening balances would have consequential effects on the financial performance, equity movements and cash flows of the Company for the year ended. As such, I was unable to determine whether any such adjustment might be necessary for the year ended 31 December 2018 and the comparative year figures.

Unreconciled Account Balances

At year end, cash and cash equivalent balances from various bank accounts amounting to K1,931,940 and trade and other payables balance of K1,066,783 remained unreconciled. Due to lack of reconciliations of these significant account balances, I could not confirm the accuracy of the balances. Additionally, I was unable to perform alternative audit procedures to ascertain the validity, accuracy and completeness of the balances. Therefore, I could not determine the financial impact the un-reconciled balances might have on the financial position, profit and loss account, cash flows and equity movement of the Company for the year ended 31 December 2018.

Salary and Wages Tax Payable

CICL had an estimated combined tax liability amount (tax base and penalties) of K3,100,000 relating to salaries and wages tax. This amount was not recorded in the books and omitted from the financial statements of the Company at year end.

I also noted that the payroll team has been working in isolation from the finance team of the Company hence, payroll liabilities were not reported appropriately and on time for recording in the financial reporting system. As a result, I was unable to comment on the accuracy and completeness of the Company's overall payroll tax liabilities as at 31 December 2018.

Employee Provisions

Employee provisions recorded in the financial statements at year end were K139,173 and K6,524 for long service leave and annual leave respectively. These balances have been carried forward since 2016 without being estimated or measured in the current year. Accordingly, the recorded and unrecorded liabilities were estimated to be material at year end. I was not provided with any further audit evidence to confirm the validity, accuracy and completeness of the balances.

Impairment of Investment in Subsidiaries

The Coffee Industry Corporation Limited (CICL) had investment in Patana No. 61 Limited at K100,000. The investee's audited net asset was a deficit of K254,401 resulting in the carrying value being higher than its audited net assets. At year end, the investment in Patana Company No. 61 Limited was significantly impaired. However, the management believed that this investment had not impaired. Due to lack of proper valuation, I was unable to validate and confirm the management's assertion regarding the non-impairment of the investment in Patana No. 61 Limited.

Kofi Management Services Limited (KMSL)

KMSL is a wholly owned subsidiary of the Coffee Industry Corporation Limited (CICL). In accordance with the *Companies Act 1997* and *International Financial Reporting Standards (IFRS)*, the results of KMSL should be reported separately as a separate entity and a consolidation performed by the parent Company as part of parent-subsidary reporting. However, currently CICL had included results of KMSL in its financial statements, which is not appropriate. Since the incorporation of KMSL, there were no proper structures set up to ensure its financial affairs and performance results are reported separately.

Further, CICL through its subsidiary KMSL owns several coffee plantations. The *International Accounting Standards, IAS 41 - Agriculture* provides for guidance on the treatment and measurement of such biological assets. These plantations or biological assets have not been brought into account resulting in potential misstatement of KMSL's financial information.

Non-Consolidation of Subsidiaries

The Company had not consolidated the financial statements of its subsidiaries, Kofi Management Services Limited and Patana No. 61 Limited. I noted that the shareholdings by CICL in these subsidiaries as at 31 December 2018 exceeded 50%. Therefore, consolidated financial statements for the Group is required by *IAS 27, Consolidated and Separate Financial Statements*. I could not determine the effects on the financial statements of the failure to consolidate.

EMPHASIS OF MATTER

Status of the Coffee Industry Corporation Limited

I was provided with copy of the *Coffee Industry Corporation (Statutory Function and Powers) Act 1991* and according to this *Act*, Coffee Industry Corporation is a *Corporation* and not a “*Limited Company*”. Unless Parliament by an *Act* had amended the existing *Act* to corporatize the Coffee Industry Corporation, the word *Limited* uses by the Corporation is not appropriate. I was not provided with the amended *Act* for me to determine the appropriateness of incorporating this Corporation under the *Companies Act 1997*.”

9.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Company for the years ended 31 December 2017 and 2018 were issued on 18 June 2021. The reports contained similar observations hence, only the 2018 report is reproduced:

Bank Reconciliation

CICL has over 50 bank accounts to cater for its operational requirements. Through discussions with management, I noted that some of these bank accounts have been dormant and others operational. At the time of this report, only the main operational bank accounts have been reconciled whilst all the others remained unreconciled. There was lack of important internal control measures including timely and regular process of preparing bank reconciliations, review and approval by senior finance officers to ensure that all financial transactions have been captured and recorded, and that there are no possibilities of occurrence of fraud or fraudulent transactions processed through the bank accounts.

I recommended the management to prepare up-to-date reconciliations of all the bank accounts, preferably on a monthly basis, and that the reconciliations are reviewed, approved and signed off by senior finance officers.

The management responded as follows:

“The management had taken appropriate action regarding the subject in addressing the issue. Bank reconciliations of all bank accounts maintained to be completed before financial reports being produced are accepted to ensure completeness of the accounting process.”

Treatment of MOA Funds

Included in the CICL bank balances were several bank accounts set up specifically to capture funds made available through Memorandum of Agreement (MoA) between CICL and certain Provincial and District governments for their coffee development and specific needs. However, at year end, most of these MoA funds were not utilised and recorded by CICL as income in the profit and loss account.

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance outlines how to account for government grants and other assistance. Government grants are recognised in profit or loss account on a systematic basis over the periods in which the entity recognises expenses for the related costs for which the grants are intended to compensate. Further, grants related to assets requires setting up the grant as deferred income or deducting it from the carrying amount of the asset.

I recommended CICL to comply with the requirements of *IAS 20 Accounting for Government Grants and Disclosure of Government Assistance*. I advised that in future when funds are received, bank (asset) be debited and a deferred income account (liability) be credited. As soon as the specific projects under the MoA commence and costs or expenses incurred, the deferred income is released, income recognised and relevant expenses or assets recorded.

Management noted my comments and advised to improve in 2019 and subsequent years.

Tax on Assessable Benefit Allowances

I noted that certain management staff were provided with institutional houses or rental accommodation. As such, those staff provided with accommodation under this arrangement would attract an assessable benefit allowance. Therefore, his/her salary tax be computed in accordance with the prescribed rates provided for by the Internal Revenue Commission (IRC). Also, any contract employee provided with a motor vehicle with fuel, and allowed unrestricted use also attracts an assessable benefit allowance.

In 2018, I noted that certain staff benefiting from the assessable allowances were not correctly taxed. My request for supporting documentations and explanation from the Payroll team to justify why assessable benefit allowances were not taxed remained outstanding at the time of this report.

I therefore concluded that the Company had not administered salary and wages tax correctly and not being compliant to IRC tax regulations.

Salary and Wages Taxes (SWT)

Salaries and Wages Tax (SWT) are deducted fortnightly from staff payroll and remitted to Internal Revenue Commission (IRC). According to IRC, K3.1 million related to salary and wages tax liability existed at 31 December 2018. The balance is represented by K2.4 million in tax base (salaries and wages tax) and K0.7 million in penalties for none payment and late lodgment. The K3.1 million potential tax liability was not recorded in the books and financial statements of CICL at the year end.

I advised the management to ensure that payroll reports containing the SWT amount computed and deducted fortnightly from staff are processed and booked into the accounting systems fortnightly, and SWT returns are prepared and lodged monthly with IRC. Recommendation has also been made for timely payment of SWT to avoid unnecessary and unbudgeted penalty charges by IRC.

The management responded as follows:

“The management notes the recommendations and have taken appropriate action to ensure SWT are accounted for and remittances lodged on a timely basis to IRC.

Currently SWTs are paid directly via kundupei deductions on a fortnightly basis. CICL management is in communication with IRC and Department of Treasury to find a solution to pay off or write-off the outstanding tax liabilities through the assistance from annual budgetary support.”

Information Technology (IT) System

I identified that IT Policy and Procedural Manual had not been formally adopted by CICL. The key risk factors due to the lack of such critical document are:

- *There was no formal Business Continuity Management Plan.* Such document would identify whether there was a managed process in place that addresses the information security requirements for developing and maintaining business continuity throughout the organization;
- *There was no formal Disaster Recovery Plan.* For instance, there were daily back-ups performed by CICL however, there were no regular test performed to ensure that the back-up files are usable/readable in the event of a disaster;
- *No documentations around Access Controls*, especially whether;
 - an access control policy is developed and reviewed based on the business and security requirements,
 - both logical and physical access control are taken into consideration in the policy, and

- the users and service providers were given a clear statement of the business requirement to be met by access controls, and
- *No documentations on Information Security Incident Management Policy*, to ensure information security events are reported through appropriate management channels as quickly as possible.

I recommended the management to ensure a detailed IT Policy and Procedural Manual is developed, accepted and implemented immediately.

The management responded as follows:

“The management notes the observation and recommendation and has directed appropriate technical officers to establish IT Policy and Procedural Manual and take corrective measures to address all IT issues going forward.”

Financial Month End and Year End Closure

Generally Accepted Accounting Practices (GAAP) requires entities to ensure a proper month end and year-end financial closure process. CICL had generally failed to ensure proper month end and year end close processes were performed.

Key issues noted are:

- Long outstanding and delayed reconciliation of all balance sheet items;
- Accounting system opened and not properly rolled over to the next period;
- No cut-off time set for transactions processed especially towards the period end;
- Due to lack of proper closure, there was a high possibility of inaccurate, incomplete and unjustifiable financial report provided to key stakeholders including the Management, Board of Directors, Government and Donor agencies; and
- Not performing such important financial process exposes CICL to high-risk environment susceptible for misappropriation, fraud and theft of its assets.

9.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2019 was in progress.

The Company had not submitted its financial statements for the year ended 31 December 2020 for my inspection and audit.

9A. COFFEE INDUSTRY FUND

(A subsidiary of Coffee Industry Corporation Limited)

9A.1 INTRODUCTION

9A.1.1 Legislation

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.

9A.2 AUDIT OBSERVATIONS

9A.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 Fund for the years ended 31 December 2017 and 2018 were issued on 18 June 2021. The reports contained similar Disclaimer of Opinions, hence, only the 2018 report is reproduced:

“DISCLAIMER OF OPINION

Because of the significance of the matters referred to in the Basis for Disclaimer of Opinion paragraphs below, I was not able to obtain sufficient appropriate audit evidence and accordingly, I am unable to and do not express an opinion on the financial statements of the Coffee Industry Fund for the year ended 31 December 2018.

BASIS FOR DISCLAIMER OF OPINION

Opening Balances and Corresponding Figures

My report for the year ended 31 December 2017 was a disclaimer of opinion. I was not able to satisfy myself as to the accuracy and completeness of the opening balances due to limitation on the scope of my audit, since essential accounting records including General Ledger and Trial Balance from which the financial statements were prepared were not made available to enable me to verify the accuracy and completeness of amounts reported in the financial statements. Since these opening balances enter into the determination of the results of operations and cash flows of the Company in 2018, I was unable to determine whether adjustments to the statement of financial position, statement of comprehensive income, and notes to the financial statements might have been necessary for the year ended 31 December 2018.

Limitation on the Scope of my Audit

My examination on the Funds' accounts and records revealed that no proper accounting and financial records were maintained in 2018. Essential accounting records including the General Ledger and Trial Balance from which the financial statements were prepared were not made available to enable me to verify the accuracy and completeness of all the amounts reported in the financial statements at year end. Lack of source documents and inappropriate record keeping had placed a limitation on the scope of my audit. Consequently, it was impracticable for me to carry out all my planned audit procedures to determine the accuracy and completeness of all the balances disclosed in the financial statements for the year ended 31 December 2018."

9A.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the audit of the accounts and records and the examination of the financial statements of the Fund for the year ended 31 December 2019 was in progress.

The Fund had not submitted its financial statements for the year ended 31 December 2020 for my inspection and audit.

9B. KOFI MANAGEMENT SERVICES LIMITED **(A subsidiary of Coffee Industry Corporation Limited)**

9B.1 INTRODUCTION

9B.1.1 Legislation

Kofi Management Services Limited was incorporated under the *Companies Act* on 21 February 2014 by the Executive Management of Coffee Industry Corporation Limited (CICL). The Company is a 100% owned subsidiary of Coffee Industry Corporation Limited which commenced its full business operations in 2017.

9B.1.2 Objectives of the Company

The Company's prime objectives are:

- to manage and grow property portfolios in terms of property investment, development and improvement of current commercial properties in PNG;
- to manage research developed coffee blocks into commercial plantation thus exporting coffee to international markets; and
- to generate income with marginalised profit to support the recurrent budget of CICL.

9B.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 2019 was in progress.

The Company had not submitted its financial statements for the year ended 31 December 2020 for my inspection and audit.

9C. PATANA NO. 61 LIMITED

(A subsidiary of Coffee Industry Corporation Limited)

9C.1 INTRODUCTION

9C.1.1 Legislation

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.

9C.2 AUDIT OBSERVATIONS

9C.2.1 Comments on Financial Statements

My reports in accordance with the provisions of the *Companies Act* on the financial statements of the Company for the years ended 31 December 2017 and 2018 were issued on 18 June 2021. The reports contained similar Disclaimer of Opinions, hence, only the 2018 report is reproduced:

“DISCLAIMER OF OPINION

Because of the significance of the matters referred to in the Basis for Disclaimer of Opinion paragraphs below, I was not able to obtain sufficient appropriate audit evidence and accordingly, I am unable to and do not express an opinion on the financial statements of the Patana Company No. 61 Limited for the year ended 31 December 2018.

BASIS FOR DISCLAIMER OF OPINION

Opening Balance

My report for the year ended 31 December 2017 was a disclaimer of opinion. I was not able to satisfy myself as to the accuracy and completeness of the opening balances due to limitation on the scope of my audit, since essential accounting records including General Ledger and Trial Balance from which the financial statements were prepared were not made available to enable me to verify the accuracy and completeness of amounts reported in the financial statements. Since the opening balance enter into the determination of the results of operations and cash flows of the Company in 2018, I was unable to determine whether adjustments to the statement of financial position, statement of comprehensive income and notes to the financial statements might have been necessary for the year ended 31 December 2018.

Limitation on the Scope of my Audit

My examination on the Company's accounts and records revealed that no proper accounting and financial records were maintained in 2018. Essential accounting records including the General Ledger and Trial Balance from which the financial statements were prepared were not made available to enable me to verify the accuracy and completeness of all the amounts reported in the financial statements at year end. Lack of source documents and inappropriate record keeping had placed a limitation on the scope of my audit. Consequently, it was impracticable for me to carry out all my planned audit procedures to determine the accuracy and completeness of all the balances disclosed in the financial statements for the year ended 31 December 2018."

9C.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 Company for the year ended 31 December 2019 was in progress.

The Company had not submitted its financial statements for the year ended 31 December 2020 for my inspection and audit.

10. CONSERVATION AND ENVIRONMENT PROTECTION AUTHORITY

10.1 INTRODUCTION

10.1.1 Legislation

The *Conservation and Environment Protection Authority Act 2014* was drafted and Certified on 30 May 2014, establishing the Conservation and Environment Protection Authority (CEPA).

Prior to May 2014, the Conservation and Environment Protection Authority was operating as a Department of National Public Service.

10.1.2 Functions of the Authority

The functions of the Authority are to:

- do all things necessary for the conservation and protection of the environment in accordance with the environmental conservation laws and any policy directions of the Minister and the National Executive Council;
- co-ordinate with provincial and local-level governments and sub-national authorities to foster, manage and monitor environmental conservation strategies and programmes in the country;
- relation to land under the care, control and management of the Authority:
 - *to establish and maintain zoological and botanical parks and gardens;*
 - *to permit and assist zoological and botanical research; and*
 - *to construct buildings, walks, drives, fences, enclosures, dams, reservoirs, drains and other structures for or in connection with the purposes of the Authority;*
- impose and receive rents, fees, charges and bonds in respect of its functions under any environmental conservation law, including but not limited to providing services related to the approval and issue of environment permits and the investigation and audit of activities under the *Environment Act 2000*;
- promote Papua New Guinea's laws, regulations and policies relating to conservation and environment matters within the country and overseas;
- give advice to the Minister and maintain dialogue with other government agencies on environmental conservation laws and policies;
- encourage, accept, administer and allocate aid monies, whether from within the country or elsewhere, for purposes consistent with its objects;

- accept donations, gifts, devises and bequests made to the Authority and control, manage and develop those donations, gifts, devises and bequests in accordance with any conditions attached to them;
- where it considers it necessary or convenient to do so, to establish committees and similar bodies in relation to its functions, in accordance with regulations and to that effect; and
- perform such other functions and duties as may be conferred on it by the Authority's Act or any other law.

10.2 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 2018 was in progress.

The Authority had not submitted its financial statements for the years ended 31 December 2019 and 2020 for my inspection and audit.

11. GOVERNMENT PRINTING OFFICE

11.1 INTRODUCTION

11.1.1 Legislation

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, the Interpretation Act (Chapter 2)* and *Printing of the Laws Act (Chapter 333)*.

11.1.2 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.

11.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

11.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Office for the years ended 31 December 2016 and 2017 were issued on 16 November 2020. The reports contained similar Disclaimer of Opinions, hence, only the 2017 report is reproduced:

“DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs below, I was not able to obtain sufficient appropriate audit evidence and accordingly, I am unable to and do not express an opinion on the financial statements of Government Printing Office for the year ended 31 December 2017.

BASIS FOR DISCLAIMER OF OPINION

Limitation on the Scope of my Audit

Opening Balances

I issued a disclaimer of opinion in respect of the year ended 31 December 2016 and prior years as I was unable to satisfy myself as to the accuracy of the opening balances. I was also unable to quantify the effects of misstatements, if any, which might have a bearing on the results of the operations of the Office. Since the opening balances of 2017 enter into the determination of the balances reported in 2017 financial statements, I was unable to place reliance on the closing balances stated in the financial statements and the reliability of the financial records maintained by the Office for 2017.

Cash at Bank – K2,849,723

I noted that the Printing Office disclosed K2,849,723 as its Cash at Bank closing balance at year end. My review of the account revealed that the Bank reconciliations were system generated and there was no evidence to indicate that reconciliations were checked by a senior officer for accuracy. Further, the bank reconciliations were not prepared on a monthly basis. Additionally, reconciling items have not been investigated resulting in stale cheques, and deposits in transit have not been cleared. As such, I was not able to neither verify and confirm the accuracy and completeness of the Cash at Bank balance nor place reliance on the effectiveness of the controls maintained by the Government Printing Office over cash.

Trade Debtors – K6,255,841

My review of the Trade Debtors account revealed that 96% of the total debts have been outstanding for over 90 days. Some of them were long outstanding debts dating back to 2010. Further, I noted that those debts that have been outstanding for over a year have not been provided for as doubtful debts on a consistent basis. Long outstanding debts show that the Printing Office did not have an effective debt collection policy. Consequently, debts outstanding over a year may potentially pose a risk of becoming bad debts and would eventually have an impact on the financial statements.

Casual Wages – Scope Limitation

The Printing Office has disclosed K481,496 as wages for casual staff in its financial statements for the year. However, the Printing Office did not provide the necessary supporting documents to substantiate the above payments. As a result, I was unable to confirm whether or not the above casual wages expenses were incurred for the benefit of the Printing Office.”

11.2.2 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 Office for the years ended 31 December 2016 and 2017 were issued on 16 November 2020. The reports contained similar observations, hence, only the 2017 report is reproduced:

Financial Accounting and Reporting

My review of the accounts revealed that the final accounts were prepared by the Printing Office for the first time after years of contracting it out to a private firm. I noted that the posting of accounting transactions had some errors which have resulted in the discrepancies between source documents and ledger reports for the accounts receivable, sales receipts, cash payments and cash at bank ledgers during the year under review. I brought this to the attention of the Office and management responded as follows:

“We are pleased to say that we are progressing towards fully automating the quotation, sales and receipting processes and we will see a lot of improvement in this area while disbursement transactions will still be manually imputed. We have recruited an experienced Accountant against the Manager Finance position to oversee and manage all the finance and accounts requirements and especially ensure the newly installed MYOB software is fully functional with no major hiccup.”

Fixed Assets Register – General Controls

My review of the fixed assets and capital acquisition for the year ended 31 December 2017 revealed that the Printing Office had not fully complied with *Part 32* of the *Financial Management Manual* by not maintaining a regularly updated Fixed Assets Register. The following discrepancies were noted: no proper stock take was done to identify and update assets that were working, faulty, obsolete or missing; assets totaling K127,511 had been captured in the Fixed Assets Register directly from the expense disbursement vouchers without proper asset descriptions and coding for ease of access and location; and tangible assets had not been properly coded in the Fixed Assets Register and also tagged and labelled. The management also did not maintain asset bin cards for each office to monitor the location, movement and condition of assets therein. As such, I was not able to comment on the accuracy and completeness of the balances of Property Plant & Equipment disclosed in *Note 3* of the financial statements.

Lack of proper maintenance of the Fixed Assets Register is a direct breach of the *Public Finances (Management) (Amendment) Act 2016 (s.62)* and the *Financial Management Manual (Part 32)*. In addition, assets acquired by the Printing Office are susceptible to theft, misuse and abuse when proper control measures are not taken into consideration.

Inventory/Stock – Valuation and Disclosure

My review of the current assets of GPO revealed that the inventory components had not been adequately valued and disclosed as a Current Asset in the financial statements for the year under review. The *International Accounting Standards 2* provides for proper valuation and disclosure of Inventory as a current asset in the Statement of Financial Position.

Due to non-recognition of stocks in the current assets, it was evident that stocks were recognized as expenses in the income statement which overstated the expenses and understated the current assets.

Management responded that GPO is in progress of automating all its inventory and consumable items whereby it will satisfy this concern of non-recognition of inventory as a current asset.

Revenue & Expenditure - Segregation of Duties

My review of the cash collection from sales and banking procedures revealed that there were inadequate controls surrounding the invoicing, receipting, banking and records keeping. All these functions are performed by the same officer.

Further, my examination of the procurement processes for expenses revealed that there had been inadequate controls surrounding the raising of payment vouchers, checks and approvals made on the payments as there seem to be only one officer performing all the tasks. Lack of segregation of duties may weaken the internal controls and pose a risk of manipulation of records and misappropriation of cash.

Management concurred with my observations and assured that corrective actions will be taken.

Disbursements without Proper Authorization and Source Documents – K690,848

My review of the operational expenditures revealed that there had been payments made without proper authorization and supporting documents. The Printing Office is in breach of the *Public Finances (Management) (Amendment) Act 2016* and the *Finance Instructions*.

Management responded that with the recent appointment of a Finance Manager to oversee this area, they anticipate compliance improvement in this area. All checks and verification are now handled by the Finance Manager.

Staff Travel Expenses – K32,596

My review of the staff travels expenses revealed that the Printing Office did not maintain a Travel Acquittal Register to keep proper records of all the duty travel advances taken. I also noted that travel expenses amounting to K32,596 were not acquitted. 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 for officers on duty travel. It must also be noted that it is a requirement under the *Financial Management Manual Part 20 Paragraphs 11.2 and 12.10* that cash advanced to officers on overseas official duty must acquit travel advances within fourteen (14) days of return from duty 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 Travel Acquittal Register and the corresponding travel advance and expense acquittal documents, I was unable to confirm whether the staff travel payments made were for the intended purposes.

11.3 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 Office for the year ended 31 December 2018 had been completed and the audit report is expected to be issued shortly.

The Office had not submitted its financial statements for the years ended 31 December 2019 and 2020 for my inspection and audit.

12. INDEPENDENCE FELLOWSHIP TRUST

12.1 INTRODUCTION

12.1.1 Legislation

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

12.1.2 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.

12.1.3 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.

12.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Trust had submitted its financial statements for the year ended 31 December 2020 and arrangements were being made to commence the audit shortly.

13. INDEPENDENT CONSUMER AND COMPETITION COMMISSION

13.1 INTRODUCTION

13.1.1 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.

13.1.2 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
- do all other things relating to consumer affairs.

13.2 AUDIT OBSERVATIONS

13.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Commission for the year ended 31 December 2019 was issued on 30 June 2021. The report did not contain any qualification.

13.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Commission had not submitted its financial statements for the year ended 31 December 2020 for my inspection and audit.

14. INDUSTRIAL CENTRES DEVELOPMENT CORPORATION

14.1 INTRODUCTION

14.1.1 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.

14.1.2 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.

14.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

14.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Corporation for the year ended 31 December 2018 was issued on 20 October 2020. The report contained a Qualified Opinion:

“QUALIFIED OPINION

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

- a) the financial statements are based on proper accounts and records; and
- b) the financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Corporation for the year ended 31 December 2018 and the results of its financial operations and cash flows for the year then ended.

BASIS FOR QUALIFIED OPINION

Trade Debtors – Malahang Industrial Centre (MIC)

The Corporation had disclosed its trade debtors balance as K4,188,403 (included as part of total debtors of K4,738,821) in the financial statements as at 31 December 2018. I noted that of the K4,188,403 receivables, K3,393,750 has been outstanding for a considerable period of time, therefore the collectability of this amount is in doubt. Further, I was unable to establish whether the Corporation had made adequate provision against these debts.

As a result, I was unable to satisfy myself as to the accuracy and collectability of the trade debtors as reported at the year end.

UIC – Land Sales Debtors – K289,566

Included in the total debtors of K4,738,821 were land sales debtors totaled K289,566. I observed that land sales debtors have been outstanding since 2008. The Corporation had not provided adequate provision for doubtful debts in its accounts. Consequently, I was unable to ascertain the accuracy, correctness and collectability of the trade debtors as reported in the financial statements as at 31 December 2018.

Provision for Doubtful Debts – K2,216,677

I noted that the Corporation had increased the provision for doubtful debts by K724,345 to K2,216,677. However, there was no policy on provisions and basis of calculations of provision for doubtful debts. Further, I was not provided with either the schedule and general ledger transactions listing of the doubtful debts of K724,345 as disclosed in the financial statements. As a result, I was unable to ascertain the accuracy, completeness and valuation of the provision for doubtful debts as disclosed in the financial statements as at 31 December 2018.

Cash at Bank (MIC Bond Account) – K394,233

The independent bank confirmation certificate for the Bond account with Malahang Industry Centre for the year ended 31 December 2018 was not provided for my review. As a result, I was unable to confirm the closing bank balance as reported in the financial statements.”

14.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Corporation for the year ended 31 December 2018 was issued on 20 October 2020. The report contained the following observations:

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

The Corporation had not prepared and submitted its financial statements to my Office before 31 March 2018 to enable me to conduct the audit and issue the audit report within the time frame stipulated in the *Public Finances (Management) Act, 1995 (as amended)*. Consequently, the Corporation had breached *Section 63(2) and 63(4)* of the above act.

Board Minutes

I noted that there were four (4) Board meetings held during the year under review. However, all the meeting minutes were not signed by the Chairman to confirm the minutes were correct and true recording of the proceedings at the meetings. As a result, I was unable to comment and conclude on whether there were proper proceedings held and whether all major transactions and decisions made and transpired were in the best interest of the Corporation. I queried the management of the Corporation and they responded to my observation as follows:

“The management has agreed and gave direction to the Board Secretary to ensure all board meeting minutes are signed chronologically to confirm that minutes are true and correct resolutions of the Board. The management has directed that in future, the Board Secretary to ensure this is done and have it vetted by the Managing Director one week immediately after each Board Meeting and have it sign by the Chairman.”

Staff Advance

My review of the Corporation’s staff debtors revealed that there was no proper control, monitoring and recovery of the staff advances. As a result, recouping staff advances was slow and ineffective. I also noted that the Corporation has no policy on staff advances to control, monitor, recover and deal with those who don’t comply with it.

As such, staff advances amounting to K110,293 has been outstanding (without movement) for a considerable period of time. The management responded to my query as follows:

“Management also agreed and directed during its meeting that this list be checked, reviewed and the outstanding balances be confirmed and letters be written to the people concerned to pay the outstanding or legal action will be taken against them. And because these accounts have been outstanding for so long and deemed uncollectable, the other option is for management to seek Board approval to write these debts off.”

Fixed Assets

During my review of the Fixed Assets Register, I noted that there were no asset identification numbers or tags allocated to each asset listed in the Register. As a result, I was unable to identify the existence of the assets in the Register. Furthermore, during my physical inspection of vehicles owned by the Corporation revealed that some of the vehicles were not registered with “Z” plates despite my prior years’ recommendation. I drew this issue to the attention of the Management and they responded as follows:

“After the stock-take, current usable assets will be tagged with a specific identification for ease of reference. This exercise will be carried out on all Centres including the Head Office. And for Z plates on state vehicles, management has taken note of the concern raised by the Auditor on this matter and have given an undertaking that this issue will be address with appropriate steps taken to ensure this is done.”

GST Payable – K896,684

During my review of GST, I observed that the Corporation had not submitted the GST Returns for the year under review as per the *GST Act 2003 (Section 63-66)* which stipulates that GST has to be remitted within 21 days for the subsequent taxable period or (accounting period). This practice would attract penalty by IRC in additional tax payable at the rate of 10% on the amount owing and 20% calculated on annual basis. I sought explanation from the ICDC Management and they responded to my concern as follows:

“GST payables relates mainly to unpaid invoices from MIC tenants who have accounts in arrears with rentals. This is directly related to Trade Debtors. We have had several meetings with IRC POM and Lae with regards to outstanding GST returns and we both agreed to settle the outstanding liability and moving forward and reaching an agreement for them (IRC) to waiver the charges/penalties imposed. After complying and remitting payments on a timely basis, we are now current with GST and SWT. IRC and ICDC are working together on this.”

Ulaveo Industrial Centre (UIC) – Project Grant – K300,000

During my review of the government grants, it was revealed that K1 million for UIC Project under PIP was deposited to the Department of Trade, Commerce and Industries’ bank account. However, I noted that only K700,000 was deposited or transferred into ICDC’s bank account on 19 December 2018. The balance of K300,000 was still outstanding at the time of audit in June 2020. As a result, I was unable to ascertain the completeness of the government grant as disclosed in the financial statements and to confirm if the Corporation is owed K300,000 by the

Department and if it is recoverable. I brought my observation to the management of the Corporation and they responded as follows:

“The whereabouts of the balance of K300,000 is now being investigated by Commerce and Industry. We have contacted the Department on this matter and were advised that it is currently under investigation. Commerce and Industry will advise.”

Land Sales – K95,512

State lease (land) owned by the Corporation was primarily for the purpose of development of Industrial areas, however, I noted a land sales transaction at Ulaveo Industrial Centre in 2018 for K95,512 contrary to the purpose for which the Corporation was established. I brought this query to the attention of the management and they responded as follows:

“Land portion 3770 and 3771 Kokopo, Rabaul, ENB. Under previous management, improper land sales and land dealings occurred. The current administration was tasked by the Board to investigate and correct those improper land dealing, sale of land included. This particular land in question was offered for sale in 2013. It was revealed that there were two buyers for this particular land, both whom had paid up the 10% deposits. After considerations, the offer to the Chinese was dropped with deposits forfeited and subsequent offer was given to East New Britain Development Corporation to complete the transaction, hence the Titles at completion.”

Travel Advance/Acquittal Register

The Corporation had not maintained Travel Advance/Acquittal Register for all travels and travel related expenses of K337,763 despite my recommendation in my previous audits. Due to non-existence of the Advance/Acquittal Register during the year under review, I was unable to validate the travel advances of K125,964 against the acquittals. The management responded to my query as follows:

“Management has taken note and agrees that this is an ongoing problem. A Travel Acquittal Officer has now been appointed to ensure this is done and is now maintaining a Travel Advance/Acquittal Register file.”

Goods and Services Procurement Process Weaknesses

My review of the Corporation’s procurement processes revealed the following control weaknesses:

- The total cheque payments of K104,506 have lacked three (3) quotations for goods and services worth K5,000 and over as required by the *Public Finances (Management) Act, 1995 (as amended)*;

- The total expenses of K101,876 had no proper supporting documentations such as invoices, receipts and cheque copies to substantiate the validity and completeness of the expenses incurred for the year ended 31 December 2018; and
- There were some payments that were not approved by the Managing Director and Corporate Service Director apart from signing the cheques for payments.

As a result, I was unable to place reliance on the effectiveness on the controls surrounding the procurements process of the Corporation. Also, the Corporation was in breach of *Public Finances (Management) Act, 1995 (as amended)*. I brought these issues to the attention of the management and they responded that:

“Appropriate measures and steps have been taken to comply with the Public Finances (Management) Act, 1995 (as amended) to address some of the issues highlighted such as obtaining three (3) quotes for payments over K5,000 and to ensure all proper documentation are attached with payments vouchers duly signed and approved by the accountable Officers.”

Other Internal Control Weaknesses

Other weaknesses noted during my review were:

- inadequate control over cash encashment and payment to suppliers;
- reconciliations of general ledger accounts were not prepared on a periodic basis;
- there were no assets identification numbers or tags allocated to each assets listed in the Fixed Assets Register;
- the salary history cards for the staff were not updated by the HR in terms of base salary, higher duty allowance, other allowances and leave records such as recreational, sick, compassionate and long service leaves;
- recreational leave fares were paid to the employees and dependents without valid supporting documents such as birth and marriage certificates; and
- there was no Internal Audit Unit established as per *Section 9 Subsection 6* of the *Public Finances (Management) Act, 1995 (as amended)*.

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

14.3 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 2019 and 2020 for my inspection and audit.

15. INTERNAL REVENUE COMMISSION

15.1 INTRODUCTION

15.1.1 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.

15.1.2 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.

15.1.3 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.

15.2 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 2016 and 2017 had been completed on 23 April 2019 and 20 June 2019 respectively.

The Management responded to the 2016 management letter on 20 August 2020, however, I was not able to issue the report due to outstanding issues relating to the financial statements.

The Management responses along with the signed financial statements for 2017 were being awaited to finalise the audit reports.

The Commission had not submitted its financial statements for the years ended 31 December 2018, 2019 and 2020 for my inspection and audit.

16. INVESTMENT PROMOTION AUTHORITY

16.1 INTRODUCTION

16.1.1 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*.

16.1.2 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.

16.2 AUDIT OBSERVATIONS

16.2.1 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 2019 was issued on 12 November 2020. The report did not contain any qualification.

16.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Authority had submitted its financial statements for the year ended 31 December 2020 for my inspection and audit and arrangements were being made to commence the audit shortly.

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

17.1 INTRODUCTION

17.1.1 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 Industri Koporesen Act 2002* which established the Kokonas Industri Koporesen (KIK). The new Act decentralised copra buying and selling in PNG and required KIK to only regulate the copra price in PNG.

17.1.2 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.

17.1.3 Funds of the Koporesen

The *Kokonas Industri Koporesen Act, 2002* subsequently established PNG Coconut Extension Fund and PNG Coconut Research Fund. Comments in relation to these Funds are contained in paragraphs 17A and 17B respectively of this Report.

17.2 AUDIT OBSERVATIONS

17.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Koporesen for the year ended 31 December 2019 was issued on 23 March 2021. The report did not contain any qualification.

17.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Koporesen for the year ended 31 December 2019 was issued on 23 March 2021. The report contained the following observations:

Journal passed without approval from Superiors – K1,343,194

My review of the Koporesen's trade debtors and creditors accounts revealed that a General Journal was posted without any approval from the superiors that worth a substantial amount of K1,343,194. I have requested for the supporting documents in relation to the journals passed but nothing was provided.

As a result of the journals passed, Trade Debtors account has increased by K1,343,194 and Trade Creditors account has also increased by the same amount.

Management responded that those journals raised were to reflect the recurrent revenue due from Treasury. They would take corrective action and cease raising journals to recognize recurrent revenue due from Department of Treasury.

Provision for Long Service Leave – K784,821

My review of the Long Service Leave (LSL) provisions revealed a variance of K86,240 between the Koporesen's manual calculation and my reperformance of only seven (7) top management being selected. Incorrect calculation of LSL may result in over/underpayment.

I have raised this issue and management responded that they will correct them when they fully implement the Able Payroll system this year (2021).

Fixed Assets Management

Section 62 of the *Public Finances (Management) Act, 1995 (as amended)* requires all public bodies to ensure that adequate control is maintained over its assets, or assets in its custody. My review of the Fixed Assets Register revealed that there was lack in respect of the physical control over assets, especially office machines, furniture & fittings and equipment. These assets had no asset labels or number tags/codes on them for identification and verification purposes of their existence. Hence, I could not reliably ascertain the existence of assets listed in the Fixed Assets Register.

Management responded as follows:

"We concur with your observations on fixed assets, especially on office machine, furniture and fittings and plant and equipment. Management will be recruiting a Senior Accountant who will be tasked to carry out a complete stock take of our assets including those transferred from CCIPNG. This action will correct the weakness noted going forward."

17.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Koporesen had submitted its financial statements for the year ended 31 December 2020 and arrangements were being made to commence the audit shortly.

17A. PAPUA NEW GUINEA COCONUT EXTENSION FUND

17A.1 INTRODUCTION

17A.1.1 Legislation

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.

17A.1.2 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.

17A.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Fund had not submitted its financial statements for the years ended 31 December 2019 and 2020 for my inspection and audit.

17B. PAPUA NEW GUINEA COCONUT RESEARCH FUND

17B.1 INTRODUCTION

17B.1.1 Legislation and Objective of the Research 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.

17B.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Research Fund had not submitted its financial statements for the years ended 31 December 2019 and 2020 for my inspection and audit.

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

18.1 INTRODUCTION

18.1.1 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 Papua New Guinea (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 the State Owned Enterprise holds any interest shall not be subject to the *Public Finances (Management) Act*. 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 *Independent Public Business Corporation 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.

18.1.2 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 approved by the National Executive Council (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.

18.1.3 Functions of the Corporation

The main functions of the Corporation are:

- to 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.

18.1.4 Trust of the Corporation

The Trust of the Corporation is the *General Business Trust*. Comments in relation to the Trust are contained in paragraph 18A of this Report.

18.1.5 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 18B and 18C of this Report respectively.

18.2 AUDIT OBSERVATIONS

18.2.1 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 2018 and 2019 were issued on 28 July 2020 and 15 December 2020 respectively. The reports did not contain any qualification.

18.3 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 2020 was in progress.

18A. GENERAL BUSINESS TRUST

(Trust under Kumul Consolidated Holdings)

18A.1 INTRODUCTION

18A.1.1 Legislation

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.

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.

18A.2 AUDIT OBSERVATIONS

18A.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Trust's financial statements for the years ended 31 December 2018 and 2019 were issued on 28 July 2020 and 15 December 2020 respectively. The reports contained similar Qualified Opinions, hence, only the 2019 report is reproduced:

“QUALIFIED OPINION

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

- (a) The financial statements of General Business Trust for the year ended 31 December 2019:
 - (i) give a true and fair view of the financial position and the results of its financial performance and cash flows for the year ended on that date; and

- (ii) the financial statements have been presented in accordance with the *International Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea.
- (b) Proper accounting records have been kept by the Trust, as far as appears from my examination of those records; and
- (c) I have obtained all the information and explanations required.

BASIS FOR QUALIFIED OPINION

Opening Balance of Investment in Kumul Technology Development Corporation Limited

Included in *Note 12(a)* to the financial report was the Trust's investment in Kumul Technology Development Corporation Limited (KTDCL) with a carrying value of K51,000,000 as at 31 December 2019 and K53,321,480 as at 31 December 2018. The Trust has an accounting policy of carrying this investment at fair value through profit or loss, and the fair value of the investment has been calculated using the net asset approach. KTDCL's assets are mostly investment in properties and share investment in Pacific International Hospital (PIH).

My report on the accounts of Kumul Technology Development Corporation Limited (KTDCL) for the year ended 31 December 2018 was qualified on the basis of my inability to ascertain accuracy of the opening balance of the investment in PIH. KTDCL had not performed a valuation of its investment in PIH for the year ended 31 December 2017. However, the Company used the results of the 2018 valuation exercise to determine the investment value in PIH as of 31 December 2017. I noted that the 2018 valuation report considered assumptions, inputs and data that were considered not appropriate for 2017. As such, I was unable to satisfy myself by alternative means as to the accuracy of the opening balances for investment in PIH.

Since the opening balances of the investment in KTDCL enter into the determination of the statement of comprehensive income and equity movements of the Trust for the year ended, any adjustments that may exist on the opening balances would have a consequential effect on the financial performance and equity movements of the Trust for the year ended 31 December 2018. I was unable to determine and quantify the impacts of any such adjustments that may be necessary on the financial statements of the Trust for the year ended 31 December 2018, or for the corresponding period ended 31 December 2017.

Ownership and Valuation of Lancron Naval Base Property

As disclosed in *Note 10* to the financial report, the Trust's investment property included Lancron Naval Base with a carrying value of K46,628,175 as at 31 December 2019 and 2018. In my review, I noted that the Trust has an accounting policy of carrying this investment in Lancron Naval Base at fair value. However, the Trust had used the 2013 valuation of the Lancron Naval Base to determine the carrying value as at 31 December 2019 and 2018.

In addition, I was not provided with the State Lease for this property nor was able to satisfy myself by alternative means as to the fair value of the investment property as at 31 December 2019 and 2018. As such, I was unable to determine and quantify what adjustments might be necessary to the statement of financial position as at 31 December 2019, the statement of comprehensive income and statement of changes in equity for the year ended 31 December 2019, or for the corresponding period ended 31 December 2018.

EMPHASIS OF MATTER

Restatement of Comparative Balances

I draw attention to *Note 18* to the financial report, which states that amounts reported in the previously issued 31 December 2018 financial report have been restated and disclosed as comparatives in these financial reports. However, I did not qualify this matter."

18A.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 2020 was in progress.

18B. KUMUL TECHNOLOGY DEVELOPMENT CORPORATION LIMITED (A subsidiary of Kumul Consolidated Holdings)

18B.1 INTRODUCTION

18B.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 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 Limited.

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.

18B.1.2 Objective of the Company

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

18B.2 AUDIT OBSERVATIONS

18B.2.1 Comments on Financial Statements

My reports in accordance with the provisions of the *Companies Act* on the financial statements of the Company for the years ended 31 December 2018 and 2019 were issued on 28 July 2020 and 15 December 2020 respectively. The reports contained similar Qualified Opinions, hence, only the 2019 report is reproduced:

“QUALIFIED OPINION

In my Opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph below:

- (a) The financial statements of Kumul Technology Development Corporation Limited for the year ended 31 December 2019:
 - (i) give a true and fair view of the financial position and the results of its financial performance and cash flows for the year ended on that date; and

- (ii) the financial statements have been presented in accordance with the *Companies Act, International Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea.
- (b) Proper accounting records have been kept by the Company, as far as it appears from my examination of those records; and
- (c) I have obtained all the information and explanations required.

BASIS FOR QUALIFIED OPINION

Opening Balances

As disclosed in *Note 6* to the financial statements, Kumul Technology Development Corporation Limited (KTDCCL) had an investment in Pacific International Hospital (PIH) with a carrying value of K44,000,000 at 31 December 2019 and K41,821,480 at 31 December 2018 and 1 January 2018.

The Company has an accounting policy of carrying this investment at fair value through profit and loss. The Company had not performed a valuation for the investment in PIH as of 31 December 2017. The Company however, used the result of the 31 December 2018 valuation to determine the investment's carrying value as at 31 December 2017. As such, I was unable to satisfy myself by alternative means as to the accuracy of the 1 January 2018 opening balance of the investment in PIH.

Since the opening balance enters into the determination of the statement of comprehensive income and equity movement of the Company for the year ended 31 December 2018, any adjustment that may exist on the opening balance would have consequential effect on the statement of comprehensive income and statement of changes in equity for the year ended 31 December 2018. As a result of this matter, I was unable to determine whether any adjustment may be necessary in respect of the statement of comprehensive income and statement of changes in equity for the year ended 31 December 2018 presented in the financial statements as comparative information.

EMPHASIS OF MATTER

Going Concern

As at 31 December 2019, the Company's total current liabilities exceeded current assets by K3.3 million. The management of the Company asserted that the Company's ability to continue as a going concern is dependent on the ongoing financial support of its parent entity, the General Business Trust."

18B.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 2020 was in progress.

18C. PNG DAMS LIMITED

(Subsidiary of Kumul Consolidated Holdings)

18C.1 INTRODUCTION

18C.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.

18C.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 electricity generation.

18C.2 AUDIT OBSERVATIONS

18C.2.1 Comments on Financial Statements

My reports in accordance with the provisions of the *Companies Act* on the financial statements of the Company for the years ended 31 December 2018 and 2019 were issued on 28 July 2020 and 15 December 2020 respectively. The reports did not contain any qualification.

18C.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 2020 was in progress.

19. LEGAL TRAINING INSTITUTE

19.1 INTRODUCTION

19.1.1 Legislation

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

19.1.2 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*.

19.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

19.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Institute's financial statements for the years ended 31 December 2017, 2018 and 2019 were issued on 28 June 2021. The reports contained similar Qualified Opinions, hence, only the 2019 report is reproduced:

“QUALIFIED OPINION

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

- (a) the financial statements of the Institute are based on proper accounts and records; and
- (b) the financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Institute as at 31 December 2019 and the results of its operations for the year then ended.

BASIS FOR QUALIFIED OPINION

Fixed Assets – K9,995,210

My review of the fixed assets revealed that the Institute had not maintained a Fixed Assets Register. The assets owned by the Institute had not been tagged for easy identification and recording purposes. I also noted that the Institute had not carried out physical count of fixed assets over the years to ensure that assets have properly been recorded and in existence.

As a result, I was unable to confirm the valuation, existence and accuracy of the fixed assets balance disclosed in *Note 7* of the financial statements.

Limitation of Scope – Salary and Wages – K850,097

During my review of salary and wages of the Institute, I noted that the salary and wages files or reports from Department of Finance were not maintained and provided for my review. Consequently, I was unable to perform my audit procedures to determine the validity, completeness and accuracy of the salary and wages totaled K850,097 as reported in the financial statements.”

19.2.2 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 Institute for the years ended 31 December 2017, 2018 and 2019 were issued on 28 June 2021. The reports contained similar observations, hence, only the 2019 report is reproduced:

Accounting and Administration Procedural Manual

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

Council Meeting Minutes

Section 6(3) of the *Post Graduate Legal Training Act, 1972* requires the Council to keep minutes of meetings held. During my review, I noted that there were six (6) Council meetings held in 2019. However, these Council meeting minutes were not signed by the Chairman and the Director nor minutes secretary which means that any resolutions or decisions passed in the meetings were classified as unofficial perhaps invalid.

Leave Fares

During my review and examination of recreational leave, I noted a total of K104,666 were paid to employees as leave fares. However, I was not able to confirm and verify these payments as there were no dependent birth certificates, marriage certificates and other legal documents to confirm the legitimacy of the dependents. As a result, I was unable to substantiate the existence and validity of the dependents to the leave fares claimed by the Institute’s employees.

Expenditure – K68,510

I observed that the Institute made payments totaling K68,510 without obtaining three (3) written quotations from reputable suppliers when making payments for expenditure exceeding K5,000. I further noted that in the absence of three (3) written quotations, the Institute resorted to using statutory declarations to bypass the requirements specified under the *Public Finances (Management) Act, 1995 (as amended)*. As a result, I was unable to place reliance on the effectiveness of the internal controls surrounding the procurement of goods and services of the Institute.

19.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Institute submitted its financial statements for the year ended 31 December 2020 for my inspection and audit and arrangements were being made to commence the audit shortly.

20. MINERAL RESOURCES AUTHORITY

20.1 INTRODUCTION

20.1.1 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.

20.1.2 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.

20.1.3 Functions of the Authority

The functions of the Authority are to:

- advise the Minister on matters relating to mining and the management, exploitation and development of Papua New Guinea's mineral resources;
- promote the orderly exploration for the development of the country's mineral resources;
- 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;
- negotiate mining development contracts under the *Mining Act* as agent for the State;
- 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;
- 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;
- 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;
- provide small scale mining and hydrogeological survey data services, and occupational health and safety community awareness programs;
- 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;
- 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.

20.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

20.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Authority's financial statements for the year ended 31 December 2015 was issued on 21 August 2020 while 2016, 2017 and 2018 were issued on 29 March 2021. The reports contained similar Qualified Opinions, hence, only the 2018 report is reproduced:

“QUALIFIED OPINION

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

- (a) The financial statements of Mineral Resources Authority for the year ended 31 December, 2018:
 - (i) give a true and fair view of the financial position and the results of its financial performance and cash flows for the year ended on that date; and
 - (ii) the financial statements have been presented in accordance with the *International Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea.

- (b) Proper accounting records have been kept by the Authority, as far as appears from my examination of those records; and
- (c) I have obtained all the information and explanation required.

BASIS FOR QUALIFIED OPINION

Opening Balances (Production Levies)

A Qualified Opinion was issued for the year ended 31 December 2017 in relation to income from Rendering of Services reported in the statement of comprehensive income (*Note 4*) and the corresponding trade receivables recognised in the statement of financial position. I noted that the Authority did not have proper controls and procedures to verify and ascertain the completeness and accuracy of the income and the corresponding account receivables recorded in the financial statements. As a result, sufficient and appropriate audit evidence was not available to substantiate the completeness and accuracy of production levies revenue of K35,087,446. Since the opening balances enter into the determination of the current year financial performance, I was unable to determine whether adjustments might have been necessary in respect of the profit reported for the year.

Production Levies (Non-Alluvial), Tenement Rentals Income and the Corresponding Accounts Receivable

Reported in the statement of comprehensive income is production levies (non-alluvial) income of K33,314,637. The Authority did not have proper controls and procedures to verify and ascertain the base and assessable income declared by the producing mines, information which is used to calculate the production levies (non-alluvial) income and the corresponding accounts receivable. There were no satisfactory audit procedures that I could otherwise perform to obtain reasonable assurance as to these amounts recorded. As a result, I was unable to obtain sufficient and appropriate audit evidence to substantiate the accuracy and completeness of the income and the related accounts receivable balance of the Authority at 31 December 2018.

Financial Statements Disclosures

Due to the limitation of available information, the financial statements may not present all matters that are required to be disclosed under *International Financial Reporting Standards*, the *Public Finances (Management) Act 1995 (as amended)* or the *Mineral Resources Authority Act 2005*.

As a result of the matters above, I am unable to determine whether any material adjustments might have been necessary in respect of the balances recognized and the profit for the year reported in the statement of comprehensive income, the amount recorded for accounts receivable in the statement of financial position and the elements making up the statement of changes in equity and the statement of cash flows in the Authority's financial statements."

20.2.2 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 the records of the Authority for the year ended 31 December 2015 was issued on 21 August 2020 while 2016, 2017 and 2018 were issued on 29 March 2021 and the reports contained similar significant matters, hence, only 2018 report was reproduced:

Internal Control Environment

During the course of my audit, I identified numerous significant weaknesses in the Authority's accounting systems and overall internal control environment operated during the year ended 31 December 2018. Management information is insufficient and reconciliations are not performed for all items included in the Statement of Financial Position and/or reconciliations between the general ledger and sub ledgers as and when due, which resulted in delays in receipt of information for the audit. Significant reliance is also placed by management on an external consultant engaged to assist in the preparation of the year-end reconciliations, and who maintains supplementary spreadsheets outside the general ledger, in order to prepare the statutory financial statements.

I recommended that management implement a system whereby reconciliations are prepared for all balance sheet accounts and that reconciling items are followed up promptly, resolved and entries posted to the general ledger. Management should ensure that reconciliations are performed between the general ledger and sub-ledgers and that reconciling items and prior period adjustments are followed up promptly in order to ensure completeness and accuracy of data for reporting purposes.

All supplementary spreadsheets maintained by the external consultant should be controlled and maintained as part of the accounting records of the Authority.

Production Levy (Non-Alluvial Income)

Similar to prior years (2013-2017), I noted that production levies were being calculated and remitted by producing mines ("self-invoicing"). Production levies income is calculated at 0.25% of assessable income of producing mines constituting 87% of the Authority's income in 2018.

The Authority does not independently test the veracity (completeness and accuracy) of the “self-invoiced” revenue returned by the producing mines and the does not maintain a register of mining companies that are required to pay production levies. As a result of the lack of control around the determination of production levy income, there is a risk that not all producing mines are remitting the required production levy to the Authority and that the calculation of assessable income for the year of production is not complete or accurate.

I recommended that management implement policies and procedures whereby it is mandatory for all producing mines to declare their assessable income in a standardized reporting format ensuring veracity and to be submitted in the actual year of production to the Authority.

Management Accounts

There was no evidence of preparation and review of management accounts. I gathered from the Manager Finance that no management accounts were available for my inspection. There is risk that potential losses may affect the entity when there is poor monitoring of controls. In addition, lack of budget tracking against the actuals could expose the entity to overruns and risk of drifting from set targets.

To enhance oversight and tracking of budgets against actual performance, I recommended that the authority should consider preparing and reviewing management accounts on a monthly basis and ensure there is a cut-off date for preparation and review of these accounts for timely communication and reporting of financial information.

Internal Audit Function

I continue to observe non-compliance with the *MRA Act, Section 39(5)* which requires the Authority to appoint an internal auditor who is to provide a written audit report not less than quarterly to the Minister and Department of Treasury. Only one internal audit work report was prepared in 2015 by an internal auditor and covered financial reporting transactions as at 31 December 2013.

I recommended that management comply with the *MRA Act* to strengthen the finance function by fully resourcing and utilising the internal audit function and to furnish reports as required.

Statutory Financial Statements Audit

The audit of the 2018 statutory financial statements was not finalised by 31 May 2019 due to weaknesses in the Authority’s accounting system and overall internal control. As such, management was unable to meet the deadline required by *Section 36(1)* of the *Mineral Resources Authority Act 2005* for audited financial statements of the Authority to be furnished to the Minister responsible for mining before 31 May 2019.

In addition, the Authority had not complied with the similar requirement under the *Public Finances (Management) Act 1995 (as amended)*. I reminded and recommended that management comply with the *MRA Act* and *PFMA* by strengthening the finance function and to finalise the statutory financial statements in accordance with the Acts.

Royalties Held in Trust

I have noted that the Authority keeps in its books royalty funds for a number of landowner groups. These monies or funds were observed to be held without proper royalty trust deeds in place setting out the rights and responsibilities of all parties including the operator, the mine, the landowners and the Authority. In the absence of royalty trust deeds, legal issues arising from the use of those funds would affect the Authority in the future, including rights to interest earned and expectations over the credit worthiness of financial institutions the funds are deposited.

I recommended that all future trust funds held for and on behalf of landowners should only be accepted with a properly executed trust deeds.

Physical Verification of Assets

As observed in my 2017 audit, the last inspection performed was in 2014. Since then, no physical inspection was performed for Port Moresby and other locations. The lack of regular reviews, inspection and updating of assets may lead to under resourced operations, unnecessary acquisition of assets, or misappropriated assets not identified.

I recommended that a thorough asset inspection should be carried out annually to confirm whether all assets presented in the Fixed Asset Register exist and their condition thereof. This exercise may be included for execution in the annual audit plan.

Management noted my concerns and responded as follows:

“The MRA management has established a team within the Corporate Services Division headed by a Team Leader – Assets to administer the annual stock take and asset verification exercise going forward. The introduction of the MYOB Exo Business Software has also made it possible to administer the asset register.”

Directors’ Independence Register

My review revealed that the Authority does not have a system in place to track and monitor the independence of its directors by maintaining a Director’s Independence Register. In the absence of such, there is risk that management may be compromised due to their relationships with other companies in PNG and interests thereof, to effectively and objectively execute their roles.

I recommended that management consider maintaining a Director's Independence Register to aid, evaluate and monitor its directors' independence.

Audit and Risk Committee

I have gathered that no audit committee or equivalent meetings held during the period under review. There is a risk that useful information could be missed, and appropriate action may not be taken timely to remedy noted issues. This could potentially result in negative impacts to the Authority if proper action is not taken.

I recommended that the Audit Committee be established and should meet with sufficient regularity to enable appropriate discharge of the Committee's mandates. In terms of best practice, the Audit Committee should meet at least once per quarter.

The management noted my concerns and responded that:

"Now that the Authority has a full Board, they will entrust the Audit and Finance sub-committee to hold a meeting every quarter of the financial year going forward."

Bank Reconciliation Reviews

My review revealed that the bank reconciliation for MRA Operating Account (with ANZ) was not dated as prepared and reviewed. I could not confirm the timeliness of preparation and review. Bank reconciliations are an anti-fraud control and there is risk that errors in the bank and/or cashbook may not be addressed and resolved timely which may cause potential losses. Given the nature of cash, there is risk that fraudulent activities could be perpetrated and may not be noted and addressed in time.

I recommended that the preparation and review of bank reconciliations be completed on a timely basis. As best practice, it should be done on a monthly basis.

Ineffective Controls and Timeliness in Invoicing

As reported in my 2013, 2014, 2015, 2016 and 2017 reports, I still noted that all accounts receivable/sales transaction have no (sequential) invoice nor any substantial documentation for the calculation of the assessable income and production levy except for receipt copies and payment advices from miners. As a result, I am unable to perform testing to address the risks identified of misstatement in the revenue account. Ineffective ways of raising invoices can encourage fraudulent activities.

I also noted that the Authority did not raise invoices to customers on a timely basis during the period under review as some invoices for 2018 were raised in 2019. There is a risk that valid and accurate information may not be available timely to management for courses of action and decision making.

Again, I recommended that the Authority should establish sequential invoicing to address the risk of inaccurate billing which may result in potential losses and other impeding issues leading up to incorrect revenue recognition. The management responded that:

“Series of meeting is being held between the Tenement Operation team and the Finance team to properly address the timing of invoice preparation.”

Information Technology General Controls

The FlexiCadaastre system is managed wholly by the Tenements division. The IT division is not involved with any independent oversight and access control. Two officers in the Finance division including the Corporate Service Executive Manager have super-user access to the General Ledger and have access to potentially perform unauthorised transactions.

There are no policies that define the parameters for passwords length, password change period and unsuccessfully login attempts, which heightens the risk of unauthorised access to the accounting system. There is lack of tracking of issues by the IT division and changes made to the general ledger system. Issues noted with this system are communicated via email, phone or verbally with no issues log maintained. I further noted that, changes made to this system are processed by the system vendors with no formal change request documentation, monitoring or testing of the changes by the Authority.

I recommended that the IT division grants and removes access rights to staff for the FlexiCadaastre systems to ensure access is restricted to only authorised staff and to limit the number of super-users. In addition, policies should be formalised for passwords, logs maintained for monitoring issues and system change requests.

The management accepted my comments and responded as follows:

“MRA IT issues have been closely looked at in 2020. IT policy document has been developed and proper controls have now been imposed based on the policy manual including the MYOB EXO and FlexiCadaastre access and user rights, administrative access and user rights, administrative access/controls, segregation of duties and staff addition and exit issues.”

Password Controls

From my inspection of the Authority’s IT policies, I did not identify a clear guideline on frequency of mandatory password change. Not changing passwords for excessive periods may create a risk of unauthorized access to information by hackers or keystroke loggers.

I recommended the Authority to consider establishing a policy to change access passwords every 90 days or whichever appropriate. The Authority could explore the avenue where the system can be configured in such a way as to give automatic password change prompts every 90 days or whichever appropriate.

Management took note of my concern and advised that a policy will be developed going forward.

Account Reconciliations

From my audit, it is clear that monthly reconciliations have not been effective. In some instances, compilation listing did not accompany reconciliations, and compilation listing for debtors and payables were incomplete or not available. Reconciliations were not prepared on a timely basis nor evidence of review by the Authority's finance staff observed.

I have again communicated these matters to the Authority and recommend management to strengthen the finance function to improve the process around monthly reconciliations.

Fraud Investigation Log (Register)

In order to identify and prevent fraud in an organization, maintenance of a fraud register serves as an important mechanism. During the course of my audit, I noted that there was no fraud register maintained for reported, identified or suspected fraud. Due to serious weaknesses in the internal controls and lack of proper accounting and maintenance of financial records, there is high risk of fraud taking place. Lack of appropriate controls in place to mitigate fraud and monitor fraud related issues could potentially increase the risk of fraud.

I recommended that the authority consider maintaining a Fraud Register through the internal audit team or the risk compliance team to ensure all potential fraud cases are closely monitored.

Tax Administration

I have noted that the review and monitoring processes around submission of GST returns, significant contracts, management accounts and production levies were not in place. Further, the Authority has unremitted Salaries and Wages Tax amounting to K2.7 million at year end. Failure to remit IRC dues on the set dates constitutes non-compliance which may result in fines and penalties.

These issues were highlighted to management and they vowed to take corrective actions.

Review and Approval of Pay Summary Report not performed

There is no evidence of proper review and approval being performed for PPE 13 June 2018 on the detail pay report summary. I was not able to validate whether the payroll summary was appropriately reviewed/validated.

I recommended that the Authority should ensure there are appropriate reviews and approval done on pay summary reports and the evidence is appropriately maintained.

Being a government authority, there is heightened risk that financial resources could be lost due to payments to fictitious employees. Management accepted my recommendations and responded that review and approval of Payroll issue will be rectified and the reviews in payroll and payroll summaries by respective Managers will be given priority in 2020 going forward.

Record Keeping

I was not able to obtain supporting documents for one of my revenue samples relating to K92 Mining. There is risk that transactions could not be validated and opportunities for fraudulent activities could occur when records are not appropriately retained.

I recommended that proper filing of information should be in place and the Authority could also explore e-filing and store information on the 'cloud-based technology'. The management noted my recommendation and agreed to address this concerns going forward.

20.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December 2019 was in progress.

The Authority had submitted its financial statements for the year ended 31 December 2020 and arrangements were being made to commence the audit shortly.

21. NATIONAL AGRICULTURE QUARANTINE AND INSPECTION AUTHORITY

21.1 INTRODUCTION

21.1.1 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.

21.1.2 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.

21.1.3 Functions of the Authority

The functions of the Authority 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.

21.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December 2018 was in progress.

The Authority had submitted its financial statements for the year ended 31 December 2019 and arrangements were being made to commence the audit shortly.

The Authority had not submitted its financial statements for the year ended 31 December 2020 for my inspection and audit.

22. NATIONAL AGRICULTURAL RESEARCH INSTITUTE

22.1 INTRODUCTION

22.1.1 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 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.

22.1.2 Objectives of the Institute

The main objectives of the Institute 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.

22.1.3 Functions of the Institute

The primary functions of the Institute 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.

22.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

22.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Institute for the years ended 31 December 2019 and 2020 were issued on 23 November 2020 and 18 June 2021 respectively. The reports did not contain any qualification.

22.2.2 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 Institute for the years ended 31 December 2019 and 2020 were issued on 23 November 2020 and 18 June 2021 respectively. The reports contained similar observations, hence, only the 2020 report is reproduced:

Accounting System/Software

My review of the accounts and records of the Institute for the year ended 31 December 2020 revealed that the Institute continued to use the Quicken Accounting Package to maintain its accounts. I noted that the transactions from the Quicken cash ledgers were transferred manually to spreadsheets for reporting purposes as the Quicken was programmed to adopt cash basis of accounting. Financial and Accounting data is susceptible to mistakes and errors during transfer of data from the Quicken to the Spreadsheets. As a result, errors and mistakes are likely to occur and affect the fair presentation of balances at year end.

I have recommended that a suitable and user-friendly Accounting Software/System is sourced, installed and utilized by the Institute.

Management concurred with my recommendation and responded that the new Sage Accpac accounting system is being trialed but put on hold pending implementation of the Integrated Financial Management System (IFMS) by Department of Treasury and Finance. The IFMS is further delayed due to internet connectivity and accessibility at all NARI Centers.

Land Titles and Valuation

My review of the Original Owner's copy of the land titles owned by the Institute revealed that three (3) portions of land titles that vests under the Institute requires valuation done in order to capture their values in the financial statements. Further, I noted that two (2) portions of land at Kilakila with permanent establishments do not have land titles.

Management responded that they are in the process to carry out valuations of the land portions 121 at Tring, Wewak, ESP and portions 114 and 115 at Tambul, WHP. The application for land title for Kilakila land have been lodged and is pending the National Lands Board deliberation.

Long Outstanding Debtors – K361,359

My review of Trade Debtors and Prepayments of the Institute for the year ended 31 December 2020 revealed that a total of K361,359 remained outstanding dating back to 2015. I noted that some of these long outstanding debts are reimbursable expenses from projects and services provided which had not been recovered and had remained uncollectible at year end.

Management concurred with my observation and said that corrective actions will be taken to write off uncollectible monies as bad debts progressively.

Payroll Review

My review of the payroll files revealed that staff who were benefiting from Institutional houses, for tax purposes, a prescribed rate of K150 as per the Tax Table effective 1 January 2019 should be used, however, a rate of K131 has been applied. Further, Salary and Wages Tax rates applied in the payroll system were incorrect compared to the prescribed tax rates per the tax table effective 1 January 2019. As a result of these, tax component and net salaries have been impacted.

Management agreed to my findings and corrective measures have been taken to update the prescribed rates in the system effective pay period ending 4 June 2021.

Leave Fares – K108,209

As per the *General Order 14.47*, it states, "An officer shall pay to the State at the time of applying for payment of recreation leave fares, a contribution towards the cost of the fares which shall be calculated at ten percent (10%) of his/her gross substantive fortnightly salary at the date immediately prior to proceeding on recreation leave."

However, my review revealed that this ten percent (10%) has not been paid to the Institute. Due to non-payment of the ten percent (10%) after the leave fares are paid out, the Institute is in breach of the *General Order 14.47*.

Management agreed to take corrective measure with immediate effect to comply with the General Order.

23. NATIONAL AIDS COUNCIL SECRETARIAT

23.1 INTRODUCTION

23.1.1 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.

23.1.2 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.

23.1.3 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 and to:

- 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 programmes;
- 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.

23.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

23.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Secretariat for the year ended 31 December 2019 was issued on 26 April 2021. The report contained a Qualified Opinion:

“QUALIFIED OPINION

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, the financial statements of the Secretariat:

- a) are based on proper accounts and records; and
- b) are in agreement with those accounts and records, and show fairly the state of affairs of the Secretariat for the year ended 31 December 2019 and the results of its financial operations for the year then ended.

BASIS FOR QUALIFIED OPINION

Limitation of Scope – Payment Vouchers

During my review, I was also unable to verify the authenticity of certain payments made by the Secretariat without proper supporting documents. Payment vouchers totaling K885,326 incurred were not supported by proper accounting documentation.

Allocation of Grants

I noted that Grants totaling K131,659 allocated by the Secretariat to individual recipients as well as organizations for awareness programs were not substantiated and acquitted to justify that the funds were used for the intended purpose to achieve the desirable outcomes.”

23.2.2 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 Secretariat for the year ended 31 December 2019 was issued on 26 April 2021. The report contained the following significant matters:

Control Environment – Policies and Procedures

Section 64C of the Public Finance (Management)(Amendment) Act, 2016 requires Statutory Bodies to establish, use and regularly update a Financial Management Manual to ensure uniform application of processes across all levels of management. My prior reports, including the year under review, observed that the Secretariat did not have an approved Financial Procedures Manual covering the areas of accounting, procurement and fixed assets.

I highlighted the implications of not having in place a clear defined control environment and recommended that a Financial Procedures Manual be established in accordance with *Section 64C of the Public Finance (Management)(Amendment) Act, 2016* and communicated to all levels of the management for compliance. The Management responded to my observation as follows:

“The National AIDS Council Secretariat adopts the Public Finances Management Act (PFMA) when dealing with procurements of goods and services, administration of State properties/assets and accounting for the usage of public funds. Going forward, NACS will formulate its financial Procedural Manual based on PFMA.”

Internal Audit Unit

I noted that the Internal Audit function was not utilized to review various processes including the implementation of effective internal controls and anti-fraud measures and recommendation for the management as the Internal Auditor position remaining vacant for a number of years. This issue was brought to the attention of the management and I recommended that an internal auditor be appointed to take charge of the internal audit unit. The management responded to my observation as follows:

“We admit that the Internal Audit function was not fully utilized due to the former internal auditor who was very sick and could not perform his duties more often. The internal auditor resigned and the Internal Auditor position has been advertised and the recruitment is in progress.”

We have also identified the issue with the accounting system and budgeted funds to purchase an accounting software that is suitable for our organization.”

Fixed Assets

I observed the following weaknesses in relation to the control of assets owned and in the custody of the Secretariat. These issues were still noted, despite prior years' recommendations:

- The Secretariat did not have an approved fixed assets policy manual in place for assets owned and controlled by the Secretariat;

- The Fixed Assets Register (FAR) was not properly maintained in 2019. I observed instances where assets maintained in the Register did not have either purchase date or purchase price while all assets were not tagged with customized NACS codes and captured in the FAR to enable me to locate and verify the existence of the assets;
- The Secretariat has not conducted a regular stock-take on its fixed assets for a number of years including 2019;
- Physical inspections conducted on vehicles owned by the Secretariat revealed that the vehicles were not registered with “Z” plates, breaching the *Motor Traffic Regulation 1967 Chapter 243 section 19A(e)(i)*; and
- The Secretariat does not have in place an approved mobile phone policy to administer the purchase and usage of mobile phones.

I was not able to place reliance on the controls surrounding the management and use of fixed assets by the Secretariat and whether the fixed assets were properly safeguarded.

Long Over Due Staff Advances

I observed that staff advances of K33,622, as disclosed in “*Note 7*” of the financial statements, remained outstanding with no movements for over three (3) years. I was unable to confirm the collectability of these advances within the stipulated period and further recommended the Secretariat to come up with options to collect these debts; otherwise consider writing the balance off after the Council’s approval.

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

“The long outstanding of K33,622 was a salary advance obtained by terminated Officers. In 2019, the long outstanding staff advances write-off submission was made to the Board and is pending approval.”

Expired/Non-Renewed Employment Contracts

I noted that employment contracts for certain officers of the Secretariat had expired and were not renewed or extended covering the year under review. I was unable to confirm and establish the basis of salaries and allowances paid as these senior officers continued to perform their roles with full salaries and allowances during the year.

Based on my observations, I recommended the management to ensure that all employment contracts for contract officers are timely renewed and aligned to the current SCMC approved rates.

No Tax on Assessable Benefit/Allowances

I observed that certain staff of the Secretariat were provided with rental accommodation and motor vehicle with fuel for unrestricted use. However, my review of payroll records revealed that the prescribed amounts for tax purposes have not been included in the fortnightly pay calculations in 2019 for assessment of income tax. The Secretariat did not comply with the *Income Tax Act* and *Salaries and Wages Tax Table effective 1 January 2019* in the calculation of its salaries and wages tax payable to IRC.

I reminded the management of the Secretariat to review their payroll records to ensure prescribed taxable amounts are included in the fortnightly tax calculations for those staff that are provided with accommodation and motor vehicle with fuel to avoid penalties imposed by IRC. The management responded to my findings as follows:

“Only two (2) senior Officers’ housing allowances were paid direct to the landlords as accommodation rental for the property they are renting, which the landlords would lodge GST returns and would take care of tax portion to IRC. Accommodation allowances were not paid to the senior officers, therefore accommodation allowances prescribed amount cannot include the assessment of tax. Whilst all other senior officers that were receiving housing allowances together with salaries and allowances were fully taxed.

Two (2) senior officers have sacrificed their vehicle allowances for a 24 hours usage of office vehicles. Hence, the prescribed amount of tax does not apply to this two Officers.”

Other Internal Control Weaknesses

I was not able to ascertain the validity of K48,100 paid to consultants engaged by the Secretariat as there were no progressive/periodic reports as a basis for payments made.

I drew management’s attention to these weaknesses and was advised that the Secretariat has taken note and appropriate actions will be taken to address these issues.

23.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Secretariat for the year ended 31 December 2020 was submitted and arrangements were being made to commence the audit shortly.

24. NATIONAL BROADCASTING CORPORATION

24.1 INTRODUCTION

24.1.1 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*.

24.1.2 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.

24.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

24.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Corporation's financial statements for the year ended 31 December 2016 was issued on 10 February 2021. The report contained a Disclaimer of Opinion:

“DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs below, I was not able to obtain sufficient appropriate audit evidence and accordingly, I am unable to and do not express an opinion on the financial statements of the National Broadcasting Corporation for the year ended 31 December 2016.

BASIS FOR DISCLAIMER OF OPINION

Limitation of Scope due to Disclaimer of Opinion on the Previous Years’ Financial Statements

My report on the Corporation’s financial statement for the year ended 31 December 2015 was a disclaimer of opinion in respect to fixed assets, trade and other debtors, related party-government debtors and creditors, trade and other creditors and accruals, employee provisions, issued capital and asset revaluation reserve. There were no satisfactory audit procedures that I could otherwise perform to obtain reasonable assurance as to the correctness of the opening balances as at 1 January 2016. Since opening balances enter into the determination of the financial position, financial performance and cash flows for the year ended 31 December 2016, I was unable to determine whether any adjustments that were found to be necessary on such opening balances would have a consequential effect on the profit and loss for the year ended 31 December 2016 and the respective statement of financial position and statement of cash flows.

Trade and Other Receivables – K5,365,040

In *Note 8* to the financial statement, the Corporation reported balances of K1,400,526 and K4,507,796 for trade debtors and other receivables respectively. However, I noted the following issues:

- I was unable to identify the ages of the trade debtor balance;
- No monthly reconciliations have been prepared to identify those that paid up and those that did not pay;
- There is a likelihood of some debtors being paid but were not cleared in the accounts and may overstate the debtors account;
- No proper procedures in place, particularly in respect of debt recovery; and
- Failure to follow up on debts which have been overdue beyond the normal credit terms may result in debts becoming bad unnecessarily and being written off subsequently.

Hence, I was unable to determine the completeness, existence and accuracy of trade and other receivable balance at year end.

Property, Plant and Equipment – K206,172,411

During my review of the fixed assets of the Corporation, I noted the following issues:

- The Corporation did not maintain an updated Fixed Assets Register (FAR) to properly record, account and capture fixed assets additions, disposals and transfers of assets between Provincial Radio Stations;
- The assets purchased during the year were expensed off instead of being capitalized and depreciated over their useful lives;
- A significant variance of K182,671,732 existed between FAR (K295,107,719) and trial balance (K112,435,986) for property, plant and equipment;
- A material variance of K4,200,583 existed between FAR (K4,223,699) and trial balance (K23,115) for depreciation;
- There were no accumulated depreciation accounts for each type of assets in the general ledger; and
- I was not able to confirm physical existence of the Corporation's assets that are located throughout the provinces.

Due to the above issues, I was unable to place any reliance on the effectiveness of the internal controls surrounding the management of the fixed assets of the Corporation. Consequently, I was unable to conclude on the valuation, accuracy and existence of the fixed assets balance disclosed at year end.

Related Party – Debtors & Creditors

As at 31 December 2016, the Government debtors and creditors balances were K1,712,894 and K2,769,314 respectively which nets off to the value of negative K1,056,420 as noted in *Note 9* to the financial statements. However, the following discrepancies were noted:

- No debtors aged listing and reconciliations were maintained for the government's debtors account to clearly identify the individual balances and their ages;
- No reconciliation was done to ensure each individual government's debtors were paid and those outstanding during the year;
- K915,762 captured under government creditors that relates to 2012 and prior years' unrepresented cheques are yet to be identified and cleared; and
- The government's creditors account was maintained manually on an excel spreadsheet and carried over from year to year without any review or monthly reconciliations performed to clear this significant balance.

As a result, I was unable to conclude on the validity, accuracy and completeness of related party-government debtors and creditors balances stated in the financial statement as at 31 December 2016.

Employee Provisions – K4,051,263

The Corporation reported balances of K1,460,513 and K2,589,749 for provisions for recreational leave and furlough leave respectively. These balances were brought forward from prior year without accounting for any movement in the current year. The current year's employee provisions were manually calculated by the Human Resource division and passed to the Finance division for posting into the general ledger only at the year-end but contained numerous mistakes and errors resulting in incorrect balances. Hence, these were not posted into the general ledger for current year's accounting purpose. In the absence of accounting for employee provisions for the year, I was unable to ascertain the completeness, accuracy and validity of the employee provision balances at the year end.

Trade Creditor, Other Creditors and Accruals – K7,948,253

Note 10 to the Financial Statements shows a total of K7,948,253 for trade creditors, other creditors and accruals. During my review, I noted the following:

- The trade creditors sub ledger in the Attaché Accounting System was not properly utilized and hence the existing balance was not corresponding to the general ledger balance. A manual list containing the unpresented cheques was also maintained but this also did not tie to the general ledger balance;
- There was no monthly reconciliation performed throughout the year;
- Significant liabilities have not been accrued and due to recurrent error noted in my prior review, I was unable to accurately quantify the balances at year end;
- Payments for good and services were done on cash basis; and
- Total balance of K248,635 was made up of unpresented cheques which were carried forward from 2012 to date. No proper information on the nature and explanation detailing the unpresented cheques was provided to me.

As a result, I was not able to confirm the completeness, existence and accuracy of the creditors' and accruals' balances at the balance date.

Cash at Bank – K6,117,562

My review of the cash at bank balance revealed that the Corporation maintains twenty-six (26) bank accounts. However, there were no bank reconciliations performed for each of the bank accounts during the year. In addition, unpresented cheques totaling K5,646,548 from various general ledger accounts were carried forward from prior years since 2012. Bank reconciliation is a key control mechanism which helps to detect errors and instances of fraud and embezzlement, reconciles bank with the cash book and to report a correct ending cash at bank balance. In the absence of bank reconciliations, I was unable to place any reliance on the effectiveness of the internal controls surrounding the bank reconciliation function nor conclude on the accuracy and existence of the cash balance at year end."

24.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Corporation for the year ended 31 December 2016 was issued on 10 February 2021. The report contained the following observations:

Non Provision of Source Documents

During my review, I was not provided with payment vouchers totaling K517,764 for my verification. Source documents are the main information in which financial data is being derived from. In the absence of these payment vouchers, I was unable to satisfy myself as to the accuracy and completeness of the financial information presented in the financial statement. In addition, the Corporation has not fully complied with *Section 62(1)* of the *Public Finances (Management) Act 1995* requiring public bodies to keep proper accounts and records of its affairs.

No Centralized Monitoring System - IT Call Centre

My review on the Information Technology (IT) environment revealed that the Corporation did not have a call center for default reporting and a network monitoring system to allow for centralized monitoring of systems. As a result, the following issues were noted:

- Key delays in achieving troubleshooting and/or resolving issues which can lead to down time effectively affecting delivery of service to customers which comes with a monetary cost and can also affect customer relationship; and
- Current system does not provide extended resource monitoring and management capabilities in the form of dashboards, views, reports, capacity planning, alerts/recommendations.

I recommended management to consider investing in running a feasibility study for now and if the benefits are exceptional, consideration need to be given on how best to move this going forward.

Management responded to my observation as follows:

“The recommendation is duly noted. The IT areas are a developing area that needs more funding and efforts to improve. The management had realised that and acquired new server and appliances in 2018.”

Information Technology (IT) Policy

I noted that the Corporation did not have in place a fully documented and working IT Policy and as a result, the following issues were noted:

- The Corporation did not have policies to address the requirement to protect information from disclosure, unauthorised access, loss, corruption and interference;
- Key information may be disclosed or made available to unauthorised individuals, entities or processes;
- The information may be destroyed in an unauthorised manner; and
- The Corporation is not protected against any liability if any of the above is being violated.

I recommended management to have a policy in place which will protect the Corporation from any loss and/or liability that may arise and management have responded as follows:

“The IT manager and his team must develop policies and procedures to lift the standard of IT environment. The recommendations are fully noted.”

Transport and Fuel Management

My review of the Corporation’s transport and fuel management system revealed gross misuse and abuse of the fuel management system where the fuel costs have been increasing rapidly until picked up by management and attended to. I noted that an internal investigation has already been carried out which confirmed misuse and abuse of the fuel vouchers in collaboration with respective fuel service stations being associated with. The mismanagement was as a result of weakness in the internal control focused much on key controls governing the centralisation and authorisation on the issuing of fuel vouchers. I recommended management to:

- Continue with existing arrangement in place which has allowed for the misuse to be stopped;
- Consider reviewing other key areas or business functions within the organisation that carry the same risk and consider taking the same action; and
- Critically have a look at the “Financial Procedures Manual” recently established and seriously consider uplifting any current functions in line with all policies established by this manual.

Management have responded as follows:

“The management agrees with the recommendation and proper steps were taken in 2017 and beyond. A transparent process is now followed.”

Internal Controls

I was unable to confirm whether internal controls were appropriately designed, correctly implemented and operating effectively as all the documents to verify and confirm the controls regarding fixed assets cycle, procurement cycle and financial accounting cycle were not provided to me. As such, I was unable to verify and confirm whether all established internal controls are appropriately designed, correctly implemented and whether they are operating effectively.

General Ledger Integrity – General Ledger Reconciliations

The Corporation has not performed any monthly reconciliation of its entire general ledger accounts for better internal control purposes. These general ledger accounts were not reconciled and independently reviewed at month end resulting in unresolved balances carried forward from year to year. In addition, specific contributing issues noted include changes to some key finance positions, no independent review of accounting entries prior to posting into the accounting system (Attache), lack of understanding of accounting issues, creation of new general ledger without proper approval and an unclear financial reporting structure. Consequently, I was unable to place any reliance on the effectiveness of the internal controls surrounding the general ledger accounts.

I recommended that the Executive Director Finance and the Accountant to conduct a review of the current accounting processes and procedures and implement changes to improve the internal control environment.

Management responded as follows:

“The management have noted this and appropriate actions were taken in mid-2016 and beyond. The training of staff with the Attaché software and the CPA training with CPAPNG also started in 2017 and beyond.”

Missing Records and Files

During my review, certain vital information was not provided as these were either not available or missing. I was informed that certain experienced staff members including the executive Director Finance and Accountant, who were there in 2014 had left or were terminated between 2015 and early 2016. When these staff left, the information was misplaced or left somewhere where current finance staff were unable to locate. The missing vital information resulted in the limitation of my scope.

I recommended that the departing finance staff must go through a proper hand-over take-over in order to update new staff with status of their accounting work, records and other information within their section before leaving. In addition, the Corporation to implement a strict and effective policy and system of filing and records management since it is important when there is high staff turnover.

Management responded as follows:

“The management noted this and proper hand-over take-over must be performed to have proper flow of information and data.”

Evidence of Poor Accounting Function

I noted certain general ledger balances relating to assets and provisions were not updated or adjusted to reflect the correct positions of the balances in 2016. The accounts were provision for furlough and annul leaves, trade and other debtors and prepayments. The balances in the general ledger and financial statement were carried forward balances for 2015 without any movements. In addition, some adjustments identified to be posted into the general ledger in order to amend the balances to reflect correct positions were not posted into the general ledger, rendering these balances at year end to be incorrect. Consequently, the final trail balance lacked integrity and shows evidence of weaknesses in the accounting environment. The trial balance contained incorrect balances and did not reflect the true position of the Corporation at year end.

I recommended management to assess the accounting functions and implement improvements to basic accounting functions such as monthly general ledger reconciliations, review of journal entries and posting of entries.

Management had responded to my findings as follows:

“The new management agree with the recommendation and did identify these issues and were addressed in 2017and beyond.”

Journals and Creation of General Ledger Accounts

I noted significant weaknesses in relation to journal entries and creation of new general ledger accounts as follows:

- Some manual journal entries posted into the general ledger system were not independently reviewed by the senior accounts officers;
- Some manual journal entries posted were not stamped as posted;
- A complete listing of all manual journal entries processed into the attaché system in 2016 was not provided for my review;
- There were many new general ledger accounts created in 2016 but were not approved by the management team including the Managing Director; and

- Some new general ledgers created have similar functions to those that already existed.

The key controls to detect fraud and errors in financial reporting system are the segregation of duties, and the independent review of manual journals posted in the ledger system including appropriate approvals for creation of new general ledger accounts in the attaché system. Without such controls, the general ledger and the resulting financial reports produced may contain incorrect and materially misstated balances.

I recommended the following to the management:

- The manual journal entries prepared by any division including payroll be reviewed independently and approved for postings by senior accounts officers;
- The senior accounts officers should collate all journals and maintain a central filing in order of their batch numbers and posting dates;
- All journal entries posted should be clearly marked as posted; and
- Any new general ledger accounts created in the general ledger system should be properly approved by the designated senior management staff appointed by the Managing Director and copies of such approval issued must be properly kept.

Management had responded as follows:

“The new management agree with the recommendation and did identify these issues and were addressed in 2017 and beyond.”

Group Tax Liabilities

The Corporation had an outstanding group tax payable balance of K6,942,150 as at 31 December 2016. This balance had accumulated since 2006 which the Corporation is yet to settle in full. In addition, there were no proper records and reconciliations performed on the liability outstanding at year end. As a result, I was unable to place any reliance on the effectiveness of the internal controls surrounding the group tax liabilities. In addition, late lodgment of tax returns and the accompanying payments with IRC will result in the imposition of significant penalties. The penalties include a flat rate of 20% charge on the amounts outstanding and a further 20% per annum on the amounts outstanding from the date when the taxes first became due.

Management responded as follows:

“The new management have noted this and talks are with Treasury and Finance Department to settle these liabilities. Also, management have taken the action of not printing cheques when there are no funds to release.”

The practice was by old management hence a re-track was initiated in 2017 and all un-presented cheques especially NWSF and IRC are journalized and reversed to clear the overdraft position.”

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

The *Public Finances (Management) Act 1995* Section 63(2) and 63(4) requires the Corporation to furnish to the Minister before 30 June each year, a performance and management report of its operations for the year ending 31 December preceding, together with financial statements. Before furnishing financial statements to the Minister, the 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 2016 to my Office on a timely basis to enable me to complete the audit on time for tabling the report in the Parliament on or before 30 June 2017. Accordingly, the Corporation has breached Section 63(2) and 63(4) of the *Public Finances (Management) Act 1995*.

24.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Corporation for the year ended 31 December 2017 was in progress.

The Corporation had not submitted its financial statements for the years ended 31 December 2018, 2019 and 2020 for my inspection and audit.

25. NATIONAL CAPITAL DISTRICT COMMISSION

25.1 INTRODUCTION

25.1.1 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.

25.1.2 Functions of the Commission

The function of the NCD Commission is to:

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

25.1.3 Subsidiaries of the Commission

The subsidiaries of National Capital District Commission are *National Capital District Botanical Enterprises Limited* and *Port Moresby Nature Park Limited*. Comments in relation to these subsidiaries are contained in paragraphs 25A and 25B of this Report.

25.2 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 2019 was completed and results were being evaluated.

The Commission had not submitted its financial statements for the year ended 31 December 2020 for my inspection and audit.

25A. NATIONAL CAPITAL DISTRICT BOTANICAL ENTERPRISES LIMITED (A subsidiary of National Capital District Commission)

25A.1 INTRODUCTION

25A.1.1 Legislation

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.

25A.1.2 Objective of the Company

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

25A.1.3 Functions of the Company

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

25A.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, 2017, 2018, 2019 and 2020 for my inspection and audit, despite numerous reminders.

25B. PORT MORESBY NATURE PARK LIMITED (A subsidiary of National Capital District Commission)

25B.1 INTRODUCTION

25B.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.

25B.1.2 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 the 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.

25B.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.

25B.2 AUDIT OBSERVATIONS

25B.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 2017 was issued on 25 August 2020. The report did not contain any qualification.

25B.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 2018 was in progress.

The Company had not submitted its financial statements for the years ended 31 December 2019 and 2020 for my inspection and audit.

26. NATIONAL CULTURAL COMMISSION

26.1 INTRODUCTION

26.1.1 Legislation

The National Cultural Commission was established under the *National Cultural Commission Act 1994*. This Act came into operation on 15 November 1994, thereby 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 on that date were transferred to the Commission.

26.1.2 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.

26.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

26.2.1 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 2018 and 2019 were issued on 29 September 2020 and 15 June 2021 respectively. The reports contained similar Qualified Opinions, hence, only the 2019 report is reproduced:

“QUALIFIED OPINION

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

- (a) the financial statements of the Commission are based on proper accounts and records; and
- (b) the financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Commission as at 31 December 2019 and the results of its operations for the year then ended.

BASIS FOR QUALIFIED OPINION

Internal Control Environment

During my review, I noted that the Commission's internal control environment had quite improved during the year under review, however, there were some areas that needed more improvements. I noted, especially at the three (3) Cultural Institutions – Institute of PNG Studies, National Performing Arts Troupe and the National Film Institute that there was lack of segregation of duties. The staff employed by the Cultural Institutions lacked necessary qualifications to perform the finance and accounting tasks allocated to them.

Furthermore, they were not familiar with the *Public Finances (Management) Act, 1995 (as amended)*, *General Orders* and other *Financial Management Manuals or Instructions* to strengthen the internal control system of the three (3) Cultural Institutions. 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 2019.

Cash at Bank – K103,933

During my review on the bank reconciliations, I was not provided with the bank confirmation certificates for National Film Institute, National Performing Arts Troupe and Institute of PNG Studies accounts for the year ended 31 December 2019. Additionally, I was not provided with all the necessary information for me to carry out my audit procedures. As a result, I was unable to verify and confirm the accuracy and completeness of the balance disclosed at the year end.

Cost Centre Accounting Information

During my review, I noted that the accounting information for the National Film Institute, National Performing Arts Troupe and Institute of PNG Studies were not provided by the Commission for my examination and inspection. I was unable to verify the expenditures (acquittals of payments), internal revenue collection reports, fixed assets and other documentary evidences during my review.

Consequently, I was not provided with all the necessary information to enable me to carry out my audit procedures to confirm whether proper accounting records have been maintained by the National Film Institute, the National Performing Arts Troupe and Institute of PNG Studies.

Fixed Assets – K5,903,288

My review of the fixed assets and capital expenditures of the Commission for the year ended 31 December 2019 revealed that the Commission had not maintained a Fixed Assets Register for all non-current assets acquired over the years-to-date. I also noted that the Commission's acquisitions and disposals of assets were not properly accounted for.

Further, there was no physical stock take under taken by the Commission to confirm the existence of assets. Since fixed assets of the Commission are susceptible to theft and misuse, the Commission must have appropriate control mechanism in place to safeguard these assets. As a result, I was unable to ascertain the completeness, existence and valuation of the fixed assets totaling K5,903,288 as reported in *Note 2* to the financial statements at the year end."

26.2.2 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 2018 and 2019 were issued on 29 September 2020 and 15 June 2021 respectively. The reports contained similar observations, hence, only the 2019 report is reproduced:

Bank Reconciliations and Segregation of Duties

My review on the bank reconciliations revealed that the Commission together with its three (3) Cultural Institutions had prepared their bank reconciliations on a monthly basis. However, I noted that no one has independently reviewed the bank reconciliations generated to ascertain the accuracy of the reconciliations. As a result, I was unable to identify whether segregation of duties were implemented by the Commission.

Revenue Receipting and Segregation of Duties

I noted that internal revenue for National Film Institute (NFI) totaling K73,840 was not receipted during the year under review. I also noted that NFI did not maintain a receipt book to record all income from International Film Companies. Further, there was no segregation of duties maintained in receipting and depositing of income.

Non-Maintenance of Travel Advances/Acquittal Register

My review of the travel and subsistence expenses revealed that the Commission had not maintained the Travel Advances/Acquittal Register as required under *Financial Management Manual (Part 20)*. I noted that the travelling officers have not fully acquitted their travel advances totaling K227,653 by attaching all source documents such as the hotel and hire car receipts, boarding passes and ticket butts.

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 travel must acquit travel advances within 14 days of return from duty travel. At the same time *Part 20 paragraph 12.1* of the Manual stipulates that advances to officers for domestic duty travels to be acquitted within 7 days of return from duty travel by submitting an acquittal form and documents.

I drew this matter to the attention of the Management and I was advised that this recommendation is being implemented.

Internal Control Weaknesses

Other internal control breakdowns and weaknesses noted during my audit are summarized as follows:

- i. During my review of staff personnel files both permanent and casual, I noted that staff personnel files and salary history cards were not updated;
- ii. My review of various payments of the two (2) Cultural Institutions at Goroka indicated that some payments had no proper approval from Section 32 Officers which were the Directors of each Institution; and
- iii. My review of the expenditures during the year revealed that some payments were made without obtaining three (3) written quotations from reputable suppliers for expenditures exceeding K5,000 as required by the *Financial Instructions* and the *Public Finances (Management) Act, 1995 (as amended)*. Further, encashable cheques made to paymaster for various expenses had no proper acquittals attached to determine or confirm if the funds have been utilized for the intended purposes.

26.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Commission had not submitted its financial statements for the year ended 31 December 2020 for my inspection and audit.

27. NATIONAL ECONOMIC AND FISCAL COMMISSION

27.1 INTRODUCTION

27.1.1 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*.

27.1.2 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.

27.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Commission had not submitted its financial statements for the years ended 31 December 2019 and 2020 for my inspection and audit despite numerous reminders from my Office.

28. NATIONAL FISHERIES AUTHORITY

28.1 INTRODUCTION

28.1.1 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.

28.1.2 Functions and Powers of the Authority

- The primary functions and powers of the Authority are described as follows:
 - 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 *Food Sanitation 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;
 - 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; and

- 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.

28.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

28.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Authority's financial statements for the years ended 31 December 2017 and 2018 were issued on 11 September 2020 and 29 June 2021 respectively. The reports contained similar Disclaimer of Opinions, hence, only the 2018 report is reproduced:

“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 was unable to and do not express an opinion on the financial statements of the National Fisheries Authority for the year ended 31 December 2018.

BASIS FOR DISCLAIMER OF OPINION

Opening Balances and Impact on Current Year Financial Performance

The audit report on the financial statements of the Authority for the year ended 31 December 2017 was a disclaimer of opinion. There were no satisfactory audit procedures that I could otherwise perform to obtain reasonable assurance as to the correctness of the opening balances as at 1 January 2018. Since opening balances entered into the determination of the financial position, financial performance and cash flows for the year ended 31 December 2018, I was unable to determine whether any adjustments that were found to be necessary on such opening balances would have a consequential effect on the profit and loss for the year ended 31 December 2018 and the respective statement of financial position and statement of cash flows.

Loss of Financial Records

The Authority had lost the general ledger after a virus attack in April 2018 which resulted in the loss of all transactions for the period January 2018 through to March 2018. Although the finance team was able to reconstruct the general ledger and able to generate a trial balance, purchase order details and accounts receivable aging by using available reconciliations, banks and customer statements prior to the virus attack, the issue remains that the Authority now had reconstructed financial records rather than original financial records for this period.

Consequently, I was unable to perform cut off and subsequent events testing procedures over the original general ledger transactions for the 2018 financial year.

The loss of data impacted the entire general ledger transactions over this period and I was not confident of the completeness and accuracy of the financial records for this financial year. As a result, I was unable to assess the completeness of revenue and expenditure transactions for the year ended 31 December 2018.

Property, Plant & Equipment

The statement of financial position as at 31 December 2018 included Property, Plant and Equipment valued at K163,458,543 million. During my review, the following issues were noted:

- Assets were not physically inspected and checked every two (2) years as per the Authority's fixed assets policy to confirm existence and to monitor the physical condition of the assets. Fixed assets could have gone missing or damaged and still be recorded in the Fixed Asset Register (FAR) as an existing asset instead of being disposed, devalued, or written off;
- Assets with a finite lifespan were not subjected to annual assessment for impairment indicators as required by *IAS 16 - Property, Plant & Equipment*;
- Land properties recorded in the asset register did not have details of the relevant title documents held by the Department of Lands & Physical Planning as proof of ownership; and
- The Authority did not provide a schedule which reconciles the movement in property, plant and equipment detailing additions, disposals and depreciation for the year from the Fixed Asset Register to the general ledger. Adjustments raised in prior year audits relating to fixed assets had not been posted to the Fixed Asset Register.

As a result of the above issues, I was unable to obtain reasonable assurance over the completeness, accuracy, ownership and existence of the Property, Plant and Equipment recorded by the Authority.

Contributed Capital

A contributed capital of K19,139,858 was originated as a loan from the State in 2003. The loan was forgiven in 2006 and has been reported as contributed capital since that period. However, the Authority had not provided any documentation to support the loan being converted to equity. In addition, the Authority's attempt to obtain supportive information from the government to appropriately treat the contributed capital being converted to equity had not been made available.

The balance was then disclosed as adjustment to retained earnings. As a result, I was unable to obtain reasonable assurance over the presentation of this item in the financial statements.

Implementation of International Financial Reporting Standards (IFRS) 9 Financial Instruments

IFRS 9 is a new Accounting Standard that became mandatory for the first time in the 31 December 2018 financial year. The Authority has not implemented *IFRS 9* in the 31 December 2018 financial year. As a result, I was unable to determine whether any material adjustments might have been necessary in respect of the opening balances, balances recognised at 31 December 2018, the result for the year reported in the statement of comprehensive income and the elements making up the statement of financial position, statement of changes in equity and the statement of cash flow in the Authority's financial statements.

Investments in Interest Bearing Deposit (IBD) – K22,911,583 (2018: K197,227,919)

As at 31 December 2018, Investments in Interest Bearing Deposits (IBD) was reduced by K174 million from K197 million in 2017 to K22.9 million. Dividends paid to the Government of PNG on the other hand was K423 million in 2018 as reported in *Note 19* to the financial statements. Upon my enquiry on the possible reasons for the reduction in the IBD, I was informed that the reduction was due to the *PMMR Act, 2017* and the monies transferred by Department of Finance were treated as Dividends for the year. However, I was not provided with sufficient appropriate audit evidence such as Government directives or advices to satisfy myself on the accuracy and correctness of the dividend balance disclosed in the financial statements. Further, I was unable to confirm whether all the monies transferred were made appropriately and to legitimate accounts as no proper supporting documents were furnished for my verification.

Contingent Liabilities – K800,000

A number of legal claims were made against the Authority and were outstanding as at the beginning and end of the reporting period. The Authority disclosed the associated contingent liabilities in the financial statements based on their estimate. However, their estimates were different from the confirmation of the external solicitors. For each subsequent period, prior to reporting, management will need to assess the accuracy of the estimate by reviewing the crystallization of the liabilities. However, evidence of management performing subsequent reviews on the assessment of estimates were not available. As a result, I am of the view that management's independent assessment of the contingent liabilities may not be a true reflection of their state."

28.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2) of the Audit Act* on the inspection and audit of the accounts and records of the Authority for the years ended 31 December 2017 and 2018 were issued on 11 September 2020 and 29 June 2021 respectively. The reports contained similar observations, hence, only 2018 report is reproduced:

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

The *Public Finances (Management) Act, 1995 (as amended)* *Section 63(1) and 63(3)* requires the Authority to furnish to the Secretary before 30 April 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 Authority shall submit them to the Auditor-General who shall report to the Minister. However, the Authority has not prepared and submitted its financial statements for the year ended 31 December 2018 to my Office on a timely basis to enable me to complete the audit on time for tabling the report in the Parliament on or before 30 April 2019. Accordingly, the Authority has breached *Section 63(1) and 63(3) of the Public Finances (Management) Act, 1995 (as amended)*.

Expired Employee ID Cards

I observed that employees were using employment identification cards that had expired. There were no adequate controls in place to ensure employment identification cards were current and valid.

Without properly ensuring that employees were using valid identification cards, there may be high risk of fraudulent activities associated with staffs who were no longer employees of the Authority. I raised this issue and recommended management to replace the expired identity cards with recent and valid ones and retrieve the old cards.

Management responded as follows:

“ID cards were indeed issued to staff but not all. As per HR record, about 155 staff members’ ID cards were arranged last year around March. However, those who did not get ID cards were from Lae Port office and NFC. Due to system crash in April 2018 records were destroyed hence we were unable to finally complete. The Authority is fully aware of this issue and already in the process of addressing by ensuring ID cards will be delivered to all staff by end of November 2019.”

Information Technology (IT) Controls – Setting Password Expiry Limit

During my review of the information system and related controls, I noted that mandatory changes to passwords were not set. I recommended that passwords should be changed at least every 90 days to decrease the risk of data security being breached. The management noted and concurred with my recommendations.

Prior Years Audit Adjustments

The Authority has not reflected audit adjustments for prior years dating back to 2012. This had resulted in the prior year financial statements not reconciled to the general ledger. The Authority had failed to report to my Office any material misstatements that might have occurred as a result of the prior year adjustments in compliance to *Section 5 (1b) of the Public Finances Management Act 1995 (as amended)*.

Risk Assessment and Monitoring

During my review, I noted that there were no formal procedures established to identify, assess, monitor and address risks affecting the Authority. Instead, management was in the process of establishing an internal audit team. I recommended management to consider having a risk committee in place to supervise the risk management policies of the Authority. In response to my finding, the management advised that internal audit staff were hired to address these issues.

Revenue Recognition

During the year under review, I noted that the Authority failed to maintain a register of fishing agreements that had been entered into and the related invoices and payments were not appropriately raised and recognised in the correct accounting period. This has resulted in the revenue being either understated or overstated in the financial statements. Although the adjustments were noted and taken up in the financial statements, the Authority has to maintain a register of fishing agreements and keep track of the invoices raised and payments made.

Human Resources and Payroll – High Levels of Staff Advances or Loans (Recurring Issues)

I noted that staff loans and travel advances not yet acquitted had the following issues:

- Some advances and loans related to employees who no longer employed by the Authority;
- No ceiling cap for staff advances disbursement;
- Advances were being disbursed even when there was still an existing unpaid balance;
- Travel advances had not been acquitted for by staff; and

- I was unable to verify the advances shown as acquitted and posted in the general ledger as there were no supporting documents provided.

As a result, I was unable to comment on the effectiveness of the controls surrounding the management of staff advances and loans.

28.3 STATUS OF FINANCIAL STATEMENTS

The Authority had submitted its financial statements for the year ended 31 December 2019 and arrangements were being made to commence the audit shortly.

The Authority had not submitted its financial statements for the year ended 31 December 2020 for my inspection and audit.

29. NATIONAL GAMING CONTROL BOARD

29.1 INTRODUCTION

29.1.1 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 has repealed the *Gaming Machine Act 1993*.

29.1.2 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.

29.1.3 Fund of the Board

National Gaming Control Board Community Benefit Fund Trust is the Fund of the Board. Comments in relation to the Fund are contained in paragraph 29A of this Report.

29.2 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 2016 was completed and the results were being evaluated.

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

The Board had not submitted its financial statements for the years ended 31 December 2018, 2019 and 2020 for my inspection and audit.

29A. NATIONAL GAMING CONTROL BOARD COMMUNITY BENEFIT FUND TRUST (A subsidiary of National Gaming Control Board)

29A.1 INTRODUCTION

29A.1.1 Legislation

The Community Benefit Fund (CBF) was established under *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 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.

29A.1.2 Objectives of the Fund Trust

The objectives of the Fund Trust are to:

- provide for and apply the income and capital of the Trust 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.

29A.1.3 Function of the Fund Trust

The principal function of the Fund Trust 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.

29A.2 STATUS OF FINANCIAL STATEMENTS

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

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

The Fund had not submitted its financial statements for the years ended 31 December 2018, 2019 and 2020 for my inspection and audit.

30. NATIONAL HOUSING CORPORATION

30.1 INTRODUCTION

30.1.1 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.

30.1.2 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.

30.1.3 Subsidiary of the Corporation

The National Housing Corporation has a subsidiary company, *National Housing Estate Limited*. Comments in relation to National Housing Estate Limited are contained in paragraph 30A of this Report.

30.2 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. However, the audits were being delayed due to lack of cooperation from the Corporation.

The Corporation had not submitted its financial statements for the years ended 31 December 2018, 2019 and 2020 for my inspection and audit.

30A. NATIONAL HOUSING ESTATE LIMITED **(A Subsidiary of National Housing Corporation)**

30A.1 INTRODUCTION

30A.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.

30A.1.2 Objective of the Company

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

30A.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Company had submitted its financial statements for the years ended 31 December 2010, 2011, 2012, 2013 and 2014. However, the audits were being delayed due to lack of cooperation from the Company.

The Company had not submitted its financial statements for the years ended 31 December 2015, 2016, 2017, 2018, 2019 and 2020 for my inspection and audit.

31. NATIONAL INFORMATION AND COMMUNICATIONS TECHNOLOGY AUTHORITY

31.1 INTRODUCTION

31.1.1 Legislation and Objective 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 government 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*.

31.1.2 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*.

31.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

31.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Authority's financial statements for the year ended 31 December 2016 was issued on 18 August 2020. The report contained a Qualified Opinion:

“QUALIFIED OPINION

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

- (a) the financial statements of National Information & Communications Technology Authority for the year ended 31 December, 2016:
 - (i) give a true and fair view of the financial position and the results of its financial performance and cash flows for the year ended on that date; and
 - (ii) the financial statements have been presented in accordance with the *International Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea.
- (b) Proper accounting records have been kept by the Authority, as far as appears from my examination of those records; and
- (c) I have obtained all the information and explanation required.

BASIS FOR QUALIFIED OPINION**Land and Building Titles**

The statement of financial position at 31 December 2016 includes land and buildings with a net book value of K37,849,437. Included in this balance are certain properties with an aggregate net book value of K11,532,778 for which I have not been provided with sufficient appropriate audit evidence (legal titles) supporting the Authority’s ownership over the properties. In addition, I have been informed by the management that there are ongoing disputes over the legal ownership of a number of those properties. As a result of these matters, I am unable to conclude on the appropriateness of the recorded value of land and buildings in the statement of financial position.

K10.5 Million Loss on Purchase of Badihagwa Land

The full payment of K10.5 million for the purchase of the Badihagwa Land has been fully impaired in 2016 as the management assessed that the amount may no longer be recoverable. Despite full payment in prior years for the agreed selling price, the title has not been transferred and NICTA did not obtain any control of the property to date. Prior to full payment of the selling price, NICTA’s management overlooked the moratorium suspending all land dealings in Special Agriculture and Business Leases and did not consider other ongoing disputes existing to date over the legal ownership of the aforementioned property.

Had management followed due process and conducted due diligence surrounding the purchase of the property, the K10.5 million loss could have been avoided.

Further, although there were indications that malfeasance may have been involved, my procedures were limited to the conduct of statutory audit and did not confirm actual fraud, which may be uncovered in a forensic investigation.

Retained Earnings

Included in the retained earnings account is an amount of K2,186,409 as at 01 January 2016 pertaining to unrealized foreign exchange gain. I was not provided with sufficient appropriate audit evidence to verify the amount. Accordingly, I am unable to state whether the opening balance of retained earnings included in the financial statements is free from material misstatement. Consequently, I am unable to determine whether any adjustments to the retained earnings might have been necessary.

Investment Property

The statement of comprehensive income for the year ended 31 December 2016 includes a total rental revenue of K499,262. This income was derived from the rental of certain properties included within the land and building account under property, plant and equipment in the statement of financial position. To the extent that the properties are held to earn rental income or derived capital gains, they are likely to meet the definition of investment property. However, I have not been provided with sufficient appropriate audit evidence to support the basis on which properties earning rental income have remained classified as land and buildings in the financial statements. Consequently, the Authority would have not complied with the *International Accounting Standards (IAS 40) – Investment Property*.”

31.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection of the accounts and records of the Authority for the year ended 31 December 2016 was issued on 18 August 2020. The report contained the following observations:

Non-Adherence to Asset Capitalization Policy

My review revealed that assets worth more than K1,000 have been expensed outright on several occasions during the year. This is a violation of the Authority’s capitalization policy whereby, assets of value greater than K1,000 are recorded as fixed assets.

I recommended that the Authority adheres to its written policy on the capitalization of fixed assets.

Non-Adherence to *Motor Traffic Regulations (Chapter 243)*

I noted that all motor vehicles owned by the Authority were not registered with 'Z' number plates to comply with the *Motor Traffic Regulations (Chapter 243), Section 19A*.

I recommended that the Authority adheres to this Regulation being a state Authority. The management acknowledged the issue when I raised it during my review.

Review of Employee Contract

During my audit, I noted that a particular expatriate officer was allocated a motor vehicle and at the same time was receiving motor vehicle allowance. Per employee contract, the employee will only be provided with either a motor vehicle or a motor vehicle allowance, at the option of the employee. The Authority has misapplied this allowance resulting in double dipping.

Fixed Assets Register (FAR)

During my examination of the Fixed Assets Register (FAR), I noted that the Register was not properly updated on a timely basis. As a result, several fixed assets written off have accumulated depreciation amounts more than the asset cost written off.

I recommended the Authority to review and monitor its Fixed Asset Register regularly to avoid over/under depreciation of its fixed assets upon disposal or writing off. The management has acknowledged the issue and will ensure to regularly review and monitor its Fixed Asset Register.

Lack of Timely Reconciliation and Review of Account Balances

Whilst most of the significant general ledger (GL) accounts were examined with appropriate GL reconciliations, some were not reconciled at the end of the year such as the fixed assets, salary & wages tax payable, goods and services tax payable and interest bearing deposit with Kina Bank.

I recommended that management should conduct general ledger reconciliations on a periodic basis across all relevant GL accounts and ensure that variances are investigated and resolved in a timely manner. Periodic reconciliation of GL accounts assists in detecting any unrecorded transactions which may materially misstate the financial statements. A monthly self-assessment checklist approach should be put in place to monitor the timely completion of all reconciliations. The management acknowledged the issue and will ensure to properly reconcile the GL accounts.

Robust Credit and Collection and Effective Policy on Bad Debt Provisioning

There were several long outstanding accounts receivable invoices reported in the books without evidence of subsequent collection at the date of the audit report. Long outstanding accounts receivable balances suggest inadequate credit control and monitoring and exposes the Authority to the risk of non-recoverability of invoices.

I recommended that the Authority should revisit its policy on customer credit monitoring to ensure that past due invoices are appropriately monitored, followed-up and actioned to ensure effective account collection from customers. Moreover, a policy on bad debt provisioning should be established to ensure that long outstanding invoices that are not recoverable are adequately provided for.

Maintenance of Supporting Documents

In a number of cases, I have noted that the Authority's transactions do not have relevant supporting documents. In order to provide adequate substantial evidence establishing the existence and accuracy of transactions, I recommended that all transactions be supported by required documentation.

Update of Motor Vehicle Insurance Coverage

My audit revealed that a motor vehicle sold during the year was still included under the Authority's insurance cover. I was therefore, unable to comment on the effectiveness of the internal control operated during the year relating to the administration of motor vehicle insurance.

Minutes of Board Meetings

I noted during my review that all minutes of meetings were signed by the Chief Executive Officer even though the meetings were presided by either the Chairman or another Board Member. As such, I was unable to comment and conclude on the appropriateness of the proceedings.

31.3 STATUS OF FINANCIAL STATEMENTS

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

The Authority had submitted its financial statements for the years ended 31 December 2018 and 2019 and arrangements were being made to commence these audits shortly.

The Authority had not submitted its financial statements for the year ended 31 December 2020 for my inspection and audit.

32. NATIONAL MARITIME SAFETY AUTHORITY

32.1 INTRODUCTION

32.1.1 Legislation

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

32.1.2 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;*and
- generally to do such supplementary, incidental or consequential acts and things as are necessary or convenient for carrying out its functions.

32.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

32.2.1 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 2019 was issued on 31 May 2021. The report did not contain any qualification.

32.2.2 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 2019 was issued on 31 May 2021. The report contained the following matters:

Stale Cheques – K1,095,521

During my review of the bank reconciliations, I noted that there were un-presented cheques amounting to K1,095,521 for the Authority's main operating account that had been outstanding since 2018. These cheques had been un-presented for more than one (1) year and have become stale. The cheques were not timely investigated and properly written back or adjusted. I drew this observation to the Management of the Authority and they responded as follows:

“Management acknowledges this and confirmed we are currently investigating the matter and all unpresented cheques will soon be written back and necessary accounting treatment applied.”

ANZ Credit Card

My review of the Credit Card of K20,000 with ANZ bank revealed that K7,982 was in the account as per the bank statement as at 31 December 2019. However, I did not sight the reconciliation of the replenishment of the balance owed and acquittals of the payments in terms of receipts of payments from the Credit Card. I queried the matter and the Management of the Authority responded as follows:

“Management acknowledges and confirmed acquittal of Credit Card is normally maintained however, the file was misplaced during the recent office refurbishment exercise. Also note the Credit Card account was put on hold in 2018 when the PMMR Act was implemented so the Credit Card wasn't used. We requested strategic Budget Committees (SBC, PMMR Act 2017) approved as requested by ANZ but, was too slow so the account was closed.”

Trade Debtors – K14,731,391

My review of the Authority's trade debtors of K14,731,391 at 31 December 2019 revealed that a large number of debtors amounting to K3,758,450 were outstanding for more than 90 days. I further noted that most of these long outstanding debtors may not be collectable. I brought this matter to the attention of the Management and the Management responded as follows;

“Management has developed a debt management policy to address the debts that are falling behind the due dates for collection and allow provision for doubtful debts. One of the outcomes of the policy is to enforce the relevant legislation on detaining vessel for non-payment of levies. The Management has created an enforcement unit and is currently detaining vessels who do not pay on time. This has seen major improvement in debt collection in 2020. Also provisions for doubtful debts have been increased in line with the debt management policy and unrecoverable debts will be written off when Board approves.”

Fixed Assets

During my review of the Fixed Assets Register, I noted that there was a section within the Corporate Service Division (CSD) that is in charge of fixed assets of the Authority. Furthermore, the Authority's fixed assets were inputted and maintained in the Great Plain Assets Register Module but in a depreciation schedule report format. However, the Fixed Assets Register maintained by the section in the CSD was not updated and reconciled with the Fixed Assets depreciation schedule report in the Great Plain accounting system as at 31 December 2019. I further noted that the Authority has conducted a complete stock take in 2018 however, I was not provided with the updated stock-take report despite my requests. I brought this matter to the attention of the Management and the Management responded as follows;

“Management acknowledges this and confirms that since NMSA records and keeps its Fixed Assets Register in excel, each department was asked to keep their own registry as well with Finance and Administration Department looking after the consolidated register. In an effort to systemise the FAR, management procure FAR software from Great Plains and all assets previously kept in excel was imported to Great Plains in December, 2019. For a start all records and asset listings are currently being verified, updated and reconciled to Great Plains Fixed Assets Register module. The exercise will continue into 2021 until all records in Great Plains are fully updated.”

Purchase of Ministerial APEC Vehicles

During my review in 2018, I noted that the Authority purchased two executive support vehicles for the Ministry of Transport and Infrastructure totaling K410,585. The vehicles have been disclosed in the Fixed Assets Register of the Authority however, I was unable to verify the existence and legal ownership of the vehicles as I was not provided vehicle registration details and had no access for physical inspection. As a result, I was unable to verify the existence and legal ownership of the two (2) vehicles. I queried the Management and they responded to my query as follows;

“Management acknowledged this and confirmed that two vehicles purchased were part of NMSA’s contribution to the APEC Summit approved by NMSA Board. We have enquired with Department of Transport and was advised vehicles are with APEC Committee. The Management has written to APEC committee for the vehicles to be returned to NMSA for Board’s deliberation. To date, we are still waiting and following up with APEC Committees for their response.”

‘Z’ Plates on State Vehicles

During my physical inspection of vehicles owned by the Authority, I observed that the vehicles were not registered with “Z” plates. The vehicles were purchased with public funds and are owned by the Authority and are deemed as State properties as per the *Motor Traffic Regulation Chapter 243 Section 19A* which requires that State owned vehicles are to be registered with a “Z” plate. I drew my observation to the Management of the Authority and they responded as follows:

“NMSA Act 2003 does not provide for the Authority to fully comply to all other government General Orders and our internal policy does not require us to have Z plates on the Authority’s motor vehicles.”

Staff Salary History Cards

During my review of the personnel files for certain selected officers of the Authority, I observed that the Authority has not maintained salary and history cards for employees in their respective personnel files. A salary history card should show an updated base salary, allowances, gratuities and the updated leave records for each employee. Proper filing of employee’s history and salary cards would enable the payroll staff to easily access the information and calculate the staff entitlements correctly including provisions for leave entitlements. As a result, I was unable to confirm the approved rate of salaries and allowances and the leave records for the officers from their personnel files. I brought this to the attention of the management and the Management responded to my concern as follows:

“The Management acknowledged that and will address this issue in 2020. Delays were attributed to the termination of the HR Manager which affected the HR Department’s functions has recently recruited a Manager and is currently working on improving this area highlighted.”

Leave Fares

During my review of Leave fares, I noted that the Authority has not complied with *General Order 14.47* which requires that *“An officer shall pay to the State at the time of applying for payment of recreation leave fares, a contribution towards the cost of the fares which shall be calculated at ten percent of his/her gross substantive fortnightly salary at the date immediately prior to proceeding on recreation leave.”* Officers going on leave with leave fares were not paying the ten percent (10%) fee or contribution for airfares. Furthermore, I was unable to determine the validity and authenticity of the staff dependants of the leave fares paid as there was no birth certificates in the staff respective personnel files to comply with *General Order 14.41*. I brought this observation to the management of the Authority and they responded as follows:

“Management acknowledged and confirms application of the airfares are in line with NMSA policy and the basis of our policy was to attract and retain staff. It is very difficult to attract skilled labour in shipping industry, especially seafarers, ship inspectors, etc against private sector. NMSA Policies are drawn up and is approved by Board capturing these factors. The management is also currently updating the records of staff eligible for leave fares and to confirm the validity of their dependents and will have it completed and ready before the next audit cycle.”

32.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Authority had not submitted its financial statements for the year ended 31 December 2020 for my inspection and audit.

33. NATIONAL MUSEUM AND ART GALLERY

33.1 INTRODUCTION

33.1.1 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.

33.1.2 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)*.

33.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

33.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Museum for the year ended 31 December 2019 was issued on 30 June 2021. The report did not contain any qualification.

33.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Museum for the year ended 31 December 2019 was issued on 30 June 2021. The report contained the following matters:

No Proper Database and Policy for Collections

My review of the Museum collections database revealed that there was no proper centralized database to accurately track and monitor storage and movement of collections for the Museum.

The collections data initially stored under file maker pro were migrated into Vernon Collection Management Software (CMS). My review via Vernon revealed inaccuracy as movement of collections were not properly posted and tracked. Further, I noted the following;

1. Posting of collections data into Vernon is currently in progress and not fully completed;
2. Not one (1) single collection from Contemporary Arts Branch had been posted into Vernon CMS;
3. Museum was unable to reliably confirm total count of collections, only the Anthropology Branch responded to my query by providing a total count of collections; and
4. No proper collection policy to guide the Museum on its collection program.

I drew this matter to the Management of the Museum and they responded as follows:

“NMAG agrees that this is a major issue. Work continues on the Vernon database but it is noted that this is a multi-year project and requires both additional financial and human resources.”

Lack of Three Quotations – K38,665

My examination on expenses revealed several payments totaling K38,665 were paid without obtaining three (3) written quotations from three (3) different suppliers. It is a requirement under *Division 3, paragraph 14 of the Financial Management Manual* that, “three (3) written quotes must be obtained for purchases valued between K5,000 and under K100,000”. The Museum did not comply with the *Public Finances (Management) Act, 1995 (as amended)* which governs the management and use of public funds. I brought this observation to the attention of the management and they responded as follows:

“The Management acknowledges the issue. A policy re quotations was included in the NMAG Financial Manual and additional training will be provided. Purchasing officer to note circumstances where three quotations not obtained & explain reason on memo and FF3 form.”

Third Party Payments – K13,850

My review of payments revealed that transactions totaling K13,850 were made to third parties other than parties initially engaged by the Museum. I advised management that it was not appropriate for the Museum to raise payments to third party individuals other than the company that raised the invoice to Museum for payment under its name as a separate legal entity.

The Management acknowledged and accepted the recommendation for payments to be made only to contracted entity.

Land Title

My review of the land titles revealed that the Museum does not have under its custody the *owners` copy* of the land titles. I requested to sight such instruments but was only provided copies of the Titles. I was unable to confirm if the owner's Land Title is under the custody of the Museum. I drew this observation to the management and the management responded to my observation as follows:

“NMAG confirms that only copy documents held at museum. NMAG Asset Officer working to have Title Deeds re-issued by Lands Department.”

Salary & Wages Tax

During my review of the Salary, Wages and Allowances expenses, I noted that the salary and wages tax component for the manual (casual) payroll had not been remitted to the Internal Revenue Commission (IRC) for the year under review. The Museum is in breach of the *Income Tax Act, 1959* under *Section 299G (3)* where it states that group tax should be paid to IRC within seven days of the following month. As a result of non-remittance of group tax to IRC, the Museum may be subject to penalties set out in *Section 299H* of the *Income Tax Act, 1959*. I brought this issue to the management of the Museum and they responded to my observation as follows:

“National Museum & Art Gallery acknowledges the issue. Finance has been instructed to ensure compliance.”

Non Compliance to Superannuation Act

The *Superannuation (General Provisions) (Amended) Act 2002, Section 78*, stipulates that the employee contributions is to be paid within fourteen days of the date of deduction and the employer contributions be paid within fourteen days of each month. However, during my review, I noted that both the employee and employer contributions, particularly the manual (casual) salary and wages earners have not been remitted to the Super Fund (Nambawan Super Limited) for the year under review. As a result, the Museum is in breach of the above mentioned Act. I drew this issue to the Management of the Museum and they responded as follows:

“National Museum & Art Gallery acknowledges the issue. Finance has been instructed to ensure compliance.”

33.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Museum had not submitted its financial statements for the year ended 31 December 2020 for my inspection and audit.

34. NATIONAL RESEARCH INSTITUTE

34.1 INTRODUCTION

34.1.1 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.

34.1.2 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.

34.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

34.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Institute's financial statements for the year ended 31 December 2017 was issued on 17 November 2020. The report contained a Qualified Opinion:

“QUALIFIED OPINION

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

- (a) The financial statements of the Institute are based on proper accounts and records; and
- (b) The financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Institute as at 31 December 2017 and the results of its financial operations for the year then ended.

BASIS FOR QUALIFIED OPINION

Property, Plant and Equipment – K39,076,370

My examination of the fixed assets and related records revealed that the Institute has not maintained a Fixed Assets Register (FAR) during the year under review. In the absence of a FAR, I was unable to perform the necessary audit procedures to confirm the existence, valuation and condition of assets owned by the Institute. Similarly, I was unable to confirm whether depreciation totaling K351,763 was fairly disclosed and place any reliance on the effectiveness on the internal controls surrounding the management of the assets.

This issue was highlighted in my 2015 and 2016 reports as well however, the Institute is yet to implement my recommendations.

Missing Payment Vouchers – K902,004

The Institute did not maintain proper accounts and records of its operating expenditures for the year under review. Payments totaling K902,004 were missing from the payment voucher files. As a result, I was unable to extend my audit procedures to gain assurance over the completeness, accuracy and authenticity of these payments. Furthermore, the Institute has breached *Section 62(1) of the Public Finance (Management) (Amendment) Act, 2016* which requires the Institute to keep proper accounts and records of its transactions and affairs.”

34.2.2 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’s financial statements for the year ended 31 December 2017 was issued on 17 November 2020. The report contained the following significant matters:

Internal Control Weaknesses

Internal control weaknesses noted during my review are as follows:

- The Institute has been operating without an approved operational and financial manual. The existing one was still in draft form but was already in use without the Council's approval. Accordingly, I was not able to comment on the standards of the operations in relation to the systems and controls; and
- There was no Internal Audit Unit established as per the requirements under *Section 9 (1)(a) and (f) of the Public Finances (Management) Act, 1995* as amended recently in 2016.

These issues were also raised in my prior year audit report.

Bank Reconciliations

My review of the four (4) bank accounts maintained by the Institute revealed that bank reconciliation statements were not prepared and reviewed on a timely basis. As a result, I was unable to place reliance on the effectiveness of the controls surrounding the bank reconciliation function of the Institute.

I also brought this issue to the attention of Management in my prior year audit reports and was advised that necessary steps would be taken to address this issue.

Trade Debtors Reconciliation

The Institute did not maintain proper records of the debtors aged listing and reconciliation from the MYOB Accounting System. The debtors aged listing is a control mechanism to keep track of outstanding amounts due from customers whereas the reconciliation ensures that there are no unexplained differences between the aged listing and the general ledger. Accordingly, I was not able to confirm whether appropriate segregation of duties were in place for these controls.

Prepayment – K164,123

My review of the prepayment account revealed that an advance payment of K164,123 relating to the former Director's vehicle allowance remained outstanding as at balance date. It has been outstanding for more than a year for the Institute to recoup the amount.

I brought this issue to the attention of Management again and was advised as follows:

“The Institute will recoup the outstanding amount from the terminal payment of the former Director. The Institute has provided the terminal payment calculations to the Department of Personnel Management team for verification whereby the former Director owes K63,057.32. At the time of writing, the Director has repaid the outstanding funds of K63,057.32. The financial implications will be reflected in the 2020 Financial statements.”

Staff Accommodation

During my review of personnel emoluments, I noted that two (2) NRI officers were paid housing allowances and at the same time were being provided accommodation by the Institute, resulting in double benefits received by each officer. The practice is deemed as double dipping and is in breach of the normal Public Service guidelines.

I recommended the Management to cease fortnightly payment of housing allowances to officers provided with accommodation and was advised in the following response:

“Management notes your observation and can now confirm that this was a management oversight the housing allowance for staff concerned was ceased in the first pay of 2018.”

Housing Benefits – Incorrect Tax Administration

According to the revised tax rates effective from 1 July 2012 by the Internal Revenue Commission, Port Moresby is categorized under Area 1 for tax purposes in relation to housing benefits provided by the employer. I observed that the correct prescribed value of the benefit for tax purposes were not included in the calculation of fortnightly salary and wages tax. Consequently, the Institute had failed to administer tax in the correct manner and had under taxed concerned officers thus, breaching the provisions of the *Income Tax Act 1959*.

I recommended the Management to ensure all housing benefit taxes are accurately calculated and applied to staff salary/wages and remitted to the Internal Revenue Commission.

Salary and Wages Tax

My review of the salary and wages account revealed that the Institute’s group tax was not remitted to the Internal Revenue Commission on a timely basis. The *Income Tax Act, 1959 (as amended)* stipulates that monthly salary and wages tax should be remitted to the IRC within seven (7) days of the following month. As a result, the Institute has not complied with the above act with timely tax remittances to the Tax Office.

I advised the Management to remit all salary and wages tax to the IRC at the end of every month and the Management concurred with my recommendation.

Staff Personnel Files

I noted that the Institute did not properly maintain staff personnel files with supporting documents such as salary history cards to enable me to verify the salary/wages, allowances and other benefits paid to staff during the year. Further, I noted that the birth certificates and salary/wages declarations were not available for my verification of the leave fares paid and the tax rebates claimed for all dependents. Basing calculations on insufficient records exposes the Institute to the risk of paying incorrect salary and benefits to its officers.

This issue was also raised in my prior year audit report.

Payroll System

The Institute had been manually calculating and recording all pay summaries on excel spreadsheets per pay period over the years including the year under review. The data kept in spreadsheets are not encrypted and if tampered could lead to errors or omissions which can go undetected. Consequently, I was unable to rely on the controls over the administration of payroll expenses.

I drew management's attention to this weakness and the Management concurred with my recommendation with the following response:

"Management notes your observation and confirms that the Institute has made progress to automate the payroll system The Able Computing Payroll System (trial version) was installed in August 2018. Additionally, the vendor is to confirm the system's compatibility with requirements of the IRC and Superannuation. Relevant officers are currently in training and we anticipate the system to be fully operational by the end of 2020."

34.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Institute for the year ended 31 December 2018 had been submitted and arrangements were being made to commence the audit shortly.

The Institute had not submitted its financial statements for the years ended 31 December 2019 and 2020 for my inspection and audit.

35. NATIONAL ROADS AUTHORITY

35.1 INTRODUCTION

35.1.1 Legislation

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

35.1.2 Objectives of the Authority

The objectives of the Authority are to:

- raise funds for the maintenance of public roads;
- ensure the efficient preparation of effective annual road maintenance programmes; and
- ensure that all routine, specific and emergency maintenance of roads and road rehabilitation and reconstruction funded by the Authority are executed in a transparent, effective and efficient manner, in order to optimise the contribution of road assets to the economic and social development of 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 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, 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 programmes in accordance with internationally accepted accounting principles;
- establish environmental management capacity;
- provide a continuing programme of professional staff development and required skills training for non-professional staff; and
- construct, erect or affix signs or marks on road transport infrastructure in accordance with the *Motor Traffic Act (Chapter 243)*.

35.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

35.2.1 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 2019 was issued on 25 April 2021. The report did not contain any qualification, however, a matter relating to the material uncertainty of the Authority's going concern was emphasised:

“EMPHASIS OF MATTER

Material Uncertainty Related to Going Concern

I draw attention to *Note 13* in the financial statements and in accordance with *Section 2(m)* of the *Road (Management & Fund) Act, 2020*, the *National Road Authority Act, 2003* has been repealed. The proposed migration from the Authority to the Department of Works and Implementation is expected to be completed by April 2021 and, as such, the Authority ceases to exist after April 2021. As stated in *Note 13*, this condition, along with other matters set forth indicate that a material uncertainty exists that may cause significant doubt on the Authority’s ability to continue as a going concern.

My opinion is not modified in respect of this matter.”

35.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Authority for the year ended 31 December 2019 was issued on 25 April 2021. The report contained the following observations:

Accounting and Operational Procedures Manuals

During my review, I was provided with a copy of a draft accounting and operational procedures manual, however, it was not finalized and approved for use by the management of the Authority. Internal control mechanisms such as accounting and operational procedures manual and policies should be well documented, formally established and communicated to all levels and functions of the Authority to be used by all personnel in their routine operational activities. This has been a recurring issue that the management is yet to address.

As a result, I was unable to measure and comment on the standards of operations relating to systems and controls and whether uniform procedures were followed in respective Divisions/Sections of the Authority.

Management responded as follows:

“Most functions of the Authority have well documented policies and procedures for routine operational activities. Update to the draft financial & accounting policies and procedures manual is subject to institutional reforms that are currently in progress. We are also aware that complete reliance on a financial manual is old fashioned or outdated. With advances in technology, many resources for learning are available on the internet that staffs are able to source online to help complete the routine tasks”.

Equity – K22,526,115

Total equity disclosed as at 31 December 2019 was K22,526,115. During my examination, I noted adjustments totaling K5,288,363 were disclosed, however, proper supporting documentation were not maintained for audit verification pursuant to *Section 62 of the Public Finances Management Act, 1995 (as amended)*.

Management noted my comments and advised that corrective measures have been taken to address this issue for the 2020 accounts.

Finance Department Payroll Liability – K12,740,878

The Department of Finance pays for the salaries and allowances through Alesco (Government) Payroll for employees of the Authority based on the understanding that the amounts paid will be refunded. I observed that the Authority had been accruing salaries and allowances paid by Department of Finance since 2011 without any settlements to date. Comments and recommendations made in the 2011-2018 audits for the settlement of the liability were not implemented by management. As a result, amount totaling K12,740,878 outstanding as at 31 December 2019 reflected a liability which I could not establish whether settlement will be made in the foreseeable future. Further, I was not able to conclude whether the amount will have any impact on the overall liquidity position of the Authority.

I recommended the management to assess the existence and basis of the liability and make necessary amendments to the accounts of the Authority accordingly and management responded to my concern as follows:

“Audit recommendation is noted and corrective action will be taken. We will clear the total outstanding liability from our books and provide details to the auditor (AG) for noting. Notwithstanding the above, NRA responses to 2018 audit stands”.

Motor Vehicle – K862,205

During the course of the audit, I noted two project vehicles registered as BFU 078 and HAU 803 in custody of NRA were not included in the Fixed Asset Register (FAR). As a result, I was unable to ascertain the completeness of the fixed assets of the Authority for the year under review.

I recommended the management to adjust the accounts accordingly and they responded that:

“NRA does not account for project related assets such as the motor vehicles mentioned simply because they are supplied by a Contractor under the specific Contract Agreement. NRA pays for the maintenance costs and disposes it after its useful life”.

Incorrect Tax Administration

My review of salaries and allowances revealed that senior officers who were provided with motor vehicles and accommodation were not taxed according to the prescribed rates. The appropriate value for officers who are provided with motor vehicles with fuel and without fuel in lieu of motor vehicle allowance paid in cash is K125 and K95 respectively. Accommodation (rental) in lieu of cash are also taxed at a prescribe rate per type of housing and area as describe under *salaries and wages tax table effective 1 January 2019*. The Authority had failed to administer tax correctly for concerned officers and had not complied with the provisions in *the Income Tax Act 1959*.

Management noted my concern and advised that corrective actions have been taken in early 2021.

Staff Rental Accommodation – K941,424

I observed no changes to the rental contracts for staff accommodation despite prior years' recommendations relating to rentals paid to personal companies or companies owned by spouses and related parties of NRA employees. Further analysis revealed that landlords are spouses of the contract officers who register their companies with IPA in the pretext of leasing their properties to NRA contract officers.

The above practice is deemed improper when procedures were not adhered to in the expense of the entity for personal gain by officers of the Authority. As per the *Income Tax Act 1959*, this practice may be viewed as an offence to defraud the state by evading compulsory tax obligations.

I have recommended the management to immediately cease this practice and they responded as follows:

“All leases with relevant landlords are usually prepared by the legal team, who conducts company searches for proper checks before informing the management on the outcome. Part of the check is to ensure that a company is properly registered and complies with the Companies Act 1997. This includes ensuring that section 16 of the Act is duly noted.

We are fully aware that if the rental payments are made directly to a person, salary/wages tax will definitely apply, but all accommodation rentals were paid in accordance with lease agreements held with relevant landlords or property managing companies. We will review the matter and discuss with each officer concerned to look at other avenues to secure their accommodation either through real estate agents or other parties”.

Staff Leave Expenses – K361,646

My review of the leave fare expenses revealed that there were no birth and marriage certificates for dependents and spouses attached together with leave form or kept in the personnel files to verify the dependents and spouse claimed for leave fares paid during the year. It is a requirement under *Section 14.41* of the General Orders that any dependents claimed for leave fares must be under the age limit of 19 years. Consequently, I was not able to confirm that the Authority has complied with the requirements of the General Orders mentioned above.

Management noted my recommendation and advised that corrective actions had been taken in early 2021.

Treatment and Disclosure for Weighbridge

The Weighbridge at 9 mile, Lae, Morobe Province, was capitalized as a fixed asset of the Authority and depreciation charged. However, according to the definition of assets (*IAS 16*), the cost of an item of property, plant and equipment shall be recognised as an asset if; it is probable that future economic benefits associated with the item will flow to the Authority. Since NRA is or will not be collecting fees and charges, it has not met the definition of an asset and should not be recognized as an asset.

Since weighbridge is presumed to be a public good, I am unable to comment on its disclosure as an asset.

Management responded to my concern as follows;

“NRA built the Weighbridge with the intention to generate revenue through fees and charges for the Authority from the start up to the year 2020. Which means the expenditure for the Weighbridge was correctly capitalized, however, no depreciation was charged up until 2019 when we started charging depreciation to disclose a true and fair net book value in the financial statements.

The plan is that, once the institutional reforms are completed in early 2021, NRA will transfer the operations of the Weighbridge to the Road Transport Authority (RTA), which will include the transfer of some fixed assets and the Weighbridge expenditure capitalized by way of a write off to expense on NRA side”.

35.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Authority had submitted its financial statements for the year ended 31 December 2020 and arrangements were being made to commence the audit shortly.

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 reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Council for the year ended 31 December 2017 was issued on 9 February 2021 while the 2018 and 2019 reports were issued on 30 June 2021.

The reports contained similar Qualified Opinions, hence, only the 2019 report is reproduced:

“QUALIFIED OPINION

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

- (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 2019 and the results of its operations for the year then ended.

BASIS FOR QUALIFIED OPINION

Fixed Assets – K943,801

My review of the fixed assets revealed that the Council did not maintain a proper Fixed Assets Register (FAR). Consequently, there is a difference of K399,354 between the FAR total of K544,447 and the Financial Statements balance of K943,801. Furthermore, the FAR does not have records of depreciations, book value of assets, disposals and assets identification references to monitor assets.

Consequently, I could not reliably ascertain the completeness, accuracy and valuation of the fixed asset balance disclosed. In addition, it is a non-compliance to the *Public Finances (Management) Act, 1995 (as amended)*, where it requires in *Section 62*, for all public bodies to ensure that adequate control is maintained over its assets, or assets in its custody.

Missing Payment Vouchers – Scope Limitation

The Council had not provided expense requisition vouchers totaling K77,405 for my inspection and review. As a result, I was unable to substantiate the validity and authenticity of payments amounting to K77,405. Missing vouchers imply a scope limitation on the application of all audit procedures. No proper maintenance of accountable documents by the Council is a breach of the *Public Finances (Management) Act, 1995 (as amended)*.”

36.2.2 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 Council for the year ended 31 December 2017 was issued on 9 February 2021 while the 2018 and 2019 reports were issued 30 June 2021. The reports contained similar observations, hence, only the 2019 report is reproduced:

Accounting System

My review of the accounting records and transactions of the Council's Cashbook revealed that the accounting and recording of transactions, events, and accounts is manually maintained in excel spreadsheets. The manual recording and accounting system is susceptible to errors, misstatements and omissions that lack proper backup for loss of data and information. The reliability and integrity of the manual bookkeeping and accounts could not be ascertained.

Management concurred with my comments and made an undertaking that they would continue to consult with the Finance Department on the possible installation and use of the *Integrated Financial Management System (IFMS)*.

Personnel Files Maintenance

My review of the human resources and payroll management revealed that most of the personnel files for employees did not contain vital personnel information such as updated salary/wages declaration forms, updated dependents declarations and identifications such as marriage certificates, birth certificates for children or statutory declarations for dependents.

Management concurred with my findings and would ensure staff files are updated and maintained with relevant important documents.

Gratuity Payment for Director – Double Dipping

My review of the personnel emoluments revealed that the Director has requested for advance gratuity and was paid out through the NTC operating account in 2018. The same amount of gratuity for the same period was paid through his salary by the Finance Department through Alesco Payroll. My further analysis revealed that this advance has not been recouped by the Council.

I have recommended in my last year's report that the money be repaid to the Council and the Director has agreed to repay a total of K45,000 back to the Council throughout the four-year period starting 2021 and all receipts of payments made will be made available in the annual audits for verification.

Leave Fares

My review of the leave fares revealed that payments totaling K42,225 were made in the nature of hired transport fares to employees entitled to leave fares. These were land and sea transport fares from the main centres (town) to the home districts (village). The payments were extravagant as there was no proper basis.

The payment of vehicle hire for land transport and sea transport is a breach of the *Public Service General Orders 14.48* where it states that; “fares for that matter (main centre to home district) shall be by the normal public transport and not in the nature of hired transport.”

Non-Acquittal of Travel Advances

My review of the travel and subsistence expenses revealed that the Council did not maintain a travel register with acquittal files. The travel and subsistence expense totaling K223,656 for the year could not be reliably verified as being acquitted due to lack of acquittal files and travel register.

Consequently, I was unable to ascertain the propriety and validity of the travel and subsistence expenses incurred.

Management responded that officers have been instructed to complete acquittals upon return from duty travels.

Payments Without Proper Supporting Documentation

My review of the operational expenditures revealed that total payments of K139,537 made without supporting documents such as; the three (3) required written quotations, acquittals and official letters/memos. No proper maintenance of accountable documents by the Council is a breach of the *Public Finances (Management) Act, 1995 (as amended)*.

I have recommended the Council to ensure that proper procurement processes are followed and are performed in accordance with the *PFMA* and the management accepted my recommendation.

36.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Council had not submitted its financial statements for the year ended 31 December 2020 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 its financial statements for the years ended 31 December 2017, 2018, 2019 and 2020 for my inspection and audit despite numerous reminders from my Office.

38. NATIONAL YOUTH DEVELOPMENT AUTHORITY (Formerly National Youth Commission)

38.1 INTRODUCTION

38.1.1 Legislation

The National Youth Development Authority was established under the *National Youth Development Authority Act 2014*. This Act came into operation on 21 October 2014, thereby repealing the *National Youth Commission Act 1999*. The Authority commenced its operational activities under the new name on 1 January 2015.

Under the *National Youth Development Authority Act 2014*, all the assets, properties, rights, obligations and liabilities which immediately before the coming into operation of this Act were vested in or imposed on the Commission, are, on that coming into operation, transferred to and became the assets, properties, obligations and liabilities of the Authority.

38.1.2 Functions of the Authority

The functions of the Authority are to:

- advise the Ministry and the National Government on policy formulation and legislative changes pertaining to youth affairs;
- authorise, coordinate, implement and monitor youth development activities at the National, Provincial and Local-Levels;
- develop and provide policy and technical advice to the Provincial Governments and Local-Level Governments on matters pertaining to youth;
- establish standards, regulate and monitor the level of services and training offered to youth by Government and non-profit organisations;
- monitor the execution of National Youth Development Plans at the Provincial and District levels;
- empower and provide opportunities to enable youth to participate meaningfully in activities at the International, National and Local-Level;
- generate revenue and fund youth programs and activities;
- report to the Minister on any matters referred to it by the Minister from time to time;
- establish and maintain a strong youth network at the National, Provincial, District and Local-Level areas; and
- promote awareness and disseminate information on youth matters through its network.

38.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Authority for the year ended 31 December 2018 had been submitted and arrangements were being made to commence the audit shortly.

The Authority had not submitted its financial statements for the years ended 31 December 2019 and 2020 for my inspection and audit.

39. OFFICE OF THE INSURANCE COMMISSIONER

39.1 INTRODUCTION

39.1.1 Legislation

The Office of the Insurance Commissioner was established under the *Insurance Act 1995*. The Trust Fund of the Insurance Commissioner was established in accordance with *Section 15* of the *Public Finances (Management) Act 1995*.

The Office of the Insurance Commissioner was funded by Treasury Department prior to 1998. In accordance with *Section 64C subsection 4 (a) and (b)* of the *Insurance Act 1995*, the Office of the Insurance Commissioner became a self-funded organisation through 1% levy collected from the Insurers' and Brokers' annual revenue from 1998.

39.1.2 Function of the Insurance Commissioner

The main function of the Insurance Commissioner is; the regulator for general insurance businesses in Papua New Guinea who administers the *Insurance Act 1995* and issues licences to:

- Insurers;
- Brokers; and
- Loss adjusters.

39.2 STATUS OF FINANCIAL STATEMENTS

39.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Commissioner for the year ended 31 December 2018 was issued on 31 May 2021. This report contained a Disclaimer of Opinion:

“DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs below, I have not been able to obtain sufficient appropriate audit evidence and accordingly, I am unable to and do not express an opinion on the financial statements of the Commissioner for the year ended 31 December 2018.

BASIS FOR DISCLAIMER OF OPINION

Opening Balances

During my review, I noted that the trust fund was opened in 1998 to deposit the collection of 1% levy fees from the Insurers and Brokers to support the operation of the Office of Insurance Commissioner. However, the Commissioner's accounts and records were never being audited since its establishment and 2017 accounts were disclaimed. As a result, I was unable to verify the opening balances of 2018 financial statements to ascertain the completeness and accuracy of the opening account balances.

Data Loss

During my review, I noted that insurance 1% levy schedules and other relevant data were lost by the IT Consultant who was engaged by the Commissioner in September 2018 to work on the server. The office failed to take any precautionary measures by backing up their data on a regular basis. As a result, I was unable to rely on the accounts and records prepared by the Consultant as they were not reliable. Furthermore, I was not able to determine the validity and authenticity of the receipts and payments of the Office as disclosed in the financial statements.

Cash at Bank – K5,169,286

The independent bank confirmation certificate for the bank account number 100058793 with Bank of South Pacific for the year ended 31 December 2018 was not provided for my review. As a result, I was unable to confirm the closing bank balance as reported in the financial statements.

Fixed Assets – K259,241

During my review of the fixed assets, I noted that the fixed assets balance of K259,241 disclosed in the financial statements only represented the assets from 2016 to 2018. The carrying balance of all assets dating back to 1998 when the Insurance Commission was established could not be determined. As a result, the balance disclosed in the financial statement was materially understated.

1% Levy Income – K3,893,098

During my review of the 1% levy income, I was not provided with all the annual returns and audited financial statements for all insurers to confirm the insurers' premium balances from which the 1% levy was calculated. The Commissioner calculates 1% levy income based on the audited financial statements and the annual returns figures. In the absence of proper source documents, I was unable to comment on the validity, accuracy and completeness of levy income stated in the financial statements."

39.2.2 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 Commissioner for the year ended 31 December 2018 was issued on 31 May 2021. The report contained the following significant matters:

Non-Submission of Financial Statements

The Office of Insurance Commissioner has not prepared and submitted its financial statements for the year ended 31 December 2018, to enable me to conduct the audit within the timeframe stipulated by the Act. Consequently, the Insurance Commissioner has breached *Sections 63 (2) and 63 (4)* of the *Public Finances (Management) Act, 1995 (as amended)*.

Bank Account – 100058793?

During my review, I noted that the OIC's Trust Fund generates interest and that the proceeds from the interest earned are deposited into BSP bank account number 100058793? (one digit missing). A total of K5,602 interest earned were deposited into this account during the year under review. However, there was no cash book or bank reconciliations maintained for this bank account. As a result, I was unable to verify and confirm the existence, accuracy, completeness and the ownership (account name) of the bank account. I drew this to the management of the Insurance Commissioner and they responded as follows:

"The bank account#:100058793 is an account that the OIC Trust Fund interests are transferred automatically from OIC Trust Fund account each month. The advice from bank is that it is an account kept and managed by the Department of Finance. We will liaise with the Department of Finance on the details of this bank account."

Bank Reconciliation – Segregation of Duties

My review on the bank reconciliations revealed that there was no segregation of duties implemented between the preparer and the reviewer during the year under review. The bank reconciliation is a key control mechanism which helps to detect errors and instances of fraud and irregularities and ensures the bank records are reconciled with the cash book. As a result, I was unable to place reliance on the effectiveness of the controls surrounding the bank reconciliation function. I brought this matter to the attention of the management and the management responded as follows:

"We assure you that the segregation of duties issue will be resolved as we will be having new staff added to our structure. This will be also complemented by the Finance Manual and Policies being put together."

Fixed Assets

During my review of the fixed assets I noted that the Commissioner has not maintained a Fixed Assets Register since the establishment of the Office of Insurance Commissioner. However, only the assets purchased from 2016 to 2018 were disclosed in the financial statements without the opening balances. As a result, I was not able to verify the existence, ownership and accuracy of the fixed assets valuation as at 31 December, 2018. Management responded to my observation as follows:

“The Office of the Insurance Commissioner has obtained a Fixed Assets Register and will be maintaining all our assets in this software which is called the MEX Assets Management. The Office of the Insurance Commissioner will be reporting assets from the new software.”

Licensed Broker Levy

During my review of the revenue, I noted that the Commissioner had not been collecting the 1% levy fees from the Brokers as stipulated in *Section 64 (c) 2* of the *Insurance Act, 1995*. There are seven (7) licensed Brokers operating in the country without paying any fees. As a result, the Commissioner is losing revenue by not collecting the 1% levy from the Licensed Brokers as stipulated in the *Insurance Act 1995*.

I drew this issue to the attention of the Management and they responded as follows:

“We appreciate your comments and will take appropriate actions soon on this matter. We agree we are missing out on the revenue part for the OIC.”

No Levy Penalty Charged

During my review of levy collections, I noted that a number of insurers have not paid their levy fees on due dates. These levy fees were still outstanding for more than 30 days which attracts penalty fees (a fine not exceeding K10,000) to be charged to the Insurers as stipulated under *Section 64(c) (5)* of the *Insurance Act, 1995*. However, the Commissioner has not invoked this provision to warn the defaulted Insurers. I queried the OIC’s management of this issue and they responded to my query as follows:

“We take note of this findings and will seek legal advice from the correct Authorities to comply with the Insurance Act. We will also be employing a legal officer to assist with these matters.”

Personnel Files

My review of permanent staff personnel files revealed that the contract of employment and offer letters for staff were not filed and maintained in the staff personnel files. The following documents were not filed properly in their respective personnel files:

- History cards to show the up to date leave records;
- Salary cards to record the changes to the salary and allowances for each officer;
- Salary and wages declaration forms to show the declared dependents to claim for leave fares and income tax calculations; and
- Birth certificates to verify and confirm the ages of the dependents claiming the leave fares.

In the absence of the above valid documents, I was unable to verify and confirm the leave records, changes to salary, declared dependents and their ages and tax calculations. I drew this observation to the Commissioner's management and they responded as follows:

"The management appreciates your recommendations on the employee salary history cards, salary and wages declaration forms and birth certificates for each staff personnel files."

Casual Staff Tax and Tax Remittance

My review of wages revealed that the Commissioner has calculated tax every fortnight from the casual wages as well as overtime for pay one to twenty-six totaling K26,067 for the year ended 31 December 2018. However, this was not recorded or taken up in the MYOB accounting system of the Commissioner. Furthermore, casual wages tax of K26,067 was not remitted to the Internal Revenue Commission (IRC) in accordance with the *Income Tax Act, 1959 (as amended)*. I brought these issues to the attention of the management and they responded to my observation as follows:

"The Office of the Insurance Commissioner will take corrective actions on this issue on the casual staff tax and tax remittance to IRC in future years. Also the office will remit all salary and wages tax to IRC at the end of each month."

Travel and Subsistence

During my review of the travel and subsistence, I noted the following discrepancies:

- The OIC did not maintain a Travel Advance/Acquittal Register to keep proper records of all the duty travel advances taken;

- The payment of accommodation for travels both overseas and domestic travels were paid by cash to the officer travelling instead of paying to the service providers;
- Receipts and invoices from the hotels are not attached to both the payment vouchers and the acquittal forms as per *General Order 13.94c*;
- Payments for accommodations for domestic travels were made based on proforma invoices instead of invoices and quotations;
- No three written quotations were obtained to comply with the requirements of *Public Finances (Management) Act, 1995 (as amended)* and *Financial Instructions 2/2013 (point 5.1)* which requires that “*Purchases for amounts between K5001 and K500,000 should require three written quotations*”;
- For overseas travels, the travelling officers were receiving in cash US\$ 250 per night for accommodation and US\$200 travelling allowances which has no basis to substantiate the rates being used; and
- For overseas travels, the commissioner gets US\$2,500, deputy commissioner gets US\$2,000 and assistance commissioner gets US\$1,500 allowances respectively for visa fees, telephone, fax, taxi and entertainment. However, there is no policy or basis for the extra allowances taken for overseas travels. In addition, no proper acquittals were made to account for the advances paid to them. As a result, I was unable to verify the rates and whether the payments were made for the intended purposes.

I drew my observation to the management and the management responded as follows:

“The management takes full note on this issue and will consider necessary steps to improve on this item. We’ll apply control measures on these expenses especially on travel and subsistence and few travel costs that were en-cashed as you have pointed out. We will ensure three quotations for accommodations and vehicle hires travelling within the country, receipt and acquittals be kept in filing system as per your recommendations.”

Payments without Contract Agreements

There were Service Providers engaged by the Commissioner during the year under review to provide services to the Commissioner totaling K801,699. However, I was not provided with the contract agreements to confirm the validity and the correctness of the payments made to them. I was not able to verify the amount presented in the financial statements due to absence of contract documents.

I queried the Commissioner's management of my observation and the management responded to my query as follows:

"We take note of this issue and the office will improve on this matter as one of the priority issues when we wish to have goods and services purchased for the office."

Internal Control Weaknesses

Other internal controls breakdown and weaknesses noted during my audit are summarized as follows:

- My examination of expenses revealed that payments totaling to K469,237 were paid without obtaining three quotations. As a result, I was unable to ascertain if value for money was obtained for goods and services procured.
- A total payment of K449,505 (from the sample tested) were without any supporting documents. As a result, I was unable to ascertain the validity of the payments.
- I noted that some service providers had been engaged by the Commissioner during the year under review to provide services to the Commissioner. However, I was not provided with the contract agreements to confirm the validity and the correctness of the payments made to them.
- I was not able to substantiate the validity and the authenticity of payments amounting to K29,546 due to lack of supporting documents.
- The OIC paid cash payments totaling K33,140 for various payments and no proper acquittals attached to determine or confirm that the payments were utilized for the intended purposes.
- During my review of procurement of goods and services, I noted that the Commissioner did not use FF3-(Payment Requisition) and FF4-(General Expense) to raise payments for the operation of the Commissioner and the payment documents were not approved or signed by either the Commissioner or the Deputy Commissioner. As a result, I was unable to identify if proper controls and segregation of duties were implemented by the Commissioner in the procurement of goods and services.
- There were instances where payments totaling K321,572 had no delivery dockets/consignment and other supporting documents to confirm if the actual goods purchased had been delivered to the Commissioner for their intended purposes. As a result, I was not able to confirm if the goods purchased were actually delivered to the Commissioner.

- I noted during my review of payments that OIC does not have a proper filing system in place. As a result, many documents (payment vouchers) were missing from the files.
- Physical inspection of vehicles owned by the Commissioner revealed that the vehicles were not registered with “Z” plates. The vehicles were purchased with public funds and are owned by the Commissioner and are deemed as State Properties.
- During my review of the Motor Vehicle Hire account, I noted that total payments of K249,598 were used for hiring of vehicles. I was unable to verify whether the payments of hiring vehicles were genuine and for the benefit of the Commissioner.

The Management agreed to take necessary action to rectify the above internal control issues.

39.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Commissioner had not submitted its financial statements for the years ended 31 December 2019 and 2020 for my inspection and audit.

40. OIL PALM INDUSTRY CORPORATION

40.1 INTRODUCTION

40.1.1 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.

40.1.2 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.

40.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

40.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Corporation's financial statements for the year ended 31 December 2012 was issued on 18 August 2020 and the report contained a Disclaimer of Opinion:

“DISCLAIMER OF OPINION

In my opinion, because of the existence of the limitation of scope on my work as described in the Basis for Disclaimer of Opinion paragraphs, and the effects of such adjustments, if any, that might have been determined to be necessary had the limitations not existed, I am unable to and do not express an opinion on the financial statements of the Corporation for the year ended 31 December 2012.

BASIS FOR DISCLAIMER OF OPINION

Cash and Cash Equivalent

As at the year end, the Corporation recorded cash and cash equivalent to the value of K3,097,977. Included in this balance is an amount of K241,181 related to Oro Harvest Net Revolving Fund, an amount of K2,320,132 related to IBD held with Kina Bank, an amount of K1,812(cr) related to Kavieng project bank account, an amount of K59,713(cr) related to Popondetta project bank account, an amount of K11,149(cr) related to Milne Bay project bank account and an amount of K380,792 related to Bialla project bank account. Management was not able to apply appropriate bank reconciliation procedures and therefore these accounts remained unreconciled with significant variances. Consequently, I was unable to comment on the completeness, existence, accuracy and the validity of the cash and cash equivalent balance as reported in the Corporation's financial statements as at 31 December 2012.

MYOB Transaction Files

The transactions of the Corporation are captured and recorded in the MYOB accounting software. The Corporation did not maintain a single MYOB files for its respective project offices. Instead, it maintained several versions of the MYOB files for the 2012 financial year making it difficult to maintain and retrieve these files. As a result of the poor record keeping, management was not able to locate the MYOB file containing the 2012 transactions for the Popondetta Project office. This has placed limitations on my effort to test the transactions balances reported as at the year then ended for the Popondetta Project.

Trade and Other Debtors

The trade and other debtors balance of K2,738,538 comprised of K1,689,706 trade debtors and K1,048,832 other debtors as stated in *Note 5* of the financial statements. Included in the other debtors' balance is an amount of K882,614 related to sundry debtors, an amount of K15,235 related to HQ levy payable, an amount of K124,962 related to staff advance and an amount of K13,845 related to bond fee. The general ledger of the accounts making up these balances was not reconciled. Further, I was not provided with the required audit information or other appropriate records for me to conduct audit tests on these balances and their subsequent receipts. Therefore, I was unable to satisfy myself as to the completeness, existence, accuracy and the validity of the trade and other debtors as reported in the Corporation's financial statements as at 31 December 2012.

Inventories

As at 31 December 2012 inventories were recorded at K116,422 in the financial statements. I did not observe the counting of physical inventories as at 31 December 2012. In addition, adequate inventory records were not maintained during the period. Owing to the nature of the Corporation's records, I was unable to satisfy myself as to the inventory quantities by other alternative audit procedures. Furthermore, the Corporation did not maintain satisfactory records for the valuation of its inventories. Consequently, it was not practicable to extend my audit procedures to satisfy myself on the completeness, existence, accuracy and valuation of inventories.

Property, Plant and Equipment

The Corporation's total property, plant and equipment as at the year then ended was K4,702,764. This balance includes an amount of K126,088 related to the Milne Bay Project Office, an amount of K250,199 related to Kavieng Project Office, an amount of K108,243 related to OPIC Head Office, an amount of K1,092,219 related to Popondetta Project Office, and an amount of K1,201,937 related to Bialla Project Office. All these project offices did not maintain reconciliations between the fixed assets general ledger and the Fixed Assets Register. In addition, the assets registers were incomplete in that registers for certain assets categories were not maintained for the above respective project offices. Consequently, it was not practicable to extend my audit procedures to satisfy myself on the completeness, existence, accuracy and valuation of the Corporation's property, plant and equipment and related depreciation expense of K566,691 in *Note 14* to the financial statements.

Trade and Other Creditors

As at 31 December 2012, trade and other creditors balance of the Corporation were recorded at K2,942,931. Included in this balance and as stated in *Note 8* to the financial statements is an amount of K1,313,432 representing trade creditors, an amount of K277,155 representing sundry creditors and an amount of K1,352,344 representing provisions and accruals. The general ledgers of the above mentioned accounts were not reconciled as at the year end. Important details such as detailed aged creditors listing in respect of the trade creditors, tax returns and IRC statement of account in respect of the GST and Group Tax and other schedules or list explaining the balances were not maintained. In addition, my review of the trade and other creditors also included audit procedures designed to test for unrecorded liabilities. I was not able to test for unrecorded liabilities as management was not able to provide the required information. As a consequence of poor record keeping, inadequate accounting procedures and significant compliance issues identified in these areas, I was unable to verify the completeness, accuracy and validity of trade and other creditors balance.

Retained Earnings

The retained earnings balance of K5,170,536(dr) was derived after processing an adjustment of K64,181 as indicated in the statement of changes in equity. The adjustment was processed as a balancing adjustment to tie prior year retained earnings balance to that of the current year as the retained earnings account were not reconciled. The Corporation was unable to explain the variance in the retained earnings account to which the above adjustment was processed to rectify during my review. Therefore, I was not able to verify the accuracy and the validity of the retained earnings amount.”

40.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Corporation for the year ended 31 December 2012 was issued on 18 August 2020. The report contained the following observations:

Internal Control over Financial Reporting

The Oil Palm Industry Corporation maintains separate books of accounts for seven of its cost centres. Five of these were related to the Milne Bay, Kavieng, Hoskins, Bialla and Popondetta project offices whereas the other two were for the head office operations and revenue account which were basically for head office functions. My review of the internal controls over financial reporting within these operations revealed that adequate accounting records were not properly maintained including important registers such as investment registers, fixed assets registers, staff advance registers, general journal documentations and important reconciliations. The general ledgers of these cost centres were also not properly reconciled.

In the light of these shortcomings which placed limitations on my effort to obtain sufficient appropriate audit evidence for my opinion, I was not able to comment on the accuracy, completeness and the validity of the balances reported in the statement of financial position and the statement of income and expenditure for the year ended 31 December 2012.

Audit and Certification of Accounts

Section 63 of the *Public Finances (Management) Act, 1995* requires all statutory bodies such as the Oil Palm Industry Corporation (OPIC) to furnish financial statements six (6) months after year end. The fact, that I was reviewing the 2012 financial statements in 2020, which was about seven (7) years after its due date, which means that the Corporation is in breach of the requirement of the above Act.

The prolonged delay in the audit and certification of the OPIC accounts since 2012 may indicate that the management at that time lacked good management skills and that there was no transparency and accountability in handling public funds.

I recommended management to expedite the audit certification process of the outstanding accounts of the Corporation from 2013 to 2019.

Management concurred with my recommendation and advised that the Corporation is in the process of completing the 2013 – 2019 audits.

OPIC Act Review

The Oil Palm Industry Corporation (OPIC) came into existence following the enactment of the *Oil Palm Industry Corporation Act, 1992*. Twenty-eight (28) years has lapsed since its establishment and the need for a review of this act is important for both the Corporation and the industry. I noted from my review that a resolution was passed at the board level for a review of the act. However, since 2012 management did not drive this agenda forward hence; the OPIC Act review is still outstanding as of the date of this review report.

OPIC may not be able to drive the industry forward due to impediments posed by the Act in its current state.

I recommended the management to drive this agenda forward as a matter of priority, and they responded as follows:

“This agenda has been deliberated at the board level for a while. Various stakeholders involved including the ICCC amongst others and the industry players. The current management is keen to drive this agenda forward.”

Engagement of Financial Consultant

I noted during my review that a consultant was engaged to prepare and compile the books of the Corporation for the 2012 financial year. My review of the work undertaken by the consultant revealed that the general ledger of the various project offices including that of the head office were either not reconciled correctly or not reconciled at all. Important registers, such as fixed assets registers, staff advance registers and investment registers were not maintained correctly.

Further, I also noted that there was no need to engage a consultant to do the work of an accountant when the Corporation has in employment a financial controller and 6 project accountants for its project offices at Head Office, Kavieng, Bialla, Hoskins, Popondetta and Milne Bay. This practice can lead to misuse of the Corporation’s funds or may also indicate lack of foresight and good management skills.

I recommended management to obtain a copy of the consultancy agreement and understand the terms of reference or the scope of the agreement to ensure that all activities of such terms of reference were fulfilled. Otherwise, withhold remaining unpaid monies until such activities are achieved.

Management responded as follows:

“We concur with the observation. The current management was of the same view hence, decided not to entertain this consultant once more. We will utilize accounts staff we have and do our accounts in-house going forward.”

OPIC Website

I noted during my review that the Corporation does not have an official website. In this day and age having a website is of paramount importance in any organization. This will enable the Corporation to disseminate government policies, industry news, board and/or management decisions and other important information to growers, milling companies, employees and other stakeholders on a timely basis over this medium of exchange.

Budgetary Process

During my review of the Corporation’s budgetary process, I was not provided with the budget document for the year then ended with a report on the comparison of actual against budget and explanations on the variances. Consequently, I was unable to establish whether:

- the budget document was comprehensive;
- the projection of income and expenditures were realistic;
- key budget elements/objectives were communicated right down to the project level;
- key budget objectives were achieved; and
- expenditures were controlled within the budget ceilings.

In the absence of a realistic budgetary process:

- The Corporation would not achieve, or may take a very long time to achieve its organizational plans and visions;
- Financial decisions would be made on an ad-hoc basis without due consideration and proper analysis of its implications; and
- Poor cash flow – not enough cash to meet the operational requirements of the Corporation.

I recommended the Corporation to develop a realistic and comprehensive budget; develop a process of budget implementation and monitoring and ensure any other significant expenditure or commitments which were not covered in the budget for the period should be approved by the board.

Management responded to my comments as follows:

“Observation noted. We will try to improve on the areas of budget process highlighted and implementation of recommendations.”

Mill Production Reports

The Corporation generates its revenue solely from the growers’ levy and voluntary levy of K4 per ton respectively. The data that is required for the calculation of invoice amount by each project office is the production quantity in tonnage. This important data is derived from the monthly mill production reports generated by the milling companies. The various project offices rely on this information from the respective milling companies to prepare their invoices for the month.

I noted during my review that the mill productions were independently/privately managed by the respective milling companies and so were the monthly mill production reports. The respective OPIC Project Offices did not have representative(s) at the mills to independently verify these monthly production reports. As the OPIC levy revenue was directly proportional to the production quantities in tonnage, I observed that there was a need to ensure that the integrity of the mill production reports were intact just to ensure there was no manipulation of the mill production quantities by the milling companies to understate the monthly levies payable to OPIC. Furthermore, any attempt by the milling companies to manipulate production quantities may easily slip through without being noticed as OPIC did not have in place relevant controls to detect such activities.

I recommended the following:

- OPIC to engage a consultant to carry out an independent review on the IT controls related to the equipment or machine that produces the monthly production reports. This is basically to look into and report back on the possibility of manipulation of the monthly production quantities by the milling companies;
- Project Officers had to be on site to witness the generation of monthly production reports;
- OPIC to come up with a strategy to do random checks on the milling companies; and
- Identify alternative or second layer of control mechanisms to verify the same production quantities.

Management responded as follows:

“Valid observation. Since taking office, the current management is improving on all areas of management hence, we anticipate to do random checks for the start and later identify and implement relevant control measures towards the end of the year.”

Organizational Structure, Approved Salary Scale, Employment Contracts, Employee Benefits Listing and Employee Provisions

I was not provided copies of the organizational structure, the SCMC approved salary scale, the employment contracts for senior management and the staff listing with benefits. Therefore, I was unable to establish if the current structure is relevant given the size of the Corporation’s operations and whether or not the employee salary levels and benefits are in line with SCMC approved salary scales.

I recommended management to address these issues going forward.

Oil Palm Levy

The top four oil palm producing countries in the world are Indonesia, Malaysia, Thailand and Nigeria. They supply more than 50% of the world’s oil palm demand. Indonesia and Malaysia alone supply more than 40% of the world’s demand for oil palm. To sustain their economies and industries, these countries also impose levy on the oil palm produce. The levies are imposed on the Crude Palm Oil (CPO) export. This is different to how OPIC imposes levy which is based on the Fresh Fruit Bunch (FFB) or the raw material of the oil palm.

The levies imposed by those countries were significantly much higher than the K4 per ton levy currently imposed by the Corporation. Their levies were in the range of \$20-\$50 per ton of CPO export. This is equivalent to K60-K150 per ton. Currently, a couple of the oil palm producing economies are shifting away from the old rules of levies to a new set of rules where levy prices are set with reference to CPO world market price.

Further, there are also other interesting events and advancement in technologies such as the usage of oil palm bi-product as bio-diesel which is at advanced stage in the above-mentioned economies.

My review of the above pricing differences between PNG and the various oil palm producing economies, coupled with the advancement in oil palm bi-product usages such as bio-diesel, indicates that there is a need for the Corporation to review its current levy pricing rules to accommodate those changes and to be at par with the rest of the world.

The current levy pricing rule is advantageous only to the milling companies.

I recommended management to review the current levy imposed by the Corporation and set a new levy pricing rule that is fair to both the Corporation and other stake holders in the country including the milling companies, exporters and the growers.

Management responded to my comments as follows:

“Observations noted. This will be done through a multi-stakeholder approach. First of which will be to amend OPIC Act which will pave way for review of pricing amongst others. The OPIC Act review agenda has been deliberated for some time now. The current management is intending to drive this agenda forward as a matter of priority.”

Land and Buildings

I noted during my review that titles to land and buildings to which the Corporation’s project offices are located are still with the Department of Agriculture and Livestock. These titles were not transferred at the time of the creation of OPIC. The Corporation does not have the right to the land and buildings it occupies.

I brought this to the attention of the management and recommended them to liaise with the Department of Agriculture and Livestock regarding this issue.

Management responded as follows:

“OPIC is still under the Department of Agriculture and Livestock. Transfer of rights to land and buildings would be a way forward following the review of the OPIC Act. The current management is committed to this review.”

Income (Kavieng, Popondetta, Milne Bay)

I was unable to confirm the Grower Levy income and Voluntary Levy income for the Kavieng Project Office by confirming to the other supporting source documents such as mill production reports, invoices and receipts. I also was not able to confirm income for Popondetta Project Office as the MYOB file containing the transactions could not be located. Further, I was not provided the supporting documents for other income for Milne Bay Project Office for my verification. As such, I was unable to determine the completeness and accuracy of these Project Offices’ income.

I recommended management to ensure control is exercised over record keeping and data management and ensure that accounts staff are properly trained on the importance of proper record keeping. Also it was recommended that data back-up for MYOB files must be made on a regular basis and that the final version of the MYOB file for every year end must be sent to the Head Office for final back-up and storage.

Management took note of my concern and assured me to improve on this including other weak areas.

Operating Expenses

During my review of the operating expenses, I noted the following payments to the Financial Controller.

- **Back Pay**

An amount of K10,299 was paid to the Financial Controller (FC), on 28 February 2012 as back-pay for period August 2011 to February 2012. I was not provided details of the approval, board decision or any other correspondences that resulted in the back-pay entitlements to confirm its validity.

- **Advance Payment**

An amount of K10,689 was paid to Institute of Business Studies (IBS) being for school fee payment for the Financial Controller's child during the year. This amount was expensed instead of taken up as an advance. In addition, reconciliation prepared in 2013 showed that several advances were paid to the FC in 2012 and 2013 amounting to K34,379. Of the amount, K26,379 still remained outstanding.

- **Medical Insurance Payment**

An amount of K11,480.92 was paid to Pacific MM Insurance for medical insurance cover for the Financial Controller. I was not able to confirm against staff employment contracts, board decisions, or any other reliable documents whether medical insurance cover is compulsory for OPIC employees.

I recommended management to ensure adequate documentation is in place for every payment and ensure reconciliations of staff advances are done accurately and on a timely basis.

40.3 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 2013 had been completed and 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 Corporation for the year ended 31 December 2014 was in progress.

The Corporation had not submitted its financial statements for the years ended 31 December 2015, 2016, 2017, 2018, 2019 and 2020 for my inspection and audit.

41. OMBUDSMAN COMMISSION OF PAPUA NEW GUINEA

41.1 INTRODUCTION

41.1.1 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.

41.1.2 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;
- investigate any defects in any law or administrative practice appearing from any such investigation;
- investigate any case of an alleged or suspected discriminatory practice within the meaning of a law prohibiting such practices;
- any functions conferred upon it by *Part III Division 2 (Leadership Code)* of the National Constitution; and
- any functions conferred upon it by or under an Organic Law.

41.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Commission for the years ended 31 December 2019 and 2020 had been submitted and arrangements were being made to commence the audits shortly.

42. PAPUA NEW GUINEA ACCIDENT INVESTIGATION COMMISSION

42.1 INTRODUCTION

42.1.1 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.

42.1.2 Objective of the Commission

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

42.1.3 Functions of the Commission

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

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

42.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

42.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Commission's financial statements for the years ended 31 December 2019 and 2020 were issued on 17 May 2021 and 30 June 2021 respectively. The 2019 report contained a Qualified Opinion while the 2020 report did not contain any qualification.

42.2.2 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 2019 and 2020 were issued on 17 May 2021 and 30 June 2021 respectively. These reports contained similar observations, hence, only the 2020 report is reproduced:

Salary and Wages Tax (SWT) Reconciliation

My review of the Commission's Statement of Account (SOA) maintained by the Internal Revenue Commission (IRC) as at 09 April 2021 revealed a salary and wages tax credit and penalty charges of K217,881 and K133,438 respectively for the year ended 31 December 2020. However, during the year PNG Accident Investigation Commission had not performed reconciliations of the SWT account balance in its books against the IRC's SOA balance to ensure accuracy of the SWT payable.

I brought this issue to the attention of the management and the management noted my observation.

Late Remittance and Lodgment of Salaries and Wages Taxes (SWT) and Returns

I noted that several remittances and lodgments of the salary and wages taxes and returns were not made on the stipulated time. In addition, I noted an amount of K42,742 in salary and wages taxes for the month of July 2020 not remitted to IRC.

I recommended the Commission to lodge all salary and wages taxes and returns in a timely manner to avoid unnecessary penalty and interest that may be imposed by the tax authority. Furthermore, I advised the Commission to ensure that all tax payables are remitted to IRC.

The management responded as follows:

“Audit Observation is noted. Management has commenced liaising with the Internal Revenue Commission for AIC’s staggering repayment plan. The AIC is ready to work with IRC’s advice on the most appropriate corrective action required to address this matter.”

No Signed Board Meeting Minutes

The minutes of the Board meetings provided for my review were not signed by the Chairman hosting the respective meetings during the year. As such, I was unable to verify the legitimacy and validity of the discussions and resolutions made as recorded in the minutes. The management advised that although the meetings were held by the Board members in person, the minutes were not signed due to the COVID-19 restriction measures imposed.

I emphasized that unsigned minutes render any Board discussions and resolutions made unenforceable and could bear negative financial impacts. As such, I recommended the management to ensure that all the Board meeting minutes are signed by the Chairman to validate the Board resolutions made.

The management responded as follows:

“Management has noted this audit observation for Board noting and compliance going forward. It has not been possible for the board to congregate during the year 2020, and first quarter of 2021, due to COVID-19 protocols, thus unable to sign most of the meeting minutes.”

Recoverable Medical Bill - Receivable

I noted that the other receivables account included a medical bill of K45,000 that had been paid in advance by the Commission for one of its employees. The employee after receiving the medical treatment had resigned from employment with the Commission. Subsequent to the reporting period, the Commission collected only K20,000 from the medical insurance. A remaining balance of K25,000 recoverable was agreed to between the former employee and the Commission to be deducted from the former employee’s final pay and leave entitlements payout. After the agreement, the former employee refused to cooperate with the Commission which poses a risk that the amount could turn out uncollectable.

I recommended the Commission to continue pursuing the former employee to recover the outstanding balance before utilizing the repayment terms as agreed to.

The management responded:

“Management has noted the audit observation and is pursuing to recover the balance from the former employee based on a signed repayment agreement entered into between the employee and AIC. The final entitlements have been withheld pending the repayment of the balance.”

Receivable from National Agriculture Quarantine and Inspection Authority (NAQIA)

My discussions with the management revealed that NAQIA would refund all payments received from the Commission over the past years as rentals. I was informed that this transaction eventuated from discussions made in a meeting held on 25 November 2020 between NAQIA, the Commission and the Government Office Allocation Committee (GOAC) of the Finance Department. However, I was unable to confirm the substance of the transaction nor the undertakings made in the discussions as no formal resolution has been provided for my review at the time of my audit report.

I recommended that the Commission obtain the signed resolution to properly support its claim from NAQIA.

The management responded:

“Management has noted the audit observation and AIC is pursuing this with NAQIA. Discussions are ongoing.”

Employment of Accident Investigation Manager and His Salary and Allowances

I noted that the employment contract of the current Accident Investigation Manager has not been duly signed by the Secretary of the Department of Personnel Management. In addition, Special International Market Allowances (SIMA) paid up to November 2020 to the manager were not taxed.

I advised the management that such practices amount to non-compliance with the requirements of the applicable laws and regulatory frameworks. Accordingly, I recommended the Commission to comply with the requirements of its own Act and all the relevant laws and regulations governing the employment and remuneration of non-citizens. I have raised similar concerns in my prior year report as well.

The management responded as follows:

“Management and Board have noted the audit observation to comply with Section 8 of the Public Employment (Non-Citizens) Act (Chapter 342). Management has noted the audit observation relating to the SIMA Tax and has taken corrective action on this starting November 2020.”

Fixed Assets Policy

The Commission does not have a fixed assets policy that provides for procedures and requirements for capitalization of all fixed assets and capital expenditures, depreciations and disposals. There is a high risk of fixed assets not being registered during the year and charged directly to expenses.

I suggested that the Commission should develop a fixed assets policy that provides requirements for capitalization of all fixed assets and capital expenditures, depreciations and disposals. A formal fixed assets policy should provide guidance to accounting personnel in recording and registration of fixed asset acquisition and avoid the time-consuming task of depreciating minor items. Any disposal of fixed asset should be done with Board approval and in accordance with the fixed assets policy.

The management responded as follows:

“The management has noted the audit observation and aims to put in place a written capitalization policy by end of the third quarter of 2021.”

Internal Audit Function

The Commission has no internal audit function since its establishment. Several audit issues were not identified, discussed and addressed promptly. The Commission should establish an Internal Audit Function. The Internal Audit Function should among other matters, develop an internal audit plan that would identify and address possible problems and areas for improvements on a regular basis.

Stronger and more active internal audit involvement to the Commission’s procedures will provide greater assurance as to the proper functioning of existing internal controls as well as insights to possible improvements to existing controls.

The management responded to my findings as follows:

“Management has noted the audit observation and will prioritize the recruitment of the internal auditor.”

Financial Delegation Authority

As in the prior year, the Chief Executive Officer (CEO) of the Commission was given ultimate (highest) financial authority to approve all expenditure irrespective of the values. This practice of giving financial power of approval to a single person with no checks and balances may lead to abuse and misuse of public funds.

The Board should review the Delegation of Financial Authority and establish necessary control procedures to avoid possible misuse of public funds of the Commission.

The management stated in its response as follows:

“Management has noted the audit observation. The authority for financial approval and delegation process has been addressed in the Financial Policy & Procedures Manual Section 3, Page 14.”

Fraud and Reporting System

My enquiry of the Fraud Reporting System revealed that the Commission had no fraud reporting system and guideline in place during the financial year under review. There is a risk that any fraudulent activities occurring during a year may not be detected.

I recommended the Commission to establish a fraud reporting system and guidelines. I further advised that any known or suspected fraud should be investigated and addressed by the Commission in a timely manner.

The management responded:

“Management has noted the audit observation and will immediately commence recruitment of the internal auditor who will be responsible for implementing, monitoring and reporting all possible and potential fraud matters.”

43. PAPUA NEW GUINEA CUSTOMS SERVICE

43.1 INTRODUCTION

43.1.1 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.

43.1.2 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.

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 Service for the years ended 31 December 2017 and 2018 had been completed and results were being evaluated.

The Service had submitted its financial statements for the years ended 31 December 2019 and 2020 and arrangements were being made to commence the audit shortly.

44. PAPUA NEW GUINEA FOREST AUTHORITY

44.1 INTRODUCTION

44.1.1 Legislation

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

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

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

44.1.2 Objectives of the Authority

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.

44.1.3 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*;
- 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.

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 2015 had been completed and results were being evaluated.

The financial statements of the Authority for the years ended 31 December 2016, 2017 and 2018 had been submitted and arrangements were being made to commence the audit shortly.

The Authority had not submitted its financial statements for the years ended 31 December 2019 and 2020 for my inspection and audit.

45. PAPUA NEW GUINEA IMMIGRATION AND CITIZENSHIP SERVICES AUTHORITY

45.1 INTRODUCTION

45.1.1 Legislation

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

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

45.1.2 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.

45.1.3 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.

45.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Authority for the year ended 31 December 2018 had been submitted and arrangements were being made to commence the audit shortly.

The Authority had not submitted its financial statements for the years ended 31 December 2019 and 2020 for my inspection and audit.

46. PAPUA NEW GUINEA INSTITUTE OF MEDICAL RESEARCH

46.1 INTRODUCTION

46.1.1 Legislation

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

46.1.2 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.

46.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

46.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Institute for the years ended 31 December 2018 and 2019 were issued on 16 November 2020 and 30 June 2021 respectively. The 2018 report contained a Qualified Opinion while the 2019 report did not contain any qualification.

46.2.2 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 Institute for the years ended 31 December 2018 and 2019 were issued on 16 November 2020 and 30 June 2021 respectively. These reports contained similar observations, hence, only the 2019 observations are reproduced:

Internal Audit

During my review on the internal audit division of the Institute, I noted that the Institute did not fully utilize the division to review various processes and systems and to provide necessary recommendation for the management to improve on the internal control weaknesses noted during my audits. There were no internal audit reports provided for my review as the internal audit position was vacant at the time of audit.

I recommended that the Internal Audit function should be fully resourced and utilized.

Management concurred with my recommendation and would endeavor to fill the vacant position.

Fixed Assets – K40,000,763

My review of fixed assets and related records of the Institute revealed the following discrepancies:

- IT Software worth K29,693 captured under *Note 10* to the financial statements did not qualify to be capitalized but should be expensed out as the payments were in relation to Anti-Virus License renewal fees. The PNGIMR only pays subscription/licensing fees for those antiviruses but does not own the software. Hence; the item does not satisfy the ‘ownership’ characteristics of an asset;
- Disposals and write-offs during the years were not appropriately taken-off the Register. My physical verification of assets confirmed that a material amount of assets in the Register had been disposed/written off but still had their historical values captured in the Fixed Assets Register;
- Improvements/upgrades made to existing assets did not have their costs added on to the existing assets in the Fixed Assets Register to come up with the new historical ending balance, instead these costs were treated as new purchases and recorded separately in the FAR; and
- The Institute had not conducted regular stock-take on its assets including revaluation exercises on its properties for a number of years up to 31 December 2019. In the absence of regular stock takes including valuation on its properties, management may not be able to identify obsolete, damaged or missing assets on a timely basis. Further, the Institute’s land and buildings may not be reflected at correct market values.

As a result, I was unable to place reliance on the effectiveness of the internal controls surrounding the management of the fixed assets of the Institute nor conclude on the valuation, correctness and existence of the fixed assets amounting to K40,000,763 disclosed in the financial statements. However, per *Note 10* of the financial statements, the Institute has done the revaluation of its Land and Buildings in 2020 which will be reflected in the 2020 financial statements.

Management responded to my observation as follows:

“The recommendation is accepted and will take actions to improve the Institute’s Fixed Assets Register (FAR) issues. To date, a fixed asset management policy is set in place, verification and valuation exercise of the land and building conducted. The non-land and building inventory exercise is now in progress”.

Current Assets & Liabilities

My review of all the current assets and liabilities per *Note 11* of the financial statements revealed that most of these transactions relate to inter-fund transactions which have not been cleared at year end. I have requested for aged payables and receivables reconciliations but I was advised that the Sybiz accounting system does not generate payables and receivables reconciliations. In addition, the Institute does not manually prepare reconciliations. As a result, there are uncleared balances still sitting under various clearing accounts.

Without proper reconciliations of payables and receivables, audit could not ascertain the completeness of the payable and receivable balances as at year end.

Management concurred with my recommendation and ensured to take actions to reconcile the inter-fund balances.

Salary and Wages Tax Liability – K4,249,790

My review of the income tax lodgments revealed that the Institute has been up to date with its salary and wages tax lodgments for the year under review. However, my further analysis revealed that a summary statement of account provided by IRC dating November 2020 shows penalty charges against assessments amounted to K4,249,790 dating back to 2013. Though numerous dialogues have been established between the Institute's management and the IRC to clear the deadlock, this liability still remains at the time of audit.

I recommended management to continue dialogue with IRC stating all facts relating to this amount and resolve this issue.

Management responded as follows:

“Management accepts the recommendation and will endeavour to resolve the tax issue with IRC. Further, a submission has been made to IRC for a Remission of Late Lodgement Penalties for the tax period from 2013 to 2019.”

Employees Superannuation Contributions

My review of the personnel emoluments revealed that the payroll division derived employee and employer superannuation based on employees' gross salaries in contrast to their base salaries, thereby increasing the employer superannuation liability. The Institute is in breach of the *Superannuation Act, 2002* as well as the *Superannuation Regulation, 2000*, in that all superannuation calculations are based on employee's base salary.

The management concurred with my recommendation and would take immediate steps to calculate superannuation contributions using the prescribed rate based on Base Salary.

Leave Fares – K110,382

My review of leave fares revealed that the Institute did not comply with the requirements of *General Order 14.47 (GO14.47)*. *GO14.47* requires that “An officer shall pay to the State at the time of applying for payment of recreation leave fares, a contribution towards the cost of the fares which shall be calculated at ten per cent of his/her gross substantive fortnightly salary at the date immediately prior to proceeding on recreation leave.”

I recommended the Institute to comply with the requirements of *General Order 14.47* in the administration and application of leave fares and the management agreed to implement the General Order.

46.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Institute had not submitted its financial statements for the year ended 31 December 2020 for my inspection and audit.

47. PACIFIC INSTITUTE OF LEADERSHIP AND GOVERNANCE (Formerly Papua New Guinea Institute of Public Administration)

47.1 INTRODUCTION

47.1.1 Legislation

The Pacific Institute of Leadership and Governance (formerly Papua New Guinea Institute of Public Administration) was established under the *Pacific Institute of Leadership and Governance Act 2017*. This Act came into operation on 1 May 2018 as per *Gazettal Notification No. G262 of 2018* dated 24 April 2018, thereby repealing the *Papua New Guinea Institute of Public Administration Act 1993*.

Under this Act, all assets held by and obligations and liabilities imposed on the former Papua New Guinea Institute of Public Administration immediately before the operationalisation of the Act were on that date transferred to the Pacific Institute of Leadership and Governance.

47.1.2 Objectives of the Institute

The objectives of the Institute are to:

- achieve excellence in providing organisational needs based training focused on ethical leadership, strategic planning, corporate services and related management processes to enhance public sector performance;
- establish the Institute as the premiere provider of ethical needs based training products and programs of choice for the Pacific Island Nations through training based partnerships;
- develop, maintain and promote the recognised training standards and qualifications regime for public sector organisations in collaboration with the department responsible for personnel management and the National Training Council; and
- operate as a business concern and raise revenue for the Institute to minimise budgetary support from National Government through partnerships established with public and private training research and delivery organisations within Papua New Guinea and in the Pacific region.

47.1.3 Functions of the Institute

The functions of the Institute are to:

- promote excellence in training standards and service delivery to meet the aspirations of integrated human development and inclusiveness as required by the Constitution;

- conduct applied research, engage consultancies and collaborate with public and private sector training organisations and professional bodies, including the Papua New Guinea National Research Institute and the National Training Council, in order to design an up to date training standards and qualifications framework;
- collaborate with the Department of Higher Education, Research, Science and Technology in order to establish bringing arrangements for suitably qualified diploma students to upgrade their qualifications to recognised degree level at selected higher education institutions;
- assist the provincial and district administrations to conduct training needs analysis and develop training programs to address the need for financial, human resource, planning and project management skills;
- explore, promote and deliver training opportunities for students from Pacific Island nations; and
- any other functions conferred upon it by *Section 7* of the *Public Institute of Leadership and Governance Act 2017*.

47.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

47.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Institute for the years ended 31 December 2015, 2016 and 2017 were issued on 28 September 2020. The reports contained similar Qualified Opinions, hence, only the 2017 report is reproduced:

“QUALIFIED OPINION

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

- (a) the financial statements of the Institute are based on proper accounts and records; and
- (b) the financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Institute as at 31 December 2017 and the results of its operations for the year then ended.

BASIS FOR QUALIFIED OPINION

Fixed Assets

The Institute has disclosed its Non-Current Assets as K376,234 at 31 December 2017. However, I noted that the Institute did not maintain a Fixed Assets Register for all non-current assets acquired by the Institute over the years-to-date. In the absence of a Fixed Assets Register, I was unable to ascertain the existence, accuracy and valuation of the fixed assets as reported in the financial statements. Further, the amount disclosed in the Financial Statements reflects only the additions for the year under review, however, it did not carry forward the prior years of acquisitions of properties and other assets worth millions of kina located in the Head Office and the four (4) Regional Offices nationwide by way of note to the financial statements. I also noted that the Institute has not carried out any physical count of fixed assets over the years to ensure that assets have properly been recorded and are in existence. As a result, I was unable to confirm the valuation, existence and accuracy of the fixed assets acquired by the Institute over the years-to-date.

Limitation of Scope – K19,950

The Institute did not maintain proper records of payments totaling K19,950 during the year under review. My review of the expenditures during the year revealed that payments totaling K19,950 were missing or not provided for my verification. Consequently, I was unable to perform my audit procedures to determine the validity, completeness and accuracy of the payments totalled K19,950 as reported in the financial statements.”

47.2.2 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 Institute for the years ended 31 December 2015, 2016 and 2017 were issued on 28 September 2020. The reports contained similar observations, hence, only the 2017 report is reproduced:

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

The Institute had not prepared and submitted its financial statements to my Office before 31 March 2018 to enable me to conduct the audit and issue the audit report within the time frame stipulated in the *Public Finances (Management) Act, 1995 (as amended)*. Consequently, the Institute had breached *Sections 63 (2) and 63 (4)* of the above act.

Accounting Policy and Procedural Manual

During my review of the internal controls, I noted that the Institute did not have any policy and procedural manual in place to guide its financial and operational activities. The policy and procedural manuals serve as control tools to assist staff at all levels to execute their duties and responsibilities in accordance with legislative requirements and best practice.

I brought the matter to the attention of the management and I was advised that it had identified this requirement as a priority and commenced work on the manual for Accounting and Finance process.

Accounting System (Software)

The Institute did not have a proper Accounting System (accounting software) in place to produce financial reports. The Statement of Receipts and Payments (Financial Statements) were being manually prepared and produced using Microsoft Excel spreadsheets. The basic accounting records were being maintained on spreadsheets to draw monthly Income and Expenditure Reports from which the Statement of Receipts and Payments was compiled. I noted this issue during my previous audits and recommended the management to consider sourcing an Accounting Software appropriate for the entity. The Institute is yet to implement my recommendation.

Bank Reconciliations

My review of the bank reconciliations of the Government Operational bank account operated by the Institute revealed that monthly reconciliations were performed. However, I noticed that these bank reconciliations were not signed and dated by the preparer and the reviewer. Thus, I was unable to substantiate whether there was segregation of duties and whether the preparations of bank reconciliations were done on a timely basis.

General Fund Account (GFA) Wages

During my review of the wages, I noted that the Institute had not been remitting superannuation contributions for its casual staff who had been employed for more than three (3) months with the Institute. This is a requirement of *General Order 17* and *Superannuation Act 2002*. I also noted that the salary and wages tax (SWT) computed on the casual employees' wages were not remitted to IRC during the year under review. I brought the above issues to the attention of the management and I was advised that the management took note of the recommendation and was taking appropriate action to make remittance to IRC.

General Fund Account (GFA) Overtime

I observed that there was no evidence of the employees signatures attached to the cheque requisitions/vouchers to support that the overtime allowances were paid to them. As a result, I was unable to determine whether the overtime totalled K23,377 were correctly paid or not during the year under review.

Travel Advances and Acquittal Register

The Institute had not properly maintained a Travel Advances Register for all duty travels and related expenses. As a result, I was unable to trace and authenticate travel advances and related expenses amounting to K75,276 during the year under review. Consequently, the Institute had breached the *Public Finances (Management) Act, 1995 (as amended)* and the *Financial Management Manual Part 20 paragraphs 11.2 & 12.10* which states that cash advanced to officers on official duty travels must acquit travel advances within 14 and 7 days for international and domestic travels respectively on return from duty travels. In the absence of a properly maintained Travel Advance Register, the Institute was unable to monitor the acquittals promptly.

Lack of Three (3) Quotations – K17,659

I observed that the Institute made payments totaling K17,659 without obtaining three (3) written quotations from reputable suppliers when making payments for expenditure exceeding K5,000. Consequently, the Institute had breached the requirements specified under the *Public Finances (Management) Act, 1995 (as amended)*. As a result, I was unable to place reliance on the effectiveness of the internal controls surrounding the procurement of goods and services of the Institute.

47.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Institute for the years ended 31 December 2018, 2019 and 2020 had been submitted for my inspection and audit and arrangements were being made to commence the audits shortly.

48. PAPUA NEW GUINEA MARITIME COLLEGE

48.1 INTRODUCTION

48.1.1 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.

48.1.2 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.

48.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

48.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the College for the year ended 31 December 2019 was issued on 15 June 2021. The report contained a Qualified Opinion:

“QUALIFIED OPINION

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

- a) the financial statements are based on proper accounts and records; and
- b) the financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the College for the year ended 31 December 2019 and the results of its financial operations and cash flows for the year then ended.

BASIS FOR QUALIFIED OPINION

Valuation of Non-Current Assets – K9,975,904

I noted that since the establishment of the College, there was no valuation exercise carried out on its properties and other assets totaling K9,975,904 by an independent valuer to determine the fair values of the College's assets. Further, I noted that the College's Assets recorded in the Fixed Assets Register did not have identification numbers or labels assigned to them. Without proper labelling of assets, the identification of fixed assets under the College's custody was difficult for my verification.

Further, the College has not carried out any stock-take on all its fixed assets over the years, thus, I was unable to carry out physical inspection to confirm certain fixed assets against the records to verify their existence. As a result, I was unable to comment on the existence and valuation of fixed assets disclosed in the financial statements."

48.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the accounts and records of the College for the year ended 31 December 2019 was issued on 15 June 2021. The report contained the following significant matters:

Title Deeds of College Properties

During my review of the Land & Buildings, I noted that for eleven (11) properties the College had no valid title deeds in place or was unable to locate the deeds for my verification. As a result, I was unable to verify the College's ownership of the eleven properties. I brought the above issue to the attention of the College Management and I was advised that the College would ensure title deeds of all properties physically owned would be pursued. Communication had commenced with various stakeholders and would continue until the matter is being resolved.

Personal Emoluments

During my review of staff personal files, I noted that the employment contract for the Principal of the College was not signed. As a result, I was unable to substantiate and validate the salary and allowances paid to the Principal. I brought this matter to the attention of management in my previous audits and followed up during the current audit as well.

I was advised by the College as follows:

“The Principal’s contract is the responsibility of the Board to ensure that he has a valid contract in place in concurrence of his duties. The matter has been followed up by the Management with no success. However, the management is still doing its best to ensure DPM provides the Principal a valid contract soon.”

48.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the College had not submitted its financial statements for the year ended 31 December 2020 for my inspection and audit.

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

49.1 INTRODUCTION

49.1.1 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.

49.1.2 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.

49.1.3 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.

49.2 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 2017, 2018 and 2019 were in progress.

The Institute had not submitted its financial statements for the year ended 31 December 2020 for my inspection and audit.

50. PAPUA NEW GUINEA SPORTS FOUNDATION

50.1 INTRODUCTION

50.1.1 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.

50.1.2 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.

50.1.3 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 Guineans;
- 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 and 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.

50.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Foundation for the years ended 31 December 2016, 2017, 2018, 2019 and 2020 had not been submitted for my inspection and audit despite numerous reminders from my Office.

I was advised by the Foundation's Management on 3 September 2020 that the criminals had broken into their office (Finance and Administration) and stole important office equipment and computers that contained financial records.

51. PAPUA NEW GUINEA UNIVERSITY OF TECHNOLOGY

51.1 INTRODUCTION

51.1.1 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 contribute to the development of Papua New Guinea.

51.1.2 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.

51.1.3 Subsidiaries of the University

The University has two 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 51A and 51B of this Report respectively.

51.2 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 2018 had been completed and results were being evaluated.

The University had not submitted its financial statements for the years ended 31 December 2019 and 2020 for my inspection and audit.

51A. NATIONAL ANALYTICAL AND TESTING SERVICES LIMITED (A subsidiary of University of Technology)

51A.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 Company Limited and Star Mountains Institute of Technology Limited, each holding 61% and 39% of the total issued shares respectively.

51A.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.

51A.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

51A.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 2012 was issued on 31 August 2020. The report contained a Qualified Opinion:

“QUALIFIED OPINION

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

- (a) The financial statements of National Analytical and Testing Services Limited for the year ended 31 December 2012;
 - (i) give a true and fair view of the financial position and the results of its financial performance and cash flows for the year ended on that date; and

- (ii) the financial statements have been presented in accordance with the *Companies Act, International Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea.
- (b) Proper accounting records have been kept by the Company, as far as appears from my examination of those records; and
- (c) I have obtained all the information and explanation required.

BASIS FOR QUALIFIED OPINION

Trade and Other Receivables – K1,100,806

Included in the above balance and as stated in the *Note 6* to the financial statement is an amount of K24,692 representing staff debtors, an amount of K108,930 representing GST collected and an amount of K111,905 representing GST paid. I was not provided with a staff debtors listing and GST returns file and other appropriate records to confirm and verify these balances. As a result, I was unable to satisfy myself as to the accuracy, completeness and existence of these balances.

Inventories – K251,104

My review noted that the Company had disclosed inventories at K251,104 in the statement of financial position. However, I was unable to satisfy myself concerning the inventory quantities held at 31 December 2012 as I was not present to observe the physical count of inventories. Further, adequate inventory valuation records were not maintained during the period. Consequently, I was unable to perform audit procedures to confirm the accuracy, valuation and existence of stock balance as at 31 December 2012.

Property, Plant and Equipment – K6,228,446

My review of the Company's Property, Plant and Equipment revealed the following issues:

- Details of additions amounting to K812,058 were not provided for my verification;
- K2,975,074 worth of assets were transferred by the shareholder (Unitech Development and Consultancy Limited) as equity contribution in kind in 2011. However, shareholder's agreement or valuation report was not provided for me to verify the correctness of the balance of the assets transferred;
- The ownership documents in respect of the Land and Buildings worth K1,400,000 which was part of the assets transferred was not provided; and
- A physical asset verification exercise was not carried out by the Company to verify the existence of the assets.

In the absence of these information, I was unable to comment on the accuracy, valuation, completeness and existence of the Company's Property, Plant and Equipment balance at year end.

Related Parties – K158,621

Included in the above balance and as stated in the *Note 11* to the financial statement is an amount of K177,501 related to Unitech Debtors account and an amount of K166,500 related to Unitech creditors account. Details including tenancy agreement in respect of the Unitech Creditor's account explaining the balance and the movements in the accounts were not provided. As a result, I was unable to comment on the completeness and accuracy of the related parties balance presented as at 31 December 2012.

Share Capital – K7,500,000

I noted during my review of the share capital of the Company and as per the company extract obtained from IPA, 39% was to be Unitech Development and Consultancy Limited (UDC) and 61 % is Star Mountain Institute of Technology Limited (SMIT). As at year end capital contribution by SMIT amounted to K3,000,000 which is 40% as opposed to 61% on the extract. In view of this inconsistency, I was unable to comment on the fair statement of share capital balance.”

51A.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 2012 was issued on 31 August 2020. The report contained the following observations:

Stock Provision Policy

The Company did not have in place a system or process of identifying obsolete, damaged and slow moving stock. Consequently, the Company did not make appropriate provisions for its stock categories at year end. I brought this issue to the attention of the management and management responded as follows:

“We will work out the provision policy in consultation with the PNG University of Technology. We are working currently on the inventory to establish a prudent inventory management system.”

Equipment Purchase Agreement

A deposit of K200,000 was made to Melanesian Metal Corporation Limited (MMCL) as party of an agreement to purchase geo chemical equipment at Malahang in Lae. The agreement was entered in 2011 between MMCL and PNGSDP for an agreed transaction price of K1.2 million. However, the following deficiencies were noted:

- a) There was no separate agreement entered between NATSL and MMCL. Instead, the deposit/purchase was done based on the agreement between MMCL and PNGSDP; and
- b) The title and ownership of the geo chemical equipment has not been transferred to the buyer as stipulated under *Section 2* of the agreement.

Consequently, the Company may not be able to defend any legal claims arising from the transaction and the use of the equipment. Further, funds had been expended on asset not owned by the Company. I brought these issues to the attention of the management and the management responded as follows:

“The oversight was taken very seriously and conveyed to the management. This transaction is now being checked to ascertain whether there was any form of understanding between PNGSDP and NATSL prior to the transaction between MMCL and NATSL. Otherwise proper legal processes of purchase agreement have been stressed to the management and communicated to the Company’s Board as well to avoid such oversights in any future agreements the Company may enter into.”

Group Tax

I noted during my review that the Company did not remit group tax to Internal Revenue Commission (IRC) on a timely basis. The group tax has accumulated since 2011 to K292,794. As a result, the Company did not comply with *Sections 65H* and *65I* of the *Income Tax Act 1959*. I brought this issue to the attention of the management and management responded as follows:

“All outstanding group tax liabilities sorted and final payment of outstanding to be completed in December 2019. Returns are now furnished on time as per Income Tax Act.”

Tenancy Agreement for Staff Rental

My review revealed that the Company’s staffs were accommodated in Unitech’s staff houses. As at 31 December 2012, a general journal amounting to K111,000 was processed to recognise total annual rent payable to Unitech.

However, I was not provided copies of tenancy agreements to verify the rates. As a result, I was unable to confirm the accounting treatment nor was I able to satisfy myself as to the effectiveness of the internal controls surrounding staff rentals between the University and the Company.

51A.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 2013, 2014, 2015, 2016 and 2017 have been completed and the results were being evaluated.

The Company had not submitted its financial statements for the years ended 31 December 2018, 2019 and 2020 for my inspection and audit.

51B. UNITECH DEVELOPMENT AND CONSULTANCY COMPANY LIMITED (A subsidiary of PNG University of Technology)

51B.1 INTRODUCTION

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

51B.1.1 Function 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.

51B.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

51B.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 years ended 31 December 2014, 2015, 2016 and 2017 were issued on 31 March 2021. The reports contained similar Adverse Opinions, hence, only 2017 report is reproduced:

“ADVERSE OPINION

In my opinion, because of the significance of the matters described in the Basis for Adverse Opinion paragraphs, the financial statements of Unitech Development and Consultancy Limited for the year ended 31 December 2017:

- (i) do not give a true and fair view of the financial position of the Company as at 31 December 2017, the results of its operations, the cash flows and the changes in equity for the year then ended; and
- (ii) the financial statements have not been prepared in accordance with the *Companies Act 1997*, *International Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea.

BASIS FOR ADVERSE OPINION

Opening Balances

My report on the financial statements of the Company for the year ended 31 December 2016 was an adverse opinion in respect of Property Development - Work in Progress, Property, Plant and Equipment, Revenue, Employee Costs and Consolidation of Subsidiary account. Since the opening balances enter into the determination of the results of operations and cash flows of the Company for the year ended 31 December 2017, any adjustment necessary on such opening balances would have a consequential effect on the financial performance and cash flows for the year ended 31 December 2017. As a result, I was unable to determine whether any such adjustment to the financial performance and cash flows of the Company might be necessary for the year ended 31 December 2017.

Property Development – Work in Progress (WIP) K11,290,000

The Company reported a balance of K11,290,000 under Property Development - WIP and related balance Unitech Affordable Homes under non-current liabilities in the statement of financial position. This balance relates to the revaluation of land situated at Tenth City based on independent valuations carried out by Melanesian Real Property Valuation Services in 2014. During my review, I noted the following issues:

- The land was given to Unitech Development & Consultancy Limited through verbal agreement by the University of Technology to hold, develop and sell. I have not sighted any written agreement between the University and UDC or the University council minutes authorising UDC to hold, develop and sell the land;
- The title to this land was still under the name of the University;
- The amount was classified under Property Development – WIP. However, during my physical inspection, I noted that there were no such development taking place except for two model houses which were already vandalized and not fit for human occupancy; and
- The related amount was disclosed under non-current liability titled Unitech Affordable Homes. However, I could not establish the basis on which the K11,290,000 was treated again as a liability.

As a result, I was unable to confirm the completeness, accuracy and classification of the balances disclosed in the financial statement.

Property, Plant and Equipment – K3,410,055

During my review, I noted that the Company did not conduct a complete stock-take on all its assets for a number of years up to 31 December 2017. Stock-take is an essential function where all assets of the Company are properly counted and recorded in the Fixed Assets Register and that all assets in the Register are physically located, counted and tagged with serial numbers for verification and control. In addition, a motor vehicle sold in 2015 was still captured in the Fixed Assets Register at 31 December 2017.

In the absence of regular physical stock-take, I was unable to perform audit procedures to confirm the existence of the assets in the Fixed Assets Register and the financial statement.

Revenue – K652,689

My review of revenue received by the Company during the year 2017 revealed the following discrepancies:

- No checks done by person(s) in charge of finance before postings;
- No schedules of receipts and deposits maintained to show the receipts collected and deposited during the year;
- Receipts were not filed in sequential order according to their receipt numbers for ease of reference and audit trail; and
- Several receipts were missing for me to confirm and verify revenue from general ledger to the actual receipts.

As a result, I was unable to perform audit procedures to confirm the accuracy and completeness over the revenue balance presented in the financial statement at year end.

Employee Costs (Payroll) – K180,157

Payroll summaries maintained for the year under review were incomplete. I was unable to extend necessary audit procedures to verify and confirm the balances disclosed in the financial statements. As a result, I was unable to confirm the accuracy and completeness over the employee costs balance as at 31 December 2017.

Consolidation of Subsidiary Accounts

The Company has a subsidiary National Analytical and Testing Services Limited. The accounts for the year ended 31 December 2017 did not include the effects of the subsidiary transactions. A deviation from the *International Financial Reporting Standards 10 “Consolidated Financial Statements.”*

51B.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Company for the years ended 31 December 2014, 2015, 2016 and 2017 were issued on 31 March 2021. The reports contained similar observations, hence, only 2017 report is reproduced:

Corporate Governance

My review of corporate governance revealed the following issues:

1. Board Meeting Minutes

Minutes of the meetings held and deliberated in 2017 were not signed by the Chairman to authenticate the board meeting minutes. In the absence of signed board meeting minutes, I was unable to confirm whether the proceedings recorded were true and whether issues deliberated were for the best interest of the Company.

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

“We agree with the observation and recommendation to improve the situation. We will get the Board Chairman and Secretary to sign the board meeting minutes after every meeting as a mandatory requirement.”

2. UDC Shareholders

UDC shareholders according to IPA company extract were former Chancellor and Vice Chancellor instead of University of Technology. I therefore could not determine the legal ownership nor ascertain whether benefits to shareholders were appropriately administered if any.

Management responded to my concern as follows:

“We agree with the observation. We will file with the IPA to amend the necessary change in the IPA records so that University is 100% shareholder of the UDC.”

3. Unitech Investment Holdings Limited (UIH Ltd)

In 2014, the UDC Board created Unitech Investment Holdings Limited (UIH Ltd) to act as a vehicle for investment to oversee the subsidiaries and to manage Land and Housing Development. Land identified as commercial land will be passed on to UIH Ltd. This Company was registered with IPA. However, no reports such as financial statements or operational activity reports were provided for my verification. As a result, I was unable to confirm whether the Company was in operation and transactions occurred nor establish the basis on which the Company was created as viable and in the best interest of the UDC and the University.

Management advised as follows:

“We agree with the observation. This company was registered by the Board then in October 2013 without the University’s knowledge and consent. Therefore, the company has not commenced operations of any sort and has been dormant up to now. The company does not have any bank account. The University will apply for deregistration of this company as it is not owned or related to Unitech Development Consultancy Limited.”

Reporting Requirements under Companies Act 1997

Section 179 of the Companies Act 1997 requires the Board of Directors of a company to prepare financial statements or accounts of a company within five (5) months after the balance date. I noted that the UDC Board and management did not comply with this requirement for the 2017 financial year. As a result, the Company has breached Section 179 of the Companies Act 1997.

Journal Entries

I noted that there were a lot of adjusting and reversal entries being passed. From samples selected for verification, I noted the following:

- i) Journals entries posted into the general ledger (GL) were not independently reviewed and stamped as posted; and
- ii) No segregation of duties in raising, checking and approving of journal entries to ensure officers take responsibility and that the adjustments were necessary and valid.

Independent review of journals posted into the general ledger system is the key control to detect fraud and errors in financial reporting. Segregation of duties is encouraged in this area. Without such controls, the general ledger and the resulting financial report produced may be materially misstated.

Trade Receivables and Payables

The Company reported K1,961,517 and K807,567 for trade and other receivables and trade creditors in *Notes 9* and *12* to the financial statements respectively. Most of these receivables and payables remained outstanding from prior years and were due well over 90 days. This indicated that management was not exercising control over its debtors nor settle its creditors on a timely basis. Consequently, well overdue trade debtors may expose the Company to the risk of being insolvent and the Company may not be able to pay its creditors on time and may force the Company to liquidate its assets.

Group Tax Payable

As per the *Income Tax Act, 1959 (as amended)*, group tax should be remitted to Internal Revenue Commission (IRC) within seven days of the following month. However, during my review of the group tax liability, I noted that the Company did not remit its group tax for the year under review and prior years to IRC on a timely basis.

In the absence of timely remittance of group tax to IRC, the Company has breached the *Income Tax Act*. In addition, failure to remit group tax can also attract penalties and additional fees on top of the outstanding balance.

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

“We agree with the observation and implication. We will make installment plans with IRC and start remitting monthly tax returns. We are waiting for IRC to confirm but from January 2021 we are paying monthly group taxes.”

Expenses – K409,765

My review of the Company’s expenditure revealed the following issues:

- i) Expenses totaling K220,616 (over 54% of the total expenditure) were raised as cash cheque payments;
- ii) No segregation of duties as the former managing director and the payroll officer were observed to be the only ones involved in raising and approving expenditures; and
- iii) Cheque copies not attached with the vouchers for confirmation and no evidence of independent reviews before posting of the cheque vouchers.

Due to the above observations, I was not able to comment whether expenses were paid transparently and correctly recorded. I raised these issues and recommended management to establish proper controls and segregation of duties around the procurement process.

51B.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Company had not submitted its financial statements for the years ended 31 December 2018, 2019 and 2020 for my inspection and audit.

52. PARLIAMENTARY MEMBERS' RETIREMENT BENEFITS FUND

52.1 INTRODUCTION

52.1.1 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.

52.1.2 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.

52.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Fund for the years ended 31 December 2017, 2018 and 2019 had been completed and results were being evaluated.

The Fund had not submitted its financial statements for the year ended 31 December 2020 for my inspection and audit.

53. PUBLIC CURATOR OF PAPUA NEW GUINEA

53.1 INTRODUCTION

53.1.1 Legislation

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

53.1.2 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.

53.2 STATUS OF FINANCIAL STATEMENTS

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

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

The Office had not submitted its financial statements for the years ended 31 December 2018, 2019 and 2020 for my inspection and audit.

54. ROAD TRAFFIC AUTHORITY (formerly National Road Safety Council)

54.1 INTRODUCTION

54.1.1 Legislation

The Road Traffic Authority (formerly National Road Safety Council) was established under the *Road Traffic Authority Act 2014*. This Act was certified on 5 August 2014 thereby repealing the *National Road Safety Act 1997*. The Authority only commenced its operational activities in 2017.

Under the *Road Traffic Authority Act 2014* all assets, liabilities, rights, entitlements and choice-in action of the National Road Safety Council and the Land Transport Board which related to the functions of the Council were transferred to the Authority upon the commencement of this Act.

54.1.2 Objective of the Authority

The objective of the Authority is to manage and administer the regulation, safety and efficient use of land transport throughout Papua New Guinea.

54.1.3 Functions of the Authority

The functions of the Authority are to:

- establish, administer and enforce regulatory requirements for land transport in Papua New Guinea, including setting fees and charges for services provided by the Authority;
- within the resources available to the Authority, provide for the safe and efficient use of land transport in Papua New Guinea;
- assist, advise and work cooperatively with the Police Force, Provinces and other organisations in relation to land transport regulatory matters, road safety and the efficient use of land transport;
- monitor the road safety performance of the public road network and to develop and implement action plans for improvements;
- manage data for activities within the land transport system including maintaining and preserving records, registers and documents in relation to the activities;
- undertake investigation into land transport accidents, incidents and report to the Minister and public on the findings of such investigations;
- promote and conduct research into land transport regulatory matters and road safety;

- monitor and evaluate the effectiveness of programs and activities concerning land transports regulatory matters and road safety;
- promote and conduct educational and awareness programs to stimulate compliance with land transport regulatory requirements and road safety;
- advise the Minister on all functions specified in this section;
- perform other functions as are given to the Authority under this Act, the regulations, the rules or any other law; and
- do all things incidental, consequential or convenient in the exercise of the Authority's functions and powers.

54.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Authority had submitted its financial statements for the year ended 31 December 2019 for my inspection and audit and arrangements had been made to commence the audit shortly.

The financial statements for the year ended 31 December 2020 had not been submitted by the Authority for my inspection and audit.

55. SECURITY INDUSTRIES AUTHORITY

55.1 INTRODUCTION

55.1.1 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.

55.1.2 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.

55.2 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 2017, 2018, 2019 and 2020 for my inspection and audit despite numerous reminders from my Office.

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

56.1 INTRODUCTION

56.1.1 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.

56.1.2 Functions of the Corporation

The functions of the Corporation are to:

- 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;
- undertake studies concerning the development of small and medium enterprises;
- liaise with the National Executive Council or relevant Ministry in the implementation of the policies, strategies and programmes for small and medium enterprises;
- being responsible for collecting, sourcing, keeping and disseminating information on small and medium enterprises;
- act as the Secretariat to the Council;
- in the manufacturing and services sectors:
 - to undertake promotional activities to promote growth of small and medium enterprises;
 - to promote co-operation amongst small and medium enterprises;
 - to encourage industrial linkages with the large industries;
 - to develop human resource in the small and medium enterprises; and
- undertake any work and investments necessary to promote and grow the small and medium enterprises sector in the economy.

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 the examination of the financial statements of the Corporation for the year ended 31 December 2018 had been completed and results were being evaluated.

The Corporation had submitted its financial statements for the year ended 31 December 2019 and arrangements were being made to commence the audit shortly.

The Corporation had not submitted its financial statements for the year ended 31 December 2020 for my inspection and audit.

57. TOURISM PROMOTION AUTHORITY

57.1 INTRODUCTION

57.1.1 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.

57.1.2 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.

57.2 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 2019 had been completed and results were being evaluated.

The Authority had not submitted its financial statements for the year ended 31 December 2020 for my inspection and audit.

58. UNIVERSITY OF GOROKA

58.1 INTRODUCTION

58.1.1 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 Papua New Guinea 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.

58.1.2 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.

58.1.3 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.

58.1.4 Subsidiaries of the University

The University has two Subsidiary Companies, *Unigor Consultancy Limited* and *Unigor Humi Catering Limited* which were incorporated under the *Companies Act*. Comments in relation to these Companies are contained in paragraphs 58A and 58B of this Report respectively.

58.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

58.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the University's financial statements for the year ended 31 December 2017 was issued on 7 April 2021. The report contained a Disclaimer of Opinion:

“DISCLAIMER OF OPINION

Because of the significance of matters described in the Basis for Disclaimer of Opinion section of my report, 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 accompanying financial statements of the University of Goroka for the year ended 31 December 2017.

BASIS FOR DISCLAIMER OF OPINION

Opening Balances

The 2016 audit report was issued with a Disclaimer of Opinion due to limitation of scope arising from inability to obtain satisfactory accounting records, source documentations and reconciliations to satisfy myself as to the accuracy and completeness of opening balances of Fixed Assets, Cash at Bank, Investment, Equity and Cash Flows. I was unable to perform sufficient audit procedures to satisfy myself as to the accuracy or completeness of the opening balances. Consequently, I was unable to quantify the effects of any material misstatements in the opening balances that might have consequential effects on the balances stated in the financial statements of the University for the year ended 31 December 2017.

Statement of Cash Flows

My review of the cash flows revealed a variance of K10,862,083 between the year-end cash balance of K22,529,725 per the Consolidated Cash Flow Statement and the Cash at Bank balance of K11,667,642 in the Consolidated Balance Sheet. I further observed that the beginning Cash at Bank balance of K12,830,105 did not agree to the 2016 comparative ending cash balance of K26,421,070 in the Consolidated Cash Flow statement, hence a material variance of K13,590,966 noted.

I was therefore, unable to conclude on the accuracy and completeness of the Consolidated Statement of Cash Flows and the cash and cash equivalent balance disclosed in the consolidated balance sheet as at 31 December 2017.

Statement of Changes in Equity

My review of the consolidated Statement of Changes in Equity in the Internal Revenue Account revealed three (3) transactions totaling K6,054,017 were debited to historical balance without proper supporting documentation. Due to lack of proper supporting documentation, I was not able to gain comfort on the accuracy and completeness of the equity balance disclosed as K25,079,929 at 31 December 2017.

Cash at Bank – K11,667,642

I observed the following during my review of the cash and cash equivalents balance:

- Variances between the cash at bank general ledger balance stated in the bank reconciliation and the cash at bank general ledger balances in the accounting system (MYOB) were noted in the Bank Reconciliations for the Grant and Internal Revenue accounts. Cumulative variances in aforementioned accounts totalled K2,457,803 and K87,117 respectively;
- I was not able to confirm the completeness and accuracy of the year end cash balances of the Special Purpose and Menifor Accounts disclosed as K1,147,706 and K18,079 respectively in the Financial Statements due to lack of independent bank confirmations from the commercial banks;
- Bank adjustments (journals) with credit balances of K2,083,216 and K4,618,114 were noted in the Grant and Internal Revenue account cash ledgers respectively. However, relevant supporting documents were not provided for my verification and confirmation for the basis of these adjustments;
- Cheques totaling K111,022 drawn through the Grant and Internal Revenue Accounts remained unpresented for more than one (1) year and have become stale. These cheques were not timely investigated and written back and/or adjusted in the accounts of the University; and

- An amount of K225,135 bearing the receipt # CR011991 dated 6 October, 2016 remained as outstanding deposit/deposit in transit for more than one (1) year. The University had recognized revenue for the prior year which it had not received.

Due to insufficient supporting documentation and explanations, I was unable to neither gain comfort over the above transactions nor conclude on the accuracy and completeness of the cash at bank balance for the year then ended.

Fixed Term Deposit – K565,841

The University maintains fixed term deposits with Bank of South Pacific (BSP), ANZ and Westpac banks totaling K565,841 as disclosed at the year end. I was not provided with the necessary supporting documentation including investment schedules and certificates and independent bank confirmations for verification. I was therefore, unable to perform any reconciliation to confirm the existence, accuracy and completeness of the Investment and interest income earned as at 31 December 2017.

Fixed Assets – K91,799,934

My review of the fixed assets of the University revealed the following:

- **Valuation of Land and Building**

The University has not carried out any revaluation exercise on all the land and buildings owned, and in its custody, to reflect the fair values of the land and buildings in accordance with *International Accounting Standards 16 (Measurement and Recognition)*. Consequently, I was unable to confirm the accuracy and valuation of the balances of K1,817,228 and K89,062,918 relating to land and buildings respectively disclosed in financial statement as at 31 December 2017.

- **Depreciation Charge – K3,033,942**

Depreciation charge was disclosed as K3,033,942 at 31 December 2017. I observed that depreciation charged was calculated based on the cumulative written down values being added to the acquisitions for 2017 without a complete and comprehensive Fixed Asset Register and depreciation schedule. Accordingly, I was unable to ascertain the completeness, valuation and allocation, and accuracy of depreciation expense balance of K3,033,942 and the Fixed Assets balance of K91,799,934 presented at year end.

- **Proper Accounting and Disclosure – Fixed Assets**

Physical inspection conducted on certain assets of the University revealed that a staff house was burnt down without proper accounting entries on the asset write-off reflected in the University's books. I was therefore, unable to conclude on whether Fixed Assets were fairly disclosed, considering write-off's and impairments as at the balance date.

Trade Creditors – K6,743,316

The University did not maintain a trade creditors' aged listing to record and monitor outstanding invoices and creditor reconciliations in the year under review. This report is vital for monitoring invoices and settlements of bills, as it keeps track of invoices that are current, due and overdue and is crucial in ensuring that ending balances reconciles with the general ledger. As a result, I was unable to perform the necessary audit procedures to confirm the completeness and the accuracy of the creditors balance due to limitation of scope.

Deferred Income – K73,842,307

Deferred income disclosed at year end was K73,842,307. During my review, I noted that most of the projects (student dormitories stages 1-5 and staff housing) which corresponded to the deferred income has been completed however, no recognition of income was made to reduce the balance. As a result, I was not able to ascertain the treatment, completeness, and accuracy of the deferred income balance of K73,842,307 disclosed at year end.

Provisions for Staff Entitlements – Annual Leave – K669,308

My review performed on the annual leave provisions revealed errors in the calculation of staff annual leave disclosed in the Financial Statements. I observed that the provisions for accrued annual leave for the year were computed based on a 12-month period from the date of last leave taken in 2017 to the next recreational leave apart from the balance date as a basis. As a result, I was unable to comment on the correctness of the staff entitlements balance stated at year end.

Tuition & Other Fees – K26,936,055

During my review of the tuition and other fees account, I noted the following discrepancies:

- Fraudulent bank deposit documents totaling K337,203 were receipted by the Bursary Division with only K4,771 actual deposits in the bank statements between the 2017 and 2018 registration periods;

- A total of K2,084,491 in excess tuition fees receipted in 2017 was incorrectly recognized as Tuition Fees resulting in an overstatement of revenue apart from recognising this as deferred income in accordance with the measurement and recognition requirements of the *International Accounting Standards (IFRS 15)*. Excess fees in accordance with the University's policy are either deferred to the subsequent year of study or refunded upon the completion of the program;
- The University incorrectly decreased its current assets (tuition fee receivable) by K2,665,703 through journal entry (GJ001248) to recognize tuition fee paid in advance (relating to overpayment) instead of correctly reflecting the revenue and cash balances by increasing current liabilities (unearned revenue or fees paid in advance). As a result, the University's tuition fee income was overstated and current assets understated by K2,665,703;
- Cash disbursements (Debits) and reversals totaling K216,396 and K11,325 respectively charged against the tuition fees income accounts could not be verified due to insufficient supporting documentations from the management;
- Cash receipts totaling K1,973,639 could not be confirmed against the receipt books as copies of the receipts were not furnished for my verification; and
- Tuition fees totaling K1,030,616 received from the Distance Flexible Learning (DFL) account could not be confirmed as proper receipts and supporting documentation were not furnished for my verification.

As a result, I was unable to ascertain the correctness and accounting treatment of tuition fees and further perform necessary audit procedures to gain comfort on the validity, accuracy and completeness of tuition fees income received in 2017.

Accounting Treatment - School Fee Refundable, Refunds and Excess carried over Fees

My review of the school fee refundable, refunds made and excess fees carried over to the subsequent year revealed the following discrepancies:

- The University did not correctly account for K2,742,381 of unearned tuition fee/excess fees refundable (Liability) relating to continuing students and refundable portions;
- Refunds totaling K1,549,677 were made (expensed) and charged against the tuition revenue by the University instead of correctly treating this portion initially as liability and subsequently reducing when payments are drawn; and
- As a result of the above, the accounting treatment for continuing students and 10% administration fees noted from excess fees was not correctly recognised as income from unearned tuition fees.

I was therefore unable able to gain comfort on the correctness of the accounting treatments and to conclude on the accuracy and completeness of the amounts relating to the tuition fees refundable/excess fees disclosed in the Financial Statements as at balance date.”

58.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the University for the year ended 31 December 2017 was issued on 7 April 2021. The report contained the following significant matters:

Council Meetings

The University’s Standing Orders require the University Council to convene at least four (4) times in a year. During my review, I was provided with only one (1) Interim Council meeting minutes and as such I was not able to confirm if the Council had convened the required number of meetings in accordance with the Standing Orders. In addition, I was not able to conclude on whether the affairs of the University and decisions made including establishment of delegated authorities were properly discussed and sanctioned by the Council.

I recommended the University to ensure that in the future council meetings should be properly convened, meeting resolutions be passed and meeting minutes should be duly signed by the chairman and secretary in accordance with the standing orders.

Operational Policy Manuals

Despite prior years recommendations, my review revealed that the operational procedural manuals used by the University in 2017 were still out-dated. The operational and procedural manuals and policies of an entity are control mechanisms that ensures uniform application of processes across all levels of management and must be formally established, well documented and communicated to all levels and functions of the University to be used by all personnel in the routine operational activities.

The absence of clearly documented policy manuals and guidelines gives no clear road maps for governing the day to day operations of the University and further creates avenues that can lead to abuse of public funds including the risk of fraud and malpractice without detection.

I recommended the University to revisit the outdated policies and ensure to have new ones in place. Management responded that they have taken note of our recommendation and advised that work is currently done on reviewing the various policies mentioned.

Internal Audit Function

I observed that the University did not fully utilize the internal audit function to review various processes and systems and to provide necessary recommendation for the management to improve on the internal control weaknesses noted during the audits. There was no Internal Auditor employed in 2017 after the incumbent was terminated. Consequently, I was unable to comment on the systematic and timely review of internal processes by the Internal Audit Division and whether the Council was duly informed of weaknesses identified.

I brought this to the attention of the management, and advised that the lack of performance and effectiveness in the internal audit function encourages system breakdowns and weak internal controls resulting in mismanagement and abuse of public resources.

I recommended that the internal audit function is adequately resourced and utilized for regular systems and processes reviews.

Fixed Assets

Financial Management Manual Instruction Part 32 requires all public bodies to ensure that adequate control is maintained over its assets. My prior reports including the 2017 audit revealed that the University did not have an updated and complete Fixed Assets Register (FAR). Fixed asset acquisitions for the year were captured and added to the cumulative balance from prior years. In addition, there was no clear policy formulated by the University in relation to the acquiring of assets, capitalization and the disposal. I also noted that the University did not conduct a complete stock-take on its Fixed Assets for a number of years up to 31 December 2017.

Consequently, I was unable to place reliance on the controls surrounding the management and use of the fixed assets of the University and further conclude whether the fixed assets were properly safeguarded in 2017.

These issues were brought to Management's attention on numerous occasions however; not much improvement was noted so far.

Cash at Bank

My review of the controls surrounding the bank reconciliation function for the University's six (6) bank accounts revealed no segregation of duties. There was no indication of the preparer and the reviewer's name and signature on the reconciliations including the dates prepared and reviewed to confirm the accuracy and timeliness of the preparation.

Due to these control weaknesses, fraudulent bank deposits for inflated amounts were receipted by the Bursary Division without proper reconciliations and confirmation. I further highlighted the importance of having in place effective controls over cash management as cash is very liquid in nature.

The management noted my finding and advised that they have now taken on board two officers who will be responsible for bank reconciliations. These officers will be advised to sign off once they complete the reconciliations and pass on to senior officers for review and approval.

Staff Advance Policy

I noted that the University did not have a staff advance policy to specify the eligibility criteria, penalties on default, interest on advance and when advance should be fully recouped. In the absence of this control mechanism, I was unable to place any reliance on the effectiveness of the controls surrounding the administration of the distress loan given to staff members.

I recommended the University to have in place a staff advance policy to effectively manage the advances given to staff members. The Management concurred with my recommendations and agreed to take corrective actions.

Tuition Fees Income - System Breakdown

I observed a lack of proper coordination between the Bursary and Student Administration Divisions in the management of student tuition fees. I further noted that proper control mechanisms within the revenue cycle were vague despite my recommendations in prior years. Consequently, I was unable to place reliance on the internal control mechanisms which proved to be weak and could not deter student fraud.

From the fraudulent receipts of K337,203, only K4771 was deposited. I sought explanation on the management's position for the unaccounted balance of K332,432 and whether the University is taking appropriate action to implement audit recommendations.

The University acknowledged my finding and responded as follows:

"We take note of the issue raised and want to comment that this was an unfortunate situation and the University was caught off guarded. The students involved in defrauding the University were identified and referred to the police for prosecution and given exclusion letters."

In addressing this unfortunate situation and going forward, the management has resolved that all tuition fees should be paid:

- a) Via EFTPOS machines; and*
- b) For direct deposits for private and corporate sponsorships including direct bank transfers, before receipts are issued, we must check with our statement and confirm the deposit and then issue a receipt.”*

Payroll

My review of the Payroll and human resources management of the University in 2017 revealed the following weaknesses:

- **Payroll System**

I noted that the Payroll system (MYOB) is not integrated with the main line data processing and reporting systems of MYOB accounting software. Further, payroll calculations were not reviewed and checked by appropriate financial delegate on a timely manner. I also noted that there was no proper independent staff establishment registry kept and maintained by HR division for regular comparison against payroll listings. Consequently, I was not able to place reliance on the effectiveness of the internal controls surrounding the administration of payroll.

I drew management's attention on the implications of not having in place effective controls over the administration of payroll and recommended that appropriate payroll accounting system be introduced. Similar issues were raised in the prior year reports for corrective action to be taken by the University.

The University responded that they are currently aware of this issue and are therefore looking at introducing a new computerised payroll system. Dialogue has already started with Department of Treasury/Finance to adopt ALESCO Payroll system currently used by most government departments. Budget allocation of K100,000 has been made and it is anticipated that this project will commence by January 2021.

- **Part Time and Casual Employees**

Temporary staff (Lectures) and casuals (Support Staff) were remunerated from the Internal Revenue Account but were not included in the approved University structure. Further, casuals were engaged by the University for more than a year. As such, I was unable to establish whether the University had adequately budgeted for these temporary staff based on the approved staff ceiling from DPM. Further, I was not able to confirm whether the University has adhered to *General Order 7, General Orders 10.7 and 10.8* directives.

I recommended the University to review its structure and provide for these staff and remunerate them from the recurrent account.

The management concurred with the recommendation and responded as follows:

“We take note of the issue raised in regards to Part-time and Casual employees of the University. We have raised this concern to the various Divisions of the University, Human Resource, employing Divisions or Schools and the Top Management Team. We are looking for ways to address this as we are mindful of the implications that this can have on the institution.”

- **Top Management Team (TMT) Allowances**

A total of K133,417 was paid as claims to senior officers of the University as TMT approved allowances comprised of housing allowances, public utilities, vehicle allowances, cell phone allowances, entertainment allowances, domestic services, education subsidies and medical. Officers who qualified for these claims were the Vice Chancellor, 2 Pro-Vice Chancellors, Registrar, Bursar and Manager HR of the University. These allowances are derived from SCMC approved salary scales from DPM and were claimed outside of payroll through cheques payments. Given the tax ramifications on these allowances, the University had breached the *Income Tax Act 1959* with such tax evasion practices as I was unable to verify whether proper tax assessments were performed and remitted under the *Income Tax Act 1959 (as amended)*.

I sought explanation from management as to why such practices are allowed by the University despite my recommendations to cease this practice to comply with the *Income Tax Act*. The Management is yet to adhere to my recommendations.

- **Double Dipping of Allowances**

I observed that some Top Management Team (TMT) members received fringe benefits (entertainment allowances, utilities and phone allowances) fortnightly and also claim through TMT approved allowances. This resulted in double dipping of allowances.

I requested management to provide explanation on why such practices are entertained by the University and advised management to cease this practice immediately.

- **Salary/Wages Tax Declaration Forms (S3 forms)**

I noted that salary/wage tax declaration forms (S3) were not updated and kept in file. Such forms are important to determine how many dependents are being declared and/or any variation for tax purposes are assessed and approved. As a result, I was unable to confirm the dependents declared for tax purposes on payroll.

I recommended the University to ensure to update and maintain salary/wages tax declaration forms regularly for management and audit purposes. Management responded that at the beginning of every initial employment of an employee, they are given salary/wages tax declaration forms (S3) to complete. It is the responsibility of the individual staff to update their personal records by filling in the S3 forms every time there is a change in the family dependents.

Other Internal Control Weaknesses

Other internal control weaknesses noted during my review include the following:

- There was no segregation of duties over collection, receipting and reconciling deposits to cash at bank functions by competent personnel. I noted the lack of audit trail and that reconciliations were not promptly done resulting in significant variances noted between the income transactions recorded in the Cash Receipts Journal and the General Ledger;
- Payments amounting to K343,325 in relation to travel and subsistence expenses for the year were not acquitted by the designated staff of the University during the year. I also observed that a Travel Advances Register was not maintained by the University in 2017 and prior years, contravening *Part 20 paragraph 11.2* and *Part 20 paragraph 12.10* of the *Financial Management Manual*;
- I was not able to confirm whether due processes were followed in the engagement of service providers for payments worth K128,286 as I was not provided the contract agreements or supporting explanations to substantiate the basis for these payments. The University did not observe *Financial Instruction 2/2013* requiring all head of agencies (CEO) to ensure minor contract agreements are in place and executed properly for contracts or purchases valued between K50,000 - K500,000;
- I was unable to comment on whether the Council expenses had been in the best interest of the University and the State. Payments totaling K437,127 were made (relating to the Honorarium Policy) to two (2) working groups headed by Council Members. Also included in the total payments was K90,000 paid to committee chairpersons (Council Members) and K186,500 insurance cover.

I was not able to comment on the legitimacy of the above payment as members of the Council are not entitled to insurance cover for medical and professional indemnity as a condition of their appointment. Further, the University did not maintain proper acquittals for travel and subsistence related expenditures by the Council totaling K768,522; and allowances totaling K105,997 paid to Council Members could not be reliably ascertained. These payments are in excess of the standard stipend allowances for members of the Council per the DPM approved rates;

- A total of K302,268 was paid in cash instead of raising cheques to appropriate service providers and payees which contravene the requirement of The University's *Accounting Manual (Section 6.4.4)* which notes that "*only in exceptional circumstances the cheque signatory may endorse a cheque to be paid in cash*";
- I noted instances where payments totaling K91,929 were made to senior officers of the University for signing of cheques and for other duties perceived as outside their job description. I was unable to ascertain on what basis these payments were made to these officers. This practice was noted during the prior years' audits as well. Such payments are deemed improper; and
- The University did not fully comply with *Section 62(1)* of the *Public Finances (Management) Act 1995 (as amended)* requiring Public Bodies to keep proper account and records of its affairs. As such, payment vouchers totaling K1,041,297 were missing and not provided for my verification.

Due to lack of source documents and proper record keeping, I was unable to perform the necessary audit procedures to ascertain the occurrence and the authenticity of the above payments.

I drew management's attention to these weaknesses and was advised that the University has taken note and steps will be taken to address these issues.

58.3 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 2018, 2019 and 2020 for my inspection and audit.

58A. UNIGOR CONSULTANCY LIMITED

(Subsidiary of the University of Goroka)

58A.1 INTRODUCTION

Unigor Consultancy Limited is 100% owned by the University of Goroka. It was incorporated on 29 March 2000 as a consultancy company under the *Companies Act*.

58A.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.

58A.1.2 Function 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 stationery;
- printing and publication of educational materials, textbooks, business documents and all other forms of print material; and
- cafeteria services.

58A.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 2016, 2017, 2018, 2019 and 2020 for my inspection and audit despite numerous reminders from my Office.

58B. UNIGOR HUMI CATERING LIMITED

58B.1 INTRODUCTION

58B.1.1 Legislation

Unigor Catering Limited was incorporated under the *Companies Act 1997* on the 14 December 2010. A total of 600,000 shares (100 ordinary shares and 599,900 preference shares) had been issued at K1 each. The Unigor Consultancy Limited acquired 306,000 shares (51%) and the remaining 294,000 shares (49%) acquired by Humilaveka Food Company Limited.

On 16 February 2013, the Company changed its name from Unigor Catering to Unigor Humi Catering Limited.

58B.1.2 Objectives of the Company

The primary objective of the Company is to give effect to the Joint Venture Agreement between the shareholders for the purpose of providing catering services to students of the UOG at its main campus at Goroka as a commercial venture. The Company may conduct or undertake any other business activities in the country from time to time.

58B.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 2011, 2012, 2013, 2014 and 2015 had been completed and results were being evaluated.

The Company had not submitted its financial statements for the years ended 31 December 2016, 2017, 2018, 2019 and 2020 for my inspection and audit.

59. UNIVERSITY OF NATURAL RESOURCES AND ENVIRONMENT

59.1 INTRODUCTION

59.1.1 Legislation

The University of Vudal was established under the *University of Vudal Act 1997*. This Act came into operation on 1 January 1997 and became operative in the same year. The University changed its name to University of Natural Resources and Environment in 2008 after the enactment of the *University of Vudal (Amendment) Act 2009*.

Under the principal 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 functions were transferred to the University of Vudal only on 1 January 1998.

59.1.2 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; paying 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.

59.1.3 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.

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 University for the year ended 31 December 2015 had been completed. The management letter was issued on 27 November 2019, and responses were being awaited to finalise and issue the audit reports.

The University had not submitted its financial statements for the years ended 31 December 2016, 2017, 2018, 2019 and 2020 for my inspection and audit, despite numerous reminders from my Office.

60. UNIVERSITY OF PAPUA NEW GUINEA

60.1 INTRODUCTION

60.1.1 Legislation

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

60.1.2 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.

60.1.3 Subsidiaries of the University

The University has two subsidiaries namely, *Unisave Limited* and *Univentures Limited* which were incorporated under the *Companies Act*. Comments in relation to the subsidiaries are contained in paragraphs 60A and 60B of this Report.

60.2 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 University's financial statements for the year ended 31 December 2015 was in progress for more than three years. The audit has been delayed due to lack of cooperation from the management.

The University had submitted its financial statements for the years ended 31 December 2016 and 2017 for my inspection and audit. However, due to lack of cooperation from the management, the commencement of these audits were being delayed.

The University had not submitted its financial statements for the years ended 31 December 2018, 2019 and 2020 for my inspection and audit.

60A. UNISAVE LIMITED

(A subsidiary of University of Papua New Guinea)

60A.1 INTRODUCTION

60A.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 Univentures Limited, (a company 100% owned by University of PNG) and S.I.T Co. Limited of the Republic of South Korea.

60A.1.2 Objective of the Company

The parties to this MOA shall endeavor to create mutual commercial benefits through assembly and sale 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.

60A.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, 2017, 2018, 2019 and 2020 had not been submitted for my inspection and audit despite numerous reminders from my Office.

60B. UNIVENTURES LIMITED
(A subsidiary of University of Papua New Guinea)

60B.1 INTRODUCTION

60B.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.

60B.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.

60B.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, 2017, 2018, 2019 and 2020 for my inspection and audit despite numerous reminders from my Office.

SECTION B

NATIONAL GOVERNMENT OWNED COMPANIES

