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REPORT
OF THE
AUDITOR-GENERAL
2008

on the control of and on transactions with or concerning the public monies and property of Papua New Guinea

PART III

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

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AUDITOR GENERAL'S OFFICE
PAPUA NEW GUINEA

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29 April, 2010

The Honourable Jeffery Nape, MP
Speaker of the National Parliament
Parliament House
WAIGANI
National Capital District

Dear Mr Speaker,

In accordance with the provisions of Section 214 of the Constitution of the Independent State of Papua New Guinea, I have the honour to transmit to the National Parliament Part III of my Report for the year 2008.

The Part III 2008 report covered the periods from 2006 to 2008. This report embodies the results of audits of each of the Accounts of Provincial Governments and Local-level Governments, their Business Arms, Funds and Trusts, Hospital Boards and the District Treasuries on the usage of the District Improvement Program funds.

Yours sincerely,

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REPORT OF THE AUDITOR-GENERAL
PART III
FOR YEAR 2008

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FOREWORD

My Report to the National Parliament for 2008 is being presented in four parts as follows:

- Part I of my Report deals with the Public Accounts of Papua New Guinea.
- Part II of the Report deals with National Government Departments.
- Part III (this Part) of my 2008 Report deals with audits of the Provincial Governments, their Public Bodies and Subsidiary Corporations, Local-level Governments, Hospital Boards and some Trust Funds and District Services Improvement Program. It should be noted that with effect from 1996 fiscal year, an audit opinion on the financial statements of each Provincial Government is being issued in *accordance* with the requirements of the *Organic Law on Provincial Governments and Local-level Governments 1995*. Major financial and accounting issues which require remedial action to be taken by the Provincial Government and Local-level Government, Hospitals and government-owned businesses will be summarized in this Part of my Report in future; these issues have been taken up with the respective Provincial Administrators or Executive Management in our management letters.
- Finally, Public Bodies and Subsidiaries, National Government-owned Companies and National Government's share holdings in Other Companies are covered in Part IV of my Report. This was tabled in late 2009.

Part III Report

It should be noted that with effect from 1996 fiscal year, I have been issuing an audit opinion on the financial statements of each *Provincial Government in accordance with requirements of the Organic Law on Provincial Governments and Local-level Governments, 1995*.

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

This (Part III) Report provides summary of significant internal control weaknesses identified, and types of audit opinions expressed in the audits. Major financial and accounting issues which require remedial action to be taken by the Provincial and Local-level Government, Hospitals and government-owned businesses have been summarized in this Part of my Report; these issues have been taken up with the respective Provincial Administrators or Executive Management in our management letters.

Audited financial statements together with the audit opinions were also provided to the relevant Minister(s) and to the Department of Provincial and Local-level Government Affairs for tabling in the Parliament. To date I am not aware of any reports being tabled.

District Services Improvement Program

I have commenced audits related to the payment of funds to each of the 89 Districts as part of the District Service Improvement Program (DSIP). The results of these audits are reported in Chapter 6 of this report.

The audits provided me with the opportunity of analyzing the management of the Program holistically. My Office's analysis as at the end of December 2009 and discussed in Chapter 6 of the Report shows that:

- DSIP funds totaling K983 million had been deposited into District Trust Accounts.
- Different amounts of DSIP funds (varying from K6 million to K14 million) had been deposited into each of the District Trust Accounts,
- Deposits totaling K67.8 million of other than DSIP funds had been placed in the Trust Accounts,
- DSIP expenditure as at 31 December 2009 was K569 million.

My general observation about the management of the DSIP is that, prior to the Program starting, insufficient consideration had been given to putting in place a workable regulatory environment to monitor whether the funds were used appropriately and that the Program was delivering goods and services as intended.

My audits of DSIP expenditure in specific Districts in 2010 will focus primarily on revealing what has been procured with the DSIP funds and secondly whether the processes have been in accordance with relevant instructions and legislation.

Making this Report publicly available

This Report will be placed on the AGO website once it has been tabled in the Parliament.

1. ROLE OF THE AUDITOR-GENERAL AND AUDIT MANDATE

1.1 Role of the Auditor-General

Section 214 of the Constitution of Papua New Guinea prescribes that the primary functions of the Auditor-General are to inspect, audit and report to the National Parliament on the Public Accounts of Papua New Guinea and on the control of and on transactions with or concerning the public moneys and property of Papua New Guinea.

The Organic Law on Provincial Governments and Local-level Governments extends these provisions to cover Provincial Governments and Local-level Governments. Section 113 requires the Auditor-General to establish a Provincial Audit Service and appoint a Provincial Auditor and additional officers in each Province. The role of the Provincial Audit Service is to maintain an effective and efficient audit service within a province, and extend the audits to the accounts, moneys and properties of Provincial Governments and Local-level Governments, including their subsidiary bodies.

At the time of this Report, no such Provincial Audit Services have been established in any of the Provinces. Presently, the Office operates Regional Audit Offices in Port Moresby (Southern), Kavieng (NGI), Mount Hagen (Highlands), Lae (Momase) and Goroka. The decision to operate regional offices was due to budgetary limitations confronted by the Papua New Guinea Auditor-General's Office. These constraints greatly affect our resources and capability in these regional offices to adequately cover all our clients based in these regions.

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

Other than in relation to his own staff and administrative control of his own Office, neither the Constitution nor the Organic Law on Provincial Governments and Local-level Governments provide the Auditor-General any executive or directive powers over the organization subject to his audit. Although the evaluations and investigations performed under the direction of the Auditor-General assist management in detecting weaknesses in controls and procedures, in identifying causes of inefficiencies and uneconomic practices, and in recommending remedial measures, it is unacceptable for the Auditor-General to undertake executive responsibilities in relation to the formulation of accounting systems and policies or the setting of standards for administrative and accounting purposes.

To assume such responsibilities may impede the Auditor-General's independence and objectivity requirements in the performance of his primary functions.

However, it has been the policy of this Office to engage into discussions with Provincial Governments and Local-level Governments on general matters in relation to accounting systems, internal controls and administrative procedures, and to provide documentation in that regard from resources available in the Auditor-General's Office. In providing such advice or information it is the practice

that the responsibility for the executive decision making remains with the Provincial Government or Local-level Government concerned.

1.2 Mandate of the Auditor-General

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

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

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

In compliance with Part IV of the Audit Act, my Office is performing both attest and regularity audits concurrently and is responsible for **418** audits of different entities as shown in the table bellow.

ENTITY	No
Provincial Governments	19
Local-level Government	301
Hospital Boards	19
Business Arms	61
Provincial Authorities	12
Trusts and Funds	3
Other	3
TOTAL	**418**

It should be noted that two more Provincial Governments, Hela and Jiwaka were established in 2009. These entities will be audited in the 2010/11 cycle or as soon as the provincial administrations receive appropriation funding and commence operations.

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

There have been significant delays in my audit reports being presented to the Parliament. My Office has continued to experience considerable difficulties in carrying out timely audits due to:

- long delays and/or inaccurate presentation and disclosure of information in the financial statements by entities;
- lack of experience and competency of some Provincial Treasury and accounting personnel in provinces;
- delays in responding to issues raised in Management Letters;
- absence of proper and adequate accounting and subsidiary records on fixed assets and investments in the Business Arms of Provincial Governments; and
- significant resource constrain of my office; especially in regard to the conduct of the audits of Provincial Governments and their entities.

My Office has been adversely affected by difficulties noted above and consequent lack of funding to increase staff numbers. Nonetheless, my Office endeavors to improve on the past performances, catch up on the backlog of audits and strive to constantly deliver quality output.

2. SCOPE OF AUDIT

2.1 Introduction

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

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

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

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

Compliance with relevant legislation is of paramount importance in safeguarding the State's assets. My audits included reviews and tests to ascertain whether key provisions of the *Public Management (Finances) Act 1995* and various Finance Instructions have been adhered to.

2.2 Organic Law on Provincial Governments and Local-level Governments

Sections 102 and 103 of the Organic Law require Provincial Governments and Local-level Governments to keep proper accounts and records of their transactions and affairs, and to set up an internal control system and internal audit unit to ensure adequate financial control.

In addition, Section 114 of the Organic Law requires each Provincial Government and Local-level Government to submit to the Minister for Finance and the Minister for Provincial and Local-level Government Affairs, a full statement on the financial position and affairs of the Province or Local-level Government for each fiscal year.

Section 40(d) of the *Organic Law on Provincial Governments and Local-level Governments* provides that the law making powers of the Provincial and Local-level Governments are subject to the National Law but only as the national interest so requires.

The legislation clearly states that an Act of Parliament shall prevail over any law made by the Provincial or the Local-level Government Legislatures. In view of this, the *Public Finances (Management) Act 1995* prevails over the Provincial Legislations in respect of financial management.

2.3 Provincial Governments and Local-level Governments

Section 113 subsection 4(c) of the *Organic Law on Provincial Governments and Local-Level Governments* extends the functions of the Auditor-General to inspect and audit the affairs and accounts of the Provincial and Local-level Governments (LLGs).

There are 19 Provincial and 301 Local-level Governments under the Auditor-General's mandate. There is a significant delay experienced in reporting the result of these audits. Details of the causes of this delay are outlined under paragraph 1.2 of this report. Given the lack of resources, and other financial constraints, my Office will continue to concentrate its efforts on the core audits being that of Provincial Governments, Hospital Boards, Urban LLGs and a sizable number of business arms.

The 19 Provincial Governments received development and recurrent funds (appropriations) in 2008 of approximately K940 million. This represented 11.5% of the total State's budgeted expenditure for 2008. Considering the significance of the amount, these audits have remained my priority in addressing the audit arrears situation.

2.4 Hospital Boards

Hospital Boards within the country are established under the *Public Hospital Act 1994*. This Act provides that the *Public Finances (Management) Act 1995* is applicable to the Boards on matters regarding accounting, financial management and reporting. That Act also requires the audit provisions contained in the *Audit Act 1989*, (as amended), to apply to the Hospital Boards.

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

The audits are performed so that I can obtain reasonable assurance as to whether the financial statements are free of material misstatement and amongst other things, whether the statements are prepared in a form approved by the Minister for Finance. Hospital Boards, being Public Bodies, are currently instructed to prepare their statements in accordance with the Finance Instruction –'02/2004: Financial Statement Format, Trading and Non-Trading Public Bodies'. These Instructions issued under Section 117 of the *Public Finances (Management) Act 1995* had been signed and approved by the then Secretary for Finance. There is

a "glitch" in the legislation, namely, Section 63(3) of the *Public Finances (Management) Act 1995* which requires that these financial statements are presented in a form approved by the Minister.

Consequently, as the Finance Minister has not approved the format of the statements, I have been qualifying the Hospital Boards' financial statements since 2004 until present.

In mid October 2007, my officers held discussions with senior staff members at the Department of Finance regarding this issue. It was then agreed that Department of Finance would proceed with arranging for the current Instructions to be approved by the Minister for Finance. This option was preferred as being straightforward and better compared to changing the legislation. I also wrote to the Secretary of Finance in late March 2008 regarding this issue. To this date, there was no action taken on behalf of Department of Finance to rectify this matter.

2.5 Business Arms and Subsidiary Corporations

The *Audit Act 1989*(as amended) extends the functions of the Auditor-General to include the audit of business arms and subsidiary corporations of Provincial Governments. These reporting entities report under Finance Instructions 2/2004 – Financial Statement Format for Trading Public Bodies. The *Public Finances (Management) Act 1995*, Section 62(2) requires trading public bodies in regards to their accounts and records to observe and comply with the accounting principles generally accepted and applied in commercial practice. This includes the adoption of an accrual based accounting and applying the International Accounting Standards.

As detailed under paragraph 4.5 I have significant difficulties in identifying the correct number of business arms and their operations. Details of these business arms and their subsidiary corporations and companies, could not be fully established due to lack of adequate information forthcoming from the Provincial Governments or due to their failure to maintain proper investment records and registers. My Office was unable to determine whether they were still in operation, defunct, or liquidated. The matter is continuously being pursued with the respective Provincial Governments, their business arms and other relevant authorities.

2.6 Provincial Authorities

Provincial Authorities are created by an Act of Parliament. The purpose of establishing these authorities is to develop infrastructure and to stimulate business activity in the respective provinces. Some of these authorities are directly involved in commercial activities as well. Majority of these authorities are required to report under the cash basis of accounting applying the standard 'Financial Reporting under the Cash Basis of Accounting' issued by the International Federation of Accountants.

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

2.7 Other Audits

My responsibility also includes the audit of Special Purpose Funds and Trusts established by Provincial Governments. The audit of these Funds and Trusts is organized in a similar manner as the audit of business arms. Managements of these funds have failed to furnish financial statements on a timely basis and as such, I was unable to carry out the respective audits on a timely basis.

2.8 Appointment of an Agent Auditor

The provisions of the *Audit Act, 1989* (as amended) allow the Auditor-General to appoint a Registered Company Auditor as his agent to assist him in discharging his audit responsibilities as and when considered necessary. Contrary to these requirements, some Provincial Governments and the management of their business arms have been engaging private auditing firms without my knowledge to carry out the audits of their businesses. Section 8(5A) of the Audit Act states clearly that "*A body which is liable to audit by the Auditor-General shall not appoint a Registered Company Auditor to carry out the functions and powers of the Auditor-General under the Constitution and this Act*."

2.9 Disposal of Audits

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

These problems were further aggravated by limited resources and financial constraints affecting my Office.

Due to the delays in the conduct of the audits, I have decided to apply the provisions of the Audit Act that allow me to dispense the audits.

In that connection, Part 5 Section 16(6) of the Audit Act states:

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

Subsection 2 relates to audits of Provincial Government, Local-level Government, subsidiary corporation of a Provincial Government, body established by a provincial law, Provincial Government Association and Provincial Government-owned company or public project.

Similarly, Part 1, Section 6(1a) of the Audit Act, allows the Auditor-General to dispense with all or any part of the detailed audit related to other entities.

It is my opinion that the performance of those audits will not identify any new information that will benefit the Parliament, the Provincial and Local-level Government or the wider public.

I have also written to the Minister for Finance, the Minister for Health, the Minister for Inter-Governmental Relations, the Chairman National Economic and Fiscal Commission, the Provincial Administrators and the Provincial and Local-level Governments informing them of my decision to dispense audits for the years 2004, to 2007.

In the cases of some of the more recent audits where no financial statements have been prepared and submitted to me for audit, my officers have conducted audit of controls and reported on the results of those audits to the auditee's management. The results of those audits, grouped by a Province are reported in Chapter 5.

It should be noted that I have not undertaken any audit of financial statements of Rural LLGs due to the following reasons:

- The total funding provided to LLG's does not exceed 5% of the appropriation funding for Provincial Governments For example, the total funding for 2008 related to these entities was less than K40 million allocation in the 2008 budget.
- Expenditure mainly relates to payment of salaries.
- Lack of resources to undertake these audits.

The Hospitals' and Urban Local-level Governments' dispensed audits are detailed in the table below.

Listing of Audits of Financial Statements to be dispensed

Entity	Year for which Financial Statements were due	Explanatory Notes
Buka Urban LLG	2007	FS not prepared, however, audit of controls has been completed
Mendi Urban LLG	2007	FS not prepared
Kimbe Urban LLG	2007	FS not prepared
Goroka Urban LLG	2007	FS not prepared
Mount Hagen Urban LLG	2007	FS not prepared
Nonga Hospital	2007	FS not prepared however, audit of controls has been completed
Lorengau Hospital	2007	FS not prepared however, audit of controls has been completed
Kavieng Hospital	2007	FS not prepared
Popondetta Urban LLG	2004	FS not prepared. Control audits done
Popondetta Urban LLG	2005	FS not prepared. Control audits done

Entity	Year for which Financial Statements were due	Explanatory Notes
Popondetta Urban LLG	2006	FS not prepared. Control audits done
Daru Urban LLG	2004	FS not prepared. Control audits done
Daru Urban LLG	2005	FS not prepared. Control audits done
Daru Urban LLG	2006	FS not prepared. Control audits done
Daru Hospital	2005	FS not prepared. Control audits done
Daru Hospital	2006	FS not prepared. Control audits done
Kerema Urban LLG	2005	FS not prepared. Control audits done
Kerema Urban LLG	2006	FS not prepared. Control audits done
Kerema Urban LLG	2007	FS not prepared. Control audits done
Kainantu Urban	2007	FS not prepared
Balimo Urban	2007	FS not prepared
Finschhafen	2007	FS not prepared
Kerowagi Urban	2007	FS not prepared
Ialibu Urban	2007	FS not prepared
Tari Urban	2007	FS not prepared
Wewak Urban	2007	FS not prepared

3. CONTROL ENVIRONMENT

3.1 Introduction

The control environment includes the governance and management functions and sets out the foundation for effective control activities and monitoring.

Control activities are policies and procedures that help ensure management directives are carried out. Control activities, whether within computerized or manual systems, have various objectives and are applied at various organizational and functional levels.

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

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

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

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

3.2 Responsibilities of the Management

The primary responsibility for the prevention and detection of fraud rests with those charged with governance. For example, the Provincial Administrator is the Chief Executive Officer and the Administrative Head at the Provincial Government level; the District Administrator at the Local-level Government and the Chief Executive at the Hospital or Business Arm of Government. The Administrator/Chief Executive Officer is responsible for the preparation and presentation of the financial statements and the information contained therein in accordance with the Finance Instructions issued under Section 117 of the *Public Finances (Management) Act 1995*, and the *Organic Law on Provincial Governments and Local-level Governments.*

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

3.3 Responsibility of the Auditor-General

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

Concerns about quality of financial reporting, in light of international and national corporate collapses in recent years, have led to more stringent auditing requirements and added to the importance of evidence of compliance with the standards. In turn, these additional requirements have had a direct impact on the level of my resources devoted to audits undertaken in accordance with International Standards on Auditing.

I use the International Standards on Auditing to ensure that my audits are conducted with appropriate rigor and professionalism.

3.4 Details of Control Issues

A broad range of internal control issues were raised as part of the interim audit phase. In general, the results of the testing of controls in 2008 at different entities indicated that overall, there were significant weaknesses in the control environment. Control activities, such as delegations, authorisations, reconciliations, data processing, etc, were not sufficiently robust to prevent, detect or correct error or fraud.

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

- corporate governance;
- the work of the internal audit;
- appropriation and budget management;
- revenue and receivables;
- purchases and payments;
- human resource management processes;
- cash management;
- asset management; and
- trust account management.

3.4.1 Corporate Governance

During the 2008 interim audits, the AGO assessed whether an agency's control environment comprises measures that contribute positively to sound corporate governance. These measures should support key elements of a control environment designed to provide a sound basis for effective financial management.

The results of the audits identified:

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

3.4.2 Internal Audit

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

From the AGO perspective, the internal audit is an important component of the system of internal controls. Because of similarities in the nature and scope of activities performed by internal and external auditors, especially in the public sector, there are significant efficiencies to be achieved if external auditors are able to rely on the work of internal auditors and vice versa. An effective internal audit program should facilitate external audit to place greater reliance on the work of internal audit, thereby making better use of overall audit resources.

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

3.4.2 Appropriation and Budget Management

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

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

- Incorrectly charged expenditures to Vote items for which funds were not appropriated.

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

The above mentioned practices expose the Provincial Governments to the risk that the unspent funds may be utilized on expenditure not provided for in the Appropriation Act. In addition, money could be spent in excess of the appropriation limit, which will result in breaches of the Appropriation Act, the *Public Finances (Management) Act 1995* and the *Constitution* of the State of PNG.

3.4.4 Revenue and Receivables

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

In all 19 Provincial Governments and according to the revenue ledgers, the Government has recorded significant shortfall in revenues in respect of majority of internal revenue sources. This indicates the inability of the Provincial Governments to carry out sound and prudent revenue forecasting and also the lack of co-ordination and co-operation being exercised by the Revenue Unit and other line economic divisions of the Provincial Government to effectively plan and direct their efforts to ensure that all internal revenues estimated for the year are collected and accounted for.

In a similar manner, General Hospitals collect income from patients' fees and gifts and donations. Over the last three years, management of hospitals has not ensured that revenues were collected promptly and that the rates of fees, charges, and imposts were reviewed annually. In addition, there was no compliance to procedures pertaining to compiling of collector statement, thereby undermining the integrity of the revenue collections.

Other common problems across all entities were:

- Daily collections were frequently not banked nor receiver statements raised and posted to the revenue ledger.

- Delays in banking of collections were frequent and on occasions up to a maximum of 33 days at times.
- There was no segregation of duties maintained between receipting and payment processing.
- There was no register of debtors maintained.

3.4.5 Purchases and Payments

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

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

Other significant issues were:

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

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

- unauthorized purchases;
- over-commitment of funds without recourse to cash flows;
- uneconomical purchasing;
- fraud (kick backs/secret commissions);
- staff use purchase orders to purchase personal items;
- purchasing of inferior or expensive goods and services; and
- consultancies being engaged at no benefit to the Government.

3.4.6 Human Resource Management

Human resource management processes encompass the day to day management and administration of employee entitlements and payroll functions.

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

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

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

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

However, there were several Hospitals such as Goroka and Mendi General Hospitals where controls surrounding payments of Salaries and Wages have markedly improved.

3.4.7 Cash Management

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

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

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

3.4.8 Assets Management

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

The maintenance of a reliable asset register that includes adequate information about assets acquired and disposed of, depreciation and asset reconciliations with periodical stocktakes is a prerequisite to effective asset management. Regular reconciliations of the asset register with the entity's financial systems will help ensure the timely and accurate recognition of asset items and facilitate their physical control.

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

3.4.9 Trust Accounts Management

Provincial Governments are responsible for maintenance of a number of trust accounts. To ensure proper accountability of trust money, Part 3 of the *Public Finances (Management) Act 1995* requires maintenance of adequate records, that collection of receipts and payments from trust accounts is in accordance with the Trust Instruments and for submission of periodic reports to Department of Finance including a requirement to submit monthly bank reconciliations.

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

3.5 Conclusion

Properly functioning internal controls are fundamental for entities in meeting their respective strategic, operational and financial responsibilities. The results of the 2008 testing of controls revealed weaknesses of such magnitude that material error could have been processed or misappropriation and fraud could have occurred.

Low managerial capability and commitment within the Provincial, Local-level Governments and Hospitals resulted in declining service delivery to the community and the public in general. Top management also failed to take action on external and internal recommendations for improvements or follow up actions on irregularities reported (including audit reports).

Although my Office is a key player in reviewing, monitoring and reporting on governance, especially financial governance, I have to stress that we are but one part of the control and monitoring processes and play a limited role in the identification and investigation of fraud or corrupt behavior.

The AGO's inclusion as a member of the National Anti-corruption Agencies (NACA) has paved the way for the Office to work closely with other important agencies and to extend the audit scope to include in-depth verification of major expenditure programs such as Capital Works, District Support Grants and Members' Discretionary Funds.

4. RESULTS OF THE AUDITS OF FINANCIAL STATEMENTS

4.1 Audit Opinion

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

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

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

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

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

In conducting my audit, I cannot be 100 percent certain that it will reveal all errors in the financial statements that, individually or in total, may be material. The size and complexity of the entity's operations, as well as cost considerations, make it impractical for me to examine all or even most of the individual expenditure transactions entered into during the year. It is also impractical for me to examine all or most of the individual transactions pertaining to the trust funds.

What I can do is verify samples of transactions and account balances, determine whether significant financial controls within the entity are working and can be relied on to produce complete and accurate data, and carry out other procedures – such as confirming year-end balances with third parties and performing analysis – to identify anomalies in the reported data.

What this comes down to is exercising professional judgment about how much auditing is required to provide reasonable assurance to users of the statements that they can rely on the reported results and not be misled.

An unqualified audit report is provided when the financial statements, in all material respects, give a true and fair view of the matters required by the *Public Finances (Management) Act 1995* and Finance Instructions issued under this Act.

Qualified audit reports are issued when the financial statements do not present a true and fair view of the entity's financial position, nor of the results of its operations and its cashflows, thereby reducing the readers' ability to analyze, interpret and compare financial statements.

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

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

4.2 Financial Statements of Provincial and Local-level Governments

For the last four years, I have concluded and reported that I am unable to form an opinion on each of the Provincial and Local-level Government's financial statements. Whilst in majority of cases the financial statements had been prepared in the format required by the Finance Instructions issued under the *Public Finances (Management) Act 1995*, I concluded that material errors, uncertainties and lack of adequate records resulted in the overall financial position and results of operations that were not reliable. As a result, I continue to report that I am unable to form an opinion.

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

Other factors are:

- lack of experience and competency of Provincial Treasury and accounting personnel in the provinces;
- considerable abuse and diversion of government moneys that went on unpunished for a long period of time;

- absence of regular monitoring and review by the Department of Finance on the work of the Provincial/District Treasury, together with timely corrective action;
- lack of coordination and communication, for example Provincial/District Treasurer not advising the Administrator on matters relating to the financial status of the Province;
- a reduced incentive for efficient management of funding due to the Provincial/District Treasury being in control of processing but the Administrator being responsible for the outcome; and
- on occasions, funds were being diverted from spending on Provincial/Local-level community needs to spending on the needs on the Provincial/District Treasury.

Since 1 July 2008, during the 2008/2009 audit cycle, my Office finalized and issued 35 audit reports to the Provincial Governments and 21 to Urban Local-level Governments. Details of the status reports are outlined in the tables below.

Table 1 - Status of Audit Reports – Provincial Government

No	Provincial Government	AUDIT OPINION REPORTS 2006 TO 2008			
		Issued	In progress	Audit yet to commence	Not submitted
1	Central	2	-	1	1
2	Fly River	2	-	1	1
3	Gulf	1	-	2	2
4	Milne Bay	-	3	-	-
5	Oro	1	-	2	2
6	East Sepik	2	1	-	-
7	Sandaun	2	-	1	1
8	Madang	2	1	-	-
9	Morobe	2	-	1	-
10	Enga	2	-	1	-
11	Eastern Highlands	2	-	-	1
12	Southern Highlands	3	-	-	-
13	Western Highlands	2	-	-	-
14	Simbu	2	-	-	1
15	Bougainville	2	-	-	1
16	West New Britain	2	-	-	1
17	East New Britain	2	-	-	1
18	Manus	2	-	-	1
19	New Ireland	2	-	-	1
	TOTAL	**35**	**5**	**9**	**14**

Section 113 subsection 4(c) of the *Organic Law on Provincial Governments and Local-level Governments (1995)* extends the functions of the Auditor-General to inspect and audit the affairs and accounts of the Local-level Governments.

There are currently 301 Local-level Governments around the country (except the Local-Level Governments of the Autonomous Region of Bougainville) as shown in Table 2. Of these, there are 275 Rural Local–level Governments and 26 Urban Local-level Governments in existence.

I was not able to carry out any audits of the rural Local-level Governments accounts and records as required by the Organic Law on Provincial Governments and Local-level Governments as reported in my previous years reports, because of the limited financial and human resources of my Office. During the audits of the Provincial Governments accounts, I have satisfied myself that the revenue and expenditure are largely grants and salaries and wages and that they do not exceed 5% of the total funding for Provinces. No expenditures were spent on major works and projects by the Rural Local–level Governments. During the current and previous audit cycle I have however, completed 16 audit reports regarding Urban LLGs. Unless the required levels of resources are made available to my Office, these audits may continue to be deferred and delayed well into the future.

Table 2- Local-level Governments

	PROVINCE	LLGs		TOTAL LLGs
		Urban	Rural	
1	Central	-	13	13
2	Oro	1	8	9
3	Gulf	1	9	10
4	Milne Bay	1	15	16
5	Fly River	3	11	14
6	Morobe	3	30	33
7	Madang	1	19	20
8	East Sepik	1	26	27
9	Sandaun	1	16	17
10	Western Highlands	1	14	15
11	Southern Highlands	3	29	32
12	Eastern Highlands	2	9	11
13	Simbu	2	18	20
14	Enga	1	13	14
15	New Ireland	1	8	9
16	West New Britain	1	10	11
17	East New Britain	2	16	18
18	Manus	1	11	12
	TOTAL	**26**	**275**	**301**

From July 2005 I have been in the position to carry out the audits of some of the major Urban Local–level Governments and commenced with the fiscal year ending 2004. My decision to ensure the audit of the Urban Local-Level Governments results from the materiality of the transactions of these organizations. They are also located in the main headquarters of the Provinces. During the 2008/2009 audit cycle, I have issued 21 audit reports (last year 12). The status of the audits as at end of June 2009 is summarized below:

Table 3- Status of Audit Reports – Local-level Government

No	Urban Local-level Government	AUDIT OPINION REPORTS 2006 to 2008			
		Issued	In progress	Audit yet to commence	Not submitted
1	Kerema	1	-		2
2	Daru	-	-	-	3
3	Popondetta	2	1	-	-
4	Alotau	2	1	-	-
5	Lae	-	-	3	-
6	Madang	2	1	-	-
7	Wewak	1	-	-	2
8	Vanimo	1	-	-	2
9	Rabaul	2	-	-	1
10	Kimbe	-	--	-	3
11	Kavieng	-	-	-	3
12	Lorengau	2	-	-	1
13	Buka	2	-	-	1
14	Mount Hagen	-	-	-	3*
15	Goroka	-	-	-	3
16	Mendi	-	-	-	3
17	Wabag	-	-	-	3
18	Kundiawa	2	-	-	1
19	Kiunga	2	1	-	-
20	Balimo	-	-	-	3
21	Finchaffen	-	-	-	3
22	Bulolo	-	-	-	3
23	Kokopo/Vunamami	2	-	-	1
24	Kainantu	-	-	-	3
25	Ialabu	-	-	-	3
26	Kerowagi	-	-	-	3
27	Tari	-	-	-	3
	TOTAL	**21**	**4**	**3**	**52**

*For some Urban Local-level Governments although financial statements were not submitted for audit, my Office undertook controls testing during 2008. The results of the controls testing are reported under Chapter 5 of this report under the respective Provincial Governments headings.

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

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

4.2.1 Statement "A" - Government's Account Balances

This is a statement of cash position for the Provincial or Local-level Government at year-end which should be supported by a bank reconciliation statement. Statement "A" is intended to show the Public Account comprising the Revenue

Fund and the Trust Fund as represented by the year end cash book balances and other cash resources available to the Government.

Common problems associated with the audit of this Statement were:

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

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

4.2.2 Statement "B"- Summary of Receipts and Payments

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

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

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

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

This statement shows trust funds revenues actually received and expenditure actually paid. The most common error that frequently resulted in material overstatement was the inclusion of the National Government Agencies' trust accounts. These trust accounts however, did not belong to the Provincial Government and as such should have been excluded from this Statement. Consequently, the closing balances shown in the statement could not be relied upon. In addition, breaches of the *Public Finances (Management) Act 1995* were likely to have occurred due to payments made of the trust accounts or revenue collected not being in accordance with the Trust Instruments.

4.2.4 Statement "D"- Sources and Application of Funds

This is a summary cash flow statement showing sources of revenue and where these funds were applied. The Statement also shows reconciliation of changes in bank balances to the net movement of the cash flow statement. In all instances this Statement could not be confirmed as correct and complete due to audit observations regarding materially incorrect Statements "B", "J" and "K".

4.2.5 Statement "E"- Financial Investments

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

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

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

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

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

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

My other concern is that due to inadequate maintenance of records, these investments could be lost or misappropriated resulting in significant loss of public funds. To assist in recouping the State's investments, I am currently undertaking investigation into the past Provincial Governments' investments to establish their number and assess the value invested.

4.2.7 Statement "G"- Statement of Lending

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

4.2.8 Statement "H"- Statement of Borrowings

This is a schedule of all funds borrowed or loaned. Liabilities or financial obligations to outside organizations outstanding at the end of the financial year are not brought into account however, they are required to be recorded in this Statement.

In the absence of proper records or registers maintained by the Provincial Government in relation to these matters, I was unable to confirm the accuracy of this Statement.

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

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

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

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

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

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

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

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

4.2.12 Appendix 1

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

4.2.13 Appendix 2

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

4.2.14 Appendix 3

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

4.2.15 Appendix 4

Appendix 4 is intended to give details of assets of the Provincial and Local-level Government. The majority of Provincial Government did not report any assets, despite assets being purchased during the year.

Those entities that reported some assets, they lacked necessary details in order for me to verify the existence, condition, location, custodianship and value of those assets.

4.2.16 Appendix 5

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

4.2.17 Appendix 6

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

of management taking action to improve on monitoring the management of advances.

4.2.18 Other Issues

Submission of Financial Statement

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

The requirement for timely submission of the statements is frequently not met. In the 2008 financial year, only some of the Provincial Governments have provided the financial statements on time. As at 30 June 2009, there are 14 Provincial Government's 2008 statements outstanding.

Presentation of Financial Statement

In addition to the annual financial statements, comprising Statements from "A" to "K" and six Appendices, the accounts are accompanied by the Provincial or Local-level Government President's Statement and the Council Executive Officer's Statement on the financial operation of the Government for the fiscal year ended.

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

Another common error was a presentation error that resulted in material misstatement. In four financial statements presented by the Provincial Governments, the amounts in Statements from "A" to "K" were incorrectly presented in amounts of 'thousands' instead of the original amounts.

4.3 The Role of the Treasury Offices

Provincial and Local–level Governments are independent legal entities with authority for managing their financial affairs. In recognizing these fiscal responsibilities, Sections 102 and 103 of the Organic Law on Provincial Governments and Local- level Governments require Provincial and Local-level Governments (P&LLG) to keep their accounting records properly and have sound internal control system. The P&LLG are required to manage their financial affairs in accordance with provisions of the *Public Finances (Management) Act 1995.*

The Department responsible for financial management (i.e. the Department of Finance) has been tasked to establish, develop and commission District Treasury Offices to provide accounting, financial management and support services to assist P&LLGs in providing community services.

The administrative and accounting procedures have been specifically designed through the Finance Management Manual to provide these financial support services.

A District/Provincial Treasury is an accounting organization established under Section 112 of the Organic Law on Provincial Governments and Local- level Governments located at the district/province area. The District/Provincial Treasurers' functions are to ensure that all financial transactions undertaken by the P&LLG out of public moneys are managed properly. These moneys are to be released strictly in accordance with law and contribute to the effective delivery of services to the community. District Treasurers from time to time may also oversight functions such as banking, postal, and other services.

The Secretary of Finance is tasked to oversee the affairs of these Treasury Offices.

The Auditor-General's Office has the responsibility to examine the financial statements and the accounts and records of the Provincial & Local Level Governments. For the last several years the AGO has reported and concluded that material errors, uncertainties and lack of adequate records existed in Provincial/District Treasuries that resulted in the overall financial position and results of operations that were not reliable. As a result, the AGO continued to report the inability to form an opinion on the Provincial & Local Level Government's financial statements. The situation has not improved in 2008/09.

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

- Providing or ensuring experienced and competent Treasury Offices' personnel are employed.
- Adequate risk assessment, planning, manpower or funding to undertake internal audits by the Internal Audit Units within the Provincial Government.
- Lack of coordination and communication between the Treasury Offices' personnel and Provincial and Local-level Government on financial matters.

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

The Department of Finance and the Department of Treasury have to act immediately, and commence proper monitoring and support of their Offices so that Provincial and Local-level Governments' finances and records are properly maintained.

4.4 Financial Statements of Hospital Boards

During the last audit cycle I have issued 31 audit reports to Hospital Boards, (last year 15). Table 4 details the status of the audit reports as at 30 June 2009.

Table 4 – Status of Audit Reports - Hospital Boards

No	Hospital Board	AUDIT OPINION REPORTS 2006 to 2008			
		Issued	In progress	Audit yet to commence	Not submitted
1	Lae	2	1	-	-
2	Madang	2	1	-	-
3	Wewak	2	1	-	-
4	Vanimo	2	1	-	-
5	Alotau	2	1	-	-
6	Kerema	2	1	-	-
7	Daru	-	-	-	3
8	Popondetta	2	1	-	-
9	Kimbe	2	-	-	1
10	Nonga Base	-	-	-	3
11	Kavieng	-	-	-	3
12	Lorengau	-	-	-	3
13	Buka	2	-	-	1
14	Kundiawa	2	-	-	1
15	Mount Hagen	2	-	-	1
16	Goroka	2	-	-	1
17	Mendi	3	-	-	-
18	Wabag	2	-	-	1
19	POM Hospital	2	1	-	-
	TOTAL	**31**	**8**	**-**	**18**

*For some Hospital Boards although financial statements were not submitted for audit, my Office undertook controls testing during 2008. Results of the controls testing are reported under Chapter 5 of this report under the respective Provincial Governments headings.

I am pleased to report that 4 Hospitals received qualified audit opinions. There were notable improvements in the area of corporate governance, budgetary controls and payments of wages and salaries compared to previous period.

Some of the other audit reports that I have issued in this audit cycle contained disclaimer of the audit opinion. This was a result of significant control breakdowns, absence of records and financial statements qualifications. As discussed under paragraph 2.4, one of the qualifications was a result of the format of the financial statements not being approved by the Minister for Finance.

In general, all public hospitals are experiencing problems in preparing and submitting the financial statements for audit within the legislative requirement. Namely, Section 63 of the *Public Finances (Management) Act 1995* requires a public body (hospital) to submit and the Auditor-General to finalize the audit of prior year financial statements by 30 June each year. The same Act states that where a public body does not meet this deadline, the Minister may withhold half of the grants appropriated to that body for the following fiscal year. Although the

public hospitals continuously fail to meet the requirement for timely reporting, the sections of this Section of the Act have never been imposed.

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

Common problems with the hospitals' financial statements were:

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

4.5 Financial Statements of Business Arms and Subsidiary Corporations

All Provincial Governments had established business arms and have direct or indirect investments in subsidiary corporations and companies. At the time of writing this report in September, 2009, there were approximately 61 known entities as provided in Table 5 below. However, as reported in my previous reports and the paragraph 4.2.6 of this report, the full extent of the Provincial Governments' investments therein, or the exact details of these business arms and their subsidiary corporations and companies, could not be fully established due to lack of adequate information forthcoming from the Provincial Governments or the failure to maintain proper investment records and registers. My Office was unable to determine whether they were still in operation, defunct, or liquidated. For the last three years, I have been continuously pursuing this information with the respective Provincial Governments, their business arms and relevant authorities.

As reported in my previous reports, the entities have failed to submit their financial statements on a timely basis. Financial statements and audit fees have remained outstanding for well over ten years in some cases, as shown in Table 5**.**

Consequently, audit of such financial statements could not be conducted despite my repeated requests.

Table 5 - Provincial Governments Business Arms & Subsidiary Companies

S/N	Entity	Remarks
1	East New Britain Development Corporation	1995 – 2002 audited by private auditors. 2003 – 2008 financial statements outstanding
2	Pomio Development Corporation	1995 – 1997 financial statements received/*audit fees awaited*. 1998-2008 financial statements outstanding
3	South Coast Shipping Ltd	1993-2000 M/L responses, signed financial statements and audit fees awaited. 2001-2008 financial statements outstanding
4	Barakopo Plantation Ltd	1995 – 1998 audited by private auditors. 1999-2003 financial statements received/*audit fees awaited*. 2004-2008 f/s outstanding.
5	Island Development Bureau Inc.	1995 – 1998 audited by private auditors. 1999-2001 financial statements received/audit fees awaited. 2002-2008 financial statements outstanding.
6	West New Britain Development Corporation	2002-2004 financial statements received/*audit fees awaited*. 2005-2008 financial statements outstanding.
7	West New Britain Building Supplies Ltd	1998 – 2008 financial statements outstanding
8	Kimbe Enterprises Ltd	1998 – 2008 financial statements outstanding
9	Kimbe Frozen Food and Delicatessen Ltd	1998 – 2008 financial statements outstanding
10	West Farm Resources Ltd	2002 – 2008 financial statements outstanding
11	Cape Hollman Corporation Ltd	1998-2008 financial statements outstanding.
12	New Ireland Development Corporation Ltd	1997-2004 financial statements received. Audit to commence soon. 2005-2008 financial statements outstanding.
13	Malagan Lodge Ltd	1997-2004 financial statements received/*audit fees awaited*. 2005-2008 financial statements outstanding.
14	New Ireland Shipping Ltd	1999-2002 financial statements received/*audit fees awaited*. 2003-2008 financial statements outstanding.
15	Nimamar Investment Ltd	1999 – 2001 audited by private auditors. 2002 signed financial statements awaited, 2003 – 2004 audit fees awaited. 2005-2008 financial statements outstanding.
16	Sentral Niu Ailan Development Corporation Ltd	1999-2008 financial statements outstanding.
17	Lorengau Haborside Hotel Ltd	2000-2006 audited by private auditors. 2007 – 2008 financial statement awaited.

S/N	Entity	Remarks
18	Kei Beseu Kampani Ltd	2000 – 2006 audited by private auditors, 2007 – 2008 financial statements awaited.
19	Manus Marine Resources	1995 – 2008 financial statements outstanding.
20	Manus Fishing Corporation	2004 – 2008 financial statements outstanding.
21	Nokondi Investments Ltd	1998-2003 dispensed, 2004 – 2008 await M/L response & signed financial statements.
22	Als Auto Repair Ltd	1998-2003 dispensed, 2004 – 2008 await M/L response & signed financial statements.
23	Akogere Estates Ltd	1998-2003 dispensed, 2004 – 2008 await M/L response & signed financial statements.
24	South Bougainville Engineering Ltd	1997 – 2004 fees part paid, audit to commence shortly, 2005 – 2008 financial statements awaited.
25	North Solomons Marine Corporation Ltd	1995-2008 financial statements outstanding. *Status & audit to be determined.*
26	North Solomons Plantation Development Corporation Ltd	1995-2008 financial statements outstanding. Status & audit to be determined.
27	Wamp Nga Holdings Ltd	2006 and 2007audits in progress. 2008 financial statements not submitted.
28	Petrohaul Ltd	2006 and 2007 audits in progress. 2008 financial statements not submitted.
29	Vegmark Ltd	2006 and 2007 audits in progress. 2008 financial statements not submitted.
30	Melpa Properties Ltd	1997 - 2001 signed financial statements awaited. 2002 - 2008 financial statements not received
31	Western Highlands Development Corporation Ltd	1995 - 2008 financial statements outstanding.
32	Peningsula Shipping Lines (PNG) Ltd	2006 – 2007 audits in progress.
33	Simbu Holdings Ltd	1995 - 2008 financial statements outstanding.
34	Enga Engineering Ltd	1995 – 2008 financial statements not received.
35	Enga Children's Fund Trustee Ltd	2001 – 2006 reports await working paper review responses. 2007 – 2008 await audit fees.
36	Morobe Development Corporation Ltd	1999 financial statements received. 2000-2008 financial statements outstanding.
37	Kumgie Holdings Ltd	1999 - 2006 financial statements received. Audits to be outsourced. 2007 – 2008 financial statements not submitted.
38	Niugini Produce Marketing Ltd	1999 financial statements received. No recent financial statements.
39	Morobe Farms(Wawin) Ltd	1999 financial statements received. 2000 – 2008 financial statements not submitted.
40	Yalu Plantation Ltd	1999 financial statements received. 2000 – 2008 financial statements awaited.

S/N	Entity	Remarks
41	Morobe Food Processing Ltd	1999-2008 financial statements outstanding.
42	Morobe Food Corporation Ltd	1999 – 2008 financial statements outstanding.
43	YKDC Investment Ltd	1999 - 2008 financial statements outstanding.
44	Umboi Timber Ltd	1999 - 2008 financial statements outstanding.
45	Morobe Development Engineering Services Ltd	1999 financial statements received. 2000 – 2008 financial statements outstanding.
46	Madang Development Corporation Ltd	1995 – 1996 M/L responses & signed financial statements awaited. 1997 – 1998 audit fees awaited. 1999 – 2008 financial statements not submitted.
47	Madang Shipway (formerly, Binen Marine Services)	1995 – 1996 M/L responses & signed financial statements awaited. 1997 – 1998 audit fees awaited. 1999 – 2008 financial statements not submitted.
48	East Sepik Development Corporation Ltd	1993 - 2001 financial statements received/*audit fees awaited*. 2002 - 2008 financial statements outstanding.
49	Milne Bay Properties Ltd	1995-2008 financial statements outstanding.
50	Central Province Development Corporation Ltd	1991 - 2004 financial statements outstanding. (Now Central Province Investments Ltd.)
51	Koiari Holdings Ltd	1995 - 2008 financial statements outstanding.
52	Central Province Investments Ltd	2005 – 2008 financial statements outstanding
53	Wyben Hotel Ltd	1995 - 2008 financial statements outstanding.
54	Fly River Doctor Services Ltd	1996 - 2008 financial statements outstanding.
55	Gulf Papua Fisheries Ltd	1997 - 2000 financial statements received, audit fees awaited. 2001 - 2008 financial statements outstanding.
56	Southern Start Ltd	2002 financial statements received. 2003 – 2008 financial statements not received
57	Ambogo Sawmill	No recent financial statements
58	Higaturu Motors	No recent financial statements
59	Credit Corporation	No recent financial statements
60	Zamo Pool	No recent financial statements
61	Central Marketing Agency	No recent financial statements

Details of the results of the audit of the financial statements of the above entities are reported in Chapter 5 under the respective provincial Governments' headings.

4.6 Financial Statements of Provincial Authorities

Provincial Authorities are created by an Act of Parliament. The purpose of establishing these authorities is to develop infrastructure and to stimulate business

activity in the respective provinces. Some of these authorities are directly involved in commercial activities as well.

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

As at 30 June 2009, the status of audits relating to the Provincial Authorities is summarized as shown in Table 6.

Table 6- Status of Audits – Provincial Authorities

	Provincial Authority	Year Financial Statement not received	Year Financial Statement received	Report Issued	Field Work in Progress
1	Koiari Development Authority	1993 – 2003			
2	Koiari Local-Level Government Special Purposes Authority (formerly Koiari Development Authority)	2004 – 2008	-	-	
3	Porgera Local-Level Government Special Purpose Authority		2007 – 2008	-	Done
4	Kutubu Development Authority	1996 – 2008			
5	Gazelle Restoration Authority		2008	1	Done
6	Nimamar Development Authority			3	
7	Manus Shipping Authority	1994 – 2008			
8	Nimamar Local-Level Government Special Purpose Authority	2007 – 2008	2004 – 2006		
9	Enga Construction Authority	1999 – 2008			
10	Central Provincial Transport Authority	1997 – 2008			
11	Bougainville Restoration & Development Authority	2008			
12	Oro Fisheries Authority	1990 – 2008			
TOTAL		**88**	**6**	**4**	**4**

Details of the results of the audit of the financial statements of the above entities are reported in Chapter 5 under the respective provincial Governments' headings.

4.7 Other Audits

4.7.1 Trusts and Funds

My responsibility also includes the audit of Special Purpose Funds and Trusts established by Provincial Governments. The audit of these Funds and Trusts is organized in a similar manner as the audit of business arms. Previously, I have reported that management of these funds have failed to furnish financial statements on a timely basis and as such, I was unable to carry out the respective audits on a timely basis. The management of these trust funds have also not communicated to my office to confirm the current status of these organizations.

Table 7– Outstanding audits of Funds and Trusts

	Trusts/Funds	Year	Remarks
1	Western Highlands Sports Stadium Trust	1995 – 2008	Financial Statements not submitted/status not known
2	Enga Mineral Revenue Stabilization Fund	1993 – 2008	Financial Statements outstanding.
3	Gulf Investments Trust Funds	2004 – 2008	Financial Statements outstanding

4.7.2 Other Audits

In addition to the audits covered in the preceding paragraphs, this Office has also carried out a number of other audits. These are Wewak Storm Water Drainage, Islands Development Bureau (Inc.) and PNG Urban Local-Level Government Association. The management of these audits have also not communicated to my office in regard to the signed financial statements.

4.8 Audit Fees

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

To address this problem, I intend to:

- Liaise with the Department of Finance on preparing guidelines regarding establishment of new business arms or authorities. This will include strict instruction to the Provincial and Local-level Government to discontinue with funding of these entities through grants, if audited financial statements are not provided.
- Request additional funding from the Parliament to facilitate the audit on the financial statements of these entities.
- Pursue with Provincial Governments through dialog, the additional information and options for these entities.
- In some cases, advise the Government to do away with all these investments as these entities do not bring the investments returns as expected.

4.9 Tabling of Reports

Organic Law, as well as the Audit Act requires that I furnish before 30 April of the following year, audit reports on the accounts of Provincial or Local-level Government to the respective Ministers. Prior to October 2007 in addition to furnishing reports, I voluntarily undertook printing and tabling those reports in the Parliament. This responsibility however, rests with the Department of Provincial and Local-level Government Affairs.

Since October 2007, due to staff constraints and excessive printing costs, I discontinued with printing and tabling and have informed (in writing and through meetings) the Department of Provincial and Local-level Government Affairs. Due to the change in this process, I have no knowledge as to whether these reports (referred to in Tables 1, 3 and 4) were tabled and/or how many of them had been tabled.

On 28 October, 2008 I received a copy of a letter from the Secretary of the Provincial and Local-level Government Affairs that printing and tabling of reports will be undertaken by them. There was a decision made No.99/2009 by the National Executive Council to allocate funds on 1st July, 2009 to the Provincial and Local-level Government Affairs for printing costs. We are currently liaising with the Provincial and Local level Government Affairs and we are providing information regarding the printing and tabling of the Audit Reports issued.

5. RESULTS OF AUDITS PER PROVINCE

5.1 BOUGAINVILLE AUTONOMOUS GOVERNMENT

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Bougainville Autonomous Government	2007	2007	June 2009 Disclaimer	Significant issues identified
Buka Hospital Board	2007	2007	May 2009 Disclaimer	Significant issues identified
Buka Urban Council	2007	2006	March 2008 Disclaimer	
South Bougainville Engineering	2004			1997 – 2004 financial statements received; audit fees part paid; audit to commence shortly; 2005 – 2008 financial statements awaited
North Solomon Marine Corporation				No recent financial statements submitted; status of the entity/audit to be determined
North Solomon Plantation Development Corporation				No recent financial statements submitted; status of the entity/audit to be determined
Bougainville Restoration and Development Authority				No recent financial statements submitted for audit

5.1.1 Bougainville Autonomous Government

Financial Statements

The financial statements of the Autonomous Bougainville Government for 2007 contained numerous errors and material misstatements. Documentation related to important balances presented in the statements was not made available for examination. Subsequently, I issued a disclaimed audit opinion. Some of the major issues are detailed below:

- *Finance Instruction 4/2000* issued under Section 17 of the *Public Finances (Management) Act 1995* state the prescribed format for the preparation of the financial statements for Provincial Governments. The financial statements of the Autonomous Bougainville Government were not signed by the Provincial Administrator and the Provincial Treasurer as required. This constituted a scope limitation and affected every statement presented by the management.

- The financial statements of the Autonomous Bougainville Government for the year ended 31 December 2007 were misleading as a result of error in the presentation of the statements. In all the statements, the amounts were incorrectly presented in amounts of 'thousands' instead of the original amounts.

- This statement showed seventeen (17) trust accounts of which sixteen (16) were non bank trust accounts. These accounts did not have trust instruments as required under the *Public Finances (Management) Act* 1995 and as highlighted in my previous year report. Further, monies received and expended in the Bougainville Resource Capacity Trust Account in some instances were not spent in accordance with the trust instrument deed. No bank reconciliation and confirmation were provided to confirm that balance at year end.

- The financial statements showed K4,000,000 investments as at 31 December 2007 held at CDA Finance and Investment. No records in relation to interest earned and interest received were provided. Investments registers and related records were also not provided to confirm the existence and the valuation of the investments shown in the statements.

- Investments of ordinary shares were held in six (6) companies totaling K2,841,492. As noted in previous years, four (4) of these investments totaling K2,803,002 (Lotto Management Services, Bougainville Development Corporation, North Solomons Plantation Development Corporation and North Solomons Marine Corporations) may have been lost because of the Bougainville Crisis. This was not reflected (through a write-offs) in the statements.

- National Government revenue in transit totaling K22,888,193 was paid to ABG operating account at year end. No documentation was provided to confirm these transfers.

- Aid Donor funding of K33,479,500 was budgeted for the year ended 2007. However, documentation supporting actual amounts received and spent on projects was never provided.

- DSIP grants of K4,300,000 were paid directly to each District Treasury bank account. Although presented in the financial statements, these monies were not recorded in the Government's ledgers as these monies were not banked into the operating bank accounts.

Capital Works and Maintenance

This Office has reviewed the progress of projects that were due for completion in 2007. My officers inspected the building sites and identified incomplete work and slow progress. The ABG should seriously address this problem where contractors fail to complete the projects worth millions of kinas of public funds. In particular, the Technical Services Division (Building Section) should be held responsible for the failed or incomplete projects that took one to two years after the completion date expired. These Officers should be administering, supervising and monitoring the projects at all levels, report the anomalies and take appropriate action, such as imposing penalties of non compliance in relation to the contract agreement. One factor that contributed to such poor state of affairs is that the existing contract agreements do not detail terms and conditions with penalty clauses.

It was noted that most of the contractors do not adhere or comply with the original contracts and the purpose of their request for extension of the completion date appears to be obtaining more funding from the Government. It was also noted that the variations submitted did not go to the Supply and Tenders Board Committee or any other independent valuer for verification and approval; it was solely approved by the acting Chief Executive Officer of the Technical Services Division.

The following are examples of construction work that is yet to be finished.

Staff Houses at Kubu

The contract was awarded to Bututu Building Construction on 20 December 2006 to construct 14 x 3 Bedroom staff houses for ABG at Kubu. The contract was worth K1,280,000 with a date of completion of the project on 13 April 2007.

On 5th of February 2009 during the course of the audit, my officers visited the building site and found that all the buildings were still incomplete with carpenters being at the construction site. A major subcontractor advised that they were waiting for additional funding from ABG to complete the project, as the original funding has already been exhausted/spent.

Staff Houses at Tinputz

The contract was awarded to Quella Alliance & Consultancy Ltd to construct 1 x D/Office and 3 x staff houses at Tinputz on 25 November 2005. The project was to be executed for 50 days from the commencement date and the practical completion date was 30 April 2006. The contract cost was K478,000.

At the time of this audit (February 2009), the project was still incomplete with a lost of discrepancies that needed to be address; (i.e. there was a theft of building materials).

The ABG, through the Technical Services Division (Building Section) has done nothing concrete to follow up on this matter and resolve it so that the project is completed for the benefit of the stakeholders and especially the people of Tinputz.

Buka District Office Extension

The contract was awarded to Pemana Ltd for the construction of Buka District Office extension for ABG on 26 September 2005. The project was to be executed in 150 days starting from the commencement date with a completion date of 28 March 2006. The contract cost was K324 964. There was a revised contract price of K278,866 signed by ABG and contractor on 22 November 2006.

On 5 February 2009 the AGO visited the building site. The building was incomplete and the construction site was unattended. It was revealed that AusAid (though GIF) would fund the project for its completion. It was not clear which contractor is supposed to complete this project.

Minister's Houses

The contract was awarded to Pemana Ltd for the construction of 5xABG Houses on Sohano Island, Buka, on 26 September 2005. The project was to be executed for 240 days with a completion date of 30 September 2006. The contract cost was K942,249. There was also a variation of K237,463 solely approved by the acting Chief Executive Officer, Technical Services Division.

On 5 of February 2009, during the course of the audit, the AGO visited the building site. The building was still incomplete and the construction site was unattended. It was revealed that AusAid (through GIF) would fund the project for its completion.

Treasury Office Houses in Buin

The AusAid (through GIF) is currently funding some of the projects that are counter funded by ABG; whereby funds are deposited into the GIF account and allocated to a particular project.

There was lack of proper communication and coordination between the GIF, ABG Technical Services Division and the Treasury office for the smooth coordination and maintenance of records for the GIF projects.

The construction of 2xABG (Treasury Office) Houses in Buin, on 12 October 2006 were awarded to Bougainville Engineering & Construction Ltd. The project was to be completed within 90 days from the commencement date with a completion on 28 February 2007. The contract cost was K174,500 (ABG K42,000). The AGO was informed that the project was completed but we noted that there were some discrepancies as per the scope of the project. For instance, in the scope it stated two tuffa tank (2000ltrs) should be installed however, there was only one installed at the site.

Maintenance of Headmasters Residence – Bun High School

This Office physically inspected the Headmasters Residence with the Headmaster, District Administrator and District Treasurer on 26 January 2009. The maintenance carried out was not completed. For instance, bathroom, kitchen maintenance was not carried out. Pump water, one tank, fans and step rails were not installed as required. The full payment of K100,000 was made without the above mentioned items being completed.

Maintenance of Library – Buin High School

This Office physically inspected the Library with the Deputy Headmaster, District Administrator and district Treasurer on 26 January 2009. No maintenance was actually carried out. However, amount totaling K64,166 was paid. The payment voucher of this payment was missing from the file at the time of audit. This office cannot establish why this payment was made even though no maintenance was carried out.

Construction of 5x3 bedroom house x 1 Treasury Office – Buin

This Office physically inspected the above projects with the District Administrator and District Treasurer on 26 January, 2009 and noted that the above projects were still in progress and not yet completed. The full contract payment with variation cost totaling K695,668 was paid. This Office cannot establish why the full contract amount was paid and how the variation was approved and paid even though the projects were still in progress.

Construction of Buin Urban Council Office

This Office physically inspected the above project with the District Administrator and District Treasurer on 26 January, 2009 and noted that the project was still not fully completed. However, certificate of completion was signed by the acting Chief Executive Officer (Technical Services) incorrectly indicating that the project was completed.

Road Upgrading Between Hutjena and Lonahan

This Office conducted examination of the processes and procedures in awarding of the contract for the road upgrading between Hutjena and Lonahan at the cost of K6,451,900. In our last year report, we recommended for the ABG to recall, terminate and re-tender the contract. The tender did not go to the Central Supply and Tenders Board. Further, the involvement of the Governor as a shareholder indicated a conflict of interest. At the date of this audit in January 2009 the road upgrading has not been completed due to the fact the Company did not own machines and they lacked the core manpower. The original completion date was 5 January 2008 and the revised date of completion was at the end of 2008. No penalty was imposed on the Company for the long delay in the completion of the road.

Payments that warrant further investigation

On 19 December 2008, an amount of K4.1 million was deposited by the Department of National Planning and Monitoring into the ABG operating account. However, the Governor instructed the ABG to withdraw the funds to be paid to the following entities:

- Millennium Water Limited of 2.7 million for the construction of water supply for Buka General Hospital; and

- Hastings Deering Ltd of 1.4 million for the purchase of heavy machineries for North Bougainville.

According to the Investment Promotion Authority's records, Millennium Water Ltd is a deregistered company. This Office has not sighted any Central or Provincial Supply and Tenders Board approval or contract agreement to award the contract to Millennium Water Ltd for the construction of water supplies as per the requirement under Section 39 of the *Public Finances (Management) Act*. There was also no evidence provided that tenders were called for the construction of water supply for the Buka General Hospital. Review of the funds paid to Millennium Water Ltd revealed that funds were not used for the intended purposes but were paid to individuals and firms. It is unclear the reason for the K470,000 payment to Solonakori Cocoa. Many of the payments did not relate to any activities regarding construction of water supplies of the Buka General Hospital. There was a significant risk that monies intended for this project could be misused either for another purpose or be misappropriated. This Office recommended that the Buka General Hospital and the Autonomous Government carry out an investigation on the usage of these funds.

Furthermore, this Office could not establish which Government organization or Division of the Autonomous Bougainville Government would be responsible for the heavy machineries that wee purchased from Hasting Deering totaling K1.4 million. The heavy machineries were purchased with public funds and these machineries should be allocated to an organization or Division or Department of the Autonomous Bougainville Government for the purpose of custodianship. In addition, no Supply and Tenders Board approval was sighted for the purchase of these machineries as required.

Transport

This office noted that the Autonomous Bougainville Government has purchased a lot of 4WD vehicles such as Toyota Landcruisers (10 seaters, Toyota Hilux d/cab 5th elements, Ford Rangers and others) during the year. It was observed that there was no proper control and that vehicles were used on non official duties, driven by unauthorized persons and driven after hours and weekends.

Review of the assets register maintenance for the vehicles revealed that the costs of most vehicles were not shown indicating poor monitoring of motor vehicles.

Payments

Other issues noted regarding payment of accounts were as follows:

- There was no segregation of duties between collection and banking. The person who collects and records is the same person who does the banking.

- The advance register maintained was deficient. In addition, instances were noted where officers were paid second advances while their first advances were still not acquitted.

- Payments totaling K14,210,267 out of the Bougainville Resource Capacity Trust account were noted to have been made without proper review, examination, certification, authorization, approval and without supporting documentation to authenticate the payments. This is a breach of the *Public Finance (Management) Act 1995* and the trust instrument.

5.1.2. Buka Hospital Board

I have audited Buka General Hospital's financial statements for the year ended 31 December, 2007 and issued a disclaimer of audit opinion. The issues identified are detailed in the paragraphs below:

- The General Hospital did not maintain assets register for fixed assets purchased or donated to date. In addition, no stock take was conducted during the year to ensure their existence and usage. In the absence of complete assets register and stock take, I was not able to verify the completeness, existence and accuracy of the fixed assets at the year end.

- This Office was unable to obtain confirmation of the salaries and wages totaling K3,392,617 disclosed in the financial statements as the payroll records relating to pay no. 23 was not made available for inspection. Consequently, the audit unable to vouch the completeness and accuracy of the amount disclosed in the financial statements.

- Other internal revenue totaling K11,908 could not be relied on due to:

    - Collector's statements not being prepared.
    - Banking of collection not being done on a daily basis.
    - No independent verification performed.
    - No proper segregation of duties existed between revenue collection and banking.

- No advance register has been maintained. Travel advances and subsistence payments for the 2007 year were never acquitted. Therefore, there was a limitation of scope as audit could not ascertain the value of the advances and also whether advances were actually utilized for the intended purposes.

- Examination of paid vouchers and related records pertaining to payment of accounts revealed the following discrepancies:

    - Three verbal and written quotations were not sought when purchasing.
    - No delivery dockets/consignment notes were sighted to confirm delivery.
    - There were no valid invoices of payments.

- The administration officers were paid overtime allowances without prior approval by the management.

- Certain staff leave fares were paid directly to them instead of the airline or travel agent.

5.1.3. Buka Urban Council

The AGO has conducted audit of Buka Urban Council records for the year ended 31 December, 2007. A management letter detailing control weaknesses was issued for managements' comments on 24 March, 2009. There has been no response received to-date. The paragraphs below detailed control weaknesses for 2007 financial year:

- The budget estimates titled "Buka Urban Council Revised Budget" for 2007 was provided to AGO with a deficit budget of K45,950. However, approval from the Minister was not sighted and as such, the AGO was unable to ascertain whether the moneys received and expended were in accordance with the Appropriation Act and related legislation.

- Salaries and wages to all the staff and labourers were paid in cash. Staff and labourers should open individual bank accounts so that all salaries and wages are paid directly to their respective bank accounts.

- Debtors totaling K396,890 and other debtors totaling K34,158 as disclosed in the accounts could not be verified as correct as reconciled debtors and other debtors listing and supporting documents totaled K553,172.

- No tax declaration forms were sighted for all employees and as such, the AGO was unable to confirm whether correct tax was deducted from employees.

- The AGO review of accounts payable and creditors clearing accounts totaling K56,248 and K7,085 respectively could not be verified as correct due to supporting documents such as invoices/receipts and credit notes not being provided for examination.

- Audit was unable to review Payroll Tax and Superannuation payable balances of K91,073 and K56,987 respectively due to the absence of listing and supporting documentation.

- Deposits were made to the now defunct and liquidated U-Vistract Finance Corporation Ltd. The Board made the decision at that time to deposit K25,000 in two lots of payments. The amount shown in the accounts disclose an investment totaling K58,000 consisting of the principal amount of K25,000 plus interest earned of K33,000. However, since the U-Vistract Finance Corporation Ltd has been liquidated, the investment amount cannot be realized and is irrecoverable. The amount should be written off.

- No Assets Register was provided for verification. In addition, there was no evidence that physical stock-take was carried out on assets. As such, the AGO was unable to establish the existence, location and condition of the assets owned by the Urban Council.

- It was noted that a half of the Board members who were Public Servants were paid quarterly stipend and allowances. Member of the Board are not entitled to draw any fees or sitting allowances. They are only entitled to travel, accommodation and meal expenses where appropriate.

- Buka Urban Council does not have a Corporate Plan that establishes its long term objectives, set priorities and targets and take into account the needs and requirements of its stake holders.

5.1.4 South Bougainville Engineering

South Bougainville Engineering is a company owned by a number of Council of Elders (COE) around Buin area in South Bougainville. The entity was incorporated in or around 1997 and initially funded by the former Member of Parliament, Hon. Michael Laimo.

At the time of preparing this report, in September, 2009 the entity has submitted its financial statements for the years ended 31 December, 1997 to 2004 and paid the first installment of audit fees. The audit is scheduled to commence shortly.

5.2. CENTRAL PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Central Provincial Government	2007	2007	July 2009 Disclaimer	Significant control weaknesses identified
Port Moresby General Hospital	2007	2007	December 2008 Disclaimer	Audit of 2008 financial statements in progress
Amazon Bay	2006	No		
Aroma Coast	2003	No		
Cloudy Bay	2003	No		
Guari	No data	No		
Hiri	2003	No		
Kairuku	2003	No		
Koiari	2004	No		
Mekeo / Kuni	2003	No		
Rigo Central	2005	No		
Rigo Coastal	2005	No		
Rigo Inland	2005	No		
Tapini	2003	No		
Woitape	2003	No		
Central Province Development Corporation				1991 – 2004 financial statement not received; entity appeared defunct, (2005 – 2008 known as Central Province Investment Ltd.).
Central Province Investments Ltd				2005 – 2008 financial statements awaited
Koiari Development Authority				1993 – 2003 financial statements not received, status of entity/audit to be determined
Central Province Transport Authority				1996 management letter response and signed financial statements awaited, 1997 – 2003 financial statements awaited/ audits to be determined 2004 – 2008 complete financial statements awaited

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Koiari Holdings Ltd				1995 – 2008 financial statements awaited/audits to be determined
Koiari LLG SP Authority				2004 – 2008 financial statements awaited/audit to be determined

5.2.1. Central Provincial Government

General

The audit of the Central Provincial Government's 2007 accounts was completed with a disclaimer of audit opinion issued. The control environment was still lacking adequate procedures and monitoring and could not ensure accuracy and completeness of transactions. The Provincial Government through the Provincial Treasury and the Provincial Administration staff has responded very poorly in respect of providing basic but essential accounting books and records for audit purposes. The risk of fraud and misappropriation occurring and remaining undetected was also high. The paragraphs below detail the issues identified.

Budgetary Controls

The Provincial Government 2007 Appropriation Act appropriated total revenue and expenditure of K48,624,000. However, the financial statements disclosed a total expenditure of K50,687,179. No revised appropriation to that effect had been provided and it appears the Provincial Government breached its Appropriation Act by overspending an unauthorized amount of K2,063,170.

Cash Books and Bank Reconciliations

The Provincial Government bank reconciliation statements for January to November 2007, Receiver Statements for the whole year, Dishonored Cheques Register and Cheques Usage Report were not provided, although requested. As such, there were audit limitations on the audit of the Cash Books and Bank Reconciliations.

Revenue Collection

Review of the controls relating to internal revenue collection revealed the following weaknesses:

- Source documents including Collectors and Receivers Statements, Receipt Books, Deposit Slips and Tax Register for 2007 were not provided for audit. Subsequently, the AGO could not fully conduct test of controls to verify revenue collections during the year.

- Revenue Receipts were not fully posted. Hence, the revenue was materially understated. For example, internal revenue of K5,420,698 disclosed in the financial statements was recorded as K1,219,838 in the revenue ledgers.

- Total revenue of K2,456,342 from the Central Province Traffic Registry had not been accounted for in the Revenue Ledgers and the Financial statements of the Provincial Government.

- The Cash Count showed that there were instances of receipts written 'cancel' were without the original receipt indicating possible fraud. Also daily takings of cash were not banked on timely manner.

Procurement Procedures

The Instruments establishing the appointment of Provincial Supply and Tender Board (PSTB) Board members, Meeting Minutes and Resolutions, Register for Tenders invited, quotations received, contracts awarded and certificate of inexpedience issued were not provided although requested. As such, there was limitation of scope of audit on the procurement procedures.

The tender box was not placed in a secured location and was not secured by dual lock operation.

Payment of Accounts

Payment vouchers totaling K1,643,000 were not provided. In addition, most claims were not examined and certified by the financial delegates. Other weaknesses included:

- Financial delegates authorized claims above their limits totaling K493,979.

- A total of K1,403,222 were paid to Central Province Travel Agency with no proper supporting documentations. Central Province Travel Agency was not registered with IATA and has engaged another travel agency to process payments and airline tickets and charging commissions. This arrangement could facilitate collusion and fraud.

- Duplicate payments were made to two different real estate agents for the Provincial Administrator's accommodation rentals.

- Accommodation allowances paid to the Governor exceeded the limit set by the SRC Determination.

- Payments totaling K234,355 were made for Legal and consultation services provided. However, the proper procurement procedures applied to obtain such services could not be established due to lack of documentation and staff co-operation.

Grants and Subsidies

Grants and subsidies totaling K2,848,568 were not acquitted by way of reports by the recipient entities and individuals. Also, there was no evidence to confirm that these had been sought. The Local-level Governments are excluded from these observations as they are required to provide financial statement for audit by this Office.

Assets Management

Examination of expenditure ledgers reveal assets purchased during 2007 totaling K1,240,178. Assets Registers maintained did not capture every asset owned and disposed in 2007 and prior years by the Provincial Government. Details such as: purchased price, date of acquisition and serial numbers were not disclosed.

Management of Advances

The records showed un-acquitted advances totaling K526,478 relating to previous years. The AGO review of un-acquitted advance revealed that there was lack of proper controls exercised over granting and acquittal of advances, resulting in a significant amount of un-acquitted advances at year end.

Salaries and Allowances

Examination of records relating to salaries and allowances paid to Assembly Members revealed the following:

- There were inconsistencies in salaries and allowances paid with no proper advice and supporting documents attached.

- Four (4) assembly members were paid more than their normal salary as per the SRC Determinations for the first seven (7) to nine (9) fortnights. Over-payment of final entitlements to assembly members amounted to K53,883.

- The AGO could not verify net salaries and allowances since tax declarations and salary rates were not provided in their personal history cards.

- There was no payroll reconciliation done on employee's net salaries, allowances, salary rates and tax computations.

Tolukuma Royalty Trust Account

The Tolukuma Royalty Trust Account appears to have been established in 2004 and have been in operation up to the year of audit in 2008. The AGO review of the Account for the years 2005 to 2007 revealed the following matters:

- No bank reconciliation was compiled to confirm the closing balance as at 31 December, 2007.

- The Trust Account was noted to be under the custody of the Provincial Administrator. The Trust Instrument, Bank Reconciliation Statements, Deposit Summaries, Deposit Slips, Trust Ledgers etc. were not provided for audit verification although requested.

- The transactions made were not recorded under the Provincial Government Accounting Systems (PGAS) and not reported in the Central Provincial Government's financial statements of the years 2005 to 2007.

- Payment vouchers in relation to payments totaling K167,583 were not provided for examination.

- A total of K157,000 was paid to the Director for Assembly Services, Central Provincial Government, for various reasons. However, no supporting documents were provided to verify the nature of payments.

- A total of K141,932 was paid to certain individuals for various reasons. However, no supporting documents such as invoices, payments, receipts, and quotes were sighted.

- An amount of K33,307 was paid to an individual for compensation on injuries sustained while on Tolukuma MOA review duty. However, no medical report for the injury sustained or Court Order (if the CPG was sued for damages) were sighted.

- Financial Statements of Tolukuma Trust Account were not provided to audit, although, a total payment of K4,500 was made for compilation of these statements.

Internal Audit

The Internal Audit Unit did not make available any annual audit work plan for review requested by this Office. In addition, there was no Audit Charter to set out the mandate and scope of audit coverage and an Audit Committee to oversee the activities of the Internal Audit Unit.

Corporate Governance

The Central Provincial Government did not have a Corporate Plan that establishes long term objectives, sets priorities and targets and takes into account the requirements of its stakeholders.

5.2.2 Port Moresby Hospital Board

Major audit issues in our report to the management regarding 2007 accounts and records were as follows:

- The AGO was not able to verify the completeness and accuracy of the fixed assets due to absence of sufficient supporting documents.

- In the absence of complete and enabling records of drugs and medical supplies this Office was not able to verify their balances. There were inadequate inventory records as well as lack of effective in-built systems and procedures (checks and balances), to ensure receiving, storage, issue and usage of drugs and medical supplies were recorded and controlled.

- There was limitation of scope arising from bank balances not being reconciled with cash books. This Office was unable to verify the accuracy of the bank balance of K581,221 disclosed in the financial statements. The Operation Open Heart PNG Account and Donors Special Project Account were not made available for audit review. In the absence of sufficient and appropriate supporting documents, I was not able to verify the accuracy and completeness of the total amounts of expenditure for the operational account of K30,655,365 and trust account of K1,165,122.

- There was no proper vehicle register kept by the Hospital to record all motor vehicles, registrations and their expiry dates. Furthermore, this Office was unable to determine whether all hospital vehicles carried "Z" plating on their number plates as required under the Motor Vehicle Registrations Regulations.

- The Hospital did not have a proper register of all of its Board of Directors details. In addition, the Hospital did not keep Minutes of Meetings book. The AGO was not provided with sufficient documentation to determine whether Board Allowances were paid in accordance with the agreed terms and conditions.

- The Hospital installed Attaché accounting software six years ago. This system has not been utilized for maintenance of proper General Ledger. All accounting records are currently maintained on MS Word and Excel spreadsheets.

- The AGO was not provided with adequate information to establish whether private practitioners are being duly authorized for the use of the Hospital's facilities according to the contracts they have entered into.

- There were also significant weaknesses in controls over payroll and staff wages. There were no checks and balances measures in place to ensure pays are made only to individuals who work for the Hospital.

5.3 EAST NEW BRITAIN PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
East New Britain Provincial Government	2007	2007	April 2009 Disclaimer	Significant controls weaknesses identified
Nonga Base Hospital Board	2004	2004	March 2008 Disclaimer	2005 and 2006 audits were dispensed. Financial statements were not prepared for 2007, however, audit of controls was undertaken
Kokopo Vunamami Urban	2008	2007	April 2007 Disclaimer	Significant controls weaknesses identified
Rabaul Urban	2007	2007	April 2009 Disclaimer	Significant controls weaknesses identified
Balanataman	2004	No		
Bitapaka	2008	No		
Central Gazelle	2009	No		
Central Inland Pomio	2008	No		
Duke of York	2008	No		
East Pomio	2008	No		
Inland Baining	2009	No		
Kombiu	2007	No		
Lassul Baining	2009	No		
Melkoi	2008	No		
Raluana	2008	No		
Livuan Reimber	2008	No		
Sinivit	2008	No		
Toma Vunadidir	2009	No		
Watom	2007	No		
West Pomio Mamusi	2008	No		
Gazelle Restoration Authority	2008	2008		Management letter response and signed financial statements awaited
Barakopo Plantation Ltd	2003			1995 – 1998 audit in private hands, 1999 – 2003 audit fees awaited/audits to be determined; 2004 – 2008 financial statements awaited

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
ENB Dev.Corp.				1995 – 2002 audit in private hands; 2003 – 2008 financial statements awaited/audits to be determined
Islands Development Bureau Inc.	2001			1995 – 1998 audit in private hands; 1999 – 2001 audit fees awaited/audits to be determined; 2002 – 2008 financial statements awaited
Pomio Development	1997			1995 – 1997 audit fees awaited; 1998 – 2008 financial statements not received/ audits to be determined
South Coast Shipping	2000			1993 – 2000 management letter response, signed financial statements awaited and audit fees awaited; 2001 – 2008 financial statements awaited/audit to be determined

5.3.1 East New Britain Provincial Government

General

The results of the audit of East New Britain Provincial Government for the year ended 31 December, 2007 was unsatisfactory, with disclaimed audit opinion being issued. It was pleasing to note however, that the Provincial Administrator had responded in writing regarding the audit issues raised. His comments are incorporated in the paragraphs below.

Approval of Appropriation

The AGO was unable to sight any revised budget to indicate that the increased appropriation had been approved by the Provincial Government Assembly. The Administrator responded that most likely, the budget allocations were not accurately posted to ledgers.

Revenue Collections

A review of procedures and records relating to collection of revenue revealed that there was lack of proper guidelines and adequate records to assess and monitor the collection of internal revenue on a regular basis. Also, there was a lack of co-ordination and co-operation amongst officers of the Revenue Unit and other line economic Divisions of the Provincial Government to effectively plan and direct their efforts to ensure that all internal revenue estimated for the year were duly collected and accounted for.

The Provincial Administrator acknowledged the problem and advised that for 2009 they have reduced the revenue estimates at a more realistic level.

Acquittal of Grants

Grants and Subsidies amounting to K6,820,058 were not acquitted by way of reports by the recipient entities. There was no evidence to suggest that these reports had been requested.

Transport

The Provincial Government paid a monthly advance of K10,000 to a private firm for the supply of spare parts required for repairs and maintenance of its fleet of vehicles. It was noted that there was no segregation of duties relating to ordering, receiving and issuing of spare parts. Also, there were no control procedures in existence to monitor and control the usage of vehicles and supply and consumption of fuel and furthermore, to ensure that the recipients of monthly vehicle allowances utilized the funds for the intended purpose.

The Administrator responded that this issued will be addressed during the 2009 year through its Transport Committee namely, to set up a database to monitor operations of the transport pool.

Trust Accounts

The evidence of approval granted by the appropriate authorities to the Provincial Government to operate fifteen (15) trust accounts were not made available for review. As such, the AGO was unable to determine whether the trust accounts had been operated in accordance with the trust instruments.

The Administrator responded that the trust accounts are no long used by the Provincial Government and that they intend to close them.

Internal Audit

The Internal Audit Unit was not only inadequately funded, it also lacked sufficient office space and secretarial staff necessary for the effective and efficient performance of its function and responsibilities. Also, there was no Audit Charter which sets out the scope of audit coverage and activities to be undertaken. Furthermore, the Provincial Government did not have an independent Audit Committee to oversee the activities of the Internal Audit Unit.

The Administrator responded that an Audit Committee will be established and an Audit Charter has been developed.

Payment of Accounts

In relation to the paid accounts, the following matters were noted:

- Payments totaling K542,922 were approved by officers who failed to provide the necessary information in respect of their designations and financial limits on the prescribed Requisition for Expenditure form for purposes of internal check and expenditure control.

- A Deputy Provincial Administrator approved a payment for outstanding housing, domestic and security allowances of K63,000 in excess of his delegated financial limit of K50,000. This payment was made out of funds intended for rental of property. Also, there was no evidence to indicate that the outstanding allowances were treated as taxable income and that the appropriate amount of tax was deducted and remitted to the Internal Revenue Commission.

- Payments totaling K195,916 were incorrectly charged and paid under vote items for which funds were not appropriated. Also, the AGO noted instances where the Requisitions for Expenditure forms which authorized payments totaling K136,887 were missing from files.

- Three (3) competitive written quotations were not obtained from suppliers in respect of payments totaling K40,569. Also, the approval granted by the Provincial Supply and Tenders Board relating to the award of contract for capital works and maintenance projects valued at K1,504,570 during the year were not made available for review.

- This Office did not sight any documents in respect of a payment of K60,000 made to a consultant engaged by the Provincial Government.

The Provincial Administrator acknowledged that the internal control mechanism instituted by the Provincial Treasury was not very effective and that instances of violation of provisions of the finance legislation have occurred. He indicated that for the 2009 fiscal year they will appoint the right officers for the position of Claims Examiner and Certifying Officer and eliminate the audit issues raised.

5.3.2 Nonga Base Hospital

The Nonga Base Hospital has not submitted its financial statements for the year ended 31 December, 2007 for audit. Due to non submission of financial statements for audit since 2005, this Office undertook testing of the control environment for the 2007. The audit issues are detailed in the paragraphs below.

- Nonga Hospital was allocated the sum of K2,914,500 for its operating expenses. This Office was unable to obtain the Cash Fund Certificates issued for the release of the funds to the Hospital.

- The Chief Executive breached the Revised Hospital Fees Trust Instrument by failing to furnish an estimate of revenue and expenditure for the year to the Minister.

- The Hospital did not maintain cash books in respect of the Operating and Hospital Fees Trust accounts with running balances for both accounts. In the absence of cash books, reconciliations could not be compiled.

- It was observed that the Hospital Fees collected at the nine different locations were paid to Revenue Officer who compiled the collector's statements, maintained safe custody and banked the collection. The above indicated that there was no proper segregation of duties maintained between revenue collection and banking. Also no independent verification of collections with banking was performed.

- Examinations of paid vouchers and related records pertaining to payments of accounts revealed the following discrepancies:

    - Thirteen (13) payment vouchers totaling K31,259 were not certified to determine the legitimacy of the expenditure incurred prior to processing payment.
    - No Tenancy Agreement was sighted in respect of two (2) residential properties that were leased to the Hospital by Ranula United Church and Hosea Mina at the monthly rates of K800 and K1,650 respectively.
    - Five (5) payments totaling K16,181 which were made out of the trust accounts contravened Section 2 (c) of the Trust Instrument.

- It was observed that the Hospital had not conducted a reconciliation of the payroll to ensure that the salaries and allowances were accurately processed.

- The AGO noted that travel and cash advances granted to staff was recorded in the Advances register only when the staff acquitted his/her allowance.

- It was observed that an assets register had not been maintained during the year nor was a periodical stock take undertaken.

- The Nonga Base Hospital did not have a Corporate Plan in place that establishes long term objectives, sets out its priorities and targets and takes into account the requirements of its stake holders.

5.3.3 Kokopo/Vunamami Urban Local-level Government

The audit of Kokopo/Vunamami Urban Local-level Government financial statements for the year ended 31 December, 2007 was unsatisfactory with disclaimed audit opinion being issued. The audit findings were as follows:

Approval of Appropriation

An examination of the Kokopo/Vunamami Urban Local Level Government's third quarter budget review document revealed that the original appropriation of K1,132,300 had increased by K230,000 to K1,362,300. The AGO was unable to sight any documentary evidence to indicate that the increased appropriation had been properly approved.

Corporate Governance

The Kokopo/Vunamami Local-level Government does not have a Corporate Plan that establishes its long term objectives, set priorities and targets and takes into account the requirements of its stakeholders.

Payment of Accounts

In relation to the paid accounts, the following matters were noted:

- Payments totaling K78,107 were approved by officers who failed to provide the necessary particulars for purposes of internal check and expenditure control. Also, instances were noted where payments totaling K69,670 were not certified to determine the legitimacy of the expenditure incurred prior to processing payment.

- No contract agreement was sighted in respect of the engagement of a private lawyer who was paid K2,000 as initial deposit for legal assistance.

- No Certificate of Incorporation was sighted as evidence of registration of a local land group who were paid K5,000 as financial assistance by the Urban Local-level Government.

- A Certificate of Completion was not sighted in respect of a payment for K3,120 relating to the completion of Stage 1 of the Urban Local-level Government billing system project.

- The bank reconciliation statement for the month of December 2007 showed a large unreconciled difference of K15,668 and unpresented cheques of K106,431. The unpreseneted cheques included 74 cheques which were drawn prior to 1 January 2004. The items were not promptly cleared.

- There were five instances of cash and travel advances totaling K10,480 that were granted to officers during the year that remained unacquitted as at 31 December 2004. The AGO noted a further 12 instances of cash and travel advances totaling K14,148 that were not recorded.

- A listing of assets maintained by the Government was not accurate. For example, assets purchased during 2004 at K18,023 had not been recorded. In addition, no physical stocktake was undertaken during the year under review.

5.3.4 Rabaul Urban Local-level Government

The audit of Rabaul Urban Local-level Government's financial statements for the year ended 31 December, 2007 was unsatisfactory with disclaimed audit opinion being issued. The audit findings were as follows:

Approval of Appropriation

The Rabaul Urban Local-level Government's original appropriation of K652,800 was increased by K368,800 to K1,021,600 as per the Third Quarter Budget review documents. The AGO was unable to sight any documentary evidence to indicate that the increased appropriation had been approved.

Payment of Accounts

In relation to the paid accounts, the following matters were noted:

- The Deputy Town Manager exceeded his delegated financial limit of K2,000 when he authorized an expenditure of K5,426. Furthermore, there was no documentary evidence sighted to indicate that three (3) written quotations for goods obtained from Suppliers were recorded in a Quotations register.

- No contract was sighted in respect of monthly payment of K924 for security services rendered at the Rabaul Urban Local-level Government market.

- Although no disclosure has been made in terms of unacquitted advances, the AGO identified instances of advances not being recorded.

- No disclosure has been made in terms of debtors at year end, however, the AGO identified the amount of K128,499 as due from debtors which had not been recorded.

5.3.5 Gazelle Restoration Authority

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

At the time of preparing this report in November, 2009 the audit of the 2008 financial statements has been completed, and the management letter responses and the signed financial statements was awaited.

The results of the testing of 2008 controls and the Authority's accounts and records revealed that the Gazelle Restoration Authority has appropriate controls and procedures in place to ensure accuracy and reliability of accounting information. These controls have been consistently applied throughout the year.

5.4 EAST SEPIK PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
East Sepik Provincial Government	2007	2007	January 2009 Disclaimer	Significant control weaknesses identified
Boram Hospital Board	2007	2007	January 2009 Disclaimer	Significant control weaknesses identified
Albiges Mamblep	2005	No		
Ambunti Rural	2007	No		
Angoram M.A.	2005	No		
Bumbita Muhiang	2005	No		
Burui Kunai	2005	No		
But/Boiken	2005	No		
Drekirkir	2007	No		
East Yangoru	2002	No		
Gawamga	2007	No		
Guawi	2005	No		
Karawari	2005	No		
Keram	2005	No		
Maprik Wora	2005	No		
Mariengberg	2005	No		
North Wosera	2007	No		
Numbo	2003	No		
Sausso	2003	No		
South Wosera	2005	No		
Tunap/Hustein	2007	No		
Turubu	2005	No		
West Yangoru	2002	No		
Wewak Rural	No data	No		
Wewak Island	2005	No		
Wewak Urban	2006	2006	January 2009 Disclaimer	Audit on 2008 control environment is in progress
Yamil Tamaui	2005	No		
Yuat	FS never prepared			
East Sepik Devlp. Corporation	2001			2002 – 2008 financial statements awaited/audits to be determined

5.4.1 East Sepik Provincial Government

Due to unreliable processes and absence of controls, I have issued a disclaimer of audit opinion on the 2007 accounts. The management letter sent to the Provincial Government detailing audit issues was not responded to. The paragraphs below detail issues identified during 2007.

Financial Statements

The financial statements of the East Sepik Provincial Government for the year ended 31 December 2007 were misleading to users as a result of some amounts being incorrectly presented in amounts of 'thousands' instead of the original amounts. Further, there was no Provincial Administrator's Statement enclosed for the year ended 31 December 2007 and the financial statements were not signed by the senior management as required. Subsequently, the financial statements were not presented in the format required by the Finance Instructions. Since the management has not provided the necessary representations, this constitutes a scope limitation and affects every statement of the financial statements.

In addition to presentation errors, the financial statements contained a prior year adjustment of K1,022,431. No supporting documentation was provided to validate the correctness of the adjustment.

Various unrelated bank and non-bank trust accounts were incorrectly included in the total of cash at bank. The incorrect classification and disclosure of unrelated trust accounts significantly misstated the Trust Fund balance and hence the Consolidated Provincial Fund balance.

Investments

The Provincial Government reported investment held in South Sea Tuna of K2 million as at 31 December 2007. However, prior year financial statements disclosed investments in Westpac Bank, Sepik Holdings, Avis Rent a Car and Windjamer Beach Motel, without any record of disposal. In the absence of investment register, share certificates or documentation available to indicate whether the investments were disposed, this Office was not able to ascertain the value of the investments held as at 31 December, 2007.

Borrowings

The East Sepik Provincial Government borrowed K400,000 from Sepik Savings and Loan Society with an interest rate of 1% payable monthly. The amount was borrowed in 2005 and was still outstanding as at 31 December 2007. Details of this borrowing were not disclosed in the 2007 financial statements. The reason for the borrowing is not known.

Budgetary Controls

The 2007 Provincial Government Budget was passed by the Provincial Assembly on 28 December, 2006 in which the Provincial Appropriation Act No. 2 of 2006 authorized and provided for the issue and expenditure of K66,383,300 for the provision of services for the fiscal year 2007. The following issues were noted:

- Expenditure incurred was in excess of Warrant and Cash Fund Certificates by K2,087,700.

- Funds totaling K780,000 for Local-level Government Grants were all transferred to the Trust Fund Suspense Account and were not fully disbursed to the Local-level Governments as appropriated for in the budget.

- Expenditure was charged to incorrect votes during the year. This was also the trend in 2005 and 2006.

Revenue

Revenue of K5,435,974 collected during the year against an estimate of K13,430,000, resulted in an under collection of K7,994,026. This was due to unrealistic revenue estimates and ineffective revenue collection. There were instances where nil revenue was collected against budgeted amounts such as, Fisheries Fees, Village Courts Fees, tourism fees, etc.

Revenue Registers relating to Liquor Licensing, Motor Vehicle Registration, Drivers License etc, were not maintained by the Revenue Office to monitor and control revenue due to the Provincial Government. The Liquor Licensing Register did not show the following relevant information: the Class of License, the annual renewal fee, the date of renewal etc. Even the Register and the list provided showed a substantial number of license holders who have not renewed their licenses. If revenue registers are not maintained, management would not know how much should be collected during the year.

Cashbook and Bank Reconciliations

The December Cash Book for the Provincial Government Operating Account revealed an overdrawn balance of K140,156 while the Provincial Treasury Operating Account Cash Book revealed a favorable closing balance of K413,847 as at 31 December 2007. The practice of overdrawing the cash book is an indication of poor cash management practices by the Provincial Treasurer and should not be allowed to continue.

The December bank reconciliations sighted for both East Sepik Provincial Government Operating Account and the Provincial Treasury Operating Account reconciled the bank statement balance to the cash book balances. However, it was noted that reconciling items continued to be shown in the reconciliation statements without being cleared. Significant matters of concern relating to the reconciling items were as follows:

- Receipts dating back to 1996 remained outstanding. Recovery action was not instituted to recoup these monies.

- Debits appearing in the bank statement, such as bank fees were not shown in the Cash books.

- Included in the Provincial Treasury Operating Account were un-presented cheques, of which stale cheques totaled K14,692. Management had failed to act appropriately on these cheques.

- The Bank Reconciliations for the months of January 2008 to March 2008 were not yet compiled by the Bank Reconciliation Officer at the time of audit in April 2008. Untimely reconciliations could facilitate fraudulent transactions to be processed and remain undetected for longer periods of time.

Grants and Subsidies

Perusal of the expenditure ledgers relating to payment of grants and subsidies disclosed the following matters:

- Grant appropriation to all the Local-level Governments were not fully disbursed to them during the year resulting in funds totaling K780,000 being transferred to Trust Account through journal entries. These transfers are deemed illegal.

- Acquittal Reports for educational subsidy grants paid and expended by the recipient schools were not checked and certified by the Division of Education Office in Wewak as being correct and that the expenditure is within the purpose of the grant received. Failure to check and certify the grant acquittals could result in errors and unrelated expenditure not brought to the attention of management.

Procurement Procedures

The purpose of the audit was to assess whether the acquisition of goods and services are conducted in accordance with relevant legislation, government policies and sound purchasing principles and practices. The following issues were noted:

- Only two Tender Board meetings were held during the year. In meeting number 2, the Tenders Board endorsed Certificates of Inexpediencies valuing K7,364,356 which were issued in 2006. Issuing Certificate of Inexpediencies without endorsement from the Provincial Supply and Tenders Board is contravening the procurement procedures in the Financial Management Manual.

- A Report of the operations of East Sepik's Provincial Government Supply and Tenders Board for 2007 was not furnished to the Central Supply and Tenders Board as required by Section 3, of the Financial Management Manual.

- The Tender Board Meeting Minutes furnished to audit were not signed by the Chairman and Executive Officer of Tenders Board to validate the minutes.

Payments of Accounts

A check of selected payment vouchers to ascertain compliance with payment procedures revealed the following non-compliance and irregularities:

- In many instances, the same person was signing the Requisition for Expenditure Form and General Expenses Form as the Authorized Requisitioning Officer, the Section 32 Officer and the Financial Delegate. In some instances, it was the Provincial Administrator to sign on all the

documents. This indicates poor internal controls that may result in conflict of interest and abuse of the procurement and payment procedures. In four instances totaling K175,291 the Administrator has signed for payments for Road Maintenance and cash advances for contractors.

- Three quotations were not obtained prior to the purchase of goods and services costing up to K100,000 in most instances as required by the Financial Management Manual. Quotation Register was not maintained.

- Expenditure was incurred out of incorrect votes during the year in many instances, such as out of Trust Funds for operating expenses, or operating expenses being paid from development funds.

- Claims were not being properly examined and certified by Examining and Certifying Officers prior to authorizing of cheques.

- Payments for Recreation Leave Fares were made directly to Officers (Public Servants and Teachers) instead of payments made to Suppliers.

- On occasions, payments of claims for goods and services were made based on quotations received and not on invoices.

- Salaries and Allowances made to the Project Manager, Wewak Storm Water and Drainage Project were not taxed resulting in the Officer avoiding paying tax to the Internal Revenue Office.

Payments that Require Action and/or Further Investigation

I provide reasonable assurance to users of the statements that they can rely on the reported results and not be misled. Whilst I assess all the controls surrounding major accounting processes and operations, including the risk of fraud, I am not required to investigate and report on fraud cases. If, however, an instance comes to my attention as potential fraud I usually refer the case to the management or the entity's Internal Audit to further investigation. More serious cases I refer to the Public Prosecutor.

Non compliance to financial procedures stipulated in the Financial Management Manual, the General Orders and the SRC Determination may lead to misappropriation, misuse or misapplication of Public Funds which could have otherwise being spent on essential goods and services to benefit the people of East Sepik Province. Non compliance will result in loss of Public Funds as a result of unauthorized, unbudgeted, extravagant, irregular and uneconomical expenditure/purchases.

Below, are the detail instances where misappropriation or misuse of funds was likely to have occurred. I expect that the management will take action on those:

- Provincial Treasury Officers were redirecting funds appropriated to the Provincial Administration for their own purposes. A sum of K3,600 was paid to a staff member - the Certifying Officer, described as 'Duty Related Allowances in Assisting Yangoru District Treasury in DSG Accounting Duties from 2005 to December 2006.' This claim was examined and certified by the

same staff member prior to authorizing the cheque. The Officer is on payroll and should not have received this payment.

- A total of K12,500 was paid to six Provincial Treasury Staff, being for administration assistance in outstanding bank reconciliation duties for East Sepik Provincial Government and Provincial Treasury Operating Accounts in January 2008. The Officers are Provincial Treasury Officers on Government Payroll and should not be paid these monies.

- A sum of K3,500 was paid to a private individual for purchase of a brand new water pump mounted onto a compressor tank. There was a conflict of interest as the Supplier/Payee was the husband of the Certifying Officer.

- An original claim for the payment of K660 of CPA Membership Fees for the Accountant of the Storm Water and Drainage Project was submitted for payment. However, the same Certifying Officer, prior to authorizing the cheque, altered the original amount of K660 to K990 to include the Officer's Membership Fee of K330.

- A sum of K17,075 was paid to a staff member - the Wewak District Examiner in 2006 for recreation leave fares to Kimbe. A further K13,393 in Leave Fares was also paid to the Officer in 2007. It is questionable on what basis the Officer who is from a village from East Sepik Province is getting leave fares paid in cash to travel to Kimbe. The Officer is getting Leave Fares paid two years in a row which violates the provisions of the General Orders.

- The Storm Water & Drainage Project had paid course fees totaling K4,400 for two Provincial Treasury Officers to take up DODL courses. These Officers however, changed their mind and wanted the monies refunded to their names in order to take up courses at the UPNG Open Campus. This practice is incorrect as the course fees should have been paid direct to the UPNG Open Campus and not to the names of the Officers. These monies could have been misused and not spent on the intended purpose.

- A sum of K3,000 was paid to an officer being for cash advances for 12 Provincial Treasury Officers for working overtime on compiling overtime allowances. The break-up was for nine Officers to be paid K300 each while three Officers to be paid K100 each. This practice is improper as overtime should be paid based on actual overtime hours worked and not on fixed rates. This practice has been on place since 2005.

- A sum of K20,900 was paid to a supplier being cash advance to host PNG National Garamut/Mambu Festival. The cheque was authorized for K20,900 but the amount on the payment voucher was K32,000. It appears that when the cheque amount was authorized for K20,900, the payment voucher had not been altered accordingly. Furthermore, this claim had not been certified prior to the authorization of the cheque.

- Excessive vehicle hire and repair/maintenance cost were paid by the Provincial Government for the Governor/Governor's Office during the year. The Governor was at the same time receiving full official and support vehicle allowances under the SRC Determination. Selected instances for

testing totalled K307,007 of which fuel supplied amounted to K80,000. These expenses were considered to be excessive and represented double dipping of allowances. SRC Determination G007-03, 4 (v) stipulates that '*Leaders in receipt of vehicle allowances under the SRC Determination are prohibited from making any use of State owned vehicle in Port Moresby or in their own Electorates*'.

- Additional amount of K156,106 was paid out of Trust Vote being for vehicle repairs/services to Governor's Office contrary to the Trust instrument.

- A sum of K2,000,000 being reimbursement of Sepik Highway Trust Funds from Department of Finance was receipted during the year under Trust Fund Vote 902/02 (Emergency Fund) instead of Trust Fund Vote 350/02 (Sepik Highway Trust). These funds were then spent on expenditure not related to the Sepik Highway including expenditure on Governor's /Office.

- A total sum of K10,320 was paid to a hotel as payment of accommodation for the Governor for the period 16 March 2007 to 30 April 2007. The AGO noted this payment to be contravening the SRC Determination as the Governor is receiving his accommodation allowance of K1,800 a fortnight.

- Payments totaling K90,883 which were supposed to have been paid from the Governor's DSG grants were instead paid out from the Provincial Government funds.

- A total of K225,000 was paid as cash advances to Officers being for road maintenance. The AGO could not verify and confirm the validity of these cash advances due to lack of proper maintenance of advances and acquittal records. It is a breach of the *Public Finances (Management) Act* 1995 to pay suppliers with cash. The risk of money being misused is very high. This eventuated, and a person that was given K50,000 of those advances has never paid the contractors. According to records sighted by audit, this person was asked to repay the K50,000. The only amount that was repaid by him was the sum of K1,500 receipted on official receipt. As a result, a cheque of K40,000 was then reissued to Department of Works for the Tangori Road Maintenance. The balance K48,500 is unaccounted for, presumably misused. No action was taken to recover the remainder of the balance.

- A total of K37,000 was made to a staff member being for long outstanding claim dating back to 1998. The total claim submitted was for K50,000 and payment of K37,000 was sighted, however, the AGO was unable to verify the validity and genuineness of this claim because of no documents. It is not understood as to why this claim was submitted after almost nine years and payment effected without proper supporting documents.

- A total of K16,855 was paid for rental of Deputy Provincial Administrator's house at the rate of K3,500 per month. This rental rate is noted to be excessive for Wewak.

- A sum of K25,000 paid to Kwosigan Primary School was for outstanding commitment made by the Prime Minister. This payment should not have been paid out from the Provincial Government funds but from the Prime Minister's DSG funds.

- An amount of K49,481 each was paid to three staff members being for Transport Allowance. These members ceased to receive transport allowance in 2005 in order to purchase vehicles. According to SRC Determinations, advance payment should be made direct to suppliers of vehicles and not to the members.

Assets Management

The Provincial Government reported only assets purchased during the 2006 year, with only one asset purchased in 2007 and no prior year purchases of assets reported. I have identified in excess of K1 million unrecorded assets that were purchased during the 2007 year. In the absence of a complete assets register and annual stocktakes, I was unable to confirm the existence and completeness of assets owned by the East Sepik Provincial Government.

Management of Advances

Non maintenance of an Advances Register and non-acquittal of advances and issuance of new advances while the previous advance remains un-acquitted are all breaches of the finance legislation. Also, the Provincial Government was loosing money through non-recovery of long outstanding cash and travel advances.

Examination of the records and documents relating to the payment and acquittal of advances revealed that there was no control over payment and acquittal of advances during the year and previous years. The financial statements disclosed a total sum of K1,505,807 as outstanding cash and travel advances as at 31 December 2007. The issues were:

- Advance Registers were not maintained during the year and previous years to record cash and travel advances paid and acquitted.

- Advances were not acquitted within seven days after return from duty travel.

- New advances were given to Officers while their previous advances still remain un-acquitted.

- Cash Advances paid to Officers and acquitted were not properly checked by the Examiners to ensure that the cash advances paid to the Officers have been spent on the intended purposes.

- Travel advances received for duty travel that were acquitted were not supported by 'Boarding Passes' and 'Ticket Butts' as evidence that the Officer had traveled.

General Ledger Entries

Examination of the journal entries raised and posted during the year indicated that all journal entries were prepared, verified, certified and posted to ledgers by the same person. There was no segregation of duties maintained. Narrations on the journal entries raised were not descriptive enough to clearly explain the reason for raising the journal entries.

A significant breach of the finance legislation occurred when funds totaling K826,558 under 284 Vote items and K218,811 under 712 Vote items were incorrectly transferred to Trust Suspense Account.

Corporate Governance

A Corporate Plan and Associated Plans were not in place during the year. A draft Corporate Plan (yet to be endorsed) was furnished to audit was for the period 2007 – 2012.

Internal Audit

The Internal Audit Unit of the Provincial Government consisted of the Internal Audit Manager, seven Internal Auditors and two support staff. The Internal Audit Manager advised that during the year, the only audit checks done were on schools and some investigations into Local-level Governments. The routine areas of operation of the Provincial Government such as revenue generation, human resource, assets management and procurement and expenditure on capital works and maintenance have not been subject to any review.

Furthermore, the Provincial Government does not have an independent Audit Committee to oversee the objectives and activities of the Internal Audit Unit nor an Audit Charter that sets out the mandate and scope of the Internal Audit Unit.

The lack of internal audit review into the routine areas of the Provincial Government operations has contributed to the major shortfalls and breakdown in internal controls and procedures required to be observed by management.

5.4.1 Boram Hospital Board

The Boram Hospital submitted their 2003 to 2007 financial statements in May 2008. These audits have been completed, with management letters issued. The issues regarding the financial statements and the control environment are detailed in the paragraphs below.

Financial Statements

The audit opinion of the 2007 financial statements has been disclaimed, due to the following:

- The financial statements did not contain adequate Notes to the Financial Statements. Details of accounting policies were not disclosed, in particular, the basis of preparation of the financial statements and accounting treatment of various financial statement items.

- There was limitation of scope arising from bank reconciliations. The cashbooks with running balance for both operating and trust accounts have not been maintained; therefore I was unable to verify the cash book balance when examining bank reconciliations. In addition, I could not ascertain the nature, the operation, and reporting of the following bank accounts: Friends of Hospital Account, Port Moresby Fund Raising Account, Raffle Ticket Fund Raising Account and Interest Bearing Deposit (IBD).

- The General Hospital did not maintain accounting records and proper assets register for fixed assets purchased in previous years. In the absence of complete and up to date assets register and an annual stocktake undertaken, I was not able to verify the completeness, existence, accuracy and valuation of the fixed assets at the year end.

Budgetary Controls

Financial resources allocated to the Hospital or generated by the Hospital are limited and should be spent with due regard to efficiency and effectiveness. It was noted that funds allocated annually through the National Budget were not expended in accordance with the Appropriation Act. Notable lapses and control weaknesses observed from the review of the budget process were:

- Non-inclusion of Trust Account in the Annual Budget. The Hospital generates fees and other receipts that were not included in the annual budget estimate. The Chief Accounting Officer failed to furnish annual estimate of revenue and expenditure to the Department of Finance.

- Financial Delegates were not ensuring, before approving expenditure that the most economical options have been considered prior to committing of funds. Such oversight by the Financial Delegates has resulted in spending of funds in excess of the budget. A total of K264,280 was spent on expenditure not budgeted for.

- Funds from the Trust Account were inappropriately being used to meet the needs of the operating budget.

Revenue

It is the responsibility of Chief Executive Officer to ensure that Hospital revenues are collected promptly and to the fullest extent and to have the rates of fees, charges, and taxes imposed reviewed annually. There should also be stringent arrangements within to safeguard the collections of public moneys received and for their proper accounting. The AGO assessment of the revenue collection and sources noted the following significant weaknesses.

- The management responsibility to have the rates of fees, charges, and taxes imposed reviewed annually was not implemented. The absence of periodical review of Charges, and Fees had prevented the Management from identifying collectable revenue sources such as rentals from institutional houses and hospital accommodation.

- The duties of the Collectors and Receiver of Public Monies were not defined. It was noted that, there was no segregation of duties for the Officers responsible for revenue collection, monitoring, review and reporting.

- Proper reporting processes of revenue collections, comparative analysis and reconciliation was lacking in order to keep the Management fully informed of the progress in revenue generation and to initiate timely remedial action where shortfalls were expected.

Collection and Banking

Internal Audit investigation into the revenue management of the Hospital had highlighted various discrepancies and shortfalls were noted as follows:

- Absence of appointed Collector and Receiver of Public Monies has resulted in unspecified duties for Revenue Officers. Thus resulted in undetected shortfalls in actual collections and summary sheets as noted by the internal auditors.

- Absence of specified duties for appointed Officers has resulted in ineffective internal controls.

- No proper procedure for check of balance was established for Kiosk Sales and preparation of summary sheets at the cash office.

- Absence of Inward Remittance Register to enter inward valuable as cash cheques, donations in cash and kind, etc had resulted in missing cheques as reported in the previous years. Donations were also deposited without proper recording in the books.

- Proper adjustment was not done to clear the unpaid cheques.

Cash Book and Bank Reconciliations

Section 11 of the *Public Finances (Management) Act 1995* provides that public moneys shall be kept in such bank or banks as the Secretary for Finance decides, subject to any specific directions of the Minister, while proper books and accounting reports should be maintained. Perusal of the accounts and records maintained electronically and manually revealed:

- There were a number of accounts opened by the Hospital without the required approval.

- The Friends of the Hospital accounts and Interest Bearing Deposit (IBD) were not disclosed in the financial statements.

- Available manual cashbooks for main Operating Account and Kiosk Account were not kept and maintained in consistent, complete, and acceptable manner. Neither a cashbook nor ledger was maintained for the Trust and the other accounts.

Payment of Accounts

A review of the procurement and payment procedures revealed instances of irregularities and non compliance with the *Public Finances (Management) Act 1995*.

- There were no delegated responsibilities for Requisition Officer and Financial Delegates resulting in claims not being examined properly.

- Incorrect charges to other expenditure vote items, while incorrect expenditures have been incurred out of Trust Account contradicting Section 2(c) of the Trust Instrument in 20 instances totaling K30,062.

- The required number of quotations was not obtained.

- Other advances and entitlements were incurred out of expenditure vote items in disregard to relevant rules and regulations.

- Section 3(c) of the Trust Account was not adhered to as proper estimate of revenue and expenditure were not compiled and reported to Department of Finance as required.

Assets Management

Proper and up to date information on the value of assets and the useful life of the asset items was lacking. Although an Assets Register was maintained, value of assets was in most cases not registered and with other information not updated. The Wewak General Hospital has an extensive portfolio of fixed assets that has not been effectively managed nor appropriately safeguarded through performance of asset stock takes or insurance.

No effective monitoring and reporting system was in place to assess damages, servicing, and registration of vehicles. As a result of the ineffective and poor monitoring system, vehicle damages, theft, and major services were not reported or registered. Operational Log Books and Services Register were also not maintained.

No proper housing policy guidelines were in place to detail eligibility, rental, maintenance, and terms and condition of the staff housing. The Hospital provided accommodation for the staff in institutional houses, quarters, compound, and rented accommodations under the expense of the Hospital. No charges or rental were received. Officers on employment contract received a double benefit at the expense of the Hospital.

Management of Advances

A review of the process of management of advances revealed total lack of compliance. It was observed that there was no registration of advances paid to holders and also no acquittal process. There was indication that although management was aware of the legislative requirements as noted by correspondence by the then Chief Executive Officer, administrative directive was not enforced for compliance.

Salaries and Wages

It was observed that jobs were not properly described and defined. As a result, proper information on the job duties, accountabilities or outputs required of the jobholder was lacking. A review of the current structure and the appointments identified several matters of concern.

- Positions of key importance in the Corporate Services were yet to be filled. Management urgently required skilled personnel to fill the vacancy such as Accountant, Finance Manager and Director Corporate Services.

- Delegated Officers responsible for preparing wages sheets could not be identified. It was observed that two sets of wages were prepared by two unauthorized officers. In addition, they were not checked by senior officers.

- Approval must be obtained from supervisors before an officer may work any extra hours. Perusal of the procedure revealed lack of compliance, which saw substantial overtime payments being paid without prior approval.

- Advance gratuity was observed to have been paid to a newly appointed contract officer who had not signed the Contract of Employment. It was noted, a sum of K3,159 was paid to the Director Nursing for period 13/04/07 to 13/04/08 without a signed contract, while another payment of K3,147 was made to the same officer while on acting position.

Corporate Governance

The Hospital Management failed to produce a five year Corporate Plan or an efficient Activity Plan, to identify the Hospital's Mission, and Corporate Goals. As a result, the Hospital failed to identify organization, manpower goals and training, financial management, and other Priorities derived from the overall Corporate Plan.

No effective and sufficient performance indicators were sighted that could show productivity or performance result. The line Managers performances could not be assessed in the absence of their performance reports. Their quarterly reports were not compiled for the Management and the Board.

5.4.3 Wewak Urban Local-level Government

The Wewak Urban Local-level Government has not prepared their 2007 and 2008 accounts. The audit of the accounts and records as well as a full review of the control environment was completed with management letters issued for comments in early 2008. The results of testing the 2007 controls were reported to the Parliament last year in the Part III Report 2007. The AGO has not received management responses from the District Administrator.

In the 2008/09 audit cycle I have issued opinion on the Wewak Urban Local-level Government's 2006 financial statements. Due to the late submission of the 2007 and 2008 accounts the audit was in progress at the time of writing this report.

5.5 EASTERN HIGHLANDS PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Eastern Highlands Provincial Government	2007	2007	May 2009 Disclaimer	Significant control weaknesses identified
Goroka Hospital Board	2007	2007	May 2009 Qualified	Improvements noted
Goroka Urban	2008	No	None	Financial statements for 2007 were dispensed due to non-submission. Audit on 2006 controls was performed with weaknesses identified.
Henganofi	2008	No		
Goroka Rural	2008	No		
Yelia	2006	No		
Lamari	2005	No		
Agarabi	2008	No		
Kainantu Urban	2008	No		
Lufa	2005	No		
Okapa	2005	No		
Ungai Bena	2008	No		
Akogere Estate	2008	In progress		1998 – 2003 audits dispensed; 2004 – 2008 management letter responses and signed financial statements awaited
Al's Auto Repairs	2008	In progress		1998 – 2003 audits dispensed; 2004 to 2008 management letters responses and signed financial statements awaited
Nokondi Investment	2008	In progress		1998 – 2003 audits dispensed; 2004 to 2008 management letters responses and signed financial statements awaited

5.5.1 Eastern Highlands Provincial Government

General

The results of the audit of the Eastern Highlands Provincial Government financial statements for the year ended 31 December, 2007 were unsatisfactory, with disclaimed audit opinion being issued. It should be noted however, that some minor improvements were noted in calculation of entitlements, posting of journal entries and in the area of corporate governance.

The Provincial Government has not responded to the audit findings reported in a management letter. The paragraphs below detail issues identified with the financial statements.

Corporate Governance

The Eastern Highlands Provincial Government has a Corporate Plan that establishes long term objectives, sets priorities and targets and takes into account the requirements of its stake holders.

However, the associated plans that need to be established to support the Corporate Plan have not been prepared. These plans are: financial, asset management, human resource, Information Technology, risk management and divisional operating plans.

Internal Audit

The Eastern Highlands Provincial Internal Audit has been very proactive in carrying out its function. The Unit's Annual Work Plans for the years 2006, 2007, and 2008 were in place and reviews of the plans were done during the year.

The following important audits were carried out by the Unit: Asaroka High School Audit, EHPG Revenues, Provincial Education Division and Audit Report for Goroka Urban LLG. The reports highlighted some serious shortcomings. However, there was no evidence of corrective action undertaken by the management to address the issues raised.

The management should support the activities of its Internal Audit and prepare a plan to address their concerns. An effective Internal Audit has the potential to strengthen the control environment (of which it is a part) and assist the management in fulfilling its responsibilities.

Budgetary Control

The Provincial Government passed the Provincial Appropriation Act, No.1 of 2007 authorizing a total of K64,063,700 to be spent during the fiscal year 2007. There was no revised budget during the year.

Comparison of Revenue estimates against the actual Revenue revealed a shortfall in grants revenue by K38,469,200. This was due to non-postings of National Government grants to the respective revenue ledger accounts.

Also, internal revenue was under collected by K815,757 due to unrealistic revenue forecast. This indicates the inability of the Provincial Government in carrying out sound and prudent revenue forecast and also the lack of co-ordination and co-operation being exercised by the Revenue Unit and other line economic divisions of the Provincial Government.

In addition, the Provincial Government in 22 instances incorrectly charged expenditures totaling K826,903 to unrelated vote items.

Grants and Subsidies

Grants totaling K4,315,111 were noted to have been made to various recipients during the year. The Provincial Government did not have control mechanisms and guidelines in place to monitor and control the grants. In addition, accountability reports for other grant recipients were not sighted in audit. Without proper accountability reports and control mechanisms in place, the Provincial Government would not know whether the funds were used for the intended purpose.

Paid Accounts

A sample selection of 65 significant payments totaling K2,469,534 were examined revealing the following matters:

- A paid voucher totaling K29,700 was not provided for audit examination.
- Three competitive written quotes were not sighted in respect of purchases totaling K92,913.
- Payments totaling K191,101 were noted to have been made to a Legal firm for various legal services provided to the Provincial Government. However, no contract agreement was entered into between these two parties.
- Reimbursements made to various Provincial Government employees totaling K58,422 were noted.
- Payments totaling K124,045 were noted to have been incurred for fuel related costs. However, examination of selected paid vouchers revealed that, there were no proper statements provided by the service providers, detailing vehicle registration numbers, department it belongs, date of fueling, amount of liters supplied and cost of fuel.
- Supplies of stationeries and printing of documents amounted to a significant amount of K534,199. This amount is considered to be excessive.

- Examination relating to Procurement Procedures revealed that 60 projects were identified and awarded to various contractors during the year. However, completion stage could not be properly verified due to absence of Certificate of Completion and contractor performance files.

Capital Works and Maintenance

The Provincial Government incurred a total expenditure of K8,498,352 on Capital Works and Maintenance during the year, where K1,362,800 were expended out of the national vote and K7,135,552 from the provincial vote. These expenditures were incurred on new constructions and maintenance of existing infrastructures such as roads, bridges, electricity, buildings and others.

It was noted that Contract Agreements relating to payment to 12 contractors totaling K437,027 were not sighted during audit.

Assets Management

Assets were not protected against unauthorized use or removal, accidental loss and physical deterioration. Assets totaling K968,090 were purchased during the year. However, in the absence of the Assets Register it was not possible to verify the existence of these assets.

In addition, evidence of any physical stock-take conducted during the year, inventory check, vehicle control documents, disposal and losses report were not produced for our examination.

Trust Fund

The Trust Accounts Summary disclosed 39 Non Bank Trust Accounts relating to transactions which do not form part of the Provincial Government accounts. Eleven (11) of those accounts showed no movements and reflected only zero balances. These accounts should be closed.

The AGO highlighted in 2006 report that a trust bank account had existed with a closing balance of K5,200. No related books of accounts were presented for verification. This account was not disclosed in the 2007 financial statements.

PEC and Assembly Meeting Minutes

Some Meeting Minutes were not made available for audit review and audit was unable to establish the actual number of meetings conducted during the year. Actual number of resolution passed was not known.

Assembly Members Allowances

Examinations relating to Assembly Members Fortnightly Allowances were found to be satisfactory and in compliance to the Salaries & Remuneration Commission's Determinations.

The Provincial Government should continue to maintain this satisfactory trend.

Salaries & Wages

It was noted that a total of 81 Provincial Government's Officers are un-attached. This is an excessive number. According to the Provincial Government's HR division staffing grant expenditure report, an over expenditure of K1,426,772 in relation to the payroll has occurred during the year. The excess of payroll expenditure was the result of payments made to unattached officers that were not budgeted for.

Cashbook and Bank Reconciliation

The Provincial Treasury Operating Account revealed favorable balances in its bank and cash book with amounts of K4,887,017 and K1,002,801 respectively. Similarly, the Provincial Government Operating Account revealed favorable bank balances of K4,719,611 and cash book balance of K2,030,530 at year end.

It was noted that there were large reconciliation items for both accounts totaling K12,555,133 that needed to be identified and cleared. Some of these items dated back to 1997, for example: reconciling items that needed prompt adjustments were; Other Items totaling K2,759,569, Un-presented Cheques totaling K7,371,358, Credits in Bank Statement not in Cash Book totaling K900,020 and Receipts in Cash Book not in Bank Statement totaling K140,204.

Under banking totaling K26,661 was also noted; K1,267 related to 2007 whilst K25,394 related to prior years (1997 to 2005).

Advance Management

There was a complete breakdown in the internal control system of payments, monitoring of the usage and acquittals of various advances.

Cash advances totaling K570,737 made up of National amount of K233,938 and Provincial amount of K336,799 were noted to have been paid to various Officers during the years 1999 - 2007. They remained un-acquitted at the time of audit. Also, Travel Advance of K9,520 remained un-acquitted at year end.

Financial Statements

The financial statements of the Eastern Highlands Provincial Government for 2007 were disclaimed due to:

- Lack of certification. The Provincial Administrator did not state whether the financial statement presented were true and fair and in accordance with the applicable laws and finance instructions.

- Errors, discrepancies, omissions and inconsistencies which were highlighted, with the Public Account Balances being incorrect and misleading to users.

- Errors and material limitation of scope expressed in previous audit reports and also significant control weaknesses as detailed in the above paragraphs.

- Absence of investments register, share certificates, companies' audited financial statements and other documentation, The Provincial Government reported investment of K1,726,296 held in three companies: Akogere Estates Ltd, Nokondi Investments Ltd and Al's Auto Repairs Ltd.

5.5.2 Goroka Hospital Board

Goroka General Hospital continued to improve on its internal controls and operations. It was pleasing to note that the management was very proactive in addressing the prior year audit issues as well as in preparing a good set of financial statements for the year ended 31 December, 2007. Noticeable improvements were in the areas of corporate governance, budgetary controls and calculation and payment of salaries and wages. However, due to the issues detailed below, the financial statements were qualified:

- Comparative financial statements, for period ending 31 December 2006 were unaudited. Due to the delay in submission of Goroka General Hospital's financial statements, the Auditor-General applied the provisions of the Part 5, Section 16(6) of the *Audit Act* to dispense of the audit in September 2008. A letter to the Minister for Finance, the Chairman of the National Economic and Fiscal Commission, the Minister for Health and the Provincial Governor was also written informing them of the Auditor-General's decision to dispense of the 2004, 2005 and 2006 audit. We have carried out appropriate audit procedures regarding opening balances of the current period and we were able to obtain sufficient audit evidence to ensure that no material inaccuracies were contained in the comparative financial balances.

- The Hospital did not update the asset register with details of its fixed assets, nor was an annual stocktake undertaken. Consequently, we were not able to verify the completeness, existence, accuracy and valuation of the fixed assets as at year end.

- There were inadequate inventory records as well as lack of effective in-built systems and procedures (checks and balances), to ensure receiving, storage, issue and usage of drugs and medical supplies were recorded and controlled.

Corporate Governance

Goroka Hospital Board has a Corporate Plan in line with the ten year Health Plan that establishes its long term objectives, sets priorities, targets and takes into account the requirements of its stakeholders.

The associated plan to support the Corporate Plan was also established in the year 2007 as Strategic Plan. This plan formulated policies and procedures in management of: patient care, leadership and management, human resources, information technology, environment, and infrastructural development. The Strategic Plan supports the ten year Health Plan to ensure that strategies are effective and the operations of the Hospital in respect of set targets are met and performance indicators highlighted.

The Strategic Plan has to be formally endorsed by the Board.

Board Meetings

The Hospital Board conducted six ordinary meetings and five special meetings during 2007. Out of these meetings, 47 resolutions were passed. The Hospital Board must maintain this trend of passing resolutions and maintaining adequate records of their meetings.

Budgetary Controls

The control procedures exercised by the Hospital Board during the year under review surrounding budgetary controls were satisfactory - in preparation, submission and controlling of funds.

The management prepares quarterly reports and budget reviews which were sent to Budget Division of National Health Department to ensure that Hospital Board meet the set target and objectives, and to inquire reasons for any variances noted.

The Hospital Board should continue to monitor and report on the budgeted items.

Cash Book and Bank Reconciliations

The AGO had tested five monthly reconciliations in 2007 and has re-performed the procedures. It was found that the Cashbook and bank accounts reconciliations were not prepared in the prescribed format with the narrations being inaccurate.

There was no segregation of duties maintained between the recording of the cash transactions and preparation of bank reconciliation statements. Both functions were performed by the Accountant.

Furthermore, the bank reconciliation statements were not checked or verified for their validity and accuracy by an independent person who is not directly involved in collection and recording of cash. When senior officers are not checking and signing off the bank reconciliation statements there is no assurance that the reconciliation procedures are accurate.

Delays in banking of collection of revenue totaling K358,347 were noted, ranging from one to two working days. When collections are not banked on a daily basis, there is a risk that cash could be misappropriated.

Paid Accounts

The AGO selected for testing 123 payment transactions made during 2007. The results were as follows:

- Payments totaling K745,194 were not certified and not examined to substantiate the correctness of the transactions.

- Instances of payments totaling K53,473 were noted to be paid on the basis of quotations and not on the suppliers' official invoices.

- Delivery dockets from suppliers and goods received from the recipients in respect of payments totaling K206,454 were not sighted during the audit.

- Payments totaling K71,173 were made to various organizations for maintenance and upgrading of Hospital facilities. No works report was provided to determine the actual work done.

- Sitting allowances of K9,500 were paid to Board Members during 2007. However, an attendance register was not produced to determine the attendance.

Assets and Stores Management

The Hospital maintained an Assets Register. However, the Register was not updated with all necessary information such as the type of assets, location, custodian of assets, serial number, purchase date and asset value. The AGO was not able to ensure the valuation and accuracy of the purchases of assets worth K67,105 during 2007.

Furthermore, there was no physical stock-take carried out by the Hospital during the year 2007 to update the records and conditions of the assets owned by the Hospital.

Stock ledger cards which records the movement of drugs and medicines from the supplier to the dispensary and from dispensary to respective wards were not produced for audit verification. Unauthorized and uneconomical purchases could be made as a result of not maintaining ledger control cards to monitor stocks movement. Similarly, stock ledger cards which record the movement of rations from the supplier to store room and from store room to the kitchen were also not produced.

Salaries and Wages

The Hospital employed 340 permanent staff and 42 casual staff. An audit review of procedures and examination of accounting records in relation to recruitment of employees and payment of their salaries, allowances and wages was conducted during 2007 on a sample of 19 employees and for two pay periods. In particular, the AGO examined the accuracy of paid allowances, tax forms, contract of employment and higher duty allowances. There were no issues identified. Also, proper procedures were followed in the recruitment and selection process.

The Hospital should continue to maintain this satisfactory trend of recruiting employees and making accurate payment of their salaries, allowances and other benefits.

Advance Management

It appears that control procedures exercised over the repayment of the salary advances were poor and ineffective. Salary advances amounting to K7,828 were noted to have been paid to various employees of the Hospital. Of that amount, K6,828 remained outstanding. Large proportion of outstanding salary advances that had not been repaid indicates that internal control and monitoring procedures over the repayment of the salary advances are poor and ineffective.

It should be noted, that the travel advances paid during the 2007 year were all acquitted.

5.5.3 Goroka Urban Local-level Government

General

The audit of the Goroka Urban Local-level Government financial statements for the years ended 2005 and 2006 were reported as dispensed in the last year report to the Parliament due to non-submission of financial statements. The audit team however, has completed audit of controls on 2006 records. The results were unsatisfactory with a number of significant weaknesses identified as detailed below. We have not received a response from Goroka Urban Local-level Government on the audit findings reported to them. The financial statements for the year ended 31 December 2007 have not been prepared and will be dispensed.

Budgetary Control

The Goroka Urban Local Level Government could not meet this budget with its revenue collections hence, funds belonging to agencies such as Public Officers' Superannuation Fund and Internal Revenue Commission totaling K152,950 were used to off-set budget shortfalls. This practice appears to have been a trend in the past.

Banking and Reconciliations

A review of the procedures and examination of the records relating to the collection, custody and banking of public monies revealed that In 71 instances collections totaling K651,405 were delayed in banking ranging from one to 11 working days.

The cashbook closing balance as at the year end showed an overdrawn balance of K30,751.

Revenue Collection

Management must improve internal controls to monitor effective billing and collection of potential internal revenues. Controls in this area were non existent, due to:

- Individual client registers and control ledgers were not maintained manually to monitor billing, rate collections and follow up courses of actions taken on non paying rate payers relating to following revenue items: Land Rates, Rental Income, Trade License, Water Rates, Recoverable Works or Plant and Equipment Hires.

- There was no comprehensive data base or information on Landlords and tenants of all state lands in the township of Goroka, both improved and unimproved. The Debt Controller who is the Officer In charge of Revenue was unable to provide copies of any written correspondences between Government and Department of Lands and National Housing Corporation, attempting to collect related information on ownership of state lands. As such, the residential clients were not billed and rates collected. The commercial clients were the only clients being billed and rates collected.

- It was noted that the revenue collection was very slow. For example, the amount of debtors was K6,124,954 over the year, whilst the collection was only K1,528,479. This is an indication of poor collection efforts.

- The latest Land Valuation Report for all State Land in the town of Goroka was not available. The Officer in charge made no attempt to obtain this vital document; no evidence of correspondence to that effect had been sighted during audit.

- All billings and status of payments together with other details for water rates, land rates, sanitation and Garbage and Trade License were generated through a computer system without manual backup files. The possibility of losing vital information through computer failure is high.

- The Debt Controller is the only Officer who knows how to operate the computer system. The superiors lack knowledge and they do not check the work done. This exposes the Government to the risk of manipulation of information and fraud. The system may also collapse if and when the Debt Controller ceases employment with the Government.

Assets Management

Assets Register was not properly maintained thus failing to disclose vital information such as: date and purchase values, detailed description of assets, identification numbers and up to date condition of the asset.

No stocktakes were undertaken during 2006. In absence of an accurate Asset Register and a comprehensive stocktake undertaken, items could be lost, stolen or damaged without being reported or detected.

Paid Accounts

The Town Manager, Deputy Town Manager and the Financial Consultant were approving authorities as well as signatories to the bank account. Payment vouchers of K261,608 selected on sample basis for audit test were neither duly examined nor certified by these officers. There was no control mechanism to ensure the payment was correct, budgeted, funds are available and approval was sought from the right authority. Other issues identified were as follows:

- From the sample selected for audit test a total of five payment vouchers with value aggregating to K12,893 were missing from the files inspected. As such, the genuiness and legality of these payments could not be established.

- No purchase orders have been issued by management to authorize drivers to collect fuel from various service stations. As such, payments with a total value of K22,843 could not be confirmed as genuine expenditure.

- A total of 18 payments with a total value of K134,604 made for acquiring various good and services could not be reliably confirmed due to absence of quotations.

- In three instances, accommodation rentals totaling K3,300 were paid. The expenditures could not be verified in the absence of Lease Agreements. It is also not known if the Officers occupying the rented houses were entitled to rented house under the terms and conditions of their employment.

- Payments with a total value of K7,000 consisting of monthly housing allowance of K1,400 were paid to the Town Manager. These allowances were not taxed at all. In addition, the Town Manager was not entitled to them. Eastern Highlands Provincial Government 2007 salaries and allowances estimates and establishment register, confirms that the Manager is not entitled to such allowances under the salary level of grade 14.

- In 18 instances payments totaling K14,961 were being made as consultancy fees while an amount of K6,940 was paid as advance consultancy fees. Contract documents detailing terms of engagement, purpose, duration etc were not sighted during this audit.

Advance Management/Control

No manual register had been maintained to record and monitor advances. No acquittals were sighted during the audit.

Trust Fund

Audit examination of payment vouchers revealed that the Goroka Local-level Government opened a Trust Account with ANZ Bank in 2005. The existence of this Trust Account and its closing balance were not disclosed in the Financial Statements. Other details such as Trust Instrument, accounting records etc, were also not provided for audit inspection. Authority to establish the account, its purpose and legality of conducting transactions could not be established

Salaries and Wages

There were no controls around payroll. Mismanagement of funds and non-compliance with legal requirements were rife. The following were the major ones:

- Staff establishments and ceilings approved by the Department of Personnel Management (DPM) were not made available for audit.

- Goroka Local-level Government did not apply pay rates approved by SRC Determinations; instead came up with their own rates to pay casual staff.

- Except for the Town Manager, Deputy Town Manager, Financial Controller and the Executive Officer, all the other positions were not DPM approved, hence people that occupied them were all casuals. Due to this problem the staff turn over rate was very high.

- Personal Income Taxes deducted from employees fortnightly were not submitted to Internal Revenue Commission.

- The position of Financial Controller was established and funded on the Eastern Highlands Provincial Administration staff structure and paid from the National Government Payroll. A Financial Consultant was also engaged on the same position without any proper contract of engagement detailing terms and conditions and duration of his engagement. Since all tasks were performed by the consultant, a question arises as to what duties were performed by the Financial Controller.

5.5.4 Akogere Estate Ltd

According to the accounts of Eastern Highlands Provincial Government, the Government has invested initial capital of K1,130,567 in this company back in 1998. The Akogere Estate Limited is an unlisted Company registered under the Papua New Guinea *Companies Act 1997*. Since its inception until recently, the company has not paid any dividends or submitted financial statements for audit. The recently appointed new management in Akogere Estate Ltd has consolidated its operations and achieved profitability. The Company manages liquidity risk by maintaining adequate reserves and having adequate banking facilities.

The management of the Company has invited the AGO to audit their financial statements from 2004 to 2008. Due to insufficient and poor records, the management could not reconstruct the financial statements prior to 2004. The audits from 1998 to 2003 will be dispensed.

The audit of the 2004 to 2008 statements has been completed with management letter issued. At the time of writing this report, we were awaiting responses to audit issues raised. The result of this audit will be reported in our 2009 report to the Parliament.

5.5.5 Al's Auto Repairs Ltd

According to the accounts of Eastern Highlands Provincial Government, the Government has invested initial capital of K94,581 in this company back in 1998. The Al's Auto Repairs Limited is an unlisted Company registered under the Papua New Guinea *Companies Act 1997,* operating in property investment business. Since its inception until recently, the company has not paid any dividends or submitted financial statements for audit. The recently appointed new management has consolidated its operations.

The management of the Company has invited the AGO to audit their financial statements from 2004 to 2008. Due to insufficient and poor records, the management could not reconstruct the financial statements prior to 2004. The audits from 1998 to 2003 will be dispensed.

The audit of the 2004 to 2008 statements has been completed with management letter issued. At the time of writing this report, we were awaiting responses to audit issues raised. The result of this audit will be reported in our 2009 report to the Parliament.

5.5.6 Nokondi Investments Ltd

According to the accounts of Eastern Highlands Provincial Government, the Government has invested initial capital of K501,148 in this company back in 1998. The Nokondi Limited is an unlisted Company registered under the Papua New Guinea *Companies Act 1997,* operating in property investment business. Since its inception until recently, the company has not paid any dividends or submitted financial statements for audit. The recently appointed new management has consolidated its operations.

The management of the Company has invited the AGO to audit their financial statements from 2004 to 2008. Due to insufficient and poor records, the management could not reconstruct the financial statements prior to 2004. The audits from 1998 to 2003 will be dispensed.

The audit of the 2004 to 2008 statements has been completed with management letter issued. At the time of writing this report, we were awaiting responses to audit issues raised. The result of this audit will be reported in our 2009 report to the Parliament.

5.6 ENGA PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Enga Provincial Government	2007	2007	June 2009 Disclaimer	Significant control weaknesses identified
Wabag Hospital Board	2007	2007	May 2009 Disclaimer	Significant control weaknesses identified
Kandep	2006	No		
Kompiam	2006	No		
Lagaip	2004	No		
Ambun	2006	No		
Maip/Muritaka	2008	No		
Maramuni	2007	No		
Paiela/Hewa	2004	No		
Pogera	2004	No		
Tsak	2006	No		
Wabag Rural	2009	No		
Wabag Urban	2007	2004	May 2007 Disclaimer	Audit of 2008 financial statements in progress
Wagi (Wage)	2006	No		
Wapenamanda	2006	No		
Wapi/Yengis	2006	No		
Enga Children's Fund Trustee Ltd	2008	2000	October 2008. No qualification	2001 – 2006 await working paper review responses; 2007 – 2008 financial statements received/audit fees awaited
Enga Mineral Rev. Stab. Fund	1992			No recent financial statements submitted; Status of the entity/audit to be determined
Enga Construction Authority				Status of the entity/audit to be determined
Enga Engineering				No recent financial statements submitted; status of the entity/audit to be determined
Porgera Development Authority	2008	2006	August 2008 Qualified	Audit of 2007 financial statements completed, draft reports under

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
				review; audit of 2008 financial statements in completed, working paper file review in progress

5.6.1 Enga Provincial Government

The audit of the Enga Provincial Government financial statements for the year ended 31 December, 2007 was unsatisfactory with disclaimed audit opinion being issued. The paragraphs below detail issues identified with the financial statements:

Investments

The Provincial Government disclosed its investment of K15,000,000 in Enga Children's Fund. However, the Provincial Government's shareholding of fifty percent in Mineral Resources Enga Ltd, capital contribution of K6,800,000 to Enga Children's Fund in 2005 and K5,150,000 investment in Miok Investments which were reported in the previous year's financial statements were not disclosed in the 2007 financial statements.

Royalties

Monthly Royalties payments received from the Department of Mining and Petroleum is deposited into a trust account known as Enga Minerals Stabilization Fund. Based on budgetary requests, only certain amounts are released in the Provincial Government's Operating Account. The manual cash book recorded a total receipt of K8,619,393 and total payments of K11,391,900 during 2007.

The balance of royalties was not recorded in the financial statements as required. In addition, related bank statements and bank reconciliations were not provided for audit examination. As such, I could not confirm the validity of transactions that took place during 2007.

Grants and Subsidies

Grants totaling K11,530,687 were noted to have been made to various recipients during the year. Accountability reports for grant recipients were not sighted in audit. In addition, guidelines governing the selection process in respect of payments of grants were also not sighted.

Acquittal of Advances

Acquittal documentation was not maintained for recording of travel and cash advances paid during the year.

Cash Management

The audit of the collections and banking revealed that there were delays in banking ranging from two (2) days to seventeen (17) days.

A review of the monthly bank reconciliation statements revealed that substantial amounts remained unreconciled for long periods of time (same dated back to 1998) and were not adjusted in the ledgers.

Payments of Accounts

The AGO noted that controls in approving and processing the payments were lacking:

- In 4 instances, the Provincial Government incorrectly paid wages and other entitlements totaling K117,259 to vote item for which funds were not appropriated.

- Payment vouchers relating to 19 payments totaling K832,322 selected for examination were missing from payment files.

- Payment vouchers totaling K835,681 related to payments of capital works and maintenance were missing from the payment files.

- Several payments totaling K454,080 were made during the year to a tailoring company for sewing uniforms for Village Court officials. However, the approval of the Provincial Supply and Tenders Board for the engagement and evidence of delivery of the uniforms and distribution to the Village Court officials were not sighted.

Internal Audit

The Internal Audit Unit did not have an Annual Audit Plan in place. In addition, there was no Audit Charter which sets out the mandate and scope of audit coverage and activities to be undertaken by the Internal Audit Unit.

5.6.2 Wabag Hospital Board

The audit of the Wabag General Hospital's financial statements for the year ended 31 December, 2007 was unsatisfactory with disclaimer of audit opinion being issued. The issues identified from testing the 2007 accounts and the control environment are detailed in the paragraphs below:

- Wabag General Hospital did not maintain general ledger accounts during the year under review. In addition, Cashbooks for both Operating and Trust Account were maintained on spreadsheets and were not updated on a daily basis. The absence of balances generated by an accounting system constitutes a material scope limitation and affected every statement of the financial statements.

- The internal revenue of K450,949 representing 9% of the year end revenue of Wabag General Hospital totaling K4,922,614 could not be relied due to:
  - Collector's statements were not prepared.
  - Banking of collection were not done on a daily basis.
  - No safe custody of cash collected.
  - No segregation of duties to reduce the risk of fraud.
  - No registers were maintained at various revenue collection centers.

- Examination of paid vouchers and related records pertaining to payment of accounts revealed the following discrepancies:
  - There was no proper appointment of an enquiry officer, registration officer, commitment and examiner officer. As a result, payments were not properly examined and authorized.
  - Three verbal and written quotations were not sought when purchasing.
  - Tenancy Agreements were not provided for payments of rent totaling K242,558.

- There were two asset registers maintained by Wabag General Hospital; one for bio-medical equipment and the other for other equipment. The asset register for other equipment lacked vital information such as serial numbers, dates of purchase, location, etc. In addition, no physical stocktakes was undertaken during the year under review. In the absence of appropriate detailed assets register and stocktakes, audit was unable to verify the completeness, existence, accuracy and ownership of the fixed assets at the year end.

- No advance register has been maintained. In addition, the acquittal of advances had no supporting documentation. As a result, there was a limitation of scope as this Office could not ascertain the value of the advances and also whether advances were actually utilized for the intended purposes.

5.6.3 Wabag Urban Local-level Government

The Wabag Urban Local Level Government submitted its financial statements for the year ended 31 December 2007 for audit in May 2008. The delay in the submission of the financial statements has resulted in the delay of carrying out the audit. At the time of preparation of this report, the audit was in progress.

5.6.4 Porgera Development Authority

The audit of the 2006 accounts was completed, with qualified opinion issued in August 2008. The audits for the years 2007 and 2008 were in progress. The issues identified in 2006 audit of financial statements related to:

- The Trust Account held on behalf of the landowners by the Porgera Local-level Government Special Purpose Authority has been reflected in the Authority's accounts as current assets and reserves. This incorrect treatment has inflated the assets by K3,878,929 and was not consistent with the accounting standards for recognition of assets and reserves.

- Properties, plant and equipment disclosed under the non-current assets with a net book value of K17,799,995 incorrectly included prior year burnt down properties, plant & equipment and residential properties, schools and aid posts constructed by the Authority on behalf of the Enga Provincial Government.

- Tax Returns were not filed nor the monthly reconciliation of the Goods and Services Tax(GST) control accounts performed resulting in debt of K180,551 due from the Internal Revenue Commission.

- Account Receivable balance of K2,536,485 incorrectly included a non-collectible GST debts of K1,483,854.

- Accuracy and completeness of cash and bank balance of K22,025,866 could not be concluded due to lack of appropriate bank confirmation.

5.6.6 Enga Children's Fund Trustee Ltd

The audit of the 2000 accounts was completed with an un-qualified opinion issued in October, 2008. At the time of preparing this report, audit of the accounts for the years 2001 to 2006 have been completed and the audit working papers were being reviewed while audit fees were awaited for 2007 and 2008. The 2000 opinion report contained no qualifications but included a number of internal control weaknesses as summarized below:

- Receipt of K9.15 million from Mineral Revenue Development Corporation (MRDC) without the Enga Children's Fund Trusted Ltd having to register as a trustee company.

- Unsecured interest free loan to the Enga Provincial Government was provided against the company's primary objective of the Fund being "funding of the education and other welfare activities in the interest of the people o Enga".

- Expenditure on education projects of K592,701 was not supported by documentary evidence.

- Management consultant fees of K240,000 was not supported by evidence of competitive quotes of adherence to proper tender procedures.

5.7 FLY RIVER PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Fly River Provincial Government	2006	2006	February 2009 Disclaimer	Audit of 2007 in progress
Daru Hospital Board	2004	2005 and 2006 statements dispensed	None	Interim audit of 2007 and 2008 completed, awaiting financial statements
Balimo Urban	2007	No		Audits to be dispensed
Bamu	2007	No		
Daru Urban	2007	No	May 2009 Disclaimer	Significant control weaknesses identified
Gogodala	2007	No		
Kiunga Urban	2007	2007	September 2009 Disclaimer	Audit report for 2008 is in progress
Kiunga Rural	2007	No		
Kivai	2007	No		
Lake Marray	2007	No		
Morehead	2007	No		
Ningerum	2007	No		
Nomad	2007	No		
Olsobip	2007	No		
Oriomo	2007	No		
Star Mountain	2007	No		
Wyben Hotel Ltd				1995 – 1996 records destroyed by fire; No recent financial statements submitted; Status of the entity/audit to be determined
Fly River Doctor Service				No recent financial statements submitted; Status of the entity/audit to be determined

5.7.1 Fly River Provincial Government

General

The Fly River Provincial Government submitted their 2004 to 2006 financial statements for audit very late. The undue delays in the submission of the statements have resulted in delays of audits and the issue of the audit opinions.

The audit of 2007 financial statements was completed and the management letter was issued in August 2009. The audit findings were provided to the management for their consideration and comments. No responses were received until the date of this report. The paragraph below details control issues related to the 2007 year.

Budgetary Control

The Cash Fund Certificates (CFC) totaling K70,629,013 were issued, however, a significant proportion of K25,664,312 representing 36% of the total CFC were not utilized and were carried forward to 2008. It was noted that the funds were continuously carried forward over the past couple of years into succeeding years. There were forty five (45) vote items totaling K14,441,200 which had funds available but no expenditure was incurred. Such practice deprives the people of Western Province receiving the services budgeted for them for the year.

Cash Book and Bank Balances

Provincial Government Operating Account had an un-reconciled difference of K11,236,624 between the cash book balance and the bank balance. The perusal of the 2007 items revealed the following serious defects which require management attention:

- Revenue collections totaling K43,205 from the years 2003 to 2007, were not banked and is assumed that these collections have been misused.

- Cheques worth K250,490 were erroneously paid out of Provincial Operating Account.

- Unidentified cheques worth K60,977 were cashed. These cheques require further investigation for clearance with the Bank.

- Un-presented cheques totaling K6,143,276 that were outstanding for more than one year should be cancelled and reinstated into the cashbook accordingly.

Revenue Collections

There was no monitoring of cash collections from the Cash Offices in Tabubil, Balimo and Daru. Consequently, revenue collections from these offices could not be verified. Further, all cash offices were not linked up to the PGAS receipting system and there was no monitoring, inspection and verification of collections and banking of revenues.

Payment of Accounts

The examination and verification of paid vouchers and related records and documents on a random basis revealed the following matters;

- Most paid vouchers were not certified by the Certifying Officer in the Treasury and cheque numbers were not recorded on the vouchers.

- Paid vouchers were not filed in order. They were left in boxes without any sequential order.

- A total of one hundred and forty nine (149) paid vouchers totaling K1,097,308 were selected for audit inspection and verification however, the vouchers were not made available for audit.

Capital Works and Maintenance

The perusal of the cash books has revealed payments for capital works and maintenance purposes totaling well over K6 million during the year under review. However, Files and Register containing details of PSTB members, PSTB Meeting Minutes with resolutions and endorsements/approvals of project, Tender and Contract files, Authority for Pre Commitment (APC) files and Progress and Completion Reports/Certification of completion of projects undertaken requested for audit scrutiny were not made available.

Without the above documents this Office was unable to verify whether:

- Projects had been satisfactorily screened and awarded to contractors.

- Proper contracts were signed to safeguard the interest of the Provincial Government.

- Projects undertaken have been properly monitored and satisfactorily completed as per the project design and scope.

- Competitive quotes were obtained from three suppliers of goods and services.

Payment vouchers totaling K1,113,201 paid specifically for maintenance and consultancy services were not made available.

Assets Management

No Assets Register was provided for audit examination. Consequently, this Office was unable to verify whether all assets purchased and owned by the Provincial Government were registered, were properly allocated and were monitored to ensure proper control and use of assets.

The Provincial Government spend substantial amount of money every year on asset purchases. A sum of K3,235,995 was noted as being spent in 2007. When registers are not kept and no physical verification of assets is conducted there is a high risk that assets could go missing or stolen without being reported.

Grants and Subsidies

No guidelines were in place for payments of grants and subsidies and financial assistances to various individuals, groups and entities apart from Local-level Government and District Treasury Grants.

Advance Management

Advances totaling K6,991,744 for the last seven (7) years from 2001 to 2007 remained un-acquitted as at 31 December 2007. The large amount of un-acquitted advances indicates that the management has no monitoring and control mechanism in place to ensure the advances paid out are acquitted and recovered.

Officers were also being paid fresh advances without the acquittal of prior outstanding advances. This contravenes Finance Management Manual Part 20 which requires acquittal of prior outstanding advances before new advances are given. Advances paid out were not properly recorded in a register and monitored for acquittal purposes.

Salaries and Allowances

The Human Resources Division and the Provincial Assembly Services Division of the Provincial Government are still operating from Daru and have not been moved to Kiunga yet. Hence, all documents relating to salaries and allowances and personal files of contract officers requested for audit were not made available.

Corporate Governance

The Provincial Government does not have a corporate plan for the year under review that establishes long term objectives, sets priorities and targets and takes into requirements of its stakeholders.

The associated plans that need to be established to support the corporate plan have not been established. These plans are financial, asset management, human resource, information technology, risk management and divisional operating plans.

Internal Audit

Internal Audit Unit was in operation. The AGO requests for any audit reports and annual audit plans, programs and activities produced by the Internal Auditor were not made available.

5.7.2 Daru Hospital Board

General

The Hospital has not submitted its 2005 and 2006 financial statements and as a result the audits were dispensed as reported in Part III of the Auditor General's Report in 2007. The 2007 and 2008 financial statements have yet to be submitted. However, the interim audits of 2007 and 2008 accounts and records were done

and a management letter containing audit findings was issued to the Hospital in April 2009 for response.

The internal control issues observed in the interim audit of 2007 and 2008 accounts and records are detailed below.

Budgetary Controls

The Hospital Board had not prepared its budget estimates for the years 2007 and 2008.

Revenue

The acting CEO confirmed that Revenue ledgers were never maintained for the years 2005, 2006, 2007 and 2008. This is a serious act of non compliance to section 63 of the *Public Finances (Management) Act, 1995* which requires preparation and maintenance of accounting records and documents.

Audit extraction of revenues received via the bank statement revealed total receipts of K2,567,379 in various revenue collections for 2008 were not accounted for in their books. Other issues included:

- The 2005 to 2007 bank statements were not kept nor filed.
- A Register for Accountable Forms including receipt books had not been maintained since 2005. A quick spot check revealed un-official revenue receipts books kept in drawers and issued on an ad hoc basis. Debit notes were not kept properly and the operating account cheque books were not locked away.
- The filing system was not systematic and important accounting documents such as copies with collectors' statement, CFC and warrants and other miscellaneous income related documents were never filed.
- A surprise cash count was conducted in February 2009. It was noted that no register was maintained to register receipt books with serial numbers.
- Petty cash float had no proper petty cash float book maintained, whilst the cash receipts were not properly filed.

Payment of Accounts

Payments were never itemized and recorded into their respective ledger accounts since 2005. This is again a serious act of non compliance to section 63 of the *Public Finances (Management) Act, 1995* which requires preparation and maintenance of such accounting records and documents. Subsequently, audit testing could not be performed on payment from the 2008 bank statement totaling K2,136,584.

The bank statements from 2005 to 2007 were not filed and reconciliations were not promptly done as required.

Salaries and Wages

The Human Resources Section was not organized properly and records were not maintained on a consistent basis. Personal files for serving officers were not adequately maintained and lacked appraisal forms, permanent variation advice forms, temporary variation advices for salary adjustments and staff movement.

It was also evident that staff employed at the Personnel Section did not possess proper qualifications and lacked necessary and fundamental experience. This largely contributed to the state of poor record keeping.

It was noted that Department of Personnel Management's (DPM) approval for casuals to be engaged at the Hospital was twenty five (25). However, casual employees employed at the Hospital totaled forty four (44). Most were employed without any proper screening process and bypassed established procedures in selection and engagement formalities.

The AGO identified four (4) likely ghost employees on the payroll that were paid a fortnightly salary of K287.43 from pay one (1) to pay three (3) of 2008. In addition, three (3) received back pays totaling K44,551.65 for the pay period ending 13 February 2008. In a follow up of this matter, this Office was advised by Department of Finance that the payment records were created by the Department of Personnel Management. These employees were taken off the system on 12 May 2008 by an employee at Department of Health.

In forty one (41) instances back pays totaling K152,994 were paid to some employees being for increase in salaries and allowances. However, this Office could not sight and verify these increases against any supporting documents such as appraisals, promotions, etc.

The records were so poorly managed that certain officers who have transferred elsewhere and one deceased officer were being paid for a considerable length of time.

Salary advances were issued to twenty seven (27) staff of the hospital totaling K71,102 that remain outstanding since 2007.

These weaknesses have significantly contributed to the budgetary allocation being exceeded by K302,914.

Advance Management

There was no advance register maintained since 2005 to date. Also, acquittal policy was not complied with. As such, this Office could not ascertain whether travel and advances were actually utilized for the intended purposes.

Assets Management

Since 2004, assets register had not been properly maintained. It was only in June 2008, that a stock take was undertaken.

Land titles for the hospital's location had not been pursued to obtain clear titles since the transfer from the Health Department in 1994. Motor Vehicles register and registration/ownership files had not been adequately maintained thus the additions, transfers and disposals could not be confirmed.

Cash Book and Bank Balances

There were two bank accounts, DGH Operating and DGH Fee Trust accounts. Out of the two bank accounts operated, the trust account is believed to have been closed. It was alleged that the Minister for Health had directed the closure due to irregularities. Copies of Minister's direction and nature of irregularities were never provided to this Office for verification.

The bank reconciliation had not been promptly and systematically done over the years from 2005 to 2008.

Internal Audit

It was revealed that the last routine internal audit inspection carried out by the Health Department's Internal Audit Division was in 2006 for the period 2002 to 2005. The report complemented the Auditor General's Report for the period 2004. Both reports pointed out serious breaches, non compliances, lack of performance and instances of fraudulent activities. Apart from identifying the system weakness, recommendations were made on all aspects of the operations to improve the systems. No improvements have been made.

Corporate Governance

The Hospital Board does not have a corporate plan that establishes long term objectives, sets priorities and targets and takes into account the requirements of its stakeholders. The associated plans that need to be established to support the corporate plan have not been established. These plans are; financial, asset management, human resource, information technology, risk management and divisional operating plans.

5.7.3 Kiunga Urban Local Level Government

Kiunga Urban Local-level Government submitted their 2007 and 2008 financial statements in April 2009 and the audits were completed. A disclaimer of audit opinion was issued for 2007 financial statements in September 2009. The general observation was that there were no adequate controls over payment processes, assets, and approvals, segregation of duties and reconciliations, with the risk of misappropriation assessed as very high. Also, the financial statements contained various errors and inaccuracies and were assessed as unreliable.

Cash Book and Bank Balances

The PGAS Cash Book was not properly maintained, in that not all receipts were recorded in the cash book resulting in over drawn balances throughout the year. For example, the cash book had K275,228 overdrawn balance as at 31 December 2007. There were a large number of unreconciled balances remaining in the Cash Book that needed to be cleared. For example, receipts in cash book

not in bank statement was K20,310. Out of this total, the amount of K12,960 related to the year 2003.

Revenue

No segregation of duties in collection of revenue, banking and raising of Receiver Statement, existed. Delays in banking of collections of up to 5 days were also noted.

Paid Accounts

A check of selected payment vouchers to ascertain compliance with payment procedures revealed the following non-compliance and irregularities:

- No segregation of duties was noted between Section 32 and financial delegate in ninety eight percent (98%) of the payments totaling K72,484,
- Twenty three payments totaling K49,369 were made without either the Certifying Officer or Examining Officer verifying the payment vouchers prior to payments being made.
- Mobile and satellite telephones worth K6,866 were inappropriately being purchased for staff without being budgeted or approved.
- Wages and overtime sheets totaling K7,734 were not certified by the paymaster and certifying officer prior to collection of wages.
- Eleven payments totaling K33,300 in financial assistances to groups and individuals were made but no guidelines were sighted in place for payment of subsidies.

Assets Management

Assets Register was not maintained for the year 2007, to record all assets owned by the Local-level Government including land and buildings, motor vehicles, office equipment and fixtures. Assets totaling K11,818 purchased during the year were not recorded in the assets register and there was no evidence of physical verification or stock-take being conducted during the year.

Advance Management

An advance register was not maintained for recording of advances paid during the year. Advances totaling K33,114 paid during the year extracted by this Office could not be traced to any register.

5.7.4 Daru Urban Local-level Government

The Daru Urban Local-level Government's audit of accounts and records for 2004 to 2006 were dispensed due to no non-submission of financial statements as reported in Part III of the Auditor-General's report for 2007. The 2007 financial statements were submitted and the audit was completed with management

letter issued. The management of Daru Urban Local-level Government did not respond to the audit findings reported.

The general observation was that there were no adequate controls over payment processes, assets, and approvals, segregation of duties and reconciliations, with the risk of misappropriation assessed as very high. Also, the financial statements contained various errors and inaccuracies and were assessed as unreliable.

The internal control issues observed in the final audit of 2007 financial statements and 2008 interim audit of accounts and records are detailed below.

Budgetary Control

A review of the revenue collections for 2005 to 2007 revealed that significant amount of revenues totaling K459,300 due for collection was not collected over the three years period. This was an indication of management's inability to use an effective methodology in collecting revenues promptly and reliably.

Revenue

There was no segregation of duties in the collection of cash, verifying and banking. As result of these deficiencies, revenue collection could not be independently verified. Delays in banking were noted from a minimum of two days to a maximum of five working days. In few instances receipts were missing and originals were not attached to the collector's statement.

Paid Accounts

No accountability report was provided from the twelve (12) town ward members who received various funds totaling K334,018 being for projects and activities in their respective council wards. In addition, no return report was provided from the ten (10) responsible citizens for payments totaling K122,080 relating to festivities in the town.

Sixteen significant payments totaling K285,220 had no paid vouchers provided for audit examination.

Three (3) payments totaling K28,500 being for various minor contract works lacked the following requirements: contractual agreement, quotation for the work and completion inspection report.

Salaries and Wages

Supporting documentations relating to wages and allowances payments totaling K225,858 were not provided for audit examination. The Establishment Register for the Daru Urban Local Level Government was not maintained for the years 2005 to 2008. As such, this Office could not establish the Department of Personnel Management (DPM) approved Public Service Positions.

Grants

Payments totaling K635,880 intended for grants to charity and non Governmental organization had been misappropriated for other purposes such as wages and service entitlements, taxes for employees etc.

Advance Management

Advances totaling K32,122 for the last four (4) years (2005 – 2008) remained un-acquitted as at 31 December 2008. Serious concerns were noted pertaining to instances of substantial and additional advances issued to existing advance holders despite their prior advances remained un-acquitted.

Assets Management

Daru Urban Local-level Government and Treasury Offices had not maintained assets register to incorporate all assets acquired by the Urban Local-level Government in 2008 and prior years.

Cash Book and Bank Balances

The bank reconciliation statements for 2007 had not been submitted to audit for inspection and verification.

Corporate Governance

Daru Urban Local-level Government does not have a corporate plan that establishes long term objectives, sets priorities and targets and takes into consideration the requirements of its stakeholders.

5.8 GULF PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Gulf Provincial Government	2006	2006	January 2008 Disclaimer	No 2007 financial statements submitted, however, interim audit of 2007 completed
Kerema Hospital Board	2007	2007	2007 Qualified Opinion	Audit of 2008 statements is in progress
Kerema Urban	2004	2004	2005 to 2007 reports dispensed with	No financial statements issued after 2004, however, audit of controls completed for 2007
Baimuru	2003	No		
East Kerema	2002	No		
East Kikori	2004	No		
Ihu	2005	No		
Kerema Central	2004	No		
Kotidanga	2004	No		
Taure Lakekamu	2002	No		
West Kikori	2003	No		
Kaintiba	2004	No		
Gulf Investment Trust Fund	2003	Audit Fees not paid	Audit Fees not paid	1996 – 1998 audit in progress, 1999 - 2003 audit fees awaited, 2004 - 2008 financial statements not submitted
Gulf Papua Fisheries	2000	Audit Fees not paid	Audit Fees not paid	1997 – 2000 audit fees awaited; 2001 – 2008 financial statements not submitted
Southern Star	2002			No recent statements submitted for audit

5.8.1 Gulf Provincial Government

The Gulf Provincial Government submitted its 2004, 2005 and 2006 accounts for audit in May 2008. The audits were completed, with management letters issued. The audit opinions, issued in February 2009 for the three years were disclaimed.

The interim audit of 2007 accounts was done without the financial statements. The interim management letter was in progress when this report was prepared.

The control environment was still lacking adequate procedures and could not ensure accuracy and completeness of transactions. The Provincial Government through the Provincial Treasury and the Provincial Administration staff has responded very poorly in respect of providing basic but essential accounting books and records for audit purposes. The risk of fraud and misappropriation occurring and remaining undetected was also high. The paragraphs below detail the internal control issues identified in 2006 audit.

Revenue

The internal revenue receipts were not regularly posted to the PGAS revenue ledgers. The actual PGAS ledger balance of K17,212,260 did not include an amount of K4,735,045 transferred out of the revenue bank account by direct bank transfer.

The Grant Component revenue estimates for the year under review were not posted to the revenue ledgers in the PGAS system. Consequently, this Office was unable to determine whether all revenue estimated for the year was collected, and also to determine how realistic the revenue estimates for the year was.

The perusal of collection and banking of revenue during the year under review has revealed the following weaknesses:

- Receiver statements were not compiled for revenue collected.
- Official Receipts were not used in chronological sequence.
- Revenue collections were not promptly banked.
- Proper bank deposit books were not used.

Cash Book and Bank Reconciliations

The AGO review of cashbooks, monthly bank reconciliation statements and bank statements revealed the following observations.

- There was no bank reconciliation being done for the Gulf Provincial Government's operating bank account since 2002.
- The PGAS Cash Book maintained was unreliable as revenue receipts were not posted to the revenue ledgers. The cash book was also overdrawn throughout the year.
- The amount of K1,250,000 transferred to the Provincial Treasury Operating account was to offset expenditures from the suspense trust code without sufficient funds. This transfer was an illegal transfer and contravenes Section 16, paragraph (2) of the *Public Finance (Management) Act 1995*, which states that "Transfers of funds from Consolidated Revenue Fund to Trust Fund are prohibited unless a special transfer is authorized by an Appropriation Act." This transfer was not authorized by an Appropriation act and is deemed illegal.

Grants and Subsidies

The AGO review of grants and subsidies to various organizations revealed that no Guidelines were in place for payments of grants and subsidies and financial assistances to individuals, groups and entities.

Payments of Accounts and Procurement Management

The AGO has selected a sample of K28,330,105 payments from the two main cash books of the Provincial Governments Internal Revenue Operating Account and the Provincial Treasury Operating Account. The actual vouchers were not made available for audit perusal.

The Provincial Executive Council (PEC) in its Meeting dated 22 of November 2006 had approved the payment of K2,000,000 to be paid to a contractor's account with ANZ Bank. The purpose of this was to build houses in Kerema Town. The PEC also approved a total payment of K10,440,000 over a five year period. Following this decision, the Provincial Administrator had directed a transfer of K500,000 from the Provincial Governments Revenue Account to the contractor's bank account on 21 December 2006. The following serious deficiencies were noted:

- The total value of money to be paid to the above entity over the five years was K10,440,000, however, the AGO has not sighted any feasibility studies, nor the approval from the Provincial Supply and Tenders Board, or the approval from the Minister for Finance. There was no formal contract in place between the Gulf Provincial Government and the contractor.

- The payment was a direct bank debit. The payment did not go through the normal internal control process, bypassing any internal scrutiny.

- This payment was not captured in the Provincial Governments cash book and expenditure ledgers.

- As at the date of audit (June 2008) there was no sign of any building activity in Kerema.

It was also noted that the Provincial Government has paid K250,000 as an advance to purchase prawn trawlers. The then Governor of the Gulf Province in a role of a chairman of the Gulf Investment Trust Fund has written to the Provincial Administrator on 9 of November 2006 to transfer money from the Gulf Provincial Government to the Gulf Investment Trust Fund as an advance to purchase Prawn Trawlers, MFV Keauta and MFV Lare Mori. Following the letter an amount of K250,000 was transferred out of the Provincial Governments Revenue Account into the Gulf Investment Trust Fund Account on 17 of November 2006. The following serious deficiencies were noted;

- There was no evidence as at the date of audit to verify that K250,000 was reimbursed to the Provincial Government.

- There was also no evidence to verify that the two Prawn Trawlers were purchased from that particular payment.

- The payment was a direct bank debit. The payment did not go through the normal internal control process, bypassing any internal scrutiny.

Assets Management

An Assets Register was not maintained by the Provincial Government for the year under review as well as for prior years to record all assets purchased by the Provincial Government. Assets worth K2,258,552 purchased during the 2006 year could not be traced to any record. Physical verification or stock-take of assets was not conducted for the year under review.

Management of Advances

A sample of advances totaling K1,024,421 was selected for review and examination to assess the management of the advances. The following matters were noted:

- The Advance Registers maintained were not regularly updated with advances paid daily. Many advances selected in the sample were not found in the registers.

- In many instances, additional advances were issued to officers who have prior outstanding advances.

- A cheque for K6,500 was paid to an officer on the 29 of December 2006 under the pretence of financial assistance to another person. The cheque was cashed and the whereabouts of the money is unknown.

- Cash advances totaling K79,000 were taken by officers allegedly for the Governor's visit. Cheques were cashed and the whereabouts of the money is unknown.

Capital Works and Maintenance

An amount of K6,946,772 was spent on capital works and maintenance purposes. However, register of quotations, both verbal and written on capital works and maintenance work carried out during the year was not made available. Also, work progress reports and completion certificates from appropriate competent authority were not available to verify whether the maintenance work carried out met the requirements and whether projects were satisfactorily completed.

Further, Provincial Supply and Tenders Board Meeting Minutes with resolutions and endorsements and contract files of any contracts entered into during the year were not made available for examination.

The AGO has conducted physical verification on the following sites. However, very little work or no work was done although substantive advance payments were made to contractors.

Description	Amount K
Kerema Airport Runway Development	1,138,320
Kerema/Malalaua Road Maint	1,200,000
Wharf Project	450,000
East Kerema LLG Chamber	166,000

Salaries, Wages and Allowances

The examination of salaries and allowances paid to the members of the Gulf Provincial Government Members during the year under review has revealed the following deficiencies:

- The wages sheets were not certified as correct by the responsible Financial Delegate.

- Personal files were not properly maintained for the payment of salaries and allowances.

- Salaries and allowances were paid on an ad-hoc basis instead of regular fortnightly payments.

- The comparison of the Staff establishment Register for the Department of Gulf against the actual staff on strength has revealed that the actual staff as per the Establishment Register was 380 while actual staff on strength was 420, an excess of 40 staff.

Trust Accounts

The AGO has requested for various relevant documents in regard to any trust accounts with own bank account maintained during the year under review but none were made available for audit. An entity with the name of Gulf Investment Trust Fund which had bank account with Bank South Pacific was in existence. The details of this Trust Account along with their accounting records were not made available for audit review.

Examination of the two suspense trust accounts has revealed that, there was more money spent out of the two funds than receipted into the funds. This contravenes Section 17(b) of the *Public Finances (Management) Act 1995* which stipulates that money may be paid out only if there are sufficient funds in the account. On e account had an overdrawn balance of K2.8 million and the second account had K4.2 million.

Investments

No Investment Registers were provided for audit review. It was noted during the audit, that a total of K200,020 was paid to the Federation of Savings & Loan Society as seed capital and K2,000,000 was paid out of the Provincial Governments Revenue Account to Bank South Pacific. There was no adequate information and documents to establish whether these payments were for investment purposes.

PEC and Assembly Meeting Minutes

The PEC and Assembly Meeting Minutes and Resolutions for the years 2004, 2005, 2006 and 2007 were requested but none were made available for audit review.

Internal Audit

Although an Internal Audit Unit was in operation, the Internal audit has not provided any report or Annual Audit Plans and Programs for AGO review.

5.8.2 Kerema Hospital Board

Kerema Hospital submitted their 2004 to 2007 financial statements in May 2008. These audits have been completed, with management letters issued. The issues regarding the financial statements and the control environment are detailed in the paragraphs below. The audit reports on 2004 and 2005 financial statements were disclaimed. Since then, the AGO noted some improvements in how the information for the financial statements was captured and presented.

Revenue

Individual ledger accounts had not been maintained systematically for prompt identification, classification and recording of revenues: CFC item grants from National Government, Interest to WPA, Hospital fees, Hospital rental, Donor/ Corporate grants and GPG grants.

Examination of receipts, collectors' statements, revenue summary reports and deposit slip revealed instances of deficiencies and irregularities as outlined below:

- A collectors' statement dated 28 December 2007 had summarized a total collection of K156 but K128 was stolen and K28 were accounted for.
- Seven (7) collectors' statements recording collections totaling K604 had not been signed as received by accounts section for recording and banking,
- There were instances of delays in banking of revenue collection from two (2) days to a maximum of twelve (12) days in relation to collection.
- An independent verification of all banking of revenue collections could not be done as receipts were not attached to the collectors' statement as well as deposit slips were not systematically attached to the collectors' statement for ease of identification, verification and confirmation. Additionally there were no independent checks from cash collections, submission to accounts section and eventual banking.
- A surprise cash count conducted on 21 May 2008 revealed that there was a shortfall of K54 for the available cash against the receipts and there were other instances of variances noted from the daily receipts total against collectors' statement.

The management was advised to strengthen the control environment so that the risk of misappropriation and fraud are reduced.

Payments of Accounts and Procurement Management

Audit examination, review and inspection of paid vouchers and related records pertaining to payment of accounts revealed the following discrepancies:

- A payment of K1,047 to a doctor being for airfares had no valid supporting documentation.

- A payment of K2,114 being for mental health allowances for a period of three years was not valid as the staff member was not entitled. Kerema Hospital is not covered for mental health allowances to be paid.

- There were various cost incurred for interviewing short listed candidates for the job of the CEO. The interview took place in Port Moresby and totaled an excessive K22,920. Interview panel members from Department of Health and DPM were inappropriately paid travel allowances.

- In eleven (11) instances, payments totaling K51,679 being for patient rations and supplies had no delivery dockets to confirm actual receipt. A surprise spot check of ration purchased on 21 May 2008 revealed that two (2) items were not delivered although paid for; 6 cartons of Paradise biscuits and 1 carton steel wool.

Salary and Wages

The AGO review and examination of general ledgers, payroll, personnel files, paid vouchers and other related records revealed the following matters:

- There were instances of doctors being paid housing allowances whilst being accommodated in institutional houses as well as rent paid for by the Hospital's management.

- Significant shortcomings in overtime payments: some overtime paid had no proper timesheets prepared, there was no independent verification, and some overtime claims were prepared by the claimants themselves. It is our assessment that some hours worked and times stated on the claim forms were unrealistic; for example claims that staff worked from 3 am to 10 am.

Advance Management

The officially recorded advances were twenty nine (29) instances, totaling K12,333. However, our examination identified additional fifteen (15) instances of payments for duty travel advances that were not registered into the advances register that remained un-acquitted totaling K21,609.

Assets Management

The Kerema General Hospital had come up with a comprehensive assets listing in 2008 in anticipation for audit inspection. This was a very good initiative and excellent effort. The following areas also need to be considered:

- Biomedical equipments used by various hospital departments should be included to reflect total assets and equipments owned by the hospital,

- Value of all assets should be disclosed in the financial statement in a schedule.

5.8.3 Kerema Urban Local-level Government

Kerema Urban Local-level Government has not submitted its 2005 to 2007 financial statements; however, audits of the controls environment for 2005 to 2007 have been finalized with management letters issued.

Budgetary Control

Copies of the Appropriation Acts (original and revised) passed and certified by the Urban Assembly including the ministerial approval and other related documents were not available for audit examination.

Cash Books and Bank Reconciliation Statements

Accounting records including the cashbooks, bank statements, bank reconciliation statements, specimen signatories to bank accounts, etc were not made available for audit, although requested.

Documents provided revealed K70,000 was deposited into Kerema Market Trust Account but the related records including the trust deed for the Kerema Market Trust Account was not made available for audit examination.

Revenue

Collections totaling K16,215 for the period January to August 2007 were not banked. Collections totaling K56,067 for the period September to December 2007 were not verified with the bank statement due to unavailability of respective bank statements. Bank deposit slips were kept either stapled or loose in official receipt books. Collector Statements were also not prepared.

A surprise cash count has revealed collections totaling K545 for the period from 28 April 2008 to 12 May 2008, of which K150 was deposited but the balance K395 was unaccounted for.

Procurement and Payment Procedures

Expenditure ledgers were not maintained. No segregation of duties in authorizing and approving of expenditure existed. Expenditure and payment voucher details were not properly prepared and approved prior to payments being made and monthly expenditure reports were not prepared and maintained for audit examination.

Assets Management

Assets register was not maintained to record assets owned by the Kerema Urban Local-level Government and no physical verification of assets was undertaken by the management.

Advance Management

Advance register was not maintained for recording of cash and travel advances for the prior years as well as 2007.

5.9 MADANG PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Madang Provincial Government	2007	2007	July 2009 Disclaimer	Audit on the 2008 FS and control environment in progress
Modilon Hospital Board	2007	2007	August 2008 Disclaimer	Audit on the 2008 FS and control environment in progress
Almami	2005	No		
Ambenob	2008	No		
Arabaka	2006	No		
Astrolabe Bay	2008	No		
Bundi	2006	No		
Iabu	2005	No		
Josephstaal	2008	No		
Karkar	2005	No		
Madang Urban	2008	2007	August 2009 Disclaimer	Audit on the 2008 FS and control environment in progress
Kovon	2006	No		
Naho Rawa	2008	No		
Nayudo	2008	No		
Raicoast	2008	No		
Gama	2006	No		
Simbai	2006	No		
Sumgilbar	2005	No		
Transgogol	2008	No		
Usino	2006	No		
Yawar	2005			
Madang Development Corporation		No		1995 – 1996 management letter responses and signed financial statements awaited; 1997 – 1998 audit fees awaited/audits to be

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
				determined; 1999 – 2008 financial statements not submitted
Madang Slipway Ltd	1998	Audit fees awaited		1995 – 1996 management letter responses and signed financial statements awaited; 1997 – 1998 audit fees awaited/audits to be determined; 1999 – 2008 financial statements not submitted

5.9.1 Madang Provincial Government

General

The audit of the Madang Provincial Government's 2007 accounts was completed. Although some improvements were noted compared to the previous year in relation to payments of accounts, the control environment was still lacking adequate procedures and monitoring and could not ensure accuracy and completeness of transactions. The risk of fraud and misappropriation occurring and remaining undetected was high. The paragraphs below detail the issues identified.

Budgetary Controls

The total expenditure incurred under were within the amount authorized as per the Warrant Authorities and Cash Fund Certificates. However, the AGO noted that funds appropriated during the year totaling K1,600,254 treated as expenditure were not utilized for the purpose appropriated in the budget.

Revenue Collection

Review of the controls relating to internal revenue collection revealed the following weaknesses:

- Annual Revenue Report for 2007 was not furnished to highlight the reasons for the over collection and under collection of revenue.
- Many instances were noted of revenue collected and receipted to incorrect revenue votes.

- Revenue Registers relating to Motor Vehicle Registration, Drivers Licenses, and Heavy Motor Vehicle Licenses etc were not maintained by the Revenue Officer.

- Reconciling items relating to revenue appearing in the bank reconciliation statement were not posted or adjusted to the revenue ledgers and as such not incorporated in the total revenue balance shown in the financial statement.

Bank Reconciliations

Both bank reconciliations of the Provincial Government's Operating Account and Provincial Treasury Operating Account as at 31 December 2007 contained outstanding items dating back from 2001. These items should have been investigated and cleared from the reconciliation.

Grants and Subsidies

Grants and subsidies paid were not acquitted by way of reports by the recipient entities and individuals. Also, there was no evidence to confirm that these had been sought.

Paid Accounts

Payment of accounts process had some improvements compared to the previous year. The following issues were noted in 2007:

- Requisition for Expenditure (FF3) was not signed by the section 32 officer for payments totaling K10, 000.

- There was no control over the repair of the Provincial Government vehicles, as they were done at an approved Motor Vehicle Repair Workshop. Instead, each Provincial Administration branch had their own preferences to put their vehicles for repairs, even engaging individuals to repair vehicles.

- A sum of K30,000 was paid to a staff member dated 22 December 2007 as cash advance for overtime. The acquittal submitted did not have complete supporting documentation to agree the amounts to K30,000.

Assets Management

Centralized Assets Register has not been maintained for 2007 and for the previous years. In addition, no periodic stock takes were conducted. Selected instances of assets purchased during 2007 amounted to K53, 436 were not recorded in the Assets Register.

The vehicle fleet list (register) did not contained relevant details of vehicles such as engine number, chassis number, date of purchase of vehicles and cost of the vehicles.

Capital Works and Maintenance

Examination of records and documents relating to capital works and maintenance projects revealed that there were no major capital works and maintenance projects awarded during the year. The minor works and maintenance projects revealed the following anomalies:

- Project files for Minor Works and Maintenance Projects were not maintained to keep relevant records relating to the projects such as Contract Agreements, Scope of Works, Progress Reports, Payment Details and Completion Certificates.

- Contractors engaged to do minor works and maintenance projects were not approved contractors listed in the Pre-qualified Contractors Listing.

- No regular supervision of works and maintenance projects by the Provincial Works Unit was undertaken. There is lack of technical expertise at the Provincial Government Works Unit to supervise field work and prepare progress reports.

- It was noted that some payments were made to contractors for projects but work on the project never commenced.

Advance Management

Although there were improvements in the control over the payment and acquittal of cash and travel advances, resulting in the reduction of outstanding advances, improvements are still required in the following areas: providing sufficient documentation when acquitting the travel advances, long term un-acquitted advances from previous years and providing new advances to officers who had previous advances outstanding.

Corporate Governance

It was pleasing to note the existence of the Corporate Plan that addressed six (6) important Key Result Areas (KRA's). They were internal management co-ordination and direction; mobilize support of key stake holders, budget and financial management, human resource management, physical asset management and operational performances management and technical systems.

Internal Audit

The Internal Audit Unit during the year under review did not conduct any audit into the Routine Operations or compliance audit into the Provincial Government such as: revenue generation, human resource, asset management and procurement and expenditure on capital works and maintenance etc. The Local-level Governments were also not subject to audit by the Internal Audit Unit.

5.9.2 Modilon Hospital Board

General

The audit Modilon's General Hospital accounts for the year ended 2007 was directed primarily to the evaluation of internal control systems, to examine the performance of financial operations with a view to assess the reliability and integrity of the financial statements and the extent of compliance with laws, regulation and directives. The issues identified from testing the 2007 accounts and the control environment are detailed in the paragraphs below.

Budgetary Control

Examination of budget document, cash fund certificates, cash book, bank statements and other related records revealed that the revised appropriation total was K7,700,200 while year to date expenditure under the expenditure items was K8,030,141. The ledgers maintained by the hospital on the other hand revealed year to date expenditure of K5,947,740. Due to non maintenance of property updated records by the hospital, the AGO was unable to explain those differences.

The Appropriation funds made available by the Department of Health by way of Cash fund certificate were over committed under five (5) expenditure vote items totaling K130,116. Such actions indicate poor budgetary control practices by the Management.

Revenue

The following inconsistencies were noted in relation to the National Government Grant Receipts, Trust Account receipts and debtor management:

- Salaries and Allowances for pay number 3 and pay number 16 to 23 were not obtained from Department of Finance and posted to the revenue ledger and cash book. As such, National Grants total disclosed in the financial statement was under stated by K1,823,775,

- Cash Fund Certificates totaling K200,000 deposited to the Operating Account in December was not properly identified and credited to the correct vote items and was credited to other income, thus overstating other income total and understating the national grants total.

- Other deposits totaling K5,597 made from January to May were not posted to the revenue ledger and cash book, resulting in understatement of other income total.

- The AGO noted that no remedial actions were taken by Management in respect to rectifying the control weaknesses relating to collection, receipting, banking and reporting of Hospital User Fees that were highlighted in previous reports.

- Inward mail register was not maintained to record details of moneys and other valuables received by mail prior to being forwarded to the cashier for banking.

- Delays in banking continued to exist in 2007. Collections and deposits for the months of January, June and December were selected for test checks which revealed instances of delays in banking of daily collections ranging from two (2) days to nine (9) days.

- A dishonored cheques register was not maintained.

- The AGO sighted a letter of complaint from a Revenue Clerk and a patient regarding Medical Report fee requested by Surgeons from patients which indicates that some medical fees are collected directly by Medical Officers and may not be properly brought to account.

- Proper debtor's ledgers showing all the debtors of the Hospital including outstanding hospital fees were not maintained and made available for audit examination.

Cash Book and Bank Balances

The signatories to the two bank accounts are Chief Executive Officer (CEO), Director Finance Administration (DFA) and the Accountant. The cheque signing arrangement is that the CEO and the DFA are the principal signatories. The Accountant is to sign when the CEO is not available. The AGO noted that this arrangement is risky as the DFA and Accountant are also financial delegates who authorize expenditure.

Payments of Accounts

Although all the requisitions were examined and certified as correct, the AGO was not able to verify whether examination and certification of claims were done by duly appointed officers also due to non availability of instrument of appointments and specimen signatures.

Proper procurement and tender procedures were not being followed in awarding of all minor contract works that were carried out during the year, such as obtaining of three (3) quotes from contractors, tender committee approvals prior to engagement of contractors and signing of contract agreements. Payments were also not supported by work in progress or job completion reports.

Instances were noted where signed cheques were not paid to the suppliers but were kept in the accounts section and delayed for days ranging from two (2) days to fourteen (14) days. Selected instances of delayed payments mostly for utilities amounted to K63, 699.

Perusal of a selected sample of payments for leave fares revealed instances of payments of airfares made for dependants who are over (18) years old and therefore are not eligible for airfares.

Two instances of double payments for rentals for two (2) doctors to two different landlords for the same period were noted,

Proper individual ledgers were not maintained for the various landlords/properties that the doctors were occupying to record details of all invoices issued and payments made. Although rental payment schedules were maintained, they were not adequately updated.

Assets Management

Assets purchased during the year amounted to K161,606 related to office and household furniture and equipment. Due to no assets register maintained and no stock take conducted during the year, this Office was unable to ascertain whether all these assets existed. Consequently, I was unable to verify the completeness, existence and value of fixed assets at the year end.

Advance Management

Payments of cash and travel advances made during the year amounted K77,487 out of both Operating and Trust Accounts. However, due to non maintenance of Advance Registers, the AGO was unable to verify whether all those advances given were properly recorded and acquitted in full.

Salaries, Wages and Allowances

A sample of (25) employee personnel files were selected and perusal of the files revealed the following;

- In sixteen (16) instances, the Salary History Cards were not updated. As a result, the AGO was unable to agree the fortnightly pay to their respective salary cards, Leave records were also not updated in five (5) instances when officers took up their recreational leaves,

- Salaries and wages tax declarations lodged by the employees were not sighted on file in thirteen (13) instances. As a result, audit was unable to agree the tax deductions made for those employees,

- Current signed employment contract agreements were not sighted on file for eight (8) selected employees i.e. the Medical Officers, CEO and the Directors. As a result, the AGO was unable to verify that the salaries and allowances paid to them are as per the terms and conditions specified in the agreement,

- A ghost employee (named) who is not employed by Modilon General Hospital continues to be on the Payroll. This was highlighted in our 2006 audit report that was conducted in 2007. However, at the time of audit in March of 2009, no action was taken by management to have this employee taken out from Modilon General Hospital Payroll.

- In our previous report, we highlighted an irregular payment to a staff member totaling K153,999 made on pay number 2 of 2007 being for missed out salaries. The Department of Health's Internal Audit also verified this findings in its special audit on payroll done in 2008 and recommended the Management to immediately commence salary deductions to recoup the over payment. However, at the time of audit in March 2009, Management has not yet taken any action.

- The DPM approved casual ceiling is seventy (70) while the casual list made available by the Paymaster was eighty three (83) and including the (13) casual nursing officers.

- Three (3) instances were noted where seven (7) employees did not sign against their names to indicate that they have actually collected their pay envelopes,

Corporate Governance

The Modilion General Hospital did not have a Corporate Plan and associated detailed plans.

5.9.3 Madang Urban Local-level Government

The audit of Madang Urban Local-level Government for the year 2007 accounts was completed with a disclaimer of audit opinion issued. The general observation was that there were no adequate controls over payment processes, assets, and approvals, segregation of duties and reconciliations, with the risk of misappropriation assessed as very high. Also, the financial statements contained various errors and inaccuracies and were assessed as unreliable.

Budgetary Control

Instances were noted where expenditure totaling K43,022 were incurred out of incorrect expenditure vote items.

Revenue

There were no proper registers in place to record and monitor the collection of internal revenues. Furthermore, there was lack of co-ordination and co-operation among Officers of the Revenue Section and other line economic sections of the Urban Local-level Government to effectively plan and direct their efforts and course of action to ensure that all internal revenues estimated for the year and those in arrears were duly collected and accounted for. Other issues were:

- A revenue register recording all outstanding fees and charges was not furnished. As a result, AGO was unable to determine the value of all outstanding revenues for the year.

- An up-to-date Register of all Trading License Fees was not maintained for the year 2007. This Register should record names of License holders, their date of expiry, date of renewal etc. There was no indication of actions being taken to monitor the business activities conducted in Madang town to ensure that no unlicensed business activities were conducted and the renewal of existing licenses were up to date.

- A house at Section 4 Lot 3 was noted to have been rented out to other tenants for K2,500 per month. A copy of the tenancy agreement which should indicate the terms and conditions of the tenancy was not provided for audit verification nor was there any indication of bond fee deposit by the tenant prior to occupancy of the property noted. Furthermore, an up to date collection of the rental income could not be verified due to lack of records.

- The Market Fish Shop was noted to have been in operation for many years. However, the AGO was not provided with a duly signed lease agreement. At present, Madang Urban Local-level Government does not appear to have records of who the tenant is and how he/she moved in to operate the shop. Further, there was no indication of any revenue collected from the tenant operating this shop.

Debtors

Proper Debtors Ledgers relating to Sanitation & Garbage, Trading Licenses, Rental of Properties and any other debtors were not maintained during the year and also previous years. As such, AGO was unable to ascertain whether any fees outstanding from previous years were properly recorded, followed up and collected.

Cash Book and Bank Balances

The monthly bank reconciliation statements were not checked and certified as correct by a senior person other than the one preparing it as a control measure. This check is necessary to correct mistakes such as those noted below and certify it as correct. As a result, errors were not corrected on time.

- An un-reconciled amount of K187,252 being an 'unidentified expenditure for 1999 not taken up' carried over from 2004 keeps appearing in all the monthly bank reconciliation statements. This amount could not be cleared subsequently.

- The seven (7) cheques amounting to K16,515 were noted to be presented on 31 December 2007 however, these were incorrectly taken up as un-presented cheques in the December 2007 bank reconciliation statement.

Paid Accounts

In almost all payments sighted by this Office, three (3) written quotes were not obtained from various suppliers for comparison of the prices and a more economical purchase. Payments were made based on only one quote.

Contractors and consultants were noted to have been engaged by the Local-level Government however, there was no indication of proper procurement procedures being followed. A tender committee did not appear to have called for bidders for proper evaluation and selection of the most successful bidders. Individuals and individual companies were noted to have been engaged on an ad hoc basis without duly signed contracts in place.

The AGO also found that expenditure totaling K43,022 was incurred out of incorrect votes.

Assets Management

Although an assets register was provided, the register did not record details of assets such as the date of purchase, type, model number, purchase value etc. and a proper stock take was not done during the year under review.

Salaries and Wages

There was no evidence to prove that the Urban Local-level Government's payroll was checked by a competent person prior to running the final payroll. It appeared that only one person was handling the payroll. Calculations for leave pays, final pays and overtime pays were automatically done by the system upon entry of information, however no checks were indicated to be done to ensure accuracy of the payroll.

Corporate Governance

The Madang Urban Local-level Government does not have a Corporate Plan and other detailed plans such as financial, asset management, Human Resources, risk management, etc. The Internal Audit within the Provincial Government has not undertaken any audits during 2007.

5.10 MANUS PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Manus Provincial Government	2007	2007	June 2009 Disclaimer	Significant audit issues reported in the last year report
Lorengau Hospital Board	2004	2004	No recent FS prepared	No financial statements were prepared for 2007
Aua/Wuwulu	2008	No		
Balopa	2008	No		
Bisakani Soparibeu	2008	No		
Lelemadih/Bupi Chupeu	2008	No		
Lorengau Urban	2008	2007	June 2009 Disclaimer	Significant audit issues reported in the last year report
Los Negros	2008	No		
Nigoherm	2008	No		
Penabu/Nali Sopat	2008	No		
Pobuma	2008	No		
Pomotu Ndrehet/Kurti Andra	2008	No		
Rapatona	2008	No		
Tetidu	2008	No		
Manus Fishing Corporation				No recent statements submitted tor audit. Entity status/audit to be determined
Manus Shipping Authority				1994 – 2008 financial statements not submitted for audit/audit to be determined
Manus Marine Resources				No records available, no financial statements submitted for audit; entity status/audit to be determined
Kei Beseu Kampani Ltd				2000 – 2006 audit under private arrangement/audits to

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
				be determined; 2007 – 2008 financial statements not submitted
Lorengau Harborside Hotel				2000 – 2006 audit under private arrangement/audits to be determined; 2007 – 2008 financial statements not submitted

5.10.1 Manus Provincial Government

General

The audit of the Manus Provincial Government's financial statements for the year ended 31 December 2007 was unsatisfactory with a disclaimed audit opinion being issued. My Part III Report in 2007 detailed significant issues identified during the course of the interim audit performed in the previous audit cycle. The paragraphs below details issues identified with the audit of their 2007 financial statements.

- The Provincial Government reported face value investments as at 31 December 2007 of K198,970. There was uncertainty relating to the value and number of shares held in companies as documents were not produced for review.

- The assets register was not adequately maintained and lacked details. It was noted that the Provincial Government owns several motor vehicles, land and buildings including houses, office equipment, furniture and fitting, boats and motors and other capital assets which are required to be accurately disclosed. There was no indication of regular physical stock takes conducted on assets during the year.

- The Advance Register disclosed 158 instances of travel and cash advances totaling K123,829 that were granted to officers during the year, which remained unacquitted as at the date of the audit in March, 2008.

- The Provincial Government paid a sum of K175,000 during the year as its counterpart funding towards financing the roads maintenance and rehabilitation projects in the Province. The Department of Works did not furnish financial reports to this Office as requested in order to ascertain whether the counterpart funds provided were utilized for the intended purpose.

- In 12 instances, the payment vouchers pertaining to expenditures incurred totaling K399,525 were not certified to confirm the legitimacy of claims prior to processing the payments.

- The Provincial Government paid grants and subsidies totaling K919,220 during the year. Except for the Local Level Governments, these payments were not acquitted by way of accountability reports. There was no evidence sighted to indicate that these reports had been sought from the recipient entities by the Provincial Government.

5.10.2 Lorengau Hospital Board

As at the date of writing this report (November 2009), the Lorengau General Hospital did not prepare its financial statements for the year ended 31 December 2008. The Hospital Board is required to prepare and submit their financial statements to the Auditor-General and the Minister for Health prior to 30 June the following year. Moreover, the Hospital Board has not prepared its financial statements since 2004. I undertook substantive review of the Hospital's 2007 operations despite the lack of financial statements. The results of the audit were unsatisfactory and were published in my last year Part III Report.

5.10.3 Lorengau Urban Local Level Government

The audit of Lorengau Urban Local Level Government's financial statements for the year ended 31 December, 2007 was unsatisfactory with a disclaimed audit opinion being issued. My Part III Report in 2007 detailed significant issues identified during the course of the interim audit performed in the previous audit cycle. The paragraphs below detail issues identified with the audit of their financial statements:

- Eleven payments totaling K5,256 were not authorized by the appropriate financial delegates.

- No contract agreement document was sighted for vehicle hire payments made during 2007 of K3,350 and K6,850.

- The Lorengau Urban Local Level Government paid K115,545 in staff wages and salaries during the year, representing 62% of total expenditure as at 31 December 2007. The Urban Local-level Government employed 10 staff during the year, contrary to the requirements of the *Public Service (Management) Act 1995*, Section 68(4C) which provides for only 6 operational staff. In addition, the establishment registers and positional occupational report was not provided for review. Consequently, audit could not verify the positions held and wages earned.

- The AGO could not ascertain whether all revenue in 2007 was corrected and brought to account due to:
    - No register of Debtors collection, outstanding revenues and other related listings and schedules was maintained.
    - No segregation of duties maintained between receipting, recording and banking.
    - No proper retention of documentation existed.

5.10.4 Manus Fishing Corporation Ltd

The Corporation was established by the *Manus Fishing Corporation Act, 2003* with the objects and functions as stipulated under the relevant sections of the Act. The Corporation is 100% owned by the Provincial Government. The Corporation was said to have a fleet of two vessels, however, without any return to the Provincial Government. There are no documents available such as share certificate, certificate of incorporation or financial statements being prepared. The Principal Advisor responsible for Fisheries from the Manus Provincial Government has been tasked to prepare financial information. At the time of preparing this report in November, 2009 no financial statements have been submitted for audit.

5.10.5 Manus Shipping Authority

The Authority was established by the *Manus Provincial Shipping Authority Act, 1994*. At the time of the investigation in November 2007, no financial statements have been prepared by the Authority due to insufficient financial records and reports. The Authority was reported to have operated a fleet of three vessels. Out of these, only one vessel is said to be in operation since 2003. Profit from the operation is shared between the Provincial Government and the operator net of running costs. At the time of preparing this report in September, 2009 no financial statements have been submitted for audit.

5.10.6 Kei Beseu Kampani Ltd

Documentation obtained indicated that the Manus Provincial Government holds 522 shares and is a single majority shareholder at 34%, whilst the remaining shareholders are various land owner groups. Audit of the accounts and records have been reportedly done by a private accounting firm – Darkom Accountants up until the 2006 year. At the time of the AGO investigation – November 2007, copy of relevant documentation such as company's Act, share certificate and audited accounts and reports were yet to be submitted. At the time of preparing this report in September, 2009 no financial statements have been submitted for audit.

5.10.7 Lorengau Harborside Hotel Ltd

This Hotel according to records was incorporated in October 1974 with the Manus Provincial Government share of 50% to 80% with the remaining balance shared between the Kei Beseu Kampani Ltd and the Local-level Governments. However, due to lack of any documentation, the actual percentage ownership could not be ascertained. The audit of their financial statements was done by a private accounting firm - Darkom Accountants through private arrangements. At the time of the AGO investigation – November 2007, copy of relevant documentation such as company's Act, share certificate and audited accounts and reports were yet to be submitted. At the time of preparing this report in November, 2009 no financial statements have been submitted for audit.

5.11 MILNE BAY PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Milne Bay Provincial Government	2006-2008	Submitted cannot be audited	Disclaimer will be issued	Fire destroyed 2006-2008 records
Alotau Hospital Board	2008	2007	April 2009 Qualified	Audit on the control environment done
Alotau Urban	2009	2007	August 2009 Qualified	Audit on the control environment done
Bwanabwana	2009	No		
Daga	2009	No		
Dobu	2009	No		
Duau	2008	No		
Goodenough	2009	No		
Huhu	2009	No		
Kiriwina Rural	2009	No		
Louisiade	2009	No		
Makamaka	2007	No		
Maramatana	2009	No		
Murua	2008	No		
Suau	2009	No		
Weraura	2009	No		
West Ferguson	2008	No		
Yeleyamba	2009	No		
Milne Bay Properties				1995 – 2008 financial statement outstanding

5.11.1 Milne Bay Provincial Government

Last audited financial statements related to 2005 financial year. For the last four years, I have issued disclaimer of audit opinion due to problems encountered with the accuracy of the financial statements and due to significant control weaknesses identified.

The financial statements for the years 2006 to 2008 have been prepared and submitted to the Auditor-General's Office. However, the records relating to receipts and payments, payment vouchers, registers and supporting documents were destroyed by fire when one of the Provincial Administration buildings where the Provincial Treasury Office occupied was burnt in September 2008. A disclaimer of audit opinions has been prepared for those respective years.

5.11.2 Alotau Hospital Board

The Alotau General Hospital submitted their 2004 to 2007 financial statements in September 2008. These audits have been completed, with management letters and opinion reports issued. The 2004 account was completed with a disclaimer of audit opinion issued and the accounts for 2005 to 2007 were completed with a qualified opinion issued. The findings regarding the financial statements and the control environment are detailed in the paragraphs below.

Revenue

The assessments of the revenue collections and bankings in 2007 fiscal year were as follows:

- It was noted that the register for Accountable forms including receipt books and cheque books had not been consistently maintained since 2004. Official revenue receipt books were kept in drawers and issued on an ad hoc basis, debit notes, trust account cheque books and operating account cheque books were not properly locked away in safes as well as not recorded in register.

- In most cases, collector's statements were never prepared for cash collections and they were used with receipts copy and deposit slips for forwarding to accounts section.

- Banking had not been done on a daily basis.

- Three (3) stale cheques totaling K892 had not been cancelled and nine (9) valid cheques totaling K4,293 for various suppliers were kept in the drawer by the accounts clerk when they should have been paid to the respective suppliers or cancelled immediately.

Cash Books and Bank Reconciliations

There were three (3) bank accounts opened by the Hospital without the required approval. A review of the reconciliation of the hospital's fees trust account revealed deposits totaling K1,501 that remained outstanding for more than one (1) year needs to be investigated and cleared.

Payment of Accounts

A review of the procurement and payment procedures revealed instances of irregularities and non compliance with the *Public Finances (Management) Act 1995*.

- The AGO found instances of financial delegate's limit being breached in four (4) instances totaling K9,665

- Three (3) verbal and written quotations were never sought.

- No delivery consignment note was sighted to confirm delivery.

- The funds paid were transferred from other votes and committed in spite of funds not available under the given vote item.

- In five (5) instances payments totaling K15,728 being for various stationeries and supplies had no valid invoices for payments.

Assets Management

The Hospital had come up with a comprehensive assets listing in 2004 with all asset items recorded and values stated. However, the following issues have been noted.

- Since 2004, assets register had not been updated in a timely manner.

- Assets totaling K2,074,119 was the value as at 31 December 2004 which was incorrectly disclosed in the 2007 financial statement.

- Land titles for the hospital's location had not been obtained except for Section 14 Lot 1. A total of eleven (11) titles must be pursued to obtain ownership of the respective land allotments.

- Motor Vehicles register had not been adequately maintained thus the additions, transfers and disposals were never reflected.

Salaries and Wages

The AGO review of payrolls, personnel files, paid vouchers and other related records revealed these concerns:

- The Human Resources section was not organized properly and records were not maintained systematically. All appraisal forms were not filed to verify against the increments; permanent variation forms were not filed to verify against higher duty and other allowances, temporary variation advices for salary adjustments with back pay were not maintained on file and staff movement advice were neither filed nor prepared.

- An expatriate Dental Officer, attached to the Dental section had no contract of employment, sometimes he was on the payroll and other times he was off the payroll. The AGO could not ascertain the nature of this employment due to lack of documents.

5.11.3 Alotau Urban Local Level Government

The Alotau Urban Local-level Government submitted their 2004 to 2007 financial statements in September 2008. The audit for the years 2004 to 2007 accounts were completed with a disclaimer of audit opinion issued. The general observation was that there were no adequate controls over payment processes, assets, approvals, segregation of duties and reconciliations, with the risk of misappropriation assessed as very high. Also, the financial statements contained various errors and inaccuracies and were assessed as unreliable.

Cash Book and Bank Reconciliations

The manual cash book was not properly maintained with updates of daily transactions resulting in overdrawn cash book balances throughout the year. Daily bank balances were obtained from the bank each working day and used them for drawing cheques instead of using the cash book balance. Reconciling items remained for a long period of time and were not cleared.

Revenue

Official receipts were not issued for all revenue collections totaling K74,405. Collections receipted were not checked by a senior officer prior to the banking. There were seven instances where cash collections were borrowed prior to being receipted and delays in banking of collections for up to six working days were noted increasing the risk of collections being borrowed or stolen.

Payment of Accounts

A review of the procurement and payment procedures revealed instances of irregularities and non compliance with the *Public Finances (Management) Act 1995*.

- Expenditure ledgers were not properly maintained and monthly expenditure reports were not prepared.

- There was no segregation of duties in authorizing and approving of expenditure and payments.

- Developmental project funds totaling K104,352 from ten (10) vote items were diverted to Recurrent Expenditures.

- A major project, the KB Clinic budgeted for K101,600 in 2007 and in prior years has never been implemented. A physical inspection of the proposed site was discovered not work being done at all.

- In twenty six (26) instances, payment vouchers totaling K46,858 were not made available for audit inspection. In ten (10) instances, payments totaling K26,385 lacked supporting documentations.

- In twenty eight (28) instances payment vouchers totaling K57,061 were not examined and certified prior to payments made.

- Payments totaling K6,915 for motor vehicle hire during the year could not be verified as insufficient supporting documents were existed.

Assets Management

An assets register including stock cards was maintained but were not updated on regular basis.

5.12 MOROBE PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Morobe Provincial Government	2007	2007	April 2009, Disclaimer	2008 financial statements received, audit in progress
Angau Hospital Board	2007	2007	December 2008, Disclaimer	2008 financial statements received, audit in progress
Ahi	2008	No		
Burum Kuat	No data	No		
Buang	No data	No		
Deyamos	2008	No		
Finschhafen Urban	No data			Audits to be dispensed
Hube	2007	No		
Kome	2008	No		
Komba	2008	No		
Kotte	2007	No		
Labuta	2004	No		
Lae Urban	2008	FS for 2002 to 2004 submitted in Feb. 2008	July 2009 Disclaimers	Audit of 2005-2008 in progress, ML will be issued when finalized.
Leron / Wantoat	2007	No		
Morobe	2007	No		
Mumeng	2007	No		
Nabak	2004	No		
Namima Kariba	No data			
Onga/Waffa	2007	No		
Salamaua	2007	No		
Selepet	No data	No		
Sialum	2008	No		
Siassi	2008	No		
Umi Atzera	2007	No		
Wain/ Erap	2004	No		
Wampar	2007	No		
Wapi	2008	No		
Waria	2007	No		

Wasu	2008	No		
Watut	2007	No		
Wau	2007	No		
Wau/ Bulolo Urban	2007	No		Audits to be dispensed
Yabim Mape	2007	No		
Yus	2008	No		
Kumgie Holdings	2006			1999 – 2006 audit fees awaited; 2007 – 2008 financial statements not submitted
Niugini Produce Marketing	1999			1999 audit fees awaited; 2002 company in liquidation; no recent financial statements
Morobe Farms	1999			1999 audit fees awaited; 2000 – 2008 financial statements not submitted
Yalu Plantation	1999			1999 audit fees awaited; 2000 – 2008 financial statements not submitted
YKDC Ltd				1999 – 2008; no recent financial statements; entity status/audits to be determined
Morobe Food Corp				1999 – 2008; no recent financial statements; entity status/audits to be determined
Morobe Dev. Corp	1999			1999 – 2008; no recent financial statements; entity status/audits to be determined
Morobe Food Processing				1999 – 2008; no recent financial statements; entity status/audits to be determined
Morobe Devlpm. Eng. Serv Ltd	1999			No recent financial statements; entity status/audits to be determined
Umboi Timber Invest.Ltd				1999 – 2008; no recent financial statements; entity status/audits to be determined

5.12.1 Morobe Provincial Government

The audit of the 2007 financial statements was completed and the management letter was issued but no response was received from the Provincial Administration. A disclaimer audit opinion was issued in April 2009. The control weaknesses identified in 2007 are detailed in the paragraph below.

Budgetary Control

The Expenditure Ledgers show a total of K104,145,352 being spent out of the total appropriation of K117,755, 900 with the total expenditure incurred within the amount authorized as per the Warrant Authorities and Cash Fund Certificates. However, the AGO noted that funds appropriated during the year were not utilized were rolled over to 2008. This practice has been going on for years and it represents a breach of Section 13 of the *Public Finances (Management) Act* 1995.

Revenue

An examination of collector statements (on a sample basis) relating to internal revenue collections done at the Revenue Office revealed that all the Collectors Statements were not signed by the Checking Officer as evidence of the Statements being checked.

Cash Book and Bank Reconciliations

The cash book for the Provincial Government Operating Account revealed favourable closing balance of K235,234 as at 31 December 2007 while the Provincial Treasury Operating Account revealed an overdrawn cash book balance of K903,634 as at 31 December 2007. The overdrawing of cash book indicates poor cash management practices.

The AGO noted a significant progress in reconciling accounts on a monthly basis; both the Provincial Government Operating Account and the Provincial Treasury Operating Account were reconciled up to September 2008. A significant progress was also noted in the clearing of all outstanding reconciling items from previous years.

Paid Accounts

The Provincial Government during the year and previous years paid lease rentals for contract officers from the advisor level and up. However, in the absence of a housing policy developed and approved by the Department of Personnel Management, the AGO could not ascertain whether the applicable rentals paid for each Officer were approved rates. Instances were noted of excessive payments to some officers. All these instances were reported in detail to the Provincial Administration.

Payments of Financial Assistance for small projects such as Poultry, Piggery etc were paid directly to the person requesting the financial assistance and not to the Supplier.

It was observed that there have been non-compliances with the procurement procedures. Most common was not obtaining three (3) written quotations.

Capital Works and Maintenance

The AGO's many attempts to see the Provincial Works Manager failed because the manager was constantly not available. As a result, the AGO was unable to confirm if capital works and maintenance projects that commenced during 2007 was completed and Completion Certificates issued.

Assets Management

No central assets register was maintained to record details of the following classes of assets owned by the Provincial Government: land and building, office equipments, motor vehicles, marine vessels, plant and machinery, tools and equipment, houses and housing inventories (furniture and white goods).

At the time of audit in November 2008, some improvements had been made in updating the divisional asset registers in a data base maintained by the Provincial Finance Office. The results of the examination of the asset registers from selected divisions were assessed as satisfactory except for the following anomalies:

- The Assets Registers contain details of items not of a capital asset nature such as Staplers, Paper Binders, Rubbish Basket, Kundu, and Mop Bucket, Dust Pan etc. These items should be recorded in an Inventory Register.

- The Custodian of the Asset is not indicated in the asset register

- The asset register sighted from the administrator's office and the commerce office does not show any addition or disposal of assets.

Advance Management

There was no effective control in place over the payment and acquittal of advances resulting in significant amount of un-acquitted advances totaling K805,123 as at 31 December 2007. Travel advances received for duty travel and acquitted were not supported by Boarding Passes and Ticket Butts as evidence that the Officer had travelled in that particular period.

Corporate Governance

Morobe Provincial Government does not have a corporate plan that establishes long term objectives, sets priorities and targets and takes into consideration the requirements of its stakeholders. The associated plans that need to be established to support the corporate plan have not been established. These plans are financial, asset management, human resource, information technology, risk management and divisional operating plans.

Internal Audit

The Internal Audit Unit of the Provincial Government consists of five (5) Internal Auditors. The routine areas of operation of the Provincial Government such as revenue generation, human resource, asset management and procurement and expenditure on capital works and maintenance amongst the major functions of the Provincial Government funding have not been subject to any appraisal by the Internal Audit Unit. The Chief Internal Auditor had been informed by this Office of the areas that needed thorough review.

5.12.2 Angau Hospital Board

The Hospital Board has submitted their financial statements for the period 2002 to 2007 for audit in January 2008. Field audits were completed and management letters were issued. No response was received from the hospital's management. Disclaimers of audit opinions were issued for all the mentioned reports in December 2008.

The audit of the accounts of Angau Memorial General Hospital was directed primarily to the evaluation of internal control systems, to examine the performance of financial operations with a view to assess the reliability and integrity of the financial statements and the extend of compliance with laws, regulation and directives. The issues identified from testing the 2007 accounts and the control environment are detailed in the paragraphs below.

Budgetary Controls

Total Appropriation for Angau Memorial Hospital for the year 2007 was K11,689,800. This included the amount of K6,000,000 for Salaries and Allowances paid directly by the Department of Health. According to information available, Salaries & Allowances paid during the year were K6,832,460 well in excess of the appropriated amount.

Revenue and Cash Management

Instances were noted where Doctors were raising and collecting fees directly from the Hospital patients. These receipts have not been properly accounted for. Other issues were:

- Perusal of the Ageing Debtors Report revealed outstanding Debtors totaling K76, 020 as at 31 December 2007. There was no evidence of any follow up action taken by the administration to recover long outstanding debts. For example, in 2004, the outstanding amount totaled K20,230 and in 2005 K14,590. In addition, the Ageing Debtors Report was incomplete as it did not record the full details of the outstanding debtors, such as the full address of the debtors and dates.

- The Dental services have been moved to town and the services were provided by Hospital dentists. Receipts collected from the dental services were never remitted.

- The Attaché accounting software used by the Hospital has proven to be very useful and is capable of producing monthly financial reports. However, proper narratives were not given in the cashbook. Also, there was no evidence to suggest that the bank reconciliations were checked and certified by a senior officer.

Payments of Accounts

Examination of the cash book, ledgers, payment vouchers and other related records with regards to the payment of accounts revealed the following:

- During the year, the Hospital paid a total of K125, 039 to various different security firms for security services provided. However, contract documents outlining the terms and conditions of their engagements were not made available to audit.

- Register or records maintained by the Hospital to keep track of properties rented by the Hospital for doctors and senior staff were not made available for audit verification. Examination of the payment vouchers revealed that on several occasions the Hospital had made double payments of rent.

- Lease Agreements and details of approved weekly rental rates for different levels of Doctors were not provided for our examination.

- A total amount of K132,179 was paid to Telikom PNG for telephone charges during the year. Examination of the monthly charges revealed that the amount of time or duration of some of these telephone calls to mobile phones and overseas numbers were longer than one hour hence, attracting significant monthly telephone bills. This issue was noted in our previous audits, and remains a major expenditure item for the Hospital.

- Examination of leave fares payments totaling K180,318 made during the year revealed that payments were made directly to the individual staff and not to various airline and shipping companies.

Assets Management

Examination of the cash book and ledger accounts revealed that various assets had been purchased during the year under review. These include the purchase of a motor vehicle at a cost of K105, 567.

Assets Register showing details of all assets owned by the Hospital was not furnished for verification and therefore it was not possible to verify whether assets purchased during the year were properly recorded and whether there were any physical controls exercised. Regular periodical stock takes were also not carried out.

5.12.3 Lae Urban Local Level Government

Lae Urban Local-Level Government had, for the first time, submitted their financial statements for the years 2002, 2003 and 2004 in late February 2008. The field audits and management letters were done and issued. No response was received from the management. A disclaimer of audit opinions was issue on June 2009 on the three accounts audited.

The financial statements for 2005 to 2008 are yet to be submitted to audit. The AGO has reminded Lae Urban LLG to prepare and submit the same as a matter of priority.

The issues identified from testing the 2004 accounts and the control environment are detailed in the paragraphs below.

Budgetary Control

The Supply and Appropriation Acts duly certified and dated was not made available. The audit found that the Commitment Ledgers have not been maintained and therefore commitment report was not possible to be produced for audit purposes.

Revenue

The state of records kept by the Lae Urban Local-level Government is below acceptable standards.

A review of the cashier's statements or cash receipts journal for the year shows that the receipts details posted on this record in support of the bank deposit advices cannot be traced and confirmed to relevant official receipts in the book fast due to unavailability of used receipt books.

The official receipt books issued for use by the cashier were not provided to audit and it was not possible to confirm that they were issued from the Accountable Forms Register.

Although, it is required that all cancelled official receipts are affixed to the book-fast copies, it was not possible to check due to unavailability of used official receipt books.

Debtors

Based on the statement of debtors provided, as at 3 December, 2004 debts were outstanding in relation to land tax, head tax and garbage rates totalling K8,506,725. The system in operation did not ensure that all debts are properly raised, recorded and followed up. Lae ULLG needs to improve on debt collection in arrears and devise systems to promptly collect current debts on timely manner.

Cash Book and Bank Balances

It was not possible to verify that the monthly cash book balances are correct brought forward to each succeeding month due to the unavailability of the cash book. In addition, on fourteen (14) instances, the bank statements of the main operating account were showing overdrawn balances. This indicates that cash management was very poor and needs to be improved.

Paid Accounts

Review of the payment procedures revealed that the Lae Urban Local Level Government did not strictly adhered to the Public Finances Management Act (1995), in procuring goods and services. The following observations were noted

- The delegation instrument of appointments of Section 32 officers, requisition officers, financial delegates, examining officers, certifying officers, and receiving officers, their specimen signatures and the designated financial limits were not sighted. As a result, the AGO was unable to verify whether all payments incurred during the year were properly authorized and approved by duly appointed officers.

- Quotations were not obtained from three (3) suppliers as required in order to determine the most economical price. Quotations register was also not maintained to record the quotations obtained.

- A total of K12,028 was paid to a software company in May 2004 being for payment of PGAS equipment. The AGO noted that as at the time of audit in July 2008, the Urban Local-Level Government was not using PGAS. No explanation was given as to whether the money was recovered.

Assets Management

A complete and updated asset register was not maintained by the Urban Local-level Government during the 2004 financial year. Periodic (annual) stock take of assets and inventories were not done. The accounting software called Impact Encore that was used by the Urban Local-Level Government to generate the financial reports also has modules for Assets Register and Inventories. These modules could be fully utilized.

Advances Management

Traveling advances including accommodation payments to officers during the year amounted to K30,360. However, due to non maintenance of Advance Registers, the AGO was unable to verify whether these advances have been properly acquitted.

Corporate Governance

Lae Urban Local-level Government did not provide a corporate plan that establishes long term objectives, set priorities and targets and take into account the requirements of its stakeholders.

5.13 NEW IRELAND PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
New Ireland Provincial Government	2007	2007	June 2009 Disclaimer	Significant control weaknesses identified
Kavieng Hospital Board	2004	2004	January 2008 Disclaimer	No recent statements submitted for audit, however, audit of controls completed for 2006.
Kavieng Urban	2008	2007	June 2009 Disclaimer	Records were unavailable for audit
Konoagil	2006	No		
Lavongai	2008	No		
Murat	2008	No		
Namatanai	2006	No		
Nimamar	2004	No		
Sentral Niu Ailan	2004	No		
Tanir	2004	No		
Tikana	2008	No		
Nimamar RLLG SP Authority	2006			2004 – 2006 financial statements received/fees awaited; 2007 – 2008 financial statements not submitted
Sentral Niu Ailan Development Corporation				No statements submitted since 1999
New Ireland Development Corporation	2004			1997 – 2004 audit fees awaited; 2005 – 2008 financial statements not submitted
Malagan Lodge	2004			1998 – 2004 audit fees awaited; 2005 – 2008 financial statements not submitted
New Ireland Shipping Ltd	2002			1999 – 2002 audit fees awaited; 2003 – 2008 financial statements not submitted

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Nimamar Investment Ltd	2004			2002 signed financial statements awaited; 2003 – 2004 audit fees awaited; 2005 – 2008 financial statements awaited
Nimamar Development Authority	2004	2004	Jan'2008 Qualified	Reports issued; now Nimamar Rural LLGSPA

5.13.1 New Ireland Provincial Government

The audit of New Ireland Provincial Government's financial statements for the year ended 31 December 2007 was unsatisfactory with disclaimed audit opinion being issued. It was concluded that the administration has not exercised adequate accountability and corporate governance over the operations during the year under review. The issues detailed in the paragraphs below are arising from the audit of 2007 controls. To the date of writing this report, the administration has not responded to the audit issues raised.

Budgetary Controls

Appropriation Act, Revised Appropriation Act, Original Budget and revised Budget Books were not furnished to this Office although requested. In the absence of these Budget documents, the AGO was unable to carry out a comprehensive review of the budgetary practices. In carrying out testing of expenditure, it was found that in 23 instances, the Provincial Government incorrectly charged expenditures totaling K101,814 to Vote items for which funds were not appropriated. This constitutes a Breach of the *Appropriation Act* and the *Public Finances (Management) Act 1995.*

Cashbook and Bank Reconciliations

There were significant reconciling items that remained uncleared in the bank reconciliation statement. When the reconciling items are not promptly cleared and posted, the accuracy of the reported revenue and expenditure balances are affected resulting in an unrealistic cashbook balance.

Revenue

According to the revenue ledgers, the Provincial Government collected a total amount of K20,259,883 from internal revenue sources against estimated collection of K31,775,512 resulting in a shortfall of K11,515,692 for the year ended 31 December, 2007. As per the list of house owned by the Provincial Government and provided by the Transport & Administrative Section, the Provincial

Government could collect on average K140,400 (ie,K5,400 per fortnight) from the rentals. During 2007 only K83,408 had been collected from rental of these properties resulting in a significant under collection.

It was established that no records were maintained relating to Land Tax. A revenue amount of K1,500,000 had been anticipated for the year. However, only an amount of K320 had been collected. There were no records or ledgers maintained in relation to Land Tax.

Paid Accounts

The following weaknesses were identified in internal controls over payment procedures:

- Payment vouchers in relation to 65 payments totaling K832,322 out of the 68 payments selected for examination were missing. This indicated extremely poor maintenance of records.

- Amount totaling K224,374 was paid during the year to two security firms. However, the contract of engagement, approval for their engagement and other supporting documents were not sighted during the audit.

- Provincial Supply and Tenders Board approvals were not sighted in the purchase of motor vehicles and payments to contractors for major capital works and maintenance.

- Several payments were made to different law firms during the year reportedly for legal services rendered to the Provincial Government. In the absence of payment vouchers and other supporting documents, the purpose of their engagements, and the outcome of any legal case was not known.

Capital Works and Maintenance

The Provincial Government paid a sum of K271,100 during the year as its counterpart funding towards financing the roads maintenance and rehabilitation projects in the Province. From relevant information obtained during the audit, these counterpart funds were paid into a trust bank account operated at the Bank South Pacific Limited, Borolo Branch. The Department of Works did not furnish financial reports to this Office as requested in order to ascertain whether the counterpart funds provided were utilized for the intended purposes.

Grants and Subsidies

Examination of the expenditure ledger revealed that during the year under review the Provincial Government paid grants and subsidies totaling K10,196,000 to various Districts, Local-level Governments, schools and individuals. However, there was no evidence sighted to indicate that accountability reports were sought from the recipient entities by the Provincial Government.

The absence of accountability reports exposes the Provincial Government to the risk that the recipient entities may not utilize the funds for the intended purposes.

Management of Advances

The Advance Register was not made available for audit examination.

During the year advances in excess of K167,900 were paid as temporary advances and/or cash. This included the payment of a temporary advance for Medical Fees of K65,200 to the former Provincial Administrator. In the absence of an Advance Register it was not possible to determine if the advances were subsequently acquitted.

The lack of controls exercised over recording and monitoring the acquittal of advances could enable officer to misuse the funds.

Assets Management

According to the expenditure ledgers, the Provincial Government purchased assets to the value of K1,039,600 during the year under review. This included the purchase of several vehicles, laptops, office furniture and equipment. It was noted however, that the Assets Register was not adequately maintained on a current basis and was incomplete in that it lacked other descriptive details regarding the assets such as the make, model, serial numbers and assignment of identification numbers for control purposes.

There was also no evidence of any physical stocktakes undertaken during the year. The incomplete and poor maintenance of the Assets Register and the lack of physical stocktakes being undertaken expose the Provincial Government to the risk of its assets being lost, stolen or damaged without being detected and reported.

Trust Accounts

The Government operated several trust accounts during the year under review. The following records and documents were never provided to enable this Office to carry out a comprehensive audit of these trust accounts: Trust Instruments, Cash Books, Ledgers, bank statements and reconciliation statements.

In the absence of accounting records and documents, fraudulent and improper transactions could have been processed. Funds could be used for purposes other than the Trust Accounts were initially established for.

Journal Entries

The Provincial Treasury no longer raises manual journal entries supported by copies of relevant transactions to effect adjustments and also for purposes of internal checks and controls in ensuring that the adjustments are genuine, accurate and were effected to the correct revenue and expenditure accounts.

Internal Audit

As noted in our previous audits, the Internal Audit Unit did not have any Annual Audit Plan and programs in place. There was also no Charter that sets out the mandate and scope of audit coverage and activities to be undertaken by the Unit.

The Provincial Government does not have an Independent Audit Committee that is established to oversee the activities of the Internal Audit Unit. This exposes the Provincial Government to the risk that procedural checks on transactions and accounts will not be carried out and that the occurrence of fraudulent and irregular activities could remain undetected.

Corporate Governance

The Provincial Government did not develop a Corporate Plan during the year under review that sets out long term objectives, sets priorities and targets and takes into account the requirements of its stakeholders.

The consequences of not establishing a Corporate Plan will lead to lack of development of planned priorities and long term objectives, inability to set targets and performance indicators to monitor its achievements and to take corrective action. It will also lead to an inefficient and ineffective service delivery in that stakeholders' and the communities' needs are not met.

Financial Statements

The audit opinion for the 2007 year was disclaimed due to the following:

- The financial statements of the New Ireland Provincial Government did not contain the Provincial Administrator's Statement for the year ended 31 December 2007. This statement is a written representation by the management in which management acknowledges its responsibility for the fair presentation of the financial statements, and it also represents a means of approving the financial statements. Since the management has not provided the necessary representations, this constituted a scope limitation and affected every statement of the financial statements.

- The balance of the Provincial Revenue Fund of K5,036,505 could not be confirmed as correct due to errors and material limitation of scope expressed in previous audit reports. In addition, material amount related to prior year adjustment totaling K4,552,360 could not be verified.

- Various unrelated bank and non-bank trust accounts related to National Government Agencies were incorrectly included in the total of cash at bank. The incorrect classification and disclosure of unrelated trust accounts significantly misstated the Trust Fund balance and hence the Consolidated Provincial Fund balance.

- Supporting documents such as trust deeds, cash book, cheque butts and other payment documentation were not made available for audit.

- There were no records in place for Land Tax revenue collection.

- Revenue and expenses related to estimated figure of Public Service Salaries of K6,731,630 and Teaching Services Commission Salaries of K14,733,159 have not been recorded in the Provincial Government's ledger.

5.13.2 Kavieng Hospital Board

The Kavieng Hospital Board has not submitted its financial statements for the year ended 31 December, 2007 for audit. The Hospital Board is required to furnish annual financial statements before 30 June in each year for the preceding year. The time and date of submission was not complied with. However, testing of the control environment for the 2007 year has been completed with management letter issued on 11 June, 2009. There was no management response received to the issues reported. The audit issues are detailed in the paragraphs below.

Corporate Governance

The Hospital Management did not submit for audit review a five year Corporation plan or an activity plan, to identify the Hospital's Mission, and goals. In addition:

- There were no documented internal Finance and Administration policies and procedures that adequately encompass all of Hospital financial management activities and appropriately specify internal control mechanisms. This contributed to the management's inability to comply with procurement and payment procedures.

- There was no formal review processes to monitor the performances of the respective divisions of the Hospital in terms of target implementation process, and other performance such as medical and clinical programs, infrastructure program, revenue collections, systems control, human resource management and Capital Assets and Properties. The quarterly reports were not compiled for the Management and the Board. Management failed to implement this very effective tool for monitoring.

Trust Fund

Before approving any expenditure, management should ensure that the most economical options have been considered and are selected prior to committing of funds for any expenditure. The following non-compliance with the *Public Finances (Management) Act 1995* and the Financial Manual was noted:

- Trust funds were expended on expenditures not specified under the Trust Instrument.

- The Annual Estimate of Revenue and Expenditure of the Trust Account were never furnished to the Fist Assistant Secretary, Department of Finance in accordance with the revised Trust Instrument.

- Proper accounting procedures were not applied to account for the monies either transferred or used to pay for expenses under the Operating account.

- The "Vehicle Saving Account", a trust account that was maintained by the Hospital during the year under review was not disclosed in any of the financial statements. In the absence of the year end bank statements, this Office was unable to ascertain the year end balance of this account.

- Available funds from the operational account were inappropriately transferred and receipted into the trust account.

Payment of Accounts

Control over decision making within the hospital management for financial matters strictly exercised by the Chief Executive Officer and the Director of Medical Services although, appointment of Section 32 Officers to approve requisitions have included the Directors for Medical and Nursing Services. This arrangement however, appears undocumented or instrumented as required by the finance legislation.

The requisition officer, examiner, and certifying officers were not formally appointed and the decision documented. In the absence of delegated responsibilities it was observed from several instances that claims were passed through without endorsement by the financial delegates.

Obtaining required number of quotations prior to purchase was also lacking.

Revenue

There was a lack of proper reporting processes for revenue collections, comparative analysis and reconciliation in order to keep the management fully informed of the progress in revenue generation and to initiate timely remedial action where shortfalls are expected.

This has resulted in non-disclosure of remittances in the Improvement Account and the internal revenue generated from Sales at the Kiosk.

The management responsibility to have the rates of fees and charges reviewed annually was not effective, resulting in no substantial increase in any of the revenue sources. Management lacked ability to identify and rectify revenue problems and to identify other collectable revenue sources for increase in revenue base rentals such as from institutional houses and hospital accommodation.

Collection and Banking

Inward Remittance Register was not maintained to register every inward valuable in cash, cheques or donations. Other revenues posted in the cashbooks were not accounted for in either a register or a revenue ledger.

Further, no debtor ledgers were maintained to account for uncollected revenues such as unpaid accommodation and/or canteen rentals.

Manual Cash Books were maintained for the Operating and the Trust accounts respectively in the absence of the Attaché Accounting Software program.

It is a requirement that the bank accounts are reconciled on a monthly basis. Perusal of the records revealed regular differences in balance exceeding K30,000.

Assets Management

Hospitals are required to maintain proper accounts and records of all their assets. A proper Assets Register should be maintained to record vital information. These should include information such as, type of assets, date of purchase, cost, locations and condition of each asset and also details on any disposals of assets.

Examination of the records relating to the maintenance of records in relation to the assets purchased and owned by the Hospital revealed the following:

- No Fixed Assets Register was maintained by the Hospital. There was no evidence to suggest that it was ever maintained.

- No information such as maintenance history and costs were sighted. Such information will be useful in making replacement decisions. If an asset is expensive to maintain, it may be prudent to replace it rather than spend heavily in maintenance and repairs.

- In the case of the residential properties, the value for maintenance and purchase of household items such as stoves, freezers, furniture and etc were not accounted for. The AGO noted substantial amount of monies had been incurred by the Hospital during the year on maintenance and purchases. However, these have not been accounted for. The Kavieng General Hospital has an extensive portfolio of fixed assets that has not been effectively managed through expense/revenue analysis, nor appropriately safeguarded through performance of asset stock takes or insurance.

- There was no evidence of any effective monitoring and reporting system in place to monitor damages, servicing, and registration of Hospital vehicles.

- The Hospital provided accommodation for its staff in institutional houses, quarters, compound, and rented accommodations under the expense of the Hospital. There were no proper housing policy guidelines in place to facilitate eligibility, rental, maintenance, and terms and condition of the staff housing.

Management of Advances

The Hospital's management failed to comply with the Financial Manual, Part 20. Although, Management had made several attempts to follow proper acquittal processes, there was no real consistency, continuity and sense of importance in their actions.

It was noted that in most cases, cash advances were paid for various officers for different purposes which were yet to be acquitted or recovered.

A memorandum account for un-acquitted Advances was not disclosed as a note forming part of the accounts.

Salaries and Wages

As there was no proper delegated responsibility and job description, wages sheets were not checked by appropriate officers to ensure that the rates, period, deductions, additions, and other information are accurate and that the correct persons are being paid.

Approvals were not obtained from supervisors before an officer was made to work extra hours. Perusal of the procedure revealed lack of compliance, which saw substantial overtime payments being paid without prior approval. Insufficient funds were also identified due to unbudgeted overtime payments.

A review and assessment of payment of salaries, wages, overtime, and other allowances revealed the following:

- Public servants, medical officers, dental officers, nurses, administration staff at mid-level accommodated in institutional or hospital houses or flats at the expenses of the Hospital are liable to pay rent to the Hospital. That is to forfeit the applicable rental allowance to the hospital and receipted as rental. It was noted that officers continued to receive rental allowances while enjoying the rent-free accommodation.

- Contract entitlements and gratuities were paid out of the trust account contradicting the purpose of the account.

5.13.3 Kavieng Urban Local-level Government

There was a material scope limitation in carrying out the audit of the 2007 financial statements due to unavailability of any documents and records. The requested reports and supporting documentation such as Cash Book, Bank Statements and Bank Reconciliations, Revenue and Expenditure Ledgers, Revenue Collection and Payment Records, Budget Books, Assets Register, Advances Register and Minutes of Assembly meetings were not provided for audit verification.

Subsequently, the audit opinion on the financial statements for the 2007 year was disclaimed.

5.13.4 Nimamar Development Authority

The audit of the 2001 accounts was completed and a disclaimer of audit opinion issued in January, 2008. The audits for the years 2002 to 2004 were also completed however, with qualified audit opinions issued in October, 2008. The 2004 issues are summarized as follows:

- Fixed asset register not maintained nor the annual physical stock-take performed to ascertain or confirm the existence, ownership, accuracy and completeness of the fixed assets disclosed at a net book value of K973,050.

- Accuracy and completeness of other debtors and prepayments of K3,582,748 could not be verified due to lack of supporting documents.

- The Authority disclosed investments in unquoted ordinary shares as K480,005 comprising of shares held in Lihir Holdings Ltd (K350,000); Lihir Mining Ltd (K30,000); Lakaka Ltd (K100,000); and Nimamar Ltd (K5). These investments were not supported by share certificates or other share-holding confirmations. Furthermore, the recoverability of investments with Lihir Holdings Ltd and Lakaka Ltd were doubtful as Lihir Holdings Ltd has ceased operations while Lakaka Ltd's future was uncertain.

- Term Deposits were disclosed as K1,191,000. IBD Certificates or other supporting documents were not available to substantiate ownership, accuracy and completeness of these deposits.

- General Fund Reserves were disclosed as K7,787,494. In the absence of a material expenditure supporting documentation, accuracy and completeness of these reserves could not be verified.

- The Authority has disclosed its Capital Reserves as K317,960 representing the transferred assets. The legitimacy of this transfer, the ownership of the transferred assets, and the accuracy and completeness of the fixed assets and revaluation reserves described as "capital reserves" could not be concluded in the absence of an assets valuation, the property title deeds and other transfer documents.

- Lack proper and up-dated register of motor vehicles, and failure to put in place a policy on motor vehicle allocation and usage.

- Board meeting minutes not signed by the Chairman to authenticate accuracy and correctness of the proceedings of the board meetings.

- Cost of capital projects described as "development works" of K4,367,133 were not subjected to proper tender procedures, nor were based on project feasibility reports, project implementation proposals and completion reports or certificates or the projects budgeted for.

- The Authority has not prepared or maintained proper records of its annual budget to ensure that the activities were within the approved budget.

5.14 ORO PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Oro Provincial Government	2006	2006	Issued March 2009 Disclaimer	Significant audit issues reported in previous report. Audit on 2008 controls in progress
Popondetta Hospital Board	2008	2008	In progress	Management letters for 2008 issued awaiting comments
Popondetta – Urban	2008	2008	Issued April 2009 Disclaimer	Management letter for 2008 issued awaiting comments
Afore	2008	No		
Tufi	No statements prepared			
Safia	No statements prepared			
Higaturu	2008	No		
Kira	2008	No		
Kokoda	2008	No		
Oro Bay	2003	No		
Tamata	2008	No		
Ambogo Sawmill				No recent financial statements submitted; status of the entity/audit to be determined
Higaturu Motors				No recent financial statements submitted; status of the entity/audit to be determined
Credit Corporation				No recent financial statements submitted; status of the entity/audit to be determined
Zamopool				No recent financial statements submitted; status of the entity/audit to be determined

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Central Marketing Agency				No recent financial statements submitted; status of the entity/audit to be determined
Oro Fisheries Authority				No recent financial statements submitted; status of the entity/audit to be determined

5.14.1 Oro Provincial Government

The Oro Provincial Government submitted its 2006 financial statements for audit in April 2008. The AGO examined the performance of the financial operations for this period and issued disclaimed audit opinion for 2006 financial year.

Financial Statements for the years ended 2007 and 2008 were not submitted as required by law. Examination of the 2007 control environment and an audit report detailing significant weaknesses was issued in May 2008. The AGO observed and environment of no accountability where significant amounts of money were redirected to the Provincial Treasury out of the Provincial Government's Appropriations. These findings were reported in my Part III report from 2007. The Oro Provincial Government has not formally responded to audit findings.

The deficiencies identified in the control environment created opportunities for embezzlement of public funds starting from the Provincial Executive Council to staff members and those engaged as consultants. Similar issues have been reported by the AGO for the last four years. No action has been undertaken by the Provincial Government to address any of the concerns reported.

5.14.2 Popondetta Hospital Board

The 2007 and 2008 audit reports were under preparation at the time of writing this report. The issues regarding the financial statements and the control environment in 2007 were reported in my 2007 Part III report.

5.14.3 Popondetta – Urban Local-level Government

The 2008 audit report was under preparation at the time of writing this report. The results of the previous year audit indicated that there were no adequate controls over payment processes, assets, and approvals, segregation of duties and reconciliations, with the risk of misappropriation assessed as very high.

5.15 SANDAUN PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Sandaun Provincial Government	2007	2007	April 2009 Disclaimer	Audit of 2008 accounts in progress
Vanimo Hospital Board	2007	2007	August 2009 Disclaimer	Audit of 2008 accounts in progress
Vanimo Urban	2008	2006	November 2008 Disclaimer	Audit of 2008 accounts in progress
Amanab	2008	No		
Bewani	2008	No		
East Aitape	2008	No		
East Wapei	2008	No		
Green River	2008	No		
Oksapmin	2003	No		
Maimai	No data	No		
Nuku	2008	No		
Namea	2003	No		
Palai	2007	No		
Telfomin	2003	No		
Walsa	2008	No		
West Aitape	2008	No		
West Wapei	2008	No		
Yangokok	2008	No		
Yapsie	2003	No		

5.15.1 Sandaun Provincial Government

The audit of the 2007 financial statements was completed and the Management letter was issued but no response was received from the Provincial Administration. A disclaimer audit opinion was issued in April 2009. The control weaknesses identified in 2007 are detailed in the paragraphs below.

Revenue

Revenue Registers relating to Liquor Licensing, Motor Vehicle Registration, Drivers License, etc were not maintained by the Revenue Officer. Subsequently, I was unable to very the completeness of the reported Provincial Internal Revenue.

Reconciling items relating to revenue appearing in the bank reconciliation statement were not posted to the revenue ledgers and as such these were not incorporated in the total revenue balance.

Cash Book and Bank Balances

The monthly bank reconciliations of Sandaun Provincial Government Operating Account for the years 2002 to 2008 were still not compiled at the time of audit in December 2008. The Officer designated and responsible for the task of compiling the monthly bank reconciliations was also busy with other duties and was not giving priority to this very important task.

Provincial Treasury Operating Account as at 31 December 2007 contained significant reconciling items that were not cleared and were carried forward to 2008 as shown in the month of July 2008 bank reconciliation. These reconciling items dated back to 1996. No serious attempt has been made to investigate and clear these items.

Procurement and Paid Accounts

A report on the Operations of the Provincial Supply and Tenders Board for 2007 was not furnished to the Central Supply and Tenders Board as required. The Minutes of the Tenders Board were not descriptive enough; do not include the amount of the contractors bid etc. The minutes of meeting number 01/2007 were not signed by the Chairman and the Executive Officer of the Tenders Board. All minutes of the Board has to be signed by both the Chairman and the Executive Officer to validate the minutes.

The above observations were also reported in AGO 2004, 2005 and 2006 audit management letters. The Provincial Government replied that appropriate action would be taken to remedy the problems. However, at the time of audit in December 2008, these matters have not been remedied.

Payments were made based on quotation and not on invoices. Claims for payments were not certified prior to authorization of cheques, and expenditure was charged to incorrect vote items.

Assets Management

An Assets Register was not maintained during the 2007 financial year. Periodic stock takes were also not undertaken. In the absence of the assets register, I was not able to ascertain the existence and the value of assets as at 31 December, 2007.

Capital Works and Maintenance

The Planning and Technical Branch has failed over the years to ensure there is value for money for works and maintenance carried out. As reported in 2004 to 2006 management letters, there is no close supervision of projects undertaken by contractors including maintenance works resulting in projects being delayed, left abandoned and not completed at all. The contractors were running out of funds and asking for additional funds or being paid without completing the projects.

Also, the Provincial Government has never penalized any contractors for failing to complete the projects.

A sum of K190,000 was paid to Vitas Construction for the gravelling of road from Boni to Lumi. No approval was sighted from the Provincial Supply and Tenders Board. There was no signed contract between firms and the Provincial Government relating to this Project. However, a payment was made on 5 May 2007 without any progressive reports received.

Advance Management

There was no effective control in place over the payment and acquittal of advances resulting in significant amount of un-acquitted advances at 31 December 2007. These advances dated back to 2000. Also, new advances were given to Officers who had previous advances still outstanding which is contrary to the finance requirements.

Internal Audit

The Annual Work Plan of the Internal Audit Unit has not been implemented effectively, due to lack of staff and inadequate funding. There was no Audit Committee to oversee the objectives and the activities of the Internal Audit. An Audit Charter that sets out the mandate and the scope of the internal audit activities was not prepared.

5.15.2 Vanimo Hospital Board

The Hospital Board has submitted their financial statements for 2007 for audit in November 2008. Field audit was completed and management letter was issued. No response was received from the hospital management. Disclaimer of audit opinion was issued in August 2009.

In general, it was found that the Hospital lacked documented finance and administration policies and procedures to specifically address internal processes and controls. The appointment of requisitioning and approving officers was also not documented. It was found that there was inadequate reporting of financial information (budgets/cash flow) and performance measurement of achievements both internally and externally.

Budgetary Controls

Examination of records and documents relating to Budgetary Control revealed the following observations:

- Budget estimates were formulated and approved only for the Operational Account where National Grants were received and expended. However, no budget estimates were formulated and approved for the Hospital Fees Trust Account. As a result, expenditure out of the Hospital Fees Trust Account was not in accordance with any approved budget.

- Expenditure was incurred out of incorrect votes from the Operational Account. AGO noted five (5) instances where expenditure incurred out of the Hospital Fees Trust Account was not allowed by the Trust Instrument.

Revenue

The actual revenue received under the Operational Account and the Hospital Fees Trust Account could not be agreed to any revenue ledgers.

A test check of collections and banking of Public Monies for the month of August 2007 were noted to be satisfactory in that all collections were banked daily and there were no under banking. However, audit noted that there was a delay in the posting of the Collector Statements. For example, the August Collector Statements were posted in September 2007. Furthermore, the Collector Statements were not properly filed in Arch Files but placed loosely in folders.

Cash Book and Bank Balances

The cash book from the Attaché Accounting System for the Operational Account and the Hospital Fees Trust Account were not produced for audit examination. The Attaché Accounting System used by the hospital and also other hospitals does not produce a Cash Book which shows the opening balance, receipt and payment and the closing balance. Instead the Attaché System produces a General Ledger described as a Cash Book.

It is a mandatory requirement that the Hospital reconciles its bank accounts on a monthly basis. Bank balances should be reconciled against the Cashbook balance and the reconciled Cash Book balance should agree to the General Ledger for both Operating Account and Trust Account.

The AGO noted from the Hospital Fees Trust Account that, deposits not on bank statements of K2, 970 and withdrawals not on bank statement total of K2, 272 appearing in the December reconciliation have been carried forward up to the month of October 2008. The management did not make any attempt to investigate these items and clear them.

The monthly bank reconciliations were also not checked by the Director of Finance and Administration to ensure accuracy of the process.

Procurement and Payment Procedures

An examination of selected payment vouchers revealed the following anomalies:

- A sum of K104,078 was paid to two construction companies for construction and building materials for a House at Section 25, Allotment 23. A Rental Agreement between the landlord and a staff member of the Hospital - Health Extension Officer (HEO), stipulated eight (8) years of rental term. This Rental Agreement was approved by the Vanimo Hospital Board upon advice by the Chief Executive Officer. The Rental Agreement was signed by the Tenant, the Chairlady of Hospital Board, the Chief Executive Officer and witnessed by the Director Finance and Administration. The payment represented eight years of rent in advance. Once the house was built, the

HEO was supposed to move in. The Chief Executive Officer had used his position to influence the approval of the Hospital Board. There was a conflict of interest as the landlord was the CEO's wife. The above clearly amounted to misuse of public funds.

- The same landlord is an owner of another house which was again rented to the Hospital. The first rental agreement was signed on 25 August 2005 to be effective for the following thirty six (36) months. The rental was K1,500 per month. On 25 August 2008, a new Lease Agreement was signed increasing the rent of K2,400 a month for a period of 144 months or 12 years. In addition to the existing conflict of interest, the AGO found the rent to be excessive.

- A further amount of K9,400 was paid to renovate the Chief Executive Officer's house. The house was subsequently sold and was no longer being used by the Hospital for the Chief Executive Officer. The Hospital has unnecessarily spent the amount on renovation and wasted public funds.

- The payments amounting to K13,123 incurred out of the Trust Account were not related to the purpose of the Trust Fund as specified in the Trust Instrument

Assets Management

The Hospital failed to ensure a Comprehensive Assets Register was maintained during the year to record details of all capital assets purchased and owned by the Hospital. No annual stock take of assets and Inventories of the Hospital were undertaken during the year. These matters were highlighted in our previous reports. No action was taken by the management to address the issue.

5.15.3 Vanimo Urban Local-level Government

The 2005 and 2006 financial statements of the Vanimo Urban Local-level Government were made available for audit, Management Letters were issued but no response was received from the management. Disclaimers of audit opinions were issued in November 2008 for both years. The issues detailed in the paragraphs below are a result of the audit of the 2006 transactions and controls testing.

Revenue and Banking

The following problems were noted in the revenue and banking process:

- Debtors ledgers relating to Sanitation & Garbage, Trading Licenses, Rental of Properties, etc. were not maintained during the previous and current year.
- There was no safe or other facility maintained to keep unbanked collection and other valuables.

- Official Receipt Book was not used to issue receipts for the cash collections made, starting from July 2006 until October 2007. Collections were made at the reception area where a staff member was sitting without the area being properly enclosed. The staff member was not a dully appointed Collector of Public Moneys.
- Significant shortfalls in revenue collections were noted in 10 revenue heads out of 14.
- The Cash Book maintained for the 2006 year had an overdrawn balance of K193, 892.
- Bank reconciliations have not been performed since August 2006. There were large amounts of un-reconciled items and un-presented cheques that remained un-cleared at the time of the audit.

Assets Management

A complete and up to date Asset Register was not maintained. Periodic stock takes were also not done. The AGO was unable to confirm the existence, custody and condition of the Urban LLG's assets.

Advance Management

Cash advances paid to officers during 2006 totaling K19,699 (K36,286 advances in 2005) were not recorded in the Advance Register. As a result, the AGO could not confirm whether they have been acquitted.

Salaries and Allowances

The Vanimo Urban LLG did not have a Staff Establishment Register with funded positions. All the positions were vacant and they were being acted on, including the Urban LLG Town Manager position. Current staff on strength was 16 and they were improperly paid wages through cheques.

5.16 SIMBU PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Simbu Provincial Government	2007	2007	April 2009 Disclaimer	Significant control weaknesses identified
Kundiawa Hospital Board	2007	2007	October 2008 Disclaimer	Significant control weaknesses identified
Chuave	2005	No		
Elimbari	2005	No		
Gena/Wangia	2005	No		
Mt. Digine	2005	No		
Gumine	2005	No		
Karimui	2005	No		
Kerowagi Urban	2005	No		Audits to be disposed
Kerowagi Rural	No data			
KumaiBomai	2005	No		
Kundiawa Urban	2007	2006	October 2008 Disclaimer	Audit of 2007 statements is in progress.
Lower/Upper Koringl	2005			
Kup	2005	No		
Mitnande	2003	No		
Nigikande	2005	No		
Nomane	2005	No		
Salt	2005	No		
Siane	2005	No		
Sinasina/Yongamugl	2005	No		
Suwai	2005	No		
Tabare	No data			
Waiye	2003	No		
Chimbu Holdings				No recent financial statements submitted; status of the entity/audit to be determined

5.15.1 Simbu Provincial Government

The audit of Simbu Provincial Government financial statements for the year ended 31 December, 2007 was unsatisfactory with disclaimed audit opinion being issued. The paragraph below detailed issues shortcomings with the control environment and the financial statements.

Budgetary Controls

Examinations relating to Warrant Authorities and Cash Fund Certificates issued under National and Provincial accounts found that they were satisfactorily recorded, maintained and transferred to appropriate ledgers and records. However, we noted that the budget was overspent by K1,982,729; (the actual expenditure of the Provincial Government amounted to K43,314,529 compared to the revised estimate of K41,331,800).

Revenue Collection

It was pleasing to note that the revenues collected were promptly banked and there was no significant under banking. However, there were no controls in place to ensure completeness of revenue collection and recording of revenue in relation to Land Rates, Housing Rentals, Motor Vehicle Registrations and Liquor Licenses and Fees. Subsequently, I was unable to verify the accuracy of the reported internal Provincial Revenue of K2,026,435.

Minutes of Meetings

The Simbu Provincial Executive Council and Assembly Meeting Minutes were not provided for audit examination. Subsequently, I was unable to uncertain whether decisions on financial matters have been implemented and whether those decisions were in accordance with the finance legislation.

Payment of Accounts

- There were 31 instances where payments totaling K46,566 were made under incorrect vote items contrary to budgetary provisions.

- Paid vouchers totaling K194,166 were not provided to audit for examination. As such, I was unable to ascertain their validity.

- Payments contrary to the *Public Finances (Management) Act 1995* were made such as: reimbursements to government's employees totaling K203,986; and payments for fuel related costs of K35,417 without statements from providers.

- Documentation containing names of financial delegates and their delegation limits was not made available for verification.

- Cash Advances as well as Traveling Allowances totaling K1,415,606 were paid during the year without being acquitted.

Assets Management

A complete and up to date Assets Register was not maintained. Periodic stock takes were also not done. The AGO was unable to confirm the existence, custody and condition of the Provincial Government's assets.

Capital Works and Maintenance

The Provincial Government incurred a total expenditure of K928,700 on Capital Works and Maintenance during the year. Due to unavailability of the pre-qualification register, the AGO was unable to verify whether these contractors had the necessary experience and expertise to undertake those projects. The responsible officers were also not available to explain the selection process.

Salaries and Wages

Examination of records and documents relating to salaries and wages revealed the following matters:

- History cards were not sighted for five (5) senior officers of the Simbu Provincial Government.
- All contracts relating to contract officers have expired.
- Performance Appraisals have not been regularly done.
- Staff on strength totaling five hundred and three (503) less substantive appointment of three hundred and eighty eight (388) resulted in total of one hundred and fifteen (115) unattached employees. It has been noted that submissions had been made by the Human Resource Division of Simbu Provincial Government to Department of Personnel Management for the un-attached officers to be paid off.

Internal Audit

The internal audit plans, programs and copies of audit reports were not provided to this office for verification although various verbal and written requests were made. The skills and training level of the staff members were assessed as below acceptable level.

5.15.2 Kundiawa Hospital Board

The audit of Kundiawa General Hospital financial statements for the year ended 31 December, 2007 was unsatisfactory with disclaimed audit opinion being issued. The audit findings are as follows:

- The General Hospital did not maintain accounting records and asset register for fixed assets purchased in previous years. In the absence of complete assets register, I was not able to verify the completeness, existence, accuracy and valuation of the fixed assets at the year end.

- No advance register has been maintained. Travel advances and subsistence totaling K132,042 for the year were never acquitted. Therefore, there was a limitation of scope as I could not ascertain the value of the advances and also whether advances were actually utilized for the intended purposes.

- The Hospital did not maintain expenditure ledger to record expenditure under the various votes as a basis for the production of the financial statements. As a result, I was unable to verify the expenditure under the various votes shown in the financial statements.

- The Hospital's income included collection of hospital fees in cash. There was no system of control over the collection of hospital fees and there were no procedures which the AGO could apply to verify the completeness of the hospital fees. Consequently, I was unable to ensure the completeness and accuracy of the Other Income of K381,036.

5.15.3 Kundiawa Urban Local-level Government

The financial statements for the Kundiawa Urban Local-level Government's financial statements for the year ended 31 December, 2007 are yet to be submitted for audit. The results of the audit of Kundiawa Urban Local-level Government financial statements for the year ended 31 December, 2006 was unsatisfactory with disclaimed audit opinion being issued. Paragraphs below detailed issues identified during the audit of 2006 accounts.

- There was no proper system of revenue collection in place as one person was responsible for receipting, custody, recording and banking of receipts. In the absence of separation of above functions, there is possibility that receipts/revenue could be misappropriated or applied for unauthorized purpose. Consequently, the completeness of the revenue collected during the year could not be vouched.

- Examination of controls over expenditure revealed that payments have been made without supporting documentation, and instances were noted where payments were not examined or certified as required by *Public Finance (Management) Act 1995*.

- The Town Council did not maintain appropriate records for its fixed assets to enable the valuation and existence of its assets. Also, the management did not carry out any physical verification. It was therefore, not practicable to extend audit procedures to verify the existence and valuation of the fixed assets.

- Advances Registers had not been maintained to record advances granted during the current and prior years and as a result, audit was unable to determine the outstanding advances.

- The Kundiawa Urban Local Level Government did not have a Corporate Plan that establishes long term objectives, sets priorities and targets and takes into account the requirements of its stakeholders.

5.17 SOUTHERN HIGHLANDS PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Southern Highlands Provincial Government	2008	2008	June 2009 Disclaimer	Significant control weaknesses
Mendi Hospital Board	2008	2008	June 2009 Qualified	Improvements noted
Awi/Pori	2008	No		
East Pangia	2005	No		
Erave	No data			
Hayapuga	2007	No		
Hulia	2008	No		
Ialibu Basin	2005	No		
Ialibu Urban	2008	No		Audit to be dispensed
Imbongu	2005	No		
Kagua	2008	No		
Karints	2008	No		
Kewabi	2007	No		
Komo	2008	No		
Kuare	2008	No		
Lai Valley	2007	No		
Lake Kopiago	2008	No		
Lake Kutubu	2005	No		
Lower Mendi	2005	No		
Aiya	No data	No		
Mendi Urban	2005	No	No FS	No 2007 financial statements were prepared. Audit to be dispensed.
Mt. Bosavi	2008	No		
Nembi Plateau	2008	No		
Nipa Basin	2005	No		
North Koroba	2005	No		
Poroma	2008	No		
South Koroba	2008	No		
Tagali	2005	No		
Tari Urban	2005	No		Audits to be disposed

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Upper Wage	No data	No		
Lower Wage	No data	No		
Tebi	2007	No		
Upper Mendi	2007	No		
Kutubu Development Authority				No recent financial statements submitted; status of the entity/audit to be determined

5.17.1 Southern Highlands Provincial Government

The audit of the financial statements of Southern Highlands Provincial Government for the year ended 31 December, 2008 was unsatisfactory with disclaimed audit opinion being issued. The deficiencies identified in the control environment created opportunities for misuse of public money. The paragraphs below detailed issues identified.

Budgetary Control

The Provincial Appropriation Act 2008 No. 1 of 2008 was passed by the Provincial Assembly on 17 December, 2007 authorizing funds totaling K180,007,500 to be spent out of the Provincial Consolidated Revenue Fund during the financial year, 2008. This Act was repelled by another revised Supplementary Budget Appropriation Act 2008 No.2 of 2008 on 1 January 2008. The revised Act which superseded the original Act, authorized appropriations of K267,007,500, an increase of K87,000,000 from the original amount. The following issues were noted:

- The revised budget 2008 and the Appropriation Act provided to audit were not certified by the Governor and the Assembly Clerk. The Ministerial Approval for this budget was also not sighted in audit.

- In the absence of Provincial Assembly, and Provincial Executive Council meeting minutes the AGO could not ascertain if any resolutions were passed to endorse and approve the above budgets by the PEC and Provincial Assembly.

- The Southern Highlands Provincial Government did not strictly comply with the budgetary control procedures resulting in revenues totaling K156,016,303 not properly accounted for in their respective ledgers per budget estimates. Expenditures relating to internal revenue have been incurred without posting the revenues to the ledgers and cash book, consequently over drawing the cash book. Grant revenues were posted correctly to the cash book but credit entries were erroneously posted to a trust account instead of revenue ledgers.

- Complete set of warrant authorities issued by Department of Finance were not sighted in audit. Actual collection and spending of grant revenues and related expenditures were not restricted to budget provisions. Consequently Budget performance analysis was not possible.

Revenue

Bank reconciliations show Internal revenues totalling K129,344,611 being direct bank transfers. These were not identified and posted to their respective cash books and ledgers. Consequently these revenues were not disclosed in the financial statements.

Secondly, in the absence of Benefit Sharing Agreements, the AGO was unable to confirm if all royalties due were received from various Resource Projects.

The AGO was unable to establish and confirm the actual grants received during the year from Department of Finance due to following:

- The entire grants received were not itemized and posted to the respective revenue heads in their respective ledgers per budget estimates.

- Complete set of Warrant Authorities were not available on files provided to audit.

- The grants received were posted to the ledgers and cash book by way of Journal Entries, but complete set of journal entries were not available on files provided.

Cashbook, Banking and Reconciliations

The year end cash book and bank reconciliations of the two operating accounts maintained by the Provincial Government revealed the following matters:

- The SHPG Operating Account

  At the year end, the bank account reflected a credit balance of K3,563,370, whilst the cash book balance showed an overdrawn balance of K129,297,643. The bank reconciliations at year end were not correctly done to agree to the closing bank and cash book balances. Additionally, negligence by the Provincial Treasury Office staff resulted in the reconciling items awaiting clearance in the schedules attached to the bank reconciliation. Those relating to current year understate records such as revenue and expenditure ledgers, cash books, and the related financial statements.

- Provincial Treasury Operating Account

  At year end, the bank account reflected a credit balance of K54,817 contrary to an over drawn cash book balance of K1,136,893. The bank reconciliations at year end were not correctly done to agree to the closing bank and cash book balances. Additionally, negligence by the Provincial Treasury Office staff resulted in those reconciling items awaiting clearance in the schedules attached to the bank reconciliation. Those relating to current year understate records such as revenue and expenditure ledgers, cash books, and the financial statements.

- In some instances cheque serial numbers were shown in the cheque numbers column of the bank statement of both accounts instead of actual cheque numbers, rendering bank reconciliation job difficult.

Grants and Subsidies

Grants totaling K15,348,822 paid to various recipients were neither supported with accountability statements nor were any efforts made to obtain them. Consequently, the AGO was unable to confirm whether the funds given were correctly applied for the intended purposes.

Guidelines governing the selection process in respect of approving, payments of financial assistance and monitoring of these grants were not sighted in audit.

In the absence of guidelines and control mechanisms, there is a high risk of misuse and misappropriation of these grants

Procurement Procedures

A review of Provincial Supply and Tenders Board revealed the following matters:

- Instrument establishing the Provincial Supply and Tenders Board, appointing the members and specifying their limits, quorum, authority and jurisdiction of the Board was not provided to audit.

- Certificate of Inexpediency (COI) have been excessively used. The *Public Finances (Management) Act* allows COI's in state of emergencies such as Natural Disasters etc. It was assessed that no rush or emergency situation existed that required such COI usage. In our management letter, we recommended that this practice must be stopped in future.

- Registers provided to audit revealed that projects with values exceeding K3,000,000 were approved by PSTB against their limit of K3,000,000. As such, the approval of these contracts and subsequently releasing of funds against these projects in advance were illegal.

Paid Accounts

The audit of paid accounts revealed gross negligence by the processing staff and also misuse of money and entitlements by senior staff members. There was complete disregard of fiscal accountability. This practice was tolerated by the Provincial Administrator. No measures were taken to prevent abuses of public money in its own administration.

Major concern was noted with missing documentation. Payment vouchers for expenditure totaling K34,438,726 were missing from files provided to audit for inspection. These expenditures comprised 42% of the total expenditure incurred by the Provincial Treasury during 2008. The AGO was unable to verify the correctness and genuiness of these payments. Some of these were for cash reimbursements.

Examination of expenditures other than capital works selected on sample basis totaling K17,359,109 reveals the following weaknesses:

- Expenditure totaling K375,500 were only supported with approval forms only, without other documentation. In the absence of supporting vouchers audit could not verify these payments.

- In most instances, procedural deficiencies such as claims not certified and examined by respective Certifying and Examining Officers have occurred.

- Expenditure of K1,850,633 for hire cars was not supported with three written quotations and was also paid from incorrect votes. Further, the purpose of these hires was not stated on documents sighted.

- Expenditures of K3,999,797 and K3,749,000 for consultancy and legal services respectively were not supported with documents such as Identification of the need for consultancy and legal services, PEC endorsements, PSTB approvals, signed and sealed contract agreements for engagement and execution of tasks specified in the contract. Further, these payments were not supported with any evidence of services delivered to the Provincial Government.

- Expenditures of K202,500 for court orders were not supported with actual court orders and summons.

- Expenditures of K494,700 incurred on fuel purchases were not supported with fuel purchase orders and proper supplier invoices showing details of vehicles that collected fuel, date, litres of fuels supplied and officer that collected fuel. Also some cash advances given to individuals for fuel were not acquitted.

- Payments totaling K575,113 were made to reimburse various expenditures Incurred by SHPG staff. They were not supported with approval of official business trips outside the province.

- Expenditure of K197,145 had occurred for stationeries. Some invoices did not show details of materials supplied.

- Expenditure of K148,042 for hotel accommodation was not supported with written quotations from other hotels. In some instances invoices indicate consumption of meals and beverage, which should have been paid cash from staff's traveling allowances.

- Expenditure of K256,276 for accommodation rentals were not supported with Tenancy Lease Agreements. Of this amount K200,000 relates to Provincial Administrator's accommodation rentals at a daily rate of K660 paid to three different land lords. In the absence of tenancy agreements and employment contracts, these expenditures were considered excessive and fraudulent. This amount of money would have been sufficient to purchase a house to accommodate the Administrator. We made a recommendation in the management letter that the Administrator should return the illegitimate payments that are above the reasonable level made for his accommodation before the end of 2009 calendar year.

- Expenditures of K560,863 for maintenance work were not supported with three written quotations, mini works contracts, work inspection reports and certificate of completion. In the absence of such documents the AGO could not reliably verify these payments.

- Expenditure of K503,040 for security services provided were not supported with a Contract Agreement confirming engagement of security companies and groups.

- Expenditure of K252,000 being for medical expenses were not supported with referral reports from qualified Doctors. In one instance a Port Moresby based policemen claimed to be personal security of the Governor sustained a minor knife injury not directly relating to providing security to the Governor and was paid a compensation of K85,000.

- Expenditures of K470,000 incurred to acquire Land from customary land owners were not supported with Land Valuation Reports, Contract of Sale detailing transfer of ownership to the Provincial Government and provisions to resolve future land disputes.

- District Treasuries were paid lump-sumps totaling K4,140,000. Details and purpose of these funds could not be ascertained in audit. Most payment vouchers were missing and few sighted contained approval forms only. These expenditures are no different to cash advances and we recommended in our report to the management that acquittals must be obtained from District Treasurers.

- An invoice of K21,000 for outstanding vehicle hires was altered without any initials to K30,000 while the invoice still indicate K21,000. Cheque was raised for K30,000 and paid.

- Expenditure of K435,000 were paid being for consultancy fees for updating and establishing a comprehensive Asset Register for the whole Province. No such Assets Register was sighted at the time of this audit. These payments commenced in 2005, without any tangible results.

- Expenditure of K32,030 was incurred to purchase twenty eight Fountain pen is considered luxurious.

- An expenditure of K30,000 paid to an individual being for use of telephone was not supported with a detailed invoice showing the usage of these facilities, by whom and for what business of the Provincial Government. Without proper supporting documentation this payment is considered fraudulent.

- An expenditure of K25,000 being for typing services rendered by an individual is considered unnecessary as the same jobs could have been done at no cost by the Provincial Government's typing pool employed and maintained on payroll. This payment is considered unnecessary and fraudulent.

Capital Works

Capital works expenditures of K103,613,177 comprise 64% of the total expenditure for the year. Irregularities and weaknesses in respect of these expenditures noted in the audit were as follows:

- In the absence of an Instrument of appointment of PSTB members, to give authority and jurisdiction to the board, the resolutions passed and contracts awarded are null and void.

- The Southern Highlands Provincial Government (through the Office of Provincial Works Advisor) did not have a project manager and a qualified engineer at the time of this audit increasing the risk that substandard jobs performed by contractor may not be detected by layman.

- Expenditure of K88,249,777 for capital works projects paid to various companies was not supported with work status and inspection reports, completion certificates and job variation approvals. The Executive Officer of PSTB confirmed that only two of these projects were inspected while other payments were made without any form of job certification. Most of the payment vouchers relating to these payments were missing while others available on file contained only approval forms. Furthermore, the inspection reports of the two projects inspected were not available on files provided to audit.

- A major project in Mendi town known as Mendi Valley Plaza was approved at a contracted value of K13,000,000. K5,400,000 was released to the successful bidder. An officer of AGO inspected the site on19 of May 2009 and confirmed that work has not commenced on this project.

- Expenditures of K13,832,700 for various capital works projects released in lump sum to various implementing agencies and Individuals were not supported with project proposals and accountability statements.

- Two PSTB meetings were held on the 18 November 2007 and 23 December 2008 to approve a total of seven major projects with contract values of K77,630,000. Funds totaling K38,182,000 held against these projects to successful bidders were not supported with certified copies of PSTB meeting

minutes, executable contracts, work status and inspection reports, completion certificates. The funds relating to projects approved in 2008 were released on the 27 December 2008, three days after PSTB approval date. The Mendi Valley Plaza project mentioned in paragraph above being approved in 2007 is a clear evidence of funds being released in advance to successful bidders but actual work has not yet started at the time of this audit. It is highly possible that work may not be done or be sub-standard quality. The Provincial Government had taken a very high risk by releasing millions in advance, which may cost millions in legal bills again to recover it from the contractors if no work is done. Mendi Valley Plaza project is a good and clear example to support this argument.

Assets Management and Control

Assets Registers (if any) was not made available to this Office. Expenditure ledgers of 2006, 2007 and 2008 show acquisition of assets totaling K8,023,235. In the absence of Asset Register, the AGO could not physically verify their existence and ownership of the assets.

Advance Management

The Advance Registers provided were poorly maintained and incomplete in respect of the following: acquittal dates were not shown, advances given were not serially numbered and referenced to acquittal vouchers, Cash and Travel advances were not separately recorded, Expenditure ledgers reveal cash and travel advances totaling K5,869,372 and K167,329 respectively.

Cash and Travel Advances totaling K153,821 and K18,007 respectively remained outstanding at the time of this audit according to the register provided. In view of the above observations, the outstanding advances could be significantly more.

Journal Entries

Three journal entries totaling K8,471,000 raised to post grant revenues to the cash book and revenue ledgers and various journal entries were missing from the files inspected. In the absence of supporting vouchers, independent check and approval for posting of the journal entries raised by a senior officer the validity of those journals could not be ascertained in audit.

PEC and Assembly Meeting Minutes

The PEC meeting minutes and attendance register together with the list of PEC members were not provided for audit.

Expenditure of K100,000 for PEC sitting allowances in respect of two sittings held in Port Moresby were not supported with certified copies of these meeting minutes and attendance registers. This amount was found to be excessive.

Internal Audit

Documents presented by the Chief Internal Auditor show that Southern Highlands Provincial Government did not provide adequate budget and logistical support for it to function effectively. The Internal Audit made various attempts with the Provincial Government to rectify the situation.

During the year, the Internal Audit Unit did not complete any audit reports. This was mostly due to funding and logistical problems.

Presentation of Financial Statements

Finance Instructions 4/2000 issued under section 117 of the *Public Finances (Management) Act 1995* state the prescribed format for the preparation and presentation of the Financial Statements for the Provincial Government/Local-level Government. The financial statement of Southern Highlands Provincial Government:

- Did not contain the Provincial Administrator's Statement for the year ended 31 December 2008.
- The statements were not signed by the respective senior management as required.
- Appendix containing outstanding cash and travel advances were not prepared and disclosed.

The financial statements were not presented in the format required by the Finance Instructions. This placed limitation of scope on every statement audited. As stated previously, the audit opinion on the 2008 financial statements was disclaimed.

5.17.2 Mendi Hospital Board

It was pleasing to note, that in the audit of the 2008 financial statements of Mendi General Hospital, improvements have taken place in hospital's operations and corporate governance. The audit opinion however, was qualified, due to:

- Chief Executive Officer not signing the financial statements. This statement is a written representation by the management in which management acknowledges its responsibility for the fair presentation of the financial statements, and it also represents a means of approving the financial statements. Since the management has not provided the necessary representations, this constituted a scope limitation and affected every statement presented by the management. It also represented a breach of the Finance Instructions 2/2004 issued under Section 117 of the *Public Finances (Management) Act 1995.*
- The closing balances of both the Operational and Trust accounts did not agree with the opening balances. The Operational Fund was increased by K33,940 which represented a material adjustment of 7.8%. The Trust Fund opening balance increased by an amount of K9,894. In addition, the cash

book and bank accounts for both the Operational and Trust accounts were not properly reconciled.

- In the absence of Official Receipts there was no sufficient evidence to ascertain whether the amounts collected agree with the receipts and ensure completeness of the revenue item disclosed at K166,112.

Corporate Governance

Mendi Hospital Board has a five year Corporate Plan that establishes long term objectives, sets priorities and targets and takes into account the requirements of its stakeholders.

The associated plan to support the Corporate Plan was also established in the year 2008 as Strategic Plan. This plan formulated policies and procedures in management of: patient care, leadership and management, human resources, information technology, environment and hygienic and infrastructural development.

The Strategic Plan supports the five year Corporate Plan to ensure that strategies are effective and the operations of the Hospital in respect of set targets are met and performance indicators highlighted.

The Corporate Plan was formally endorsed by the Board and the management implemented these plans with quarterly reviews conducted.

Budgetary Control

The control procedures exercised by the Hospital Board during the year under review surrounding budgetary controls were satisfactory in relation to the preparation, submission and controlling of funds. The management prepares quarterly reports and budget reviews which are sent to Budget Division of National Health Department to ensure that the Hospital Board meet the set target and objectives, and to explain reasons for any variances noted.

The Hospital Board should continue to monitor and report on the budgeted items.

Cash Book and Bank Reconciliations

The AGO tested four monthly reconciliations in 2008 and has re-performed the procedures. It was found that the Cashbook and bank accounts reconciliations were not prepared in the prescribed format with the narrations being inaccurate.

All monthly bank reconciliation statements were not properly prepared and as a result, the cash book balances did not agree with the reconciled balances.

There was no segregation of duties maintained between the recording of the cash transactions and preparation of bank reconciliation statements. Both functions were performed by the Accountant. When the functions of cash recording, performing reconciliation and independent verification of reconciliations are not segregated, this could lead to manipulation of the

transactions where moneys could be stolen, and potential fraudulent payments would not be detected.

Furthermore, the bank reconciliation statements were not checked or verified for their validity and accuracy by an independent person who is not directly involved in collection and recording of cash.

Payments of Accounts

The AGO selected payments for testing totaling K355,438 and consisting 20% of the total expenditure during 2008. The results were as follows:

- Instances of payments totaling K6,508 were noted to be made to individuals for reimbursements for vehicle hire and also vehicle hires were paid as recreational leave fares for officers taking recreational leave to their home districts. It was noted that 'the most economical route of travel using standard modes of public transport' as stipulated in the General Orders No. 9.37 was not adhered to when paying recreational leave fares. Furthermore, officers were paid 10% of the leave fares and not of the gross substantive fortnightly salary as stipulated in the General Order No. 9.36.

- Instances of payments totaling K147,819 had no other supporting documentation detailing the purpose of payments, apart from invoices and/or quotations. In the absence of such documents, AGO could not verify the genuineness of these expenditure.

- Instances of payments totaling K122,345 were noted to be paid without obtaining three quotations from appropriate suppliers.

- Delivery dockets from suppliers and goods received from the recipients in respect of payments totaling K122,345 were not sighted during the audit.

- The suppliers' original official invoices were not sighted for the payments totaling K122,345.

- Payments totaling K249,938 were noted to be expended under incorrect votes items, thus violating budgetary provisions.

Revenue

An audit review of the procedures and examination of records relating to collection, custody, and banking of the public money revealed that all the Official Receipts which indicate how much money had been collected per patient were not filed together with the collectors' statement, cash receipts summary, and bank deposit slips.

As a result, the AGO was unable to ascertain whether the amounts collected agree with the receipts.

Assets and Control Stores

Mendi Hospital was noted to satisfactorily maintain and keep various Asset Registers for its Bio-medical and non Bio-medical equipment, Drugs and Medical Supplies, and Rations. However, the following matters of concern were noted:

- The source data for Bio-medical equipment purchased during the year did not reach the Bio Technician for updating of Bio-medical register, as a result the value of Bio-medical taken up in the register were not actual but estimated figures.

- The organization and storage of drugs and medical supplies was noted to be very poor in that there were no shelves for proper storage. As a result, the individual items were left lying on the floor.

- There was no register maintained to keep record of cleaning detergents, chemical, tools and other sundry items. As a result, this Office could not establish if there were proper controls over the movements of these items.

- There was no segregation of duties in relation to custody of records, receiving and issuing of goods. The same person who is storeman was noted to be performing all these tasks.

Salaries and Wages

An audit review of procedures and examination of accounting records in relation to recruitment of employees and payment of their salaries, allowances and wages was conducted during the 2008 on a sample of 10 employees and for two pay periods. In particular, the audit examined the accuracy of paid allowances, tax forms, contract of employment and higher duty allowances. Although the results were satisfactory, the following audit issues were identified:

- Some contract officers who currently occupy institutional houses were noted to have received housing allowances. This may be a double dipping.

- Lump sum cheques totaling K15,984 were raised to BSP Bank with list of casual staff and their account numbers for monies to be credited to their bank account at BSP. This Office could not verify the basis of these payments as the time sheets and wages computations were not attached to the wages sheets.

Advance Management

An audit review of procedures and records relating to payments, recording and acquittals of cash and travel advances revealed the following matters:

- The Cash Advance and Travel Allowance Registers maintained by Mendi Hospital were noted to be incomplete with vital information such as advance serial number, value of acquittal, acquittal date and follow up action comment, missing.

- The Hospital has not maintained an Advance acquittal file to keep records of receipts, reports and summaries of those cash advances acquitted.

- Cash advances totaling K2,040 paid were noted to be acquitted but were not recorded in the Cash Advance Register.

Board Meeting Minutes

The AGO was informed that the terms of the then Board expired in March of 2007 and since then there was no Board in the year 2008. The Hospital was in operation without a Board. This was a breach of the Section 6 of the *Public Hospitals Act 1994*.

5.17.3 Mendi Urban Local-level Government

The audit of Mendi Urban Local-level Government financial statements for the years ended 31 December, 2005 to 2007 were never prepared and submitted for audit. Whilst the 2005 and 2006 financial statements were reported as dispensed in the last year report, the 2007 audit of the financial statements is dispensed this year due to non-submission.

5.18 WEST NEW BRITAIN PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
West New Britain Provincial Government	2007	2007	April 2009 Disclaimer	Significant control weaknesses identified
Kimbe Hospital Board	2007	2007	June 2009 Disclaimer	Significant control weaknesses identified
Bali Witu	2008	No		
Bialla	2008	No		
Gasmata	2007	No		
Gloucester	2007	No		
Hoskins	2008	No		
Kandrian Coastal	2007	No		
Kandrian Inland	2007	No		
Kimbe Urban	2008			2005 to 2007 financial statements dispensed
Kombe/Kaliai	2007	No		
Mosa	2008	No		
Talasia	2008	No		
West New Britain Development Corporation	2004			2002 – 2004 audit fees awaited; no recent statements submitted for audit
Cape Hollman Corporation				No recent financial statements submitted; status of the entity/audit to be determined
West Farm Resources				No recent financial statements submitted; status of the entity/audit to be determined
Kimbe Frozen Food Delicatessen				No recent financial statement submitted; status of the entity/audit to be determined
Kimbe Enteprises				No recent financial statements submitted; status of the entity/audit to be determined

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
West New Britain Building Supplies				No recent financial statements submitted; status of the entity/audit to be determined

5.18.1 West New Britain Provincial Government

The audit of West New Britain Provincial Government financial statements for the year ended 31 December, 2007 was unsatisfactory with disclaimed audit opinion being issued. The paragraphs below detailed issues identified with the financial statements.

Revenue Collection

Significant shortfall in internal revenue amounting to K15,121,269 was due to non-existence of proper registers to record and monitor the collection of internal revenue on a regular basis. Also, there was lack of co-ordination and co-operation among officers of the Provincial Revenue Unit and other line economic divisions of the Provincial Government to effectively plan and direct their efforts to ensure that all internal revenue estimated for the year were duly collected.

Provincial Supply and Tenders Board

The West New Britain Provincial Supply and Tenders Board did not produce a tender register to provide relevant details of tenders invited, quotations received and contracts awarded.

Acquittal of Grants

Grants and Subsidies amounting to K3,137,500 were not acquitted by way of accountability reports provided by the recipient entities to determine whether the grants were utilized for their intended purposes.

Trust Fund

The cash books and related records maintained in respect of New Britain Palm Oil Limited Trust Deed Nos. 1 and 2 accounts were not made available for review to determine whether these trust accounts were operated in accordance with the provisions of the Trust Instruments.

Payment of Accounts

In relation to paid accounts, the following matters were noted:

- Payments totaling K289,061 were incorrectly charged and paid under vote items for which funds were not appropriated.

- Payments totaling K403,454 were made to consultancy and legal firms for consultancy and legal services rendered to the Provincial Government. However, the formal agreements and evidence of approval granted by the Consultancy Steering Committee of the Department of Personnel Management to engage the services of the consultants and private legal firms were not provided for review.

- Payments totaling K1,229,470 were made in relation to procurement of goods and services without the approval of the Provincial Supply and Tenders Board. Also, payments totaling K727,843 which were made to a Supplier of basic school materials exceeded the Provincial Supply and Tenders Board approved expenditure limit of K250,000.

- A former manager was paid sums of K40,124 and K39,048 in 2006 and 2007 respectively as his final benefits and entitlements. The payments totaling K79,172 exceeded the benefit of K60,124 which was calculated and approved for payment to the employee by the Provincial Executive Council in its Directive No. 57/2005 dated 7 December, 2007.

- The Minutes of the third meeting of the Provincial Supply and Tenders Board was not provided for review. In the absence of the above minutes, the AGO was unable to determine whether the award of contracts for Capital and Maintenance Works totaling K312,683 were duly approved by the Provincial Supply and Tenders Board. Also, there were no Certificates of Completion duly certified by a technical and competent authority indicating that the Capital and Maintenance Works had been satisfactorily executed and that the expenditure totaling K94,100 paid to private contractors was proper.

Internal Audit Unit

The Internal Audit Unit was not adequately funded during the year and as a result, it lacked the necessary logistical support to carry out its roles and responsibilities as set out in its Audit Charter. Further, the Provincial Government does not have an independent Audit Committee to oversee the activities of the Internal Audit Unit.

Corporate Plan

The West New Britain Provincial Government did not have a Corporate Plan in place during the year under review. However, auditors were advised that a Corporate Plan developed for 2006 and beyond was in draft and yet to be launched by the Provincial Government.

Assets Register

There was no Assets Register maintained or stocktake performed to ensure existence and accurate valuation of assets.

5.18.2 Kimbe Hospital Board

The audit of Kimbe General Hospital financial statements for the year ended 31 December, 2007 was unsatisfactory with disclaimed audit opinion being issued. Issues identified with the financial statements were:

- The Kimbe General Hospital did not maintain an Asset Register nor were any records of periodic stocktake of assets conducted by Management provided for review. In the absence of appropriate detailed Asset Register and other records, the AGO was unable to verify the completeness, condition, existence and value of the fixed assets at the year end.

- There were inadequate inventory records as well as lack of effective in-built systems and procedures in place to ensure receiving, storage, issue and usage of drugs and medical supplies are recorded and controlled. In the absence of complete and enabling records of drugs and medical supplies, the AGO was unable to verify their balances at the year end.

- Travel and Subsistence granted during the year were unacquitted. Therefore, there was limitation of scope as the AGO could not ascertain whether the advances were actually utilized for the intended purposes.

- Expenditure totaling K114,765 were paid out of Hospital Fees trust account contrary to provisions of Section 2(c) of the Hospital Fees Trust Instrument.

- A Medical Officer who was given a retrenchment notice in 2006 did not sign the Deed of Release but claimed to have applied for leave on medical grounds. The Medical Officer's application for medical leave and the approval granted by the Chief Executive Officer for the medical leave was not on file. The Medical Officer was paid salary and allowances. In addition to occupying a monthly leased rental property of K2,400, the officer was also paid an annual housing allowance of K4,550 for a year without performing any duties.

- Funds totaling K135,000 were transferred by journal adjusting entry from one vote to another approval by the Secretary of Treasury.

5.18.3 Kimbe Urban Local-level Government

The audit of Kimbe Urban Local-level Government financial statements for the years ended 31 December 2005 to 2007 were dispensed, due to non-submission of financial statements.

5.19 WESTERN HIGHLANDS PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Western Highlands Provincial Government	2007	2007	December 2008 Disclaimer	Significant controls weaknesses identified
Mount Hagen Hospital Board	2006	2006	December 2008 Disclaimer	Audit of 2007 Financial Statements is in progress
Anglimp	2008	No		
Baiyer	2008	No		
Muglamp	No data	No		
Hagen Rural	2007	No		
Hagen Urban	2008	2004	June 2008 Disclaimer	Financial Statements audits of 2005 and 2006 have been dispensed
Jimi	2008	No		
Kol	2008	No		
Lumusa	2008	No		
Mt. Giluwe	2008	No		
Mul	2008	No		
Nebilyer	2008	No		
North Waghi	2007	No		
Kotna	No data	No		
Nondugl	No data	No		
South Waghi	2008	No		
Melpa Properties Ltd	2001	In progress	In progress	1997 – 2001 signed financial statements awaited; no recent statements submitted for audit
Wamp Nga Holdings	2007	In progress		2006 – 2007 audit in progress; fees awaited; 2008 financial statements awaited
Petrol Haul Ltd	2007	In progress		2006 – 2007 audit in progress; fees awaited; 2008 financial statements awaited
Vegmark Ltd	2007	In progress		2006 – 2007 audit in progress; fees awaited; 2008 financial

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
				statements awaited
Peninsula Shipping Lines (PNG) Ltd	2007	In progress		2006 – 2007 audit in progress; fees awaited; company ceased in 2007 end
Western Highlands Sport Stadium Trust				No recent financial statements submitted; status of the entity/audit to be determined
Western Highlands Development Corporation				No recent financial statements submitted; status of the entity/audit to be determined

5.19.1 Western Highlands Provincial Government

The audit of Western Highlands Provincial Government financial statements for the year ended 31 December, 2007 was unsatisfactory with disclaimed audit opinion being issued. The paragraphs below detailed issues identified with the financial statements.

Assets Management

The Provincial Government owned assets totaling as K1,039,181 as at 31 December, 2007. Although assets register was maintained, no evidence was provided to indicate that physical stock-take of all assets had been carried out to verify the existence and value of the assets. Also, title deeds of land and buildings owned by the Provincial Government were not provided for verification.

Cash Management

As bank reconciliation statements were not prepared on a monthly basis, there was long delay in identifying and clearing reconciling items. The bank reconciliation which was prepared for 31 December 2007 showed outstanding reconciling items which dated back to January 2005 without any action taken to clear them.

For example, under banking of K6,500 continued to show the monthly bank reconciliation as at 31 December 2007. All under banking should have been immediately investigated to uncover any possible cases of fraudulent activities and disciplinary actions taken against officers concerned to avoid reoccurrence of similar cases in future.

Payments of Accounts

- A total expenditure of K1,050,570 had been incurred for hire of private vehicles during the year. These services had been rendered without obtaining approval and authority from authorized delegates and as a result, breached the procurement procedures. Consequently, I was unable to verify the genuiness of payments made for hire of private vehicles during the year.

- The specimen signatures of Section 32 Officers and Financial Delegates appointed for the year were not made available for examination.

- In numerous instances, the Requisition for Expenditure Forms were not signed by the authorized requisition officer and financial delegate to indicate compliance with procurement procedures.

- A law firm was engaged to provide legal services to the Provincial Government. The Retainer Agreement was renewed on 16 February 2006 at a monthly fee of K50,000 and was to expire on 16 February 2009. During the year a total fee of K873,910 was paid to this legal firm. Subject to Clause 2.1(1), (11) and (111) of the Retainer Agreement, this legal firm was to exclusively provide all legal services to the Provincial Government during the term of the contract. Despite the existence of this contract, the Provincial Government continued to engage the services of other law firms which resulted in payment of additional legal fees of K325,122.

- A security firm was engaged to provide security services to the Provincial Government building. A total sum of K46,332 was paid as security fees. The Contract Agreement between the security company and the Provincial Government was not sighted. Payment vouchers were also not authorized by the requisitioning officer.

Grants and Subsidies

A total of K10,590,038 was paid as grants and subsidies during the year. It was observed that the Provincial Government had not put in place any form of controls to monitor and administer the grants and subsidies and ensure that recipients regularly submit accountability reports.

Advance Management

There was no evidence that the management had implemented control practices or that the management had proper records of advances paid, accountability reports and recovery actions implemented as follows:

- The advance register was not properly maintained in that detail information of advance holder, date of payment, and signature of persons receiving the cheque were not recorded.

- Financial statements disclosed total outstanding advances of K449,519 as at year end of 2007. However, the amount reported only related to the 2005 and 2004 outstanding advances, while outstanding advances for 2007 totaling K291,491 was not reported. The long delay between compiling acquittals and recovery action indicated that the advance register was not regularly reviewed and maintained as required.

Salaries and Wages

Payroll information and staff establishment register for the permanent and casual employees of the Provincial Government for the period under review were not produced for audit examination. Several attempts wee made to obtain these records, however, the HR staffs did not cooperate with the auditors.

The staff establishment registers acts as a guide to the organization on the number and levels of positions approved by the appropriate authorities such as DPM. Without the register, it was difficult to determine what positions were filled and what positions were still vacant. As such, I was unable to determine whether employees on the Provincial Governments payroll were bona fide employees and that the positions that they held were approved by the DPM.

Capital Works Program

Books of accounts relating to project files, contract documents and disbursement reports were not made available for examination. As such, I was unable to ascertain whether funds appropriated for major capital works programs totaling K5,448,600 were used for the intended purposes.

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Government Lending

The Provincial Government had lent a sum of K960,000 to Melpa Properties Ltd as working capital on 31 December 2002. Further, no evidence was provided to indicate that the Department of Electoral Commission had repaid its outstanding loan of K750,000 reported in 2001.

Minutes of Meetings

Minutes of meetings convened during the year by the Provincial Supply and Tenders Board, Provincial Executive Council and Provincial Assembly were not provided for examination.

Internal Audit

The Internal Audit Unit did carry out various audits on schools and Local-level Governments during the year under review.

The Provincial Government does not have an Audit Committee to oversee the activities of the Internal Audit Unit and also deliberate on external Auditor's reports. Also there is no Audit Charter that sets out the mandate and scope of internal audit activities.

5.19.2 Mount Hagen Hospital Board

The results of the audit of Mount Hagen General Hospital financial statements for the years ended 31 December, 2005 and 2006 were unsatisfactory with disclaimed audit opinions being issued. The financial statements for the year ended 31 December, 2007 are yet to be submitted for audit. Paragraph 5.19.3 below detailed issues identified with the 2006 financial statements:

- The General Hospital did not maintain accounting records and assets register for fixed assets purchased in previous years. In the absence of complete asset register, I was not able to verify the completeness, existence, accuracy and value of the fixed assets at the year end.

- The Hospital's income included collection of hospital fees in cash. There was no system of control over the collection of hospital fees and there were no procedures that I could adopt to verify the completeness of the hospital fees. Consequently, I was unable to test the completeness and accuracy of the Internal Revenue of K340,687 disclosed in the financial statements.

- Substantial amount of salary advance payments totaling K35,300 was reported in the financial statements. In the absence of proper records, I was not able to verify the completeness and accuracy of the total amount of outstanding salary advances as at 31 December, 2006.

5.19.3 Mount Hagen Urban Local-level Government

The Mount Hagen Urban Local-level Government financial statements for the years ended 31 December, 2005 and 2006 were dispensed due to non-submission of financial statements. The financial statements for the year ended 31 December, 2007 are yet to be submitted for audit.

5.19.4 Melpa Properties Ltd

Melpa Properties Ltd is a wholly owned company of the Provincial Government. The 2004 financial statements of the Provincial Government showed shares hold in Melpa Properties Ltd at the cost of K719,202. I was unable to verify the value of the shares and dividend earned from the investments due to the absence of the financial statements of the investee company and its inability to confirm the Provincial Government shareholding in the company. The last financial statements submitted for auditing was for the 2001. These statements did not conform to the requirements of the International Accounting Standards or the *PNG Companies Act 1997*.

5.19.5 Wamp Nga Group of Companies

The Wamp Nga Group of Companies comprise: Wamp Nga Holdings Ltd, Vegmark Ltd, and Petrohaul Ltd. Peninsula Shipping Lines (PNG) Ltd, a new addition to the Group, began operation in 2006 but ceased in 2007 financial year. At the time of preparing this report in September, 2009 the audit of the respective entity's 2006 and 2007 financial statements were in progress while the financial statements for 2008 were awaited.

6. DISTRICT SERVICES IMPROVEMENT PROGRAM

6.1 Introduction

This section of my report deals with the expenditure under the District Services Improvement Program (DSIP). The section:

- shows the AGO's estimate of total amount of DSIP expenditure from the start of the Program until 31 December 2009,
- reports on the results of three audits of DSIP expenditure conducted during the period July 2008 to 30 June 2009, and
- reports on the preliminary common findings of audits conducted after 30 June 2009.

6.2 Background to the DSIP

In 2007, the Government allocated K10 million to each of the 89 Districts in Papua New Guinea for priority expenditure through the 2007 Additional Supplementary Budget and the 2008 Budget. In the 2009 Budget, the Government allocated a further K4 million to the DSIP so that each of the Districts had a total of K14 million to be used for the procurement of goods and services under the DSIP.

The DSIP is designed for a holistic approach to service delivery, involving all stakeholders including Members of Parliament, National Departments and agencies, Provincial Administrations, District Administrations and the recipients themselves (the people), taking into account the principles of ownership, affordability, sustainability and leadership.[a]

In June 2008, the Secretary of Finance issued Guidelines on the use of the DSIP Trust funds through Finance Instruction 3C/2008. The Finance Instruction superseded Finance Instructions issued earlier on the management of DSIP.

The initial allocation of K10 million was to be spent on infrastructure rehabilitation maintenance projects with an allowance (3%) for administration. The projects under DSIP are required to comply with the program financial allocation as shown in *Table 1*.

Table 1: Allocation of DSIP Funds

District Services Improvement Program	Approved Allocation	Less 3% Administration Fund	Actual Allocation Available
Education	K1,000,000	K30,000	K970,000
Health	K1,000,000	K30,000	K970,000
Law and Justice	K1,000,000	K30,000	K970,000
Water Supply and Sanitation	K1,000,000	K30,000	K970,000
Agriculture and Community Based Programs	K1,000,000	K30,000	K970,000
Rural Communication and Electrification	K1,000,000	K30,000	K970,000
Transport and Community Infrastructure	K4,000,000	K120,000	K3,880,000
	K10,000,000	***K300,000***	***K9,700,000***

[a] ***Finance Instruction 3C/2008 of 19 June 2008. Paragraph 5.1***

The AGO is not aware of any directions being issued on how the additional K4 million allocated in 2009 has to be applied within the above financial allocation guide.

6.3 District DSIP Funds deposited and expenditure until 31 December 2009

The process for the distribution of funds to the Districts is as follows:

- The Bank of Papua New Guinea releases the funds to the Bank of South Pacific in an amount approved by Government.
- The Bank of South Pacific writes 89 cheques and delivers them to the Department of Finance (Finance) for on forwarding to the Open Members of Parliament.
- Open Members of Parliament then deposit the cheques in their respective DSIP Trust Accounts at the Bank of South Pacific.

This process means that there is a delay from when the Bank of Papua New Guinea allocates the funds to the Bank of South Pacific until the funds are deposited in the District DSIP Trust Account. I will be considering this in more detail in my DSIP audits in 2010 but as a preliminary observation, the process does appear to be one that is neither efficient nor economical.

Unnecessary time is wasted in writing cheques and delivering them to the Members of Parliament. Interest that could be earned by the Districts from when the money is transferred to the Bank of South Pacific is foregone because of the delay in depositing the funds in the District Trust Accounts. For example, the AGO noted that some Districts deposited one of the allocation in March 2009 while others deposited the same allocation as late as December 2009.

Other general observations from an examination of the bank statements are shown in the sections that follow.

The total amount appropriated to the 89 Districts was K1.246 billion. However, the AGO noted that as at 31 December 2009, the amount deposited in the DSIP Trust Accounts totaled K983 million. The difference between the amount the Government had allocated to each District and amount deposited in the Trust Accounts can be seen in the following Table:

Table 2 - DSIP Revenue Appropriation Deposited

Number of Districts	Amount deposited in Trust Account	Total
1	14,000,000.00	14,000,000.00
56	12,000,000.00	672,000,000.00
18	10,000,000.00	180,000,000.00
6	8,000,000.00	48,000,000.00
3	6,000,000.00	18,000,000.00
1	11,590,646.00	11,590,646.00
1	11,954,968.87	11,954,968.87
1	9,999,968.06	9,999,968.06
1	9,300,000.00	9,300,000.00
1	8,970,000.00	8,970,000.00
89		**983,815,582.93**

There is no apparent reason for this discrepancy although the AGO notes that some of the cheques had been deposited in the Trust Accounts by 31 December 2009. However, there may be other reasons for this discrepancy which the AGO is not in a position to explain until it conducts audits of specific Districts where the discrepancy occurs.

The AGO considers that Finance should:

- Examine the reason for the funds not being deposited in the Trust Accounts
- Monitor the flow of funds to the Trust Accounts closely in future
- Examine the merits of changing the current process of transferring funds by cheque to the Trust Accounts to one where the Bank of South Pacific credits the District Trust Accounts electronically.

Other funds placed in the DSIP Trust Accounts

The AGO noted that some funds other than DSIP funds totaling K67.8 million had been wrongly credited to the DSIP Trust Accounts. The purpose of Trust Accounts is that they should only be used for the purpose for which they are established.

Desktop monitoring of the accounts through the bank statement should show if funds other than Government allocations and interest have been deposited into the accounts and allow the error to be corrected immediately. This should be performed by Finance.

Monitoring of expenditure requires more than an examination of the bank statements. The rigorous regulatory framework by the Departments of Finance and Treasury and central agency representatives in the Districts would highlight where funds have been used on non DSIP related expenditure and allow corrections to be made quickly.

Expenditure

DSIP expenditure as at 31 December, 2009 was K569 million not including bank fees of K463,887 for the 89 Districts.

DSIP funds in Trust Accounts as at 31 December 2009

The bank balance of DSIP funds in the 89 Trust Accounts was K483 million as at 31 December 2009.

6.4 Audits of three Districts conducted in 2009

Until the start of the DSIP in 2008, my audits have been conducted at the end of a financial year or in the case of donor sponsored projects, after the funds have been spent. However, in the case of DSIP expenditure, I considered it value-adding to the implementation process to have audits conducted progressively. The funds represent a significant amount of public monies which represent a major risk if the application of funds is not in accordance with the finance instruction that may result in delivery of less than anticipated levels of much needed services to the people in the Districts.

The aim of the audits was to provide an independent assessment to Government and stakeholders over the efficiency of the management of the funds, the accountability around the administration of the funds and the effectiveness of the use of funds.

The audit process involved visits to the Districts to discuss and observe how the funds were being managed. Management reports, with recommendations for improvement to the Program were provided for comment to the relevant Districts and the central agencies responsible for the administration of the program. This part of the process is an important one as it allows consideration of management's views on the findings before the reports are finalized.

At the time of preparing this report none of the entities had responded to the audit findings. Given the importance of providing a timely report to Government, I decided to publish the findings in this Report prior to management comments. The audit findings shown below are provided for information but in recognition that entities have not responded to the management letters.

The audit focused on the management of the DSIP in three (3) Districts. These were the Rigo District in Central Province, Goroka District and Obura Wonenara District, both in the Eastern Highlands Province. At the time of the audits, these Districts had spent between K2.9 million and K4.0 million of the initial K4 million allocated to each of them in 2008.

6.5 The audit findings are structured around the four (4) audit objectives

6.5.1 Objective 1: To confirm that the DSIP funds have been allocated to projects in designated programs in accordance with Finance Instruction 3C/2008

Finance Instruction 3C/2008 requires:

- Districts, through their respective Joint District Planning & Budget Priorities Committee (JDP&BPC), to be responsible for identifying projects and to develop or be processing a prioritized list of proposed projects to be funded by the DISP.

- DSIP expenditure to be allocated to projects within designated Programs (see Table 1 earlier). The JDP&BPC is responsible for the identification, consideration and prioritization of projects and budgets.

- Projects to be in line with the District's Five Year District Development Plan. A District may spend outside the approved allocation for a particular program with the approval of its JDP&BPC.

- Districts to liaise with Provincial Works Managers to ensure project scoping and design are in accordance with Government works standards.

The AGO found that:

- In three Districts, JDP & BPCs had taken responsibility for identifying projects and items to be funded by the DSIP funding and had developed prioritized lists of projects to be funded by the Program;

- Five Year District Development Plans existed and were used to prioritize the allocation of resources to projects and/or the purchase of items.

While two Districts had provided for their allocation of the full K10 million, the other District only provided for the allocation of the K4 million initial installment rather than determining how the total allocation of K10 million would be used.

The AGO considers it important for Districts to consider in their planning how the total funds available under the DSIP will be allocated in advance of funds being committed to projects. The danger of taking a piecemeal approach to the allocation of funds, as was done by the third District, is that lower priority projects may get priority funding because consideration of the total needs of the District has not been determined before funds are committed.

6.5.2 Objective 2: Confirm that the administrative requirements of Finance Instruction 3C/2008 and other finance instructions have been complied with.

Finance Instruction 3C/2008 is a detailed set of Guidelines for the administration of the DSIP. Its principles include the consultative approach to service delivery involving all stakeholders.

The Finance Instruction expects village communities to participate directly in the implementation of the Program, Provincial and Local Level Governments to drive the DSIP in their respective provinces by resourcing any financing gaps and the Open Members of Parliament to provide political leadership and allocate necessary funds towards the financing of any financing gaps.

One of the big risks of this Program is the provision of funds directly to the District where the management infrastructure might not be adequate to manage such funds appropriately. The Finance Instruction recognized this and provided a series of controls to ensure that the funds are spent appropriately and in accordance with Government procedures and legislation.

These controls include the responsibilities of the JDP & BPC, the Department of Works (DOW), the District Project Management Team (DPMT), the ORD, the Department of Treasury (Treasury) and the Department of National Planning and Monitoring (DNPM) to assist Districts in planning the use of the funds and ensuring that the project design and documentation conform to the Government works standards, monitoring DSIP projects and reporting on their progress to a number of central agencies and the National Executive Council.

Two of the important planning controls are; (i) the requirement for the JDP&BPC to prioritize and approve projects and to oversee the District planning process, and (ii) for the Provincial Supply and Tenders Boards (PSTB) to invite tenders for the purchase of goods, works and services that cost between K300,000 and K3 million.

The AGO found that in all three Districts, these controls were being bypassed. In one District, the regravelling of a road at a cost of nearly K400,000 was not subject to a PSTB process nor did it have an Authority to Pre-Commit (APC) signed by the Secretary of Finance. Failure to obtain properly approved and authorized APC could render any contract entered into null and void.

Accounts and Records

Under Finance Instruction 3C/2008 and the Public Finance (Management) Act, Districts are required to maintain proper accounting records and documents. The AGO found that, generally, these three Districts were not maintaining proper accounts or records as follows:

- *Bank Reconciliations*
  Monthly bank reconciliations had not been prepared for the DSIP Trust account by one of the districts reviewed. Although no time frame is given in the Finance Instruction, it is good management practice for reconciliation to be performed at the end of each month. It is an essential control mechanism for managers to assess whether expenditure has been properly incurred.

- *Monthly Reports*
  The District Administrators did not provide monthly management reports on the physical and financial status of the District's DSIP projects to the respective JDP & BPC and to the ORD as required.

- *Assets Management*
  None of the Districts reviewed maintained complete assets registers as required.

- *Minor Works Contracts*
  Signed contracts were not sighted for various minor works and maintenance works in any of the three Districts.

Central Agencies

Finance Instruction 3C/2008 allocates DSIP roles and responsibilities to the central agencies of DOW, Finance, Treasury, DNPM and ORD. The major roles and responsibilities and the AGO audit findings are shown below:

Department of Works (DOW)

DOW is tasked with assisting Districts with project design and documentation so that work conform to Government work standards and project monitoring and supervision. The AGO found no evidence that the DOW had been involved in the development of any of the District works' projects.

Office of Rural Development (ORD)

ORD is responsible for monitoring DSIP projects and providing progress reports to the National Project Implementation Committee, Finance, Treasury and the DNPM.

The ORD advised the AGO that it had copies of the Minutes, Budgets and JDP & BPC resolutions but did not have copies of the District five year development plans, progress status reports or asset registers. These documents are necessary if ORD is to fulfill its role of providing progress reports to appropriate bodies.

There was no evidence that the ORD had provided progress reports to the National Project Implementation Committee, Finance, Treasury, or the DNPM. More generally, the AGO was unable to determine whether the DSIP monitoring and reporting controls specified in Finance Instruction 3C/2008 had commenced for any of the 89 Districts involved.

Departments of Finance and Treasury

Finance is responsible for releasing DSIP funds to subsidiary District Bank accounts and ensuring that PSTB and Provincial Pre-Commit Committees exist within each Province. Treasury is responsible for budget issues and warrant release, providing advice to the DPMT, JDP & BPC and the ORD on recurrent budget impacts as required and coordination of Fiscal Responsibility Reporting.

The Finance Instruction also requires the Internal Audit and Compliance Division within Finance and the Financial Accountability Inspection Division of Treasury to provide a coordinated effort to complete an audit and inspection role on the Districts' compliance with the requirements of the Public Finance (Management) Act and the Finance Instruction.

The AGO found that an oversight audit and inspection role had not been initiated by either Department and no audit program existed.

The AGO considers that the regulatory framework should be considered carefully, and resourced fully, before a program such as DSIP is rolled out. The regulatory framework when such large sums of money are provided to Districts is an essential element of the Program's control structure; without it there is a possibility that funds will be spent inappropriately or fraud will occur.

A properly tailored review program would provide the central agencies the information on which to justify withholding of funds for Districts where the central agencies consider that funds are not being used appropriately.

The AGO considers that once an audit program is developed there would be advantages if the program is coordinated with the AGO's audit program so that there is no unnecessary duplication of audit effort.

6.5.3 Objective 3: Confirm that expenditure was on items permitted by the Finance Instruction 3C/2008

Finance Instruction 3C/2008 requires DSIP funding to be spent on infrastructure rehabilitation and maintenance. Although expenditure in the three Districts audited were for items across the programs, the majority of the funding at that stage had been used to purchase vehicles and/or heavy earthmoving equipment.

Purchase of vehicles and earthmoving equipment

In one District, over K3 million of the K4 million allocated to it had been spent under the Transport and Infrastructure Program. Of the K3 million, almost K2 million had been spent on heavy earthmoving equipment and a vehicle. In the second District, some K340,000 had been spent on three motor vehicles and in the third District some K1.5 million had been spent on vehicles and earth moving equipment.

The AGO is unsure whether the Finance Instruction allows for expenditure on heavy earthmoving equipment and earthmoving vehicles as part of the seven programs to be funded under the DSIP. The AGO recognizes that reliable vehicles are essential for the delivery of goods and services to the people in rural PNG and that heavy equipment is required to maintain roads. In the absence of any other funding, the use of DSIP funds may be appropriate but Finance should clarify whether the purchase of heavy earthmoving equipment and vehicles satisfies the Finance Instruction that requires projects to fall under the seven specified programs.

Moreover, the use of government funded vehicles by public servants is a contentious issue in PNG. The risk that eventuates from the Finance Instruction not being explicit on the purchase of vehicles is that, without controls in place, there may be a perception that the vehicles are being purchased and used for private purposes. This is particularly true when, as in the case of one of the Districts, except for a marked Police vehicle, none of the vehicles sighted in these three Districts had markings indicating that they were government vehicles or had government registration plates.

Although the expenditure of K1.5 million on vehicles in one of the Districts was approaching 38 percent of the K4 million released to the District, it is a smaller percentage (11 percent) of the total DSIP funding of K14 million. The Government may consider this to be a good use of the DSIP funds but the Finance Instruction did not address this nor did it address the risk of using funds for what can be viewed as an abuse of the intent of DSIP.

Finally, the purchase of capital equipment, such as vehicles and earthmoving equipment brings with it other recurrent costs, such as fuel, spare parts and maintenance and in the case of earthmoving equipment, specialized drivers or operators. If these costs are not factored into the annual budgets, the equipment will lose its effectiveness over the years as they fall into the disrepair. District Administrators should seek Treasury advice on the impact the costs will have on District recurrent budgets.

Other Goods and Services

Apart from the expenditure on vehicles, the AGO noted the following:

- One District had spent K230,000 on unknown items which were not allocated to a particular program.

- One District had:

  - Charged various bridge maintenance expenditures to the DSIP – Administrative vote. This vote is to be used for administrative related costing and not for project expenses.
  - Made two payments totaling K100,000 for ground breaking ceremonies. Payments for these sorts of activities are not within the scope of the DSIP guidelines.
  - Spent K104,300 in excess of K300,000 provided for in the Finance Instruction for Districts to spend on Administration.
  - Used DSIP funds in excess of K72,000 to pay for school and college fees for several students from the District. This is not permitted under the DSIP Guidelines.

- One District had provided financial assistance to individuals under the various programs. DSIP funds are allocated for the development and maintenance of projects under various programs and should not be paid out to individuals or groups as financial assistance.

- One District had paid K150,000 to a private firm to assist the District seek funding from either the National Government or any Donor Agencies to fund various programs within the District. There was no record of how that firm was selected or what type of work they had done.

- Another K15,000 was paid to an individual for the completion of a report with no indication how the individual was selected or why the report was required.

- One District had spent K40,000 for a firm to conduct a scoping study with no record of how the firm had been selected or the reason for the scoping study.

- One District had spent K15,000 on the maintenance of the District Treasurer's vehicle. The District Treasurer is an officer of the Finance and as such, the vehicle maintenance should be funded by Finance and not out of the DSIP funds.

- One District had paid K18,000 to an individual to complete a survey with no indication of what type of survey was to be conducted, why the survey was required and how the individual was selected.

As can be seen from the above examples, it was obvious that Districts had not always used the DSIP funding for legitimate purchases. Failure to use the funding for the correct purposes and without adequate records to demonstrate why the funds were used, leaves the District Administrations open to criticism that the funds are being misused and not for the benefit of the people in the Districts.

6.5.4 Objective 4: Confirm that goods and services have been received as a result of the expenditure

For a number of reasons the AGO was unable to determine whether all the goods and services paid for had been delivered and were of the standard required. However, the AGO noted that:

- According to one District Administrator, two ambulances and three tractors which had been fully paid for were yet to be delivered by the supplier.

- In another District, more than K58,000 was paid to one of the members of the JDP & BPC to pay wages for casual workers. There was no evidence to show if amounts were actually paid to the casual workers or for what reason.

6.6 Conclusion

The AGO concluded that although District planning for the procurement of goods and services under the DSIP appeared to be adequate, the Districts had not overall complied with the administrative requirements of the Finance Instruction and other relevant instructions.

The purchase of vehicles by Districts may be contrary to the intent of the DSIP as it was not clear to the AGO whether such purchases could be considered as infrastructure rehabilitation and maintenance. Poor recordkeeping by Districts prevented the AGO from determining whether all expenditure was for legitimate purposes and whether goods and services had been received as planned.

The AGO concluded that the some of the government entities responsible for assisting Districts plan expenditure and for reporting and monitoring progress had not fully met their responsibilities. In particular, the lack of an internal audit program to monitor the use of the DSIP funds is a major weakness in the DSIP structure and contrary to the Finance Instruction. It needs to be addressed immediately and before further funds are released.

The DSIP is an innovative government initiative to improve district infrastructure. The custodian of the programs must ensure that effective Internal Controls are in place to investigate against mismanagement of projects, misappropriation, waste and fraud.

6.7 Common findings from other DSIP audits conducted after 1 July 2009

The AGO conducted audits of fifteen (15) other Districts

Region		Audits in Progress	Management Letter Review	Reports Issued
Southern Region	5	3	2	
New Guinea Islands Region	5		3	2
Momase Region	1		1	
Highlands Region	4	3	-	1
Total	**15**	**6**	**6**	**3**

The management letters are currently being written. Common findings from these audits are as follows:

- None of these Districts maintained proper assets registers to record details of all the different types of assets purchased under the DSIP.

- Except for one District, all others did not furnish to this Office copies of monthly management reports which they are required to provide to their respective JDP & BPC and the ORD. As such, it is not known, if these Districts produced such reports.

- Most of the Districts did not conduct monthly Bank Reconciliation of the DSIP Trust Account and bank statements.

- Minor works contracts were not sighted for procurements between K50,000 – K300,000 in all the Districts audited. Also the Authority to Pre-commit expenditure were not sighted.

- Over sixty-one (61) motor vehicles were purchased during the period under audit by these Districts. In one District, a total of fourteen (14) motor vehicles were purchased. The AGO is not clear whether such purchase could be considered as infrastructure rehabilitation.

- One of the Districts bought second hand or used vehicles.

- The Districts did not provide the AGO the prioritized list of project to be funded under the DSIP.

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I would like to acknowledge the professionalism and commitment of my staff in undertaking the audit work that is reflected in this report. Their efforts have ensured the audit work program is on track and enabled preparing this report in a short period of time.

The co-operation and the assistance rendered by all Heads of Provincial Governments and Local-level Governments and their management of the Business Arms and subsidiaries, Authorities , Executive Officers of Hospitals and their staff is also acknowledged.

Finally, I would also like to thank the Chairman and the members of the Public Accounts Committee for their continued interest and support for my office.

GEORGE WASI SULLIMANN
Auditor-General