



AUDITOR GENERAL'S OFFICE

PAPUA NEW GUINEA

ANNUAL REPORT

**IN TERMS OF
SECTION 19**

**OF THE ORGANIC LAW ON CERTAIN CONSTITUTIONAL OFFICE
HOLDERS
AND**

SECTION 27 OF THE AUDIT ACT 1989

YEAR 2018



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OFFICE OF THE AUDITOR-GENERAL

06 May, 2019

Our Reference: GK18

His Excellency, the Governor-General
Grand Chief Sir Bob Dadae, GCMG
Office of the Governor-General
P.O. Box 79
Government House
PORT MORESBY

Your Excellency,

I have the honour to submit to you for presentation to the National Parliament, the Annual Report of the Auditor-General for the year ending 31 December, 2018. This report has been prepared in accordance with Section 19 of the *Organic Law on Certain Constitutional Office Holders* and Section 27 of the *Audit Act, 1989*.

Following its tabling in Parliament, the report will be placed on the Auditor-General's Office Website - www.ago.gov.pg.

Your obedient servant,

GORDON KEGA, MBA, CPA
Acting Auditor-General of Papua New Guinea

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LIST OF ACRONYMS

Abbreviation	Full Description
PNG	Papua New Guinea
AGO	Auditor-General's Office
GoPNG	Government of Papua New Guinea
PAC	Public Accounts Committee
MTDS	Medium Term Development Strategy
IFMS	Integrated Financial Management System
IRC	Internal Revenue Commission
SGP	Strongim Gavaman Project
NGAD	National Government Audit Division
P&LLGAD	Provincial and Local-Level Government Audit Division
SBAD	Statutory Bodies Audit Division
CSD	Corporate Services Division
PAB	Performance Audit Branch
FAB	Forensic Audit Branch
DAG	Deputy Auditor-General
AAG	Assistant Auditor-General
HR	Human Resource
IT	Information Technology
UN	United Nations
INTOSAI	International Organisation of Supreme Audit Institutions
ISSAI	International Standards of Supreme Audit Institutions
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
PASAI	Pacific Association of Supreme Audit Institutions
SAI	Supreme Audit Institution

LIST OF ACRONYMS

ACAG	Australasian Council of Auditors-General
CPA	Certified Practicing Accountants
APEC	Asia-Pacific Economic Cooperation
SDG	Sustainable Development Goals
DDA	District Development Authorities
SIP	Service Improvement Program
PSIP	Provincial Service Improvement Program
DSIP	District Service Improvement Program
LLGSIP	Local-Level Government Service Improvement Program
PIP	Public Investment Program
ADB	Asian Development Bank
ANAO	Australian National Audit Office
LAGIS	Land Geographical Information System
MOU	Memorandum of Understanding
APR	Appointments, Promotion and Remuneration
AMS	Audit Management Software
GST	Goods and Services Tax
CPI	Consumer Price Index
NID	National Identification
PSMA	Public Service Management Act
PHA	Provincial Health Authority
HB	Hospital Board
BA	Business Arms

FOREWORD

It gives me great pleasure to present the 2018 Annual Report of the Auditor-General of Papua New Guinea. This is the first annual report since my appointment as Acting Auditor-General in June 2018. The report reflects our effort to serve our country by executing our role in advancing the management of public funds and transparency of governance in the public sector.



In March 2018 we bade farewell to the former Auditor-General, Mr Philip Nauga. During our handover ceremony on 18 July 2018, I personally thanked Mr Nauga for managing the office with professionalism during his term. The beginning of my tenure coincided with the final stages of the Government's preparations to hold the Asia-Pacific Economic Cooperation Summit in Papua New Guinea; and I believe that successful event added to the achievements of the Parliament, in building confidence in the ability of the public sector to deliver the required services to the citizens of our country.

There have been a number of changes at the executive level at the Auditor-General's Office (AGO) and these changes have been based on a carefully managed succession plan. As a result, we have maintained stability and enhanced continuity during the leadership transition period. Such stability allowed us to clear backlogs and improve the rate at which we complete planned audit assignments. We have also improved our approach of providing simple, clear and relevant audit recommendations, while the quality of the reports remained high.

Soon after taking office, I was fortunate to be able to represent Papua New Guinea at the 2018 Annual Congress of the Pacific Association of Supreme Audit Institutions, held in Canungra Queensland. The theme of the Congress was 'Embracing our Digital Future' where there was a strong focus on computer assisted auditing techniques. Our effective participation in the activities of the Pacific Association of Supreme Audit Institutions and the International Organisation of Supreme Audit Institutions (INTOSAI) offers us immense opportunities to learn from the many examples of good practice of our peers on the international front. Through these institutional linkages, we also play a significant role in sharing a number of our own best practices with our peers in the Pacific Region and the world. We are particularly conscious of the development on the world stage where the United Nations (UN), through a lengthy process of collaboration with INTOSAI, adopted a profound resolution in December 2011 in support of the independence of Supreme Audit Institutions worldwide.

A standard of independence to match the goals of the 2011 UN resolution will remain an area of ongoing focus for the AGO going forward. As well, we will pay closer attention to our stakeholder engagements, where we discuss audit recommendations and secure commitments.

To make these meetings more fruitful and to implement our goal of improving the visibility and benefits of audit work, we will be increasing the intensity of the insights provided during every interaction in order to achieve greater impact, and stimulate improvements in the public sector.

The AGO remains strongly committed to ensuring better accountability and good governance practices by all public entities; it is also essential to drive continual improvement in governance and this helps to ensure delivery of essential services to the citizens of this country.

The AGO is gearing up and consolidating its resources and effort for an impactful outcome over the next decade.

CHAPTER ONE – BACK GROUND

1.0 INTRODUCTION

This is the Auditor-General's report in terms of Section 19 of the *Organic Law on Certain Constitutional Office Holders*. The report also conforms to the requirements of Section 27(2) of the *Audit Act, 1989*, which requires me to furnish a report on the operations of the Auditor-General's Office annually.

This is my first report since my appointment as acting Auditor-General in June 2018. The report contains information about the operations and financial statements of my Office for the year ended 31 December, 2018.

2.0 OFFICE OF THE AUDITOR-GENERAL

The Auditor-General's Office is responsible for the audit of the financial affairs and activities of the Government in accordance with Section 214 of the *Constitution of the Independent State of Papua New Guinea*. (See Table 1).

Table 1. Section 214 of the Constitution – Functions of the Auditor-General

1. *The primary functions of the Auditor-General are to inspect and audit, and to report at least once in every fiscal year (as provided by an Act of Parliament) to the 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, and such other functions as are prescribed by or under a Constitutional Law.*
2. *Unless other provision is made by law in respect of the inspection and audit of them, subsection (1) extends to the accounts, finances and property of;*
 - (a) *all arms, departments, agencies and instrumentalities of the National Government; and*
 - (b) *all bodies set up by an Act of Parliament, or by Executive or Administrative Act of the National Executive, for governmental or official purposes.*
3. *Notwithstanding that other provision for inspection or audit is made as provided for by subsection (2), the Auditor-General may, if he thinks it proper to do so, inspect and audit, and report to the Parliament on, any accounts, finances or property of an institution referred to in that subsection, insofar as they relate to, or consist of or are derived from, public moneys or property of Papua New Guinea.*
4. *An Act of Parliament may expand, and may provide in more detail for, the functions of the Auditor-General under subsections (1), (2), and (3), and may confer on the Auditor-General additional functions and duties not inconsistent with the performance of the functions and duties conferred and imposed by those subsections.*

The audits conducted by the Auditor-General are independent reviews of the state of affairs of public sector entities on behalf of Parliament with a view to provide assurance that the entity managements have discharged their responsibilities in terms of financial and operational performance.

3.0 AUDIT MANDATE

The *Audit Act*, in complementing the Constitution, provides the legal authority for the functions and powers of the Auditor-General, and governs the operations of the Auditor-General's Office.

In particular, Section 3(1) of the *Act* exemplifies the requirements of the Constitution, and states that “*The primary functions of the Auditor-General are to inspect and audit, and to report at least once in every fiscal year to the 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, and such other functions as are prescribed by or under a law of Papua New Guinea*”.

More specifically, the Auditor-General is mandated to undertake audits of National Government Departments and Agencies, Provincial Governments and Local-Level Governments and Statutory Authorities, as follows:

Table 2. Auditor-General's Office Audit Mandate

No.	Division	Mandated Audits	Number of Entities/Programs
1.	National Government Audit Division	National Government Departments	41
		Public Accounts	1
		Treasury Offices	21
		Sub Total	63
2.	Provincial Government Audit Division	Provincial Governments	21
		Services Improvement Program (SIP)	432
		Local Level Governments	319
		Hospital Boards	20
		Business Arms	155
	Sub Total	947	
3.	Statutory Bodies Audit Division	Public Bodies	299
		Subsidiaries	7
		Donor Funded Projects	72
		Sub Total	378
4.	Performance Audit Branch	Projects and Programs	27
5.	Forensic Audit Branch	Investigations	4
		TOTAL	1419

- 3.1 National Government Departments** – to inspect and audit the accounts, finances and properties of all National Government Departments, Arms, Agencies, and instrumentalities as well as bodies established for governmental or official purposes by a Constitutional Law, Act of Parliament, Executive or Administrative Act of the National Executive, and the subsidiary corporations of such bodies. In 2018, the National Government Audit Division's mandate included audits of the Public Accounts, 41 National Government Departments, and included 21 Treasury Offices located in the Provinces. It also included audits of National Government functions in the Provinces, for example the Department of Works.
- 3.2 Provincial Governments & Local-Level Governments** – to inspect and audit the accounts, money and properties of Provincial Governments, Local-Level Governments, Subsidiary Corporations of Provincial Governments, Provincial Government Associations, Provincial Government owned companies and Public Projects, and bodies established by a Provincial Law and Executive or Administrative Act of the Provincial Executive Council. In 2018, the Provincial Government Audit Division's mandate included 21 Provincial Governments, 319 Local-Level Governments, 432 Services Improvement Programs, including 19 Urban Authorities and their business arms estimated to be 155, and 20 Hospital Boards.
- 3.3 Statutory Bodies** – to inspect and audit the accounts, records, financial transactions, assets and liabilities of all Public Bodies and Subsidiary Corporations. In 2018, the Statutory Bodies Audit Division's mandate included 299 Statutory Bodies and Government owned companies and 27 donor funded projects.
- 3.4 Performance Audit** - to conduct performance audits and reviews on issues related to public importance and concerns and produce special audit reports for tabling in Parliament. Performance Audit also known as Value for Money Audit is defined as making best use of limited financial resources with due regard to efficiency, economy and effectiveness. The Branch selected 5 performance audits to be undertaken in 2018.
- 3.5 Forensic Audit** – is a specialised area, which encompasses the engagement and assessments of audit evidences to identify possible fraud and/or embezzlement of public funds, which are then subjected to actual or anticipated litigation, or criminal prosecution, or other arbitrary actions. The Branch has undertaken 4 investigations in 2018.

4.0 AUDIT COVERAGE AND PROCESS

The audit coverage includes the attestation of financial statements, examination of compliance with legal and administrative regulations, and assessment of the economy, efficiency and effectiveness of the operations of entities being audited.

The audit process entails and relies on effective planning, co-ordination, implementation and reporting in line with the best audit practices as stipulated by internationally accepted auditing standards. All audits are conducted in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants.

The audit process begins with the planning phase in July and ends with the preparation of the Auditor-General's Audit Report to Parliament by June of the following year.

5.0 REPORTING REQUIREMENTS

Section 214 of the Constitution requires me to report at least once every fiscal year to the Parliament on the public accounts of PNG and on the control of and on transactions with or concerning the public monies and property of PNG.

The Public Finances (Management) Act requires a Public Body, before 30 June each year, to provide the Minister with a performance and management report, together with financial statements, of its operations for the year ending 31 December preceding. The Public Finances (Management) Act also requires the Public Body to submit the financial statements to the Auditor-General before providing them to the Minister.

Section 123(8) of the *Organic Law on Provincial Governments and Local-Level Governments* requires me to furnish before 30 April of the following year, audit reports on the previous year's accounts to the Minister responsible for Provincial Governments and Local-Level Government Affairs, the Minister responsible for Finance matters, the Provincial Governments and Local-Level Governments concerned, and the National Economic and Fiscal Commission.

In addition to meeting the specific legislative requirements of reporting to Parliament, I am also required by the Constitution to report on funding provided by the Government and International Donors on projects identified and approved by the Executive Government.

I fulfil the reporting responsibilities required by the Audit Act by preparing four Auditor-General's compendium reports annually, as follows:

5.1 Part I – Public Accounts

The Part I Report provides an audit opinion on the Public Accounts, which represents the financial statements of the Government of Papua New Guinea. It also contains observations on the Government's financial statements.

5.2 Part II – National Government Departments and Provincial Treasuries

The Part II Report provides information on the audit findings, conclusions, and recommendations from the audits of National Government Departments, Instrumentalities and Agencies. The audits of the National Government Departments provide information on the reliability and accuracy of the reported expenditure and revenue, which in aggregate are reported in the Public Accounts.

5.3 Part III – Provincial Governments and Local-Level Governments

The Part III Report covers the financial statement audits of Provincial Governments, their Public Bodies and Subsidiary Corporations, Local-Level Governments, Hospital Boards and some Trust Funds.

5.4 Part IV – Public Bodies and their Subsidiaries

The Part IV Report covers the financial statement audit of Public Bodies and their Subsidiaries, National Government-owned Companies and National Government's shareholdings in other companies.

5.5 Individual Reports

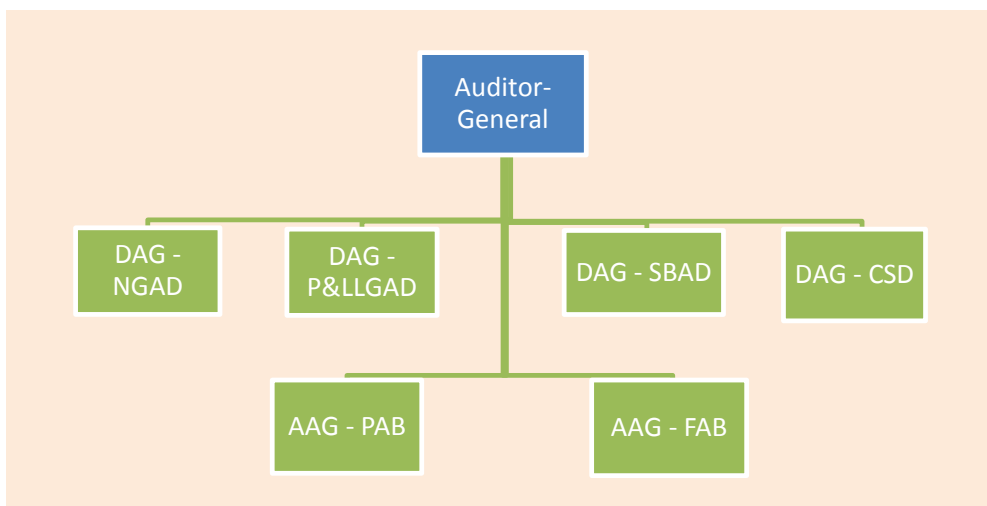
Individual reports are submitted to Parliament as soon as the audits are completed. It covers the results of Performance Audit, Forensic and Special Audit conducted on selected areas of concern in National Government Departments, Provincial Governments and Local-Level Governments and Public Bodies.

Starting 2019, I will be submitting Individual Reports to Parliament as soon as the audit is completed by my office to make the audit report more meaningful, relevant and timely, as an alternative to the annual compendium report followed by my predecessors in fulfilling the reporting responsibilities required by the Audit Act.

6.0 ORGANIZATIONAL STRUCTURE

In the period covered by this report, the Auditor-General's Office was organized into 4 divisions namely National Government Audit Division, Provincial and Local-Level Government Audit Division, Statutory Bodies Audit Division and Corporate Services Division which are headed by Deputy Auditors-General. Under the current structure we also have special operational branches which are headed by Assistant Auditors-General who report directly to me.

The roles of the operational divisions and special operational branches and the support services division are discussed briefly in the following paragraphs with more details provided in Chapters 2 and 3.

Figure 1. Structure of the Auditor-General's Office

7.0 RESOURCING OF THE AUDITOR-GENERAL'S OFFICE

Despite my budget submission of K32 million, the National Parliament appropriated a total of K17.6 million in 2018 to the AGO through the 2018 Budget Process. This was inadequate to fund my operational requirements considering the increase in audit portfolios. As a result, the conduct of audits was mainly restricted to government entities and agencies based in the National Capital; and the audits in other provinces could not be carried out because of the limited financial resources.

A fundamental principle of the democratic process is that, for it to be effective, an Audit Office must be adequately resourced so that it is, and is seen to be operationally independent of Government. Section 20B of the *Audit Act 1989* provides this resourcing independence as it requires the Auditor-General to:

“...prepare annually estimates of the sums that will be required for the payment of salaries, allowances and expenses of his office during the next ensuing financial year for consideration by the Permanent Parliamentary Committee on Public Accounts for recommendation to the Prime Minister for approval in accordance with Section 225 of the Constitution”.

In practice, however, this has not happened, and the AGO funding is determined by government officials as part of the annual Government Budget Process. This process does not involve the Public Accounts Committee (PAC).

I recognize the important role the Department of Treasury plays in the Budget Process and that the Government has the responsibility to decide how the country's resources are allocated. However, I believe that the PAC should play a role in determining the Office of the Auditor-General's resourcing requirements as provided for in the Audit Act, which is consistent with the Constitution.

Alternatively Audit Fees should be allocated in the recurrent budget of all National Government Departments, Provincial Governments and Local-Level Governments, Statutory Bodies and all others as mandated by the Constitution to be paid directly to the Auditor-General's Office.

8.0 CORPORATE PLAN

The Office vision is *"To audit to serve our country and communities professionally, and grow our people successfully."* I believe that the achievement of the objectives of the Corporate Plan will have an impact on transparency, accountability and good governance in government entities, and allow the Auditor-General's Office to be a key player in public sector accountability and integrity.

The Office's long term objectives are to promote effective leadership and management so that it can address its mandate by developing close relationships with its stakeholders and delivering quality audit reports with a workforce that has the capacity to undertake audits with professionalism and integrity.

The Office requires adequate resources to meet the needs of a modern day professional audit practice and to allow us to continually review our processes and procedures so that the Office can deliver cost-effective and efficient audits.

The Office's intention is to align its audits with the National Government development aspirations. With this in mind, my preamble in the Corporate Plan states that the Office would strive to provide opinions on the effectiveness of the public sector's delivery, of government policies and programs, and their contribution to Nation Building through the service delivery objectives of the Medium Term Development Strategies (MTDS).

9.0 STATE OF FINANCIAL MANAGEMENT IN PUBLIC SECTOR ENTITIES

As mentioned in past reports, I believe the capability of staff in a number of public sector entities is not adequate to deal with the complexities of a modern day public sector environment.

The audit function is constrained because there are few records to audit, and the entities systems do not support the financial management functions. Often the internal controls that are supposed to prevent breakdowns in financial administration are non-existent.

Examples of poor financial management include:

1. Lack of bank reconciliations;
2. Poor documentation supporting the transactions;
3. Ineffective internal controls over assets;
4. Lack of periodic physical stocktake of assets;
5. Non acquittal of advances and travel allowances;
6. Non-payment of taxes and allowances; and
7. Ineffective budget controls.

The poor state of financial management has compelled me to issue many qualified and disclaimer of audit opinions in 2018 as in the past. This means that I have disagreed with the treatment or disclosure of information in financial statements, or cannot express an opinion on whether the financial statements are based on proper accounts and records.

The perennial issues faced by the Office is the non-submission of financial statements by public bodies within the legislative timeframe, which leads to audits being in arrears as the financial statements are not audited in the current year. This reduces the relevance of the financial statements to decision makers and is contrary to the principles of accountability and transparency.

This is a serious issue that I will attempt to address with the Departments of Finance and Treasury in 2019.

10.0 EXTERNAL COMMITMENTS

In 2018 the AGO assisted the Public Accounts Committee (PAC) in its inquiries, and the Auditor-General was a member of a number of Audit Committees.

10.1 Public Accounts Committee Inquiries

Section 216 of the Constitution provides for the PAC to examine and report to the Parliament on reports by the Auditor-General on the public accounts of PNG and on the control of and on transactions with or concerning, public moneys and property of Papua New Guinea.

In 2018 the Public Accounts Committee did not conduct public inquiries.

10.2 Audit Committees

The Auditor-General is a designated member of the 19 Provincial and Departmental Audit Committees that were in existence since 2008.

In 2018, the Auditor-General or his representative attended a number of audit committee meetings held by the National Departments, Provincial Governments and Statutory Bodies in the National Capital and the Provinces.

CHAPTER TWO – AUDIT OPERATIONS

In 2018, the Office was structured to fulfil its audits through its three operational divisions headed by Deputy Auditors-General and two operational branches headed by Assistant Auditors-General who report to me. The performance of the operational divisions and branches is summarized below.

11.0 NATIONAL GOVERNMENT AUDIT DIVISION

In 2018, the National Government Audit Division completed a total of 106 audits for the fiscal years 2014 to 2017, the detail of which is presented below:

Table 3. Audits undertaken and completed in 2018 by the Division for fiscal years 2014 - 2017

	Audit Mandate	Management Letters Issued for fiscal years		Audits in Progress for fiscal years		Total
		2014	2015	2016	2017	
National Department	41	36	20	23	23	102
Public Accounts	1	1	1	1	1	4

The build-up of audit in arrears in 2018 was due to the under resourcing of staff in the division and other internal factors. It is hoped that the implementation of the new electronic audit working paper, also known as “*TeamMate*”, will help reduce the audits in arrears. The audit of the departments was primarily focused on a risk based approach, as well as the audit of controls and governance, which has now become an essential part of all departmental audits.

The audits of the accounts and records of selected Departments were basically to gather supporting evidence for the audit of the Public Accounts, and the internal controls in place in those National Government Departments. These departments were selected for audit as they were considered by my Office to be high risk because of their high revenue, expenditure, and significance in their nature of government business.

The agencies audited, completed and in progress, for the fiscal years 2014-2017 are shown in Table 4.

Table 4. Departments audited for years 2014 to 2017

Departments & Agencies		Management Letters Issued		Audits in Progress	
		2014	2015	2016	2017
1.	Office of Governor General	✓	✓		
2.	Department of Treasury	✓	✓	✓	✓
3.	National Parliamentary Services	✓	✓	✓	✓
4.	Department of Foreign Affairs & Trade	✓	✓		
5.	Department of Finance	✓	✓	✓	✓
6.	Department of P&LLG Affairs	✓	✓		
7.	Department of Justice & Attorney General	✓	✓	✓	✓
8.	Department of Labour & Industrial Relations	✓	✓		
9.	Department of Higher Education, Research, Science & Technology	✓	✓	✓	✓
10.	Office of Public Service Commission		✓		
11.	Department of Correctional Institutional Services	✓	✓	✓	✓
12.	Department of Health	✓	✓	✓	✓
13.	Department of Prime Minister & NEC	✓	✓	✓	✓
14.	Department of Works & Implementation		✓	✓	✓
15.	Department of Implementation & Rural Development	✓	✓		
16.	Office of the Electoral Commission	✓	✓		
17.	Department of Trade Commence & Industry	✓			✓
18.	Department of Community Development	✓			✓
19.	Department of Agriculture & Livestock	✓	✓	✓	
20.	Department of Environment & Conservation	✓			
21.	Office of Magisterial Services	✓			✓
22.	Department of Mineral Policy & Geohazards Management	✓		✓	
23.	Department of National Planning & Monitoring	✓	✓	✓	✓
24.	Department of Petroleum & Energy	✓		✓	
25.	Department of Police	✓	✓	✓	✓
26.	National Judiciary Staff Services	✓	✓	✓	✓
27.	Department of Defence	✓	✓	✓	✓
28.	Department of Transport	✓		✓	
29.	Department of Personnel Management	✓			
30.	Department of Lands & Physical Planning	✓	✓	✓	
31.	Office of Public Solicitor			✓	
32.	Office of Censorship				✓
33.	Office of Registrar of Political Parties			✓	
34.	Office of Public Prosecutor				✓
35.	Central Supply and Tenders Board				✓
36.	National Intelligence Organisation			✓	
37.	Office of Bougainville Affairs				✓

38.	Department of Information & Communication	✓
39.	Office of Urbanisation	✓

The other departments were considered to be low risk and would be audited in the future on a rotational basis depending on the availability of resources. AGO will be auditing these departments in the 2016 & 2017 fiscal years as indicated in Table 4.

11.1 Auditor-General's Reports – Part I and Part II

Table 5 below shows the number of Part I and Part II reports for the respective fiscal years that were produced and tabled in the National Parliament.

Table 5. Part I and Part II Auditor-General's Reports produced and submitted to the National Parliament

Annual Report	Fiscal Year
Part I	2013
Part I	2014
Part II	2013-2014

Part I and Part II reports for 2015 to 2017 are expected to be tabled in Parliament by the end of 2019.

12.0. PROVINCIAL AND LOCAL-LEVEL GOVERNMENT AUDIT DIVISION

The *Organic Law on Provincial Governments and Local-Level Governments (1995)* extends the audit mandate to cover Provincial Governments and Local-Level Governments.

Section 113 of the *Organic Law* requires the Auditor-General to establish a Provincial Audit Service and appoint a Provincial Auditor and additional officers in each Province. At the time of this Report, no such Provincial Audit Services are in existence in the Provinces due to funding constraints faced by the office. These constraints greatly affect my resources and capability to service audit clients based in the provinces. However, the office has established Regional Audit Cells in Port Moresby (Southern), Kokopo (NGI), Mount Hagen and Goroka (Highlands) and Lae (Momase).

Other than staff and administrative control of AGO, neither the *Constitution* nor the *Organic Law* provides for any executive or directive powers by the Auditor-General over the organizations subject to audit. Although the evaluations and investigations conducted under the direction of the Auditor-General assist management in detecting control and procedural weaknesses, the Auditor-General has no executive responsibility in relation to the formulation of accounting systems and policies or the setting of standards for administrative and accounting purposes as this may impede the independence and objectivity requirements of the Auditor-General in the execution of his primary audit function.

However, it has been the policy of this Office to enter into discussions with Provincial and Local-Level Governments on matters relating to accounting systems, internal controls and administrative procedures in general, and to provide related documentation where possible. In providing such advice or information it is understood that the responsibility for executive decision making remains with the auditee organisations.

12.1 Performance over the last 8 years (2011-2018)

The audit provisions under Section 16 and Section 20A of the *Audit Act 1989 (as amended)* further amplify the audit provisions in relation to the Auditor-General's responsibilities for Provincial and Local-Level Governments.

In 2018, the Branch had a total of 480 sub-national government audit portfolios, including the 21 Provincial Governments, 319 Local-Level Governments, 20 Provincial Health Authorities and Hospital Boards, 432 Service Improvement Programs and a number of business arms, provincial authorities and trust funds.

The funding constraints faced by the office have significantly affected the performance of the division in delivering its audit services throughout the provinces at the sub-national level in the years 2017 and 2018. Except for a few station audits, the audits of provincial governments, urban local governments, hospital boards and business arms located in other parts of the country have not been undertaken hence, the division did not produce its annual Part III Report for the 2017/2018 Audit Cycle.

The number of audit reports issued over the last 8 years from 2011 to 2018 compared to the 2010 is shown in the table below.

Table 6. Provincial and Local-Level Government Audit Division issued Audit Reports 2010-2018

Audit Portfolios	Audit Reports 2018	Audit Reports 2017	Audit Reports 2016	Audit Reports 2015	Audit Reports 2014	Audit Reports 2011-2013	Audit Reports 2010
PG	2	9	28	13	23	42	24
Urban LLG		6	24	5	29	16	27
PHA/HB	2	8	29	19	28	18	15
BA					4	4	23
Trust Funds	1	1	1	5	2	2	3
Authorities				8	3	2	11

Except for the years 2017 and 2018, there was a significant number of audit reports issued in the years from 2011 to 2016 due to timely submission of financial statements by auditee entities.

The AGO planned and performed one stop audits and emphasized to clients the importance of producing audit reports that are timely and relevant resulting in clients, particularly the Provincial Governments and Hospital Boards furnishing the financial statements in a timely manner.

The years 2017 and 2018 were less productive for the division due to the economic downturn experienced by the country. The consequential effect was that no field audits were performed and the subsequent audit reports were not produced. Clients had submitted their financial statements; however, the field audits remain pending as at the time of this Report.

12.2 Auditor-General's Part III Report

The Division is responsible for the preparation of the Auditor-General's Part III Report to National Parliament. It is a compendium annual report containing the summary of individual entity reports. Over the periods from 2011 to the current year, the division has produced 4 reports namely, Part III Report of the Auditor-General 2011-2013, 2014, 2015 and 2016. The office has changed the approach of reporting from 'Compendium Reporting' to 'Individual Entity Reporting' and commencing in 2019, the first Report produced is for the *Hela Provincial Health Authority for the year ending 31 December 2016*.

12.3 Challenges

The biggest challenge the division faces is resource constraints. The Division is not adequately resourced with funding and manpower to deliver its audit services and produce audit reports that are current and relevant. The division has a manpower gap between the graduates/auditor-1 level and the Director of Audits resulting in more man-days spent on an audit.

12.4 Going Forward

The Division plans to:

1. Bring to current the audits of Provincial Governments, Urban Local-Level Government, Hospital Boards and Business Arms; and
2. Bring to current the District Development Authority (DDA) audits. This includes the audits of PSIP and some LLGSIP.

An Intervention Budget has been prepared to assist in clearing the audits that remain outstanding, as a result of the AGO being underfunded in the years 2016, 2017 and 2018. The budget was submitted on 31 January, 2019, to the Honourable Prime Minister (Minister responsible) for consideration.

13.0 STATUTORY BODIES AUDIT DIVISION

The Statutory Bodies Audit Division draws its powers and authority under Section 8 of the *Audit Act (1989)* that enables it to carry out the audits of the accounts of relevant entities to ascertain whether:

1. The financial statements are based on proper accounts and records; and
2. The statements are in agreement with and show fairly the results of their financial operation as at the end of the year.

The Division is responsible for the audit of National Government owned companies and their subsidiaries, Public Bodies and National Government shareholding in other companies in accordance with their respective enabling legislations. The Auditor-General has the discretion in the exercise of his powers under *Section 3* and *4* of the *Audit Act* to carry out audits and revenues of government operations of programs including donor funded projects and other activities.

The Division has made significant progress in executing its assigned responsibilities and tasks over the years. The number of audit reports issued has continued to increase over the last 3 years. However, the notable drop in the 2017/2018 cycle was due to the expiration in the term in office of the former Auditor-General in March, 2018, where all reports completed between March and July, 2018, were not signed and issued at the time of reporting to Parliament in June, 2018. These reports have been subsequently signed and issued since the appointment of the acting Auditor-General in July, 2018 and they will be included in the subsequent years' report to Parliament. Non submission of financial statements continues to be a problem with 45% of entities not submitting their financial statements as required. This also represents 54% of the total current years (2017) financial statements which were due for audit by March, 2018.

Due to the shortage of skilled manpower and other factors, the Division outsources some of the audits to private accounting firms (agents) through a competitive bidding process which results in a contract being awarded. My office continues to oversee and review work performed by the agents and sign-off on the audit reports produced. The Division has a stringent quality control process in place to ensure acceptable standards are met.

The Division has submitted its Annual Part IV Report for 2017, covering the audits undertaken during the period 1 July, 2017 and 30 June, 2018. The report was presented to the parliament in September, 2018 and tabled in January, 2019.

The Division management is headed by a Deputy Auditor-General and assisted by two Assistant Auditors-General and 6 Directors of Audit.

13.1 Performance Summary

The Division's operational performance for the year 2018 is presented hereunder. Table 7 refers.

Table 7. Statutory Bodies Audit Division's operational performance from 2015 - 2018

	DEC 2018	2017/2018	2017/2016	2016/2015
AUDITS COMPLETED - REPORTS ISSUED	49	26	105	88
AUDITS COMPLETED - REPORTS TO BE ISSUED	60	79	25	37
AUDITS IN PROGRESS	43	58	39	49
AUDITS TO COMMENCE SHORTLY	32	24	15	7
FINANCIAL STATEMENTS NOT SUBMITTED	115	150	130	116
TOTAL	299	337	314	297

13.2 Project Audit Branch

The establishment of the Project Audit Branch resulted from the increase in requirements and greater expectations to conduct field work and produce reports to Donor Agencies and the country's Development Partners – International Lending Institutions funded projects and the GoPNG funded projects. The Project Audit Branch is headed by an Assistant Auditor-General and is responsible for the following:

1. Audit of all donor funded project located throughout the country;
2. Co-ordinate the conduct of all project audits in PNG funded by the International Donor Agencies;
3. International Credit Organisations and GoPNG inclusive of all capital works with the threshold of K10.0 million and above;
4. Ensure that the audit planning, field audit work and reporting are conducted in accordance with the International Auditing Standards and with the terms and covenants of the loan and/or funding agreements; and
5. The preparations of annual report for Auditor-General on project audits to parliament.

The project audits status for the period 2017/2018 is presented hereunder:

Table 8. Project Audit Branch status of work

Donor/Agencies	Audit Mandate	Audit Opinion Issued	Audit in Progress	Financial Statement Received	Financial Statement Not Yet Received
ADB	17	15	0	0	2
World Bank	26	12	7	6	1
Others	29	10	7	4	0
Total	72	37	14	10	3

14.0 PERFORMANCE AUDIT BRANCH

The Performance Audit Branch was established in year 2009. In the initial set up, the Branch was mostly involved in capacity building with the assistance from Pacific Supreme Audit Institution (PASAI) and Australian National Audit Office (ANAO) with staff strength of 3 officers. However, the Branch has grown and increased its staff strength to 10 officers as at 31 December, 2018. An Assistant Auditor-General is the head of the Branch and reports directly to the Auditor-General.

Performance Audit, also known as Value for Money Audit, is defined as making the best use of limited financial resources with due regard to efficiency, economy and effectiveness. The function of the Performance Audit Branch is to conduct performance audits and reviews on issues related to public importance and concerns; and produce special audit reports to National Parliament.

14.1 Legal Mandate

The mandate to conduct performance audit is provided for in Section 214(3) of the *Constitution* which states that “...the Auditor-General may, if he thinks it proper to do so, inspect and audit, and report to the Parliament on, any accounts, finances or property of an institution, insofar as they relate to, or consist of or are derived from, public moneys or property of Papua New Guinea”. This is further amplified in the *Audit Act (1989)* under Section 3(5)(h), which empower the Auditor-General to “...take such actions as he thinks necessary to satisfy himself that the functions performed by, and the operations carried out by the relevant body, are carried out in an economical, efficient and effective manner”.

The practise and conduct of performance audits are also adhering to International Standard of Supreme Audit Institutions (ISSAI) and Pacific Association of Supreme Audit Institutions (PASAI) adopted Standards and Practices.

14.2 Special Audit Reports

There are many performance audit topics or issues that could be chosen for audit purposes. However, the branch as required by the International Standard of Supreme Audit Institutions (ISSAI) Standards on Performance Audits produced a 3 year Audit Strategic Plan to guide the Branch to select performance audit topics. Based on this plan, the branch was tasked by the Auditor-General to produce a minimum of 2 special audit reports every audit cycle.

During the audit cycle of 2017/2018 the Branch had undertaken audit of 5 selected performance audit topics and had produced 2 Special Audit Reports whilst 3 reports are going through a quality review process. The Special Audit Reports completed in 2018 were the *Log Export Development Levy Trust Account* which was tabled in the National Parliament in September, 2018; and *Land Geographical Information System (LAGIS)* which will be tabled in the National Parliament in 2019.

The other Performance Audit Reports undergoing peer review are the *Performance Audit on Payment and acquittal of Service Improvement Program Funds (SIP)*, *Gazelle District Electorate SIP* and *Preparedness of Sustainable Development Goals of PNG*. These special audit reports should be ready for tabling in the National Parliament during the year, 2019.

14.3 Achievements

The Performance Audit Branch had undertaken and completed a number of performance audits since its establishment in 2009. The vision of the Auditor-General at that time was to bring PNG Auditor-General's Office up to par with its sister Supreme Audit Institutions (SAIs) in the Pacific Region as well as internationally, with regard to operations of Performance Auditing. Performance auditing is prominent in SAIs of the world. Consequent to this decision, Performance Audit Branch had gradually grown and was able to produce a number of Special Audit Reports on various performance audit topics. The table below reflects the details of Special Audit Reports tabled in the National Parliament since 2011, and this shows the achievements of the Branch.

Table 9. Performance Audit Reports 2011 – 2018

No.	Title of Audit	Task	Status	Year Tabled
1.	Performance Audit on the UN Sustainable Development Goals (SDGs) in Papua New Guinea	To assess the preparedness of the Government towards implementing the UN Agenda 2030 on Sustainable Development Goals	Ongoing	
2.	Gazelle District Electorate (DSIP)	To assess the effectiveness of the delivery of DSIP	Review stage	
3.	Services Improvement Program (SIP)	To assess the effectiveness of payments and acquittals of service improvement program (SIP).	Review stage	
4.	Performance Audit on Land and Geographical Information System (LAGIS)	To assess the effectiveness of Department of Lands and Physical Planning in managing the LAGIS enhancement Program	Pending tabling	
5.	Performance Audit on Log Export Development Levy	To assess the effectiveness of the Management of the Log Export Development Levy	Tabled	2018
6.	Special Audit on the Services Improvement Program (SIP) delivery for	Special review to assess the effectiveness of the delivery of the SIP in the provinces of New Ireland	Tabled	2017

	New Ireland and Milne Bay Provinces	and Milne Day		
7.	Performance Audit on Manam Resettlement Program	Review of the effectiveness of the Madang Provincial Administration (Special Project Management Unit) in managing the Manam Island Resettlement Program and its status.	Tabled	2017
8.	Performance Audit on the Budget Appropriation and Issue of Warrant Authorities	To assess the effectiveness of the Budget Process, its appropriation and subsequent release of warrant authorities	Tabled	2015
9.	Performance Audit on Christian Health Services in Papua New Guinea	To assess the effectiveness of the Delivery of Christian Health Services in Papua New Guinea by main line Christian Churches	Tabled	2015
10.	Special Report on the District Services Improvement Program (DSIP)	To review the effectiveness of the delivery of DSIP	Tabled	2014
11.	Performance Audit on the Management of the Trust Accounts	To assess the effectiveness of the Management of Trust Accounts by Department of Treasury	Tabled	2014
12.	Review of the Integrated Financial Management System (IFMS) Project	Review to consider key project risks related to the IFMS Project and give broad focus to the processes and controls that management has in place.	Tabled	2014
13.	Performance Audit on Access to Safe Drinking Water (Cooperative Audit – PASAI)	To assess Safe Drinking Water in the National Capital District, Papua New Guinea	Tabled	2013
14.	Performance Audit on Solid Waste Management (Cooperative Audit - PASAI)	To assess the effectiveness of solid waste management in the National Capital District, Port Moresby	Tabled	2011

14.4 Way Forward

The performance audit is now considered as an important means by which the SAIs measure the performance of the public sector organisations in both developed and developing countries. The review of the decisions made to incur large public expenditure requires audit, not only of the financial and compliance aspect of the decisions, but also to ensure that value for money is achieved in terms of economy, efficiency and effectiveness of the outcomes achieved from the expenditure of government funds on public projects or services delivery by all levels of government and report the results to the National Parliament.

The public sector report on Public Expenditure and Financial Accountability (PEFA) reforms initiated by the Department of Finance with assistance from other key international stake

holders recommended 2 key priorities for the PNG Auditor-General's Office to implement in year 2015. These priority areas are:

1. Increase staffing in performance auditing; and
2. Increase staff strength and also develop the required competency and capacity levels to conduct performance audits for significant public services.

The Office is required to implement the priority action items under the reform strategy for external audits as way forward in enhancing performance auditing.

In terms of staff development and up-skilling, the branch has received great support from the Australian National Audit Office (ANAO) with technical assistance under the Stongim Gavaman Program (SGP). Staff have received development and training both in the country and overseas. The SGP arrangement should be maintained into the future so that technical support can continue to be received.

15.0 FORENSIC AUDIT BRANCH

The Forensic Audit Branch was established in 2014. The main objective of the establishment of the branch was to extend the audit functions of the Auditor-General so as to contribute meaningfully to the Vision and Mission Statement of the PNG Auditor-General's Office; and demonstrates that the office is in the forefront to counter corrupt practices.

15.1 Legal mandate

The creation and existence of the Forensic Audit Branch is drawn from section 214(1) and (4) of the *Constitution* and sections (3) and (5) of the *Audit Act, 1989*, (the Act).

15.2 Partnership with other agencies

AGO had signed a Memorandum of Understanding (MOU) with Department of Police and Ombudsman Commission in 2008, which forms and sets in place a mutual cooperation between these agencies in dealing with fraud related matters. FAB therefore, has strengthened the relationship with these agencies, more particularly with the National Fraud and Anti-Corruption Directorate. We anticipate building on similar working relationships with other central government agencies.

15.3 Assignments since the establishment of the branch

Since its establishment in 2014, the Branch, has conducted assessment and audit of a number of agencies, on issues pertaining to performance, administration and financial management. As a result of its investigation work, 2 reports were produced and referred to the relevant authorities for further action.

Table 10. Forensic audit assignments in the year 2018

	Activity	Remarks	Progressive Action
1.	Namatanai District DSIP Fund– payment for GPS satellite units for vessels.	<ul style="list-style-type: none"> • Preliminary assessment completed. • Pending complete scope of investigation. 	To enlist help of police to investigate.
2.	Southern Highlands Province SIP	Preliminary assessment completed. Too general to pursue.	Shelved until specific allegations are submitted
3.	Western Highlands Province- Baiyer to Madang Road fund misuse.	Pending Preliminary Assessment	Activity carried over to 2019.
4.	Nokondi Investment Limited	Audit conducted	Report to be furnished to EHP PEC and Fraud Squad.

CHAPTER THREE – SUPPORT SERVICE

16.0 CORPORATE SERVICES DIVISION

The Corporate Services Division consists of the Corporate Management, Human Resources and Technical Services Branches. It provides support to the operational branches and keeps a professional relationship with stakeholders, external clients and other service providers in maintaining effective and efficient services in the areas of finance, human resources, administration, information technology and technical support.

17.0 CORPORATE MANAGEMENT BRANCH

This Branch is responsible for all financial matters of the office including:

1. Negotiating and securing adequate funding;
2. Ensuring the timely payment to service providers, creditors and audit clients;
3. Ensuring the proper administration and running of office fleet of vehicles;
4. Ensuring the efficient and efficient operation of the accounting and payment system;
5. Developing relevant policies in line with the roles and functions of the Branch;
6. Maintaining adequate supply of materials and stores to support operations;
7. Liaising with key external partners for funding.

During the period covered by this report, our office migrated from the Attache Accounting System to the Integrated Financial Management System (IFMS). IFMS is the new accounting and payment system used in the public service and is controlled and administered by the Department of Finance, whereby end users such as our office are connected to the system through the internet.

18.0 HUMAN RESOURCES BRANCH

Human Resource Branch (HR) has the primary responsibility for managing, assisting and dealing with all employee related matters, including such functions as, policy administration, recruitment process, benefits administration, employment and labour laws, new employee orientation, training and development, labour relations, personnel records retention, wage and salary administration, disciplinary processes and employee assistance program.

HR works closely with all operational divisions to support and respond to their needs in a number of ways;

18.1 Human Resources Management – supports the objectives of the organisation

18.2 Recruitment and Selection – HR ensures that the right candidate is recruited to positions within the office based on qualifications and experience.

18.3 Employee Communications – HR ensures that there is two way communications on all levels and divisions. All divisions are encouraged to convene Staff Meetings/Briefings once every month. Any written communication must be conducted through a protocol procedure via email facility, memorandums, letters, file notes and various office Committees.

In AGO, there are a number of Committees set up to encourage transparency and fairness in decision making. The Committees are:

- (a) Housing Committee
- (b) Appointment, Promotion and Remuneration Committee
- (c) Disciplinary Committee
- (d) Training Committee
- (e) Organizational Restructure Committee

18.4 Staff Welfare - The Auditor-General recognises that all employees are a valuable resource and that the health and welfare of employees is essential in achieving the organisation's mission. The wellbeing of employees is of a primary concern and is addressed by investing in the health and welfare of employees in the organisation. The AGO has initiated a Staff Welfare policy which aims to achieve and create awareness on general health, and wellbeing of staff. The policy addresses the areas of:

- (a) Workers Compensation
- (b) Annual Health Checks (Comprehensive health screening packages)
- (c) Fitness & Wellbeing Programs (balancing health & fitness at home and at work)
- (d) Recreational activities
- (e) Staff Social Club

18.5 Staff Medical Scheme – This scheme was introduced in 2016 and the Medical Benefits cover: General medical insurances, Life Cover, Accident Cover, Funeral Cover (member/spouse/child), Dental, Optical, Pregnancy, Emergency Evacuation in-country or overseas. The subscription is renewed every year through policy premiums paid by the office.

18.6 Learning and Development – HR ensures there are training facilities that provide programs and services that enable continuous learning for all staff, support organisational effectiveness and encourages innovation and knowledge sharing. The office has been a member of ACAG (Australasian Council of Auditor Generals) since 1995, PASAI (Pacific Associations of Supreme Audit Institution) from 1988 and INTOSAI (International Organisation of Supreme Audit Institutions). The office receives support from the Australian National Audit Office (ANAO) and other state audit offices through the 'Twining Program' where selected PNG graduates are sent to Australia to undergo training for a period of 1 year. ANAO also provides short training for middle management in Australia. AGO currently has a Training committee that deals with all Training matters.

To support the staff professional development program, the office pays the CPA PNG membership and examination fees for all registered members within the office. AGO has 26 CPA holders and 84 registered members.

18.7 Membership in International and Local Professional Bodies - The Office is an active member of various international and local professional bodies as shown in the table below:

Table 11. Membership to Professional Bodies

LOCAL ASSOCIATION	
PNGIIA	PNG Institute of Internal Auditors
PNGIA	PNG Institute of Accountants
PNGHRI	PNG Human Resources Institute
REGIONAL ASSOCIATION	
CPA	Certified Practising Accountants
PNGTDS	PNG Training & Development Society
PNGLS	PNG Legal Society
INTERNATIONAL ASSOCIATION	
ACAG	Australasian Council of Auditor Generals
ASOSAI	Asian Organisation of Supreme Audit Institutions
INTOSAI	International Organisation of Supreme Audit Institutions
PASAI	Pacific Association of Supreme Audit Institutions

18.8 Employee Uniforms and Facilities – HR currently has a ‘Corporate Wear Policy that covers Uniforms for staff, provision of ID Cards and NID cards through liaison with NID officers. HR also ensures that staff amenities and facilities are available and properly maintained.

18.9 Payroll – HR ensures all payroll matters are dealt with accordingly on a timely manner. The office manages its own payroll system.

18.10 Policies and Procedures – HR has developed policies and procedures in the following areas:

- (a) Appointment, Promotion and Remuneration
- (b) Staff Welfare
- (c) AGO Corporate Wear
- (d) Housing
- (e) Risk Framework
- (f) Novated Lease
- (g) Manpower
- (h) Training
- (i) Communication Strategic Plan
- (j) Occupational Health & Safety
- (k) Record Keeping
- (l) Human Resources Manual
- (m) Industrial Relations

- 18.11 Disciplinary Matters** – The disciplinary actions range from written warnings to suspensions and terminations. HR ensures that the office is following the formal Disciplinary Procedure (General Orders & PSMA) for any grievances, disciplinary actions, managing & resolving disputes in a most effective manner and correcting ill performance or behaviour of staff. AGO has a Disciplinary Committee that deals with all disciplinary matters and makes recommendations to the Auditor-General.
- 18.12 Personnel Emoluments and Benefits** – HR ensures all employees are paid in accordance with their qualification and established Grade & Salary Structure. HR also ensures that leave fares are paid to staff when it is due.
- 18.13 Performance Appraisals** – The office has a staff appraisal system and HR ensures that staff performance appraisals are conducted regularly.

Figure 2. Staff composition in terms of Male and Female officers

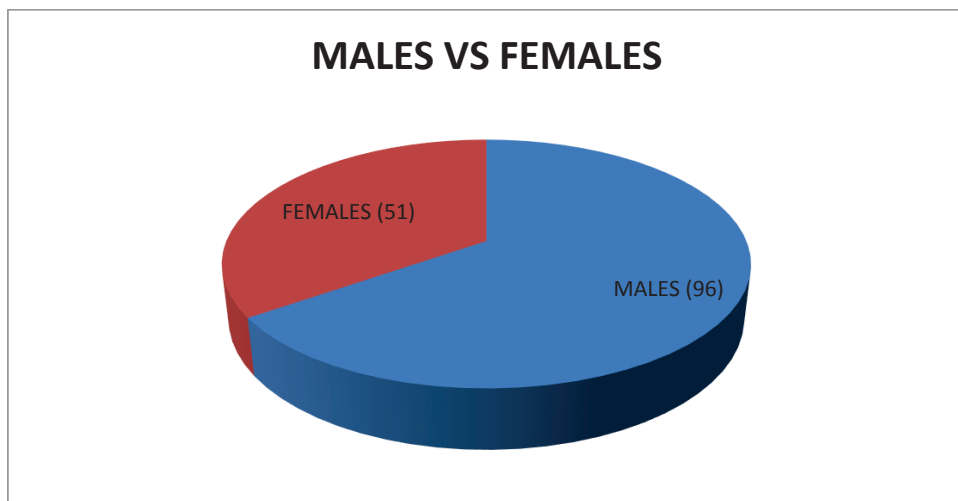


Figure 3. The number of years of service for all staff

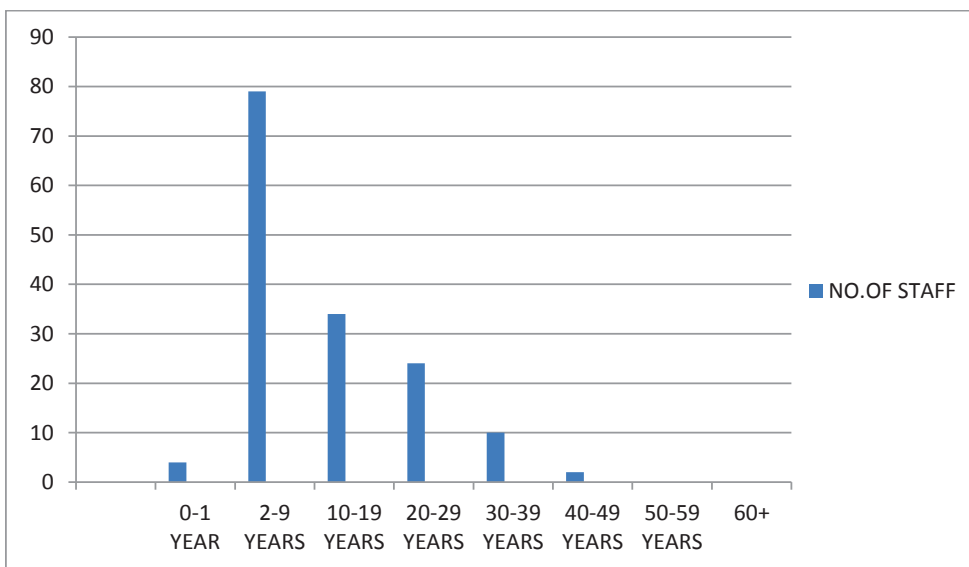
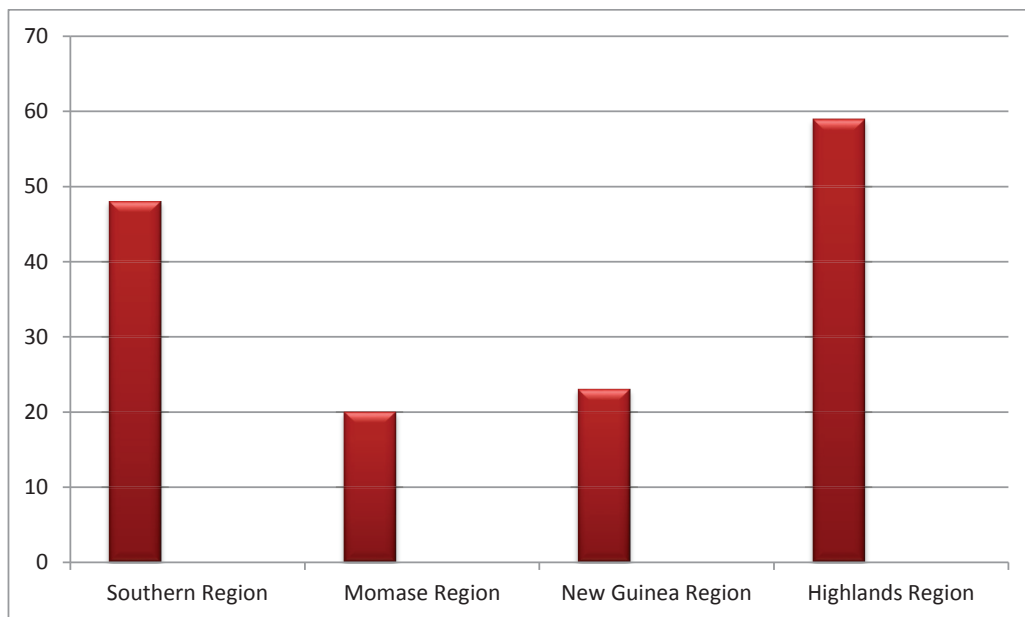


Figure 4. Staff numbers by Region



19.0 TECHNICAL SERVICES BRANCH

The primary functions of the Technical Services Branch are to assist the Auditor-General’s Office with the provision of strategic planning, policy monitoring and staff training and development, summarise International Standards on Auditing and provide interpretations and guidelines on the latest updates on IFRS/IAS or IPSAS. The Branch is headed by an Assistant Auditor-General who reports to the Deputy Auditor-General Corporate Services Division.

In 2016, the Branch was tasked primarily to develop and implement an in-house electronic audit working paper utilising and managing local champions from the various operational divisions with technical IT assistance from Australian National Audit Office (ANAO).

In 2018, the Branch's major achievements in line with the Corporate Plan Objectives are:

19.1 Implementation of TeamMate Auditing Software (Electronic Audit Working Paper)

The Auditor-General's Office is changing its audit approach from manual to automation and from systems-based to risk-based audit approach. To embrace the change, the 'Team Mate' is being trialled for full implementation at a later stage.

The Team Mate is a comprehensive audit management system designed to help auditors and audit managers manage all aspects of the audit process. It allows the auditors to:

1. identify risk and create assessment reports;
2. schedule projects and allocate resources;
3. capture time and expenses;
4. track audits and issues; and
5. create and manage audits via an advanced electronic working papers database.

To ensure that TeamMate is implemented to address the audit needs of the AGO the Technical Services staff assisted in the following:

1. Authored a Risk-Based Financial Audit Methodology, which is in compliance with the financial guidelines of the International Standards of Supreme Audit Institutions (ISSAIs – 1000 series) and ISSAI Compliance Standards (4000 series). The audit methodology was reviewed by an advisor from the ANAO and amendments were done accordingly. It was then certified by two PASAI represents from PNG Auditor General's Office
2. Provided TeamMate administration with the Suite Setup, User Maintenance, Project Maintenance and other activities as required by the audit system;
3. Authored electronic audit test procedures and working papers;
4. Conducted training courses on TeamMate application and the audit methodology for the AGO staff. This year, 4 training sessions were conducted for the operational divisions based on the needs of different staff levels;
5. Solved issues brought by the AGO TeamMate users; and
6. Assisted audit teams with the audit project monitoring and quality control measures.

^a ISSAIs are Practice Notes to the International Standards on Auditing (ISA). The AGO complies with the ISSAIs financial guidelines and doing so, it fully complies with the ISA.

While several audit projects are being created in TeamMate, a total of 9 audits, have been completed and audit reports issued. It is an important milestone in the history of the Auditor-General's Office to complete the audits using the automated audit system. This important achievement has made the Auditor-General's Office become one of the TeamMate users in the Pacific Association of Supreme Audit Institutions (PASAI) region. Other TeamMate users in the region are the Australian National Audit Office, Audit Office of New South Wales, New Zealand, Fiji, Vanuatu, Cook Islands and the Solomon Islands Audit Offices in the PASAI region.

The automation of the Auditor-General's Office audit approach and system is the way forward to carry out audit engagements. The Office is always tasked with getting more done despite the limited resources. When exploring the current processes and audit methodologies, the use of TeamMate Auditing system is by far the most efficient way to increase the audit productivity and ensure a high quality of audit outputs. By embracing this automated audit technology, staff can be able to work far more efficiently, produce more impactful reports that contain insights and foresights.

19.2 External Training and Support from Our External Partners

To ensure that the TeamMate Audit system is continuously supported during the implementation stage, in April 4 staff attended five-days TeamMate Oceania University Training in Sydney, New South Wales. They have been certified as TeamMate Champions for the AGO to conduct in-house TeamMate training for the AGO TeamMate users that will be increased from 80 licensed users to 120 in the future.

In addition to our internal support programmes for TeamMate, the ANAO, through the Institutional Partnership Program with office, continues to provide TeamMate methodology support where needed.

19.3 Summarising Auditing Standards

To ensure that our staff are well versed with international auditing standards, 12 International Standards on Auditing (ISA 315-540) or ISSAI Financial Audit Guidelines summaries (ISSAIs (1315-1540) are summarised and issued to the staff on monthly basis. The requirements from the summarised auditing standards are compared to the AGO's Risk-based Financial Audit Methodology in TeamMate as part of the audit quality assurance measures to comply with the international standards on auditing.

19.4 Providing Updates on IFRS/IAS and IPSAS

To keep the staff of the Auditor-General informed of the latest developments from the International Financial Reporting Standards (IFRS), summaries of changes in IFRS for 2008 were disseminated to the staff and stored in the office's shared drive for public viewing.

As the Auditor-General's Office heads to the future, this section of the report will provide an insight on the primary functions of the Technical Services and how it assists staff carry out the mandated role of the Auditor-General by embracing new technology, fully complying with auditing standards and resourcing the office with the latest IFRS updates and relevant government laws and regulations.

20.0 INFORMATION TECHNOLOGY SECTION

As the PNG Auditor General's Office continues to expand its IT network, it is also experiencing overloading with traffic coming from our wireless network. In light of this, the office recently re-cabled the whole installing data ports on most of the workstations to help staff access the network faster. The office also upgraded the Lae Regional office network, where the office now has its own small local area network.

Our office website has also been upgraded to a new look that is more user friendly, where the public can download any report after it is tabled in parliament or view any latest news and update about the Auditor General's Office.

In support for the recent purchase and use of the TeamMate Audit Management Software (AMS) used by audit staff to manage all audits, two physical servers were purchased; one for the TeamMate AMS itself and the other for the Database Server. The high volume of data to be processed through this application means that it cannot be managed on virtual servers.

As the storage of data is important, the office recently purchased a rack located at Datec Data Centre to host our Disaster Recovery, where all our data on the network is replicated offsite (i.e. Datec Data Centre) daily for safe keeping.

21.0 AUSTRALIAN GOVERNMENT FUNDING

The office has been fortunate to secure technical assistance from the Australian Government through the Strongim Gavaman Program and Advisory Support Facility in 2018, One advisor is attached to my Office. The adviser is presently helping in programs relating to strengthening of the Office in line with the Corporate Plan strategies.

The capacity building exercise of the Office continues to be given top priority so that the office is able to deliver quality audit services in line with its Corporate Plan. The use of adviser in this area is seen as the catalyst for improvement both in quality of human resources and the achievement of corporate goals.

I also recognize and appreciate the support of AusAid, the ANAO in 2018 in allowing two of our graduate officers to attend graduate training programs in Australia, and the Queensland Audit Office for allowing two of officers to attend on the job training in middle management.

22.0 FINANCIAL REPORT OF THE AUDITOR-GENERAL'S OFFICE FOR THE YEAR ENDED 2018

Attached herewith is the unaudited Financial Report of the Auditor-General's Office for the year ended 31 December 2018, which represent transactions and the state of affairs of the office since my appointment in July, 2018. At the time of the preparation of this report, the audit of the financial statements was being finalized, whilst the audit of the financial statement for years 2015 to 2017 had not commenced.

AUDITOR-GENERAL'S OFFICE

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

Statement of Receipts and Payments

Notes to and forming part of financial statements

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OFFICE OF THE AUDITOR GENERAL
STATEMENT OF CASH RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Receipts/ (Payments) (In Kina)	Payments by Other Government Entities (In Kina)
RECEIPTS			
Appropriations from Government	3	18,237,284	
Audit Fees collected	1.3	-	10,842,074
Other Receipts	4	30,912	32,340
Bank transfer from Audit Fees Account		-	-
Interest Income from Audit Fees Account			6,102
Bank Transfer from Main Account		-	-
Total receipts		18,268,196	10,880,516
PAYMENTS			
Salaries and Allowances, Wages & Employee Benefits		14,834,336	67,879
Supplies and Consumables		490,334	1,207
Utilities		271,583	-
Administrative expenses		2,162,997	320,993
Other Operating expenses		559,979	-
Capital Expenditure		127,179	3,089
Authorized Auditors Fees (GST Inclusive)		-	7,764,827
Interest Income Paid to Waigani Public Accounts		-	6,102
GST Paid (IRC)		-	339,068
Total Payments	5	18,446,408	8,503,166
Reversal of stale cheques from prior years	4	1,073,140	-
INCREASE/(DECREASE) IN CASH		894,928	2,377,349
Cash at beginning of the year		1,552,745	1,339,282
Increase/(Decrease) in Cash		894,928	2,377,349
Cash at end of year	<u>2</u>	2,447,673	3,716,631



GORDON KEGA, MBA, CPA
Acting Auditor-General



ALBERT KIMISI
Acting Deputy Auditor-General
Corporate Services Division

Date: 06 May, 2019

Date: 06 May, 2019

1.0 ACCOUNTING POLICIES

1.1 Basis of Preparation

The Statement of Receipts and Payments has been prepared on cash basis in accordance with IPSAS Financial Reporting under the Cash Basis of Accounting. The receipts exclude receivables, and payments exclude expenditure incurred but in respect of which settlement has not been made at the balance date.

The Accounting Policies have been consistently applied throughout the year.

1.2 Office of the Auditor-General

The principal activity of the Office of the Auditor General is to inspect and audit, and to report at least once in every fiscal year to the Parliament on the Public Accounts of Papua New Guinea and on the control of and on the transactions with or concerning public moneys and property of Papua Guinea, and such other functions as are prescribed by or under a law of Papua New Guinea.

1.3 Audit Fees Account

1.3.1 The Office of the Auditor General collects audit fees from the audit and inspection of the accounts and records of government entities and programs, which are deposited into the Audit Fees Account.

1.3.2 Separate accounting records are kept of the fees collected and the payments made out of the audit fees account, which are then reported in the Statement of Receipts and Payments at the year end,

1.3.3 Monthly interests are earned and received on the audit fees account as determined by Bank South Pacific Limited. However, such interests are transferred to the Waigani Public Accounts-Income (Department of Finance).

1.4 Reporting Currency

The reporting currency is Kina.

2.0 UNAUDITED STATEMENT OF RECEIPTS AND PAYMENTS

The 2018 Statement of Receipts and Payments has not been audited, as the audit of the prior year financial statements from 2012 to 2017 was still in progress at the time of the preparation of the 2018 financial statements.

3.0 CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent demand deposits and cash equivalents. Demand deposits and cash equivalents comprise balances with banks and investments in short term money market instruments. Cash included in the Statement of Cash Receipts and Payments comprise the following amounts:

	2018 (K)
Balance with banks - Operating Account	2,447,673
Balance with banks – Audit fees Account	3,716,631
Interest Bearing Deposits	0
Total	6,164,304

3.0 APPROPRIATION

	Appropriation (K)	Warrant/CFC (K)	Expenditure (K)	Variance (K)
Recurrent Expenditure	17,694,400	18,237,284	18,446,407	209,123

Payments in excess of the annual appropriation were made from unused funds carried forward from 2017. Also an amount of K542,884 was received from the Department of Finance for the implementation of the 3% CPI adjustments during the year.

5.0 STALE CHEQUES

K1,104,052 worth of stale cheques from 2017 were written back and reversed out, but these do not represent actual inflow of cash.

6.0 SUMMARY OF OPERATING ACCOUNT EXPENDITURE

Expense Description	Vote	2018 (K)
Salaries and Allowances	211	11,523,048
Wages	212	477,039
Overtime	213	0
Leave Fares	214	497,812
Retire Benefits (POSF, Gratuity, Pension)	215	2,274,077
Education	217	62,360
Travel and Subsistence	222	343,255
Office Materials and Supplies	223	188,225
Operational Materials and Supplies	224	302,108
Transport and Fuel	225	230,923
Other Operational Expenses	227	396,780
Training	228	224,445
Utilities	231	271,583
Rental of Property	232	1,124,874
Routine Maintenance	233	163,199
Membership Fees, Subscription & Contribution	251	239,501
Office Furniture & Equipment Purchases	271	127,179
Total		18,446,408

7.0 RECEIPT AND PAYMENT OF AUDIT FEES

Whilst all audit fees collected are recognized as receipt, a distinction is made between amounts retained by the Office of the Auditor General's and payments made to authorized auditors.

- 7.1 Fees collected from audits undertaken internally by the Office of the Auditor- General are wholly income for the office.
- 7.2 Fees collected from outsourced audits are paid to the authorized auditors, only to the extent that the payments are for the discharge of expenses, obligations and liabilities of the Auditor General as per contractual arrangement.
- 7.3 Certain payments were made from audit fees account during the year for expenses incurred in relation to the operation of the office.

8.0 GROUP TAX LIABILITIES

The Office of the Auditor General's owes Internal Revenue Commission (IRC) a total amount of K8,599,839 in unpaid group taxes for the years 2017 and 2018 (K3,443,291 and K5,156,548 respectively).

9.0 CONTINGENT LIABILITY

The Auditor General's Office may have a contingent liability to Internal Revenue Commission (IRC) with regards to the interest and penalties arising from unpaid group taxes.

10.0 FIXED ASSETS

Classification	Purchases
Furniture, Fittings and Equipment	K 127,179
Motor Vehicles	0

During the year, acquisitions of fixed assets amounted to K127,179 in total.



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