30 May 2011

Management Letter

Audit for the year ended 31 December 2010

Provincial Capacity Building Project Phase II

United Nations Development Programme
Response to prior year Management Letter Issues

- Delay in processing of transactions into PAS

- Amount transferred to Provincial Centers were processed in the FACE forms based on allocations on the work program

- Processsing of payments based on statements of accounts

- Processsing of payments based on quotations, proforma invoices, or faxed invoices

- GST charged by suppliers and paid on invoices when invoices do not have GST numbers (not proper invoices)

- Salaries and accommodation allowances paid not subject to tax

Contents

May 2011
Audit for the year ended 31 December 2010
Prepared Capacity Building Phase 2
The security of the asset register:

- Assets in the Provincial Centers may be abused and stolen, not being monitored and recorded in the Provincial asset register.
- In K.G. 77.71, a total of K.306.915.57 and therefore need to be amended accordingly.
- The non-removal of destroyed and stolen assets has increased the total assets by K.374.771.65.

- Destroyed and Stolen Assets on Register

Motor Vehicles

Implication

Where we are not sure whether they still exist, the asset register is used.

In the Provincial Centers:

- Asses in Provincial Centers

In the Provincial centers, the security of the asset register is monitored for destruction and theft.

K.373,769.68, vehicle K.374.771.66. These items are clearly identified as destroyed or stolen.

We noted a number of destroyed and stolen assets were listed in the Provincial Centers.

- Destroyed and Stolen Assets on Register

- Motor Vehicles

Observation

- Correspondence of possible causes of audit findings: Guidance

- Correspondence of Risk Severity: Low

1 Fixed Assets

May 2011

Audit for the year ended 31 December 2010

Provincial Capacity Building Project Phase II
Office done in the Project Office provided the cost is minimal compared to someone from the Project.

We recommend the physical inspection of the assets in the Provincial Centers to confirm their existence and update the asset register. This inspection can be done half yearly or

**Assets in Provincial Centers**

- Including the respective districts where assets may be located.
- Conducted on a half-yearly basis and an update from each of the Provincial Centers to confirm the existence and update of the asset register. Following the inspection, the assets can be

**Assets in Provincial Centers**

- Assigned to the respective personnel. This would result in the total assets whose list been
- The destroyed and stolen assets should be removed from the register after approval has been

**Destroyed and Stolen Assets on Register**

- Project Capacity Building Project Phase II
- All motor vehicles should be registered under one name preferable under FRP of the

**Motor Vehicles**

**Recommendation**

- The accuracy of the assets register is updated on the register as to their physical existence and their values. This would not reflect
- Assets in the Provincial Centers may be destroyed and stolen if not closely monitored and

**Assets in Provincial Centers**
Management Letter - Response From Management 1 June 2011

Page 3

1. Project Office Response

Recommendations are noted. UNDP will work with FNPP to look into the possibility of providing provincial centers, bearing budget and potential implementation implications.

2. UNDP Country Office Comments

Accepted.

May 2011
Audited for the year ended 31 December 2010
Provided Capacity Building Project Phase 11
The project should ask for verification forms to be completed in respect of the Project Sheet for paid to the Internal Revenue Commission.

The project should calculate the taxes owing on the salaries paid to date and ensure that this is

Recommendation

accommodation allowances paid to staff.

The project should be registering for tax and deduct taxes on salaries and wages and

Implementation

since its inception.

We have been informed that the Project has not been deducting any taxes on salaries and wages

We notice that the salaries and housing allowances have been paid without deduction of any

Observation

Correlation of possible causes of & Finding: Guidelines and Guidance

Correlation of Risk: Severity: Medium

tax

Salaries and accommodation allowances paid not subject to.

May 2011
Audit for the year ended 31 December 2010
Provincial Capitol Building Project Phase II
Office

Recommendaotion is noted, however UNDP agrees with response provided by project.

2. UNDP Country Office Comments

Section 2(b) of the Aid Stamps (Priorities and Immunities) Act, 1977.

The project is currently awaiting to get access to the Ministerial approval needed under

Monitoring. Has carriage of the functional relationship between donors and the project.

Representatives of the Department of National Planning & Monitoring have also

confirmed this decision is their understanding. The Department of National Planning & Monitoring have also

donors (UNDP and AusAID) will confirm this.

It is understood that the initial agreement between the State of PNG and the relevant

entities to the project and not distributed to exaction.

and Immunities Act, 1977. This enabling legislation ensures that donor funds are directed

It is understood as has been the understanding since the inception of the project that the

Not agreed at the moment, but this action will be taken if necessary.

1. Project Office Response

Management Response

May 2011
Annual for the year ended 31 December 2010
Provincial Capital Building Project Phase II
<table>
<thead>
<tr>
<th>Invoice</th>
<th>Format</th>
<th>Paid</th>
<th>GST Amount</th>
<th>Chq No.</th>
<th>Supplier Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>001.000</td>
<td>8.0000</td>
<td>75.000</td>
<td>000.00</td>
<td>4.0000</td>
<td>No.</td>
</tr>
<tr>
<td>002.000</td>
<td>9.0000</td>
<td>10.000</td>
<td>000.00</td>
<td>4.0000</td>
<td>No.</td>
</tr>
<tr>
<td>003.000</td>
<td>9.0000</td>
<td>10.000</td>
<td>000.00</td>
<td>4.0000</td>
<td>No.</td>
</tr>
</tbody>
</table>

**Observation**

We note a number of payments made to suppliers including Goods and Services Tax (GST) were paid on invoices which did not contain the GST registration numbers and did not conform to the requirements of invoices as required in the Goods and Services Act. These suppliers were paid a number of payments made to suppliers included Goods and Services Tax (GST) on the total amount payable.

Therefore, we would be claiming GST on the total amount payable. However, the following invoices did not have GST numbers quoted in the invoice amounts and were paid on invoices which did not contain the GST registration numbers and did not conform to the requirements of invoices as required in the Goods and Services Act. These suppliers were paid a number of payments made to suppliers including Goods and Services Tax (GST) on the total amount payable.

---

**Conclusion of Possible Causes of Audit Findings:** Human Error

Low Risk Severity: Low

---

**Management Letter - Response From Management June 2011 FMG and UGD - Amended**

May 2011

Audit for the year ended 31st December 2010

Provincial Capital Building Project Phase II
Recommendations are noted.

2. UNDP Country Office Comments

Agreed.

1. Project Office Response

Management Response

Obtain replacement of the GST position incorrectly paid in lieu of the Project Office to ensure that the supplier and the GST number for payment is registered for GST. If the supplier is not registered for GST, the project office should liaise with the appropriate supplier and get the correct invoice because in instances where GST has been claimed with no GST numbers quoted on the invoices, the

- GST numbers are quoted on all invoices before payment is released.

- We recommend for a thorough check of each and every invoice to the Project Office to

Recommendation

May 2011
Within the year ending 31 December 2010
Promotional Capacity Building Project Phase II
mainly to avoid the implications noted below.

While we note these reasons as genuine we consider a proper procedure should be followed

inappropriate actions.

We have also been advised that a new Government Accounting System (NAGAS) is in the process

of being implemented which has strong controls to capture any disbursements or transactions of any

in the Provincial Centers. It is not possible in the future to receive the original invoices

from the suppliers at the Provincial Centers. However, it would also be possible to receive the original invoices

We have also been advised that because of the delays in receiving accommodation and vehicle

invoicing, we will not be able to issue

We have also been advised those companies would not issue original invoices as goods and services

invoicing as per the schedule.

Type of the sample invoices issued and returned to under clause 4 above were programmatic.

- A faxed invoice (no. 11372) to Location 1, Kanderi, dated 2 March 2010 (amount of K4,681.60)
- A faxed invoice (no. 11373) to Location 1, Kanderi, dated 12 April 2010 (amount of K2,202.20)
- A faxed invoice (no. 11374) to Location 1, Kanderi, dated 12 April 2010 (amount of 276,688.00)
- A faxed invoice (no. 1969) to Location 2, Qira, dated 10 March 2010 (amount of K2,277.00)
- A faxed invoice (no. 1959) to Location 2, Qira, dated 15 May 2010 (amount of K1,728.76)

have stated that:

5. We noted a number of payments made were based on other program invoices of quotations we

which in some instances have been received by fax. Amongst the invoices in these categories we

Observation

Comparison of possible causes of audit findings: Conclusions

Comparison of Risk Severity: Low

Invoice or faxed invoices process of payments based on quotations, program
obstruction. No, it is the process rather than the invoice which has not implemented.
not which should be approved for payment if not paid. That was the recommendation under
sector management staff and confirm the current invoice as to whether it has been paid or
ensure it has not been paid. Format the reviewed ledger with comments to the responsible
suppliers. Contact Ledger must be maintained for each supplier for all invoices received and

- Procedures to issue copies of invoices.
  Prepared by approving Project Officers to check that payments have been made on
  all Goods and services purchased in PNR). 
  
- All recommendations must be made with the management of all
  Project sponsors. If the suppliers receive to issue original invoices as they prefer
  on an Original Invoice. If the suppliers receive to issue original invoices as they prefer.

Recommendation

- Duplication of payments would occur in the event where original invoices are sent in

Implication

15 June 2011
audited from June 1, 2011.
Recommendations are noted. UNDP notes that in 2011, with the implementation of IFMS:

<table>
<thead>
<tr>
<th>1. Project Office Response</th>
</tr>
</thead>
</table>

The issues raised should be addressed.

2. UNDP Country Office Comments

The IFMS functionally includes a supplier control ledger, unlike FGAS, whereby such a ledger would have needed to be maintained external to the FGAS Cashbook. The IFMS is the Government's approved accounting and reporting system and will progressively replace FGAS. Contemporarily accounting and reporting systems, with its full functional Integrated Financial Management System (IFMS), which is a full functional Interrelated Financial Management System, has been transferred to the UNDP Country Office. A New

May 2011
and for the year ended 31 December 2010
Programme Capital Projects Phase II
Recommendation is made.

2. UNDP Country Office Comments

Agreed.

1. Project Office Response

Management Response

Not primarily for processing payments in the absence of valid invoices. The absence of accounts should be noted as a basis for reconciliation and recommendation for accounts. We recommend all payments should be paid by matching payments to invoices and not by processing payments.

Recommendation

Could result in duplication of payments. Every payment to be made should be matched to invoices and not by statement of account as it is.

Implication

Support particularly the position of the amount for January for K6990.0. It appears that the payment made to Travel Services was based on the statement provided by the provider.

We note a payment to Travel Services for K24491.40 by cheque no. 000566 dated 10 June 2010 were not recorded in a statement of account dated 31 March 2010. We have those been forwarded to the UNDP Country Office for further action.

Observation

Verification of possible cause of such findings: Human Error

Correction of Risk Severity: Low
accumulated at this level will affect the completion and submission of the FACE Forms to UNDP.

The Project Office must closely liaise with the Provincial Support Advisors and the District

estimated allocation figures in Form 3.

We recommend for the Project Office to process their quarterly reports in the FACE Forms

Recommendation

adequate the overall work plan budgets allocations.

Therefore it would be difficult to combine as to whether the funds allocated for various

are not appropriately reported in the FACE Forms.

The exact areas of expenditure by the Provincial Centers per the actual amounts accrued

Implication

(1) District, Level Support Advisors

the actual expenditure amounts per the Provincial Centers (Local Provincial Support Advisors

the work programme as outlined in the "Requisition for Expenditure", Form 3 and not based on

We noted that the amounts processed in the FACE Forms (quarterly reports to UNDP) in regards

Observation

Classification of Causes of Audit Findings: Guidelines

Classification of Risk Severity: Low

and not on actual accumulated amounts

the FACE Forms based on allocations on the work programme

Amounts transferred to Provincial Centers were processed in

May 2011

Audit for the year ended 31 December 2010

Provincial Capacity Building Project Phase II
Re: NDP County Office Comments

It is proposed to continue to provide funding on the basis of costed work plans.

I. Project Office Response

May 2011
Audited for the year ended 31 December 2010
Project Capacity Building Project Phase II
Any direct payments involving bank fees and cancelled cheques and direct debits should immediately be processed in Quickbooks.

We also recommend, for any deposits or payments made through PGS to be provided processed in Quickbooks;

transferred on a daily basis to be processed on the PGS at the same time as they are transferred to the Project Office to supply monthly details of their salaries and

Recommends for each expenditure management unit and notification expenditure where these may not been any available.

In the absence of such hourly processing, the project

Process of cheques in PGS for the transactions should be processed in time and reconciled

Implication

We note also that a government new accounting software has been launched in December 2010.

We also note this issue was raised in the last audit review points under observation number 6.

exception of December 2010.

except Quickbooks balances and PGS balances at the end of the month for all the months with the

We noted that the PGS is not being updated on a daily basis for the electronic transactions

We noted that the transactions have been updated on a daily basis in Quickbooks and reconciled

Categorisation of causes of audit findings: Human Error

Categorisation of risk severity: Low

Delay in processing of transactions into PGS

May 2011

Audit for the year ended 31 December 2010

Provident Cupboard Building Project Phase II
Quick Books based on the implementation of IEMS.

Recommendations are noted, LNDP will work with project office to phase out use of Quick Books.

2. LNDP Country Office Comments

LNDP

...unsuccessful as a reporting tool and it will be phased out during 2011, with the approval of

Since the IEMS is the full functional accounting and reporting system, Quick Books is now processed and approved in the IEMS.

No transfers from the bank account will be undertaken until the transaction is first

It is impossible to overpay the Trust Cash Book in IEMS.

...approved Cash Fund Authority in the Trust.

The IEMS has Funds Chequebook, ie., not even a requisition can be raised unless there is an

The Project now uses the IEMS.

Agreed.

1. Project Office Response

Management Response
United Nations Development Programme

Provincial Capacity Building Project Phase II - 31 December 2010

Update on prior year audit observations and recommendations

Our findings on the Status of the prior year audit observations and recommendations are as detailed in the schedule below in reference to the corresponding Observation Number:

<table>
<thead>
<tr>
<th>Ref: Obs No</th>
<th>Status</th>
<th>Our comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Implemented</td>
<td>Confirmed with UNDP adjustment for the 4th Quarter expenditure has been made in the subsequent year. Staff have taken action in submitting quarterly FACE forms to UNDP in time for 2010.</td>
</tr>
<tr>
<td>2</td>
<td>Implemented</td>
<td>We noted actions have been taken for improvement. In some instances only one supplier of the nature of goods or services required was available, therefore it was noted in internal memorandums explaining reasons why quotations not applicable under those circumstances.</td>
</tr>
<tr>
<td>3</td>
<td>Implemented</td>
<td>Excess payment made for over subscriptions of mobile telephones have been refunded to the Project office. The number of over subscriptions have been reduced to 20 handsets.</td>
</tr>
<tr>
<td>4</td>
<td>Implemented</td>
<td>Documentations completed before approving payments, we noted there were minutes or memorandums done to the senior management for approval of the expenditure requisitions supported by invoices and quotations. We have confirmed other evidence to demonstrate receipt of goods and services for example staff allowance acquittals and boarding passes have been filed separately in the filing cabinets. Use of quotations or pro forma invoices to some degree acceptable as companies would not issue normal invoices as in the case of trading under credit basis, in this case they require cash payments. (Refer 2010 Management Letter Issue 4)</td>
</tr>
<tr>
<td></td>
<td>Implemented</td>
<td>With the exception of three payments processed in January / February 2010 through the Kundu Pei (which were made prior to the issue of the 2009 audit report), we noted the only payments made through the Kundu Pei were in regards to staff salary and wages and transfers to the Provincial Treasury bank accounts. Payments to suppliers were made using the PGAS cheques. Later during the year, the recommendation was fully implemented.</td>
</tr>
<tr>
<td>---</td>
<td>-------------</td>
<td>---</td>
</tr>
<tr>
<td>6</td>
<td>In progress</td>
<td>Refer our separate Management Letter item 8 for further information.</td>
</tr>
<tr>
<td>7</td>
<td>Implemented</td>
<td>The Project Office have taken action in rectifying the problem identified.</td>
</tr>
<tr>
<td>8</td>
<td>Implemented</td>
<td>Confirmed duplicated payments to Niewset Marine Autoports (M. Pontio) for K2,500 and JSK Holdings for K2,750 have been recovered and banked into PCaB account held with BSP (account no. 1001035244) on 6 December 2010. Based on the sample tests we have conducted, no photocopied invoices have been noted as used for payment in 2010. We have enquired with the responsible Project staff and have confirmed same. However in some payments we noted faxed invoices were used. These were mainly invoices that were faxed from centres outside of Port Moresby. As the payments were required upfront, cheques needed to be raised before accommodation or goods and services secured from centres outside of Port Moresby and therefore the Project Management have made decisions to make payments based on those invoices as waiting to receive original invoices would delay where they were attending workshops and trainings in those centres within limited time frame. The Project Office does not operate on credit basis except for the account held with Travel Services. The original invoices would come in later when they need to raise the cheque payments now for immediate purchase of goods and services. That is the reason why in some instance faxed invoices were paid. Having regard to the above, the senior management have advised that the new accounting system (IFMS) would capture all process of accounting and therefore this issue will be resolved.</td>
</tr>
<tr>
<td>9</td>
<td>Partially implemented</td>
<td>Have confirmed with the National Programme Manager that that particular staff has not acquitted funds advanced to him despite numerous requests have been made. Recovery action yet to be taken. NPC has confirmed that since that incident strict guidelines were put in place in regards to advances.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>10</td>
<td>Partially implemented</td>
<td>We noted the acquittals by Provinces were presented in different formats. A standard reporting template has been developed by the Project Office but yet to be fully implemented. We noted the other recommendations raised have been fully implemented.</td>
</tr>
<tr>
<td>11 - 14</td>
<td>Partially implemented</td>
<td>Refer our Management Letter item 1 for further information.</td>
</tr>
<tr>
<td>15</td>
<td>Implemented</td>
<td>The assets purchased in 2009, supposed to be belonging to the Provinces have been distributed to respective provinces. Noted none of the assets purchased during the year were held and not utilised or distributed to the Provinces.</td>
</tr>
</tbody>
</table>

Scope

We have audited the accompanying Combined Delivery Report (CDR) for the year ended 31 December 2010 in respect of the Provincial Capacity Building Project Phase II (PCaB II) project activities.

This report is made solely to the United Nations Development Program (UNDP), in accordance with our audit contract signed on the 15th April 2011. Our audit work has been undertaken so that we might state to UNDP those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the UNDP as a body, for our audit work, for this report, or for the opinions we have formed.

Basis of preparation of CDR

This Project is funded by UNDP and AUSAID who provides cost sharing for the Project.

The Department of Finance (DoF) is the executing agency entrusted with the task of implementing the Project.

DoF provides quarterly financial reports, Funding Authorisation and Certification of Expenditure (FACE) Reports (FR), that summarize the financial transactions within the budget lines provided by UNDP. These quarterly financial reports are in turn input into the ATLAS Computer System by UNDP to generate the CDR which is denominated in US dollars while the quarterly FACE Reports are denominated in Kina.

The FR contain the total expenditure of the Project whilst the amounts entered in the ATLAS system only pertains to the amounts provided by UNDP. In arriving at the amounts provided by UNDP in the CDR, the reference is made to the funds request made by DoF in relation to the monies spent. The actual monies spent is compared against the request made and in cases where the monies spent exceed the request made, the amounts of request made is entered into the Atlas System. In cases where the monies spent are lower than the request made, the amounts spent are
entered into the Atlas System. Thus the amounts spent by the Project cannot be identified to the amounts included in the Atlas system on an individual basis.

Individual transactions under a project activity can be executed either under the local currency of Papua New Guinea “Kina” or under foreign currency including United States Dollars (USD) depending upon the nature and circumstance of individual transactions. Under the UNDP policy CDR is generated using USD as the reporting currency. Consequently transactions undertaken in the local currency Kina are converted into USD based on the 2010 monthly UN Operational Rates prescribed for Papua New Guinea Country Office, on the date of the transactions.

It is the responsibility of the executing agency to select appropriate budget lines for the individual transactions.

CDR is prepared on a cash disbursements basis in conformity with UNDP requirements.

**Respective responsibilities of the UNDP and auditors**

UNDP Country Office and its senior management along with the executing agency, DoF are responsible for the preparation and presentation of the CDR and the information it contains. Our responsibility is to perform an audit of CDR in order to express an opinion on them to UNDP.

**Basis of opinion**

Our audit has been planned and performed in accordance with International Standards of Auditing to provide a reasonable level of assurance as to whether the CDR is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts in the CDR. These procedures have been undertaken to form an opinion whether, in all material respects, the CDR is consistent with activities of the PCaB Project and presented fairly in accordance with UNDP requirements so as to present a view of the PCaB Project which is consistent with our understanding of its operations. We believe that our audit provides a reasonable basis for our opinion.

We are not required to consider whether the UNDP’s / DoF’s internal control procedures cover all risks and controls nor do we form an opinion on the effectiveness of the UNDP’s /DoF’s corporate governance procedures or its risk and control procedures.

**Qualification Matters**

1) **Audit Procedures in respect of Completeness of information captured by the CDR**

In performing the audit KPMG has limited its work on reviewing and analysing transactions as captured and reported in the CDR. KPMG has not performed any procedures nor was it intended to be performed within the scope of this engagement, to satisfy ourselves on whether all transactions that ought to have been charged under this project have been so charged and reflected in the CDR.
The Project audit is limited to receipt and disbursement of Project funds as per the project budget, as captured by the quarterly FRs and CDR.

2) **Transactions outside the Scope of the Audit**

The following transactions have been included in the CDR which are outside the scope of our audit.

a) BL 76120 – Unrealized Loss USD 12,841.19 (Fund 04000)

b) BL 76130 – Unrealized Gain USD 13,068.82 (Fund 04000)

c) BL 76120 – Unrealized Loss USD 21,415.99 (Fund 30000)

d) BL 76130 – Unrealized Gain USD 21,147.47 (Fund 30000)

e) BL 76135 – Realized Gain USD 14,773.10 (Fund 30000)

f) BL 75115 – Facilities & Administration Services USD 65,021.00 (Fund 30000)

We have been advised by the UNDP Country Office that these line items are automatically generated by the ATLAS system. When an advance is disbursed to the project it appears as an encumbrance in the ATLAS system. Only when the FR is received at the end of quarter this encumbrance is actually turned into an expense and recorded accordingly. Since the USD equivalent to the PGK disbursement many change between disbursement of the advance and recording of the PGK expenses the exchange rate losses or gains are then recorded by being automatically charged/credited to the respective lines.

In addition expenditures amounting to USD 457,445.15 (K 1,198,506.28) has been entered into the CDR which are not reflected in the QFR. The specific budget lines into which this amount has been included in the CDR within the Fund 30000 Program Sharing Costs are as follows:

<table>
<thead>
<tr>
<th>Activity Number</th>
<th>Fund Number</th>
<th>Budget Line Number</th>
<th>Amount in PGK</th>
<th>Amount in USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>30000</td>
<td>71405</td>
<td>47,008.34</td>
<td>17,942.11</td>
</tr>
<tr>
<td>1</td>
<td>30000</td>
<td>71610</td>
<td>30,943.70</td>
<td>11,810.57</td>
</tr>
<tr>
<td>1</td>
<td>30000</td>
<td>75705</td>
<td>199,614.62</td>
<td>76,188.79</td>
</tr>
<tr>
<td>1</td>
<td>30000</td>
<td>72205</td>
<td>11,414.90</td>
<td>4,356.83</td>
</tr>
<tr>
<td>Activity Number</td>
<td>Fund Number</td>
<td>Budget Line Number</td>
<td>Amount in PGK</td>
<td>Amount in USD</td>
</tr>
<tr>
<td>-----------------</td>
<td>-------------</td>
<td>--------------------</td>
<td>----------------</td>
<td>----------------</td>
</tr>
<tr>
<td>1</td>
<td>30000</td>
<td>72405</td>
<td>15,515.82</td>
<td>5,922.07</td>
</tr>
<tr>
<td>1</td>
<td>30000</td>
<td>74525</td>
<td>10,525.51</td>
<td>4,017.37</td>
</tr>
<tr>
<td>2</td>
<td>30000</td>
<td>71405</td>
<td>269,400.01</td>
<td>102,824.43</td>
</tr>
<tr>
<td>2</td>
<td>30000</td>
<td>73105</td>
<td>42,960.00</td>
<td>16,396.95</td>
</tr>
<tr>
<td>2</td>
<td>30000</td>
<td>71610</td>
<td>6,969.60</td>
<td>2,660.15</td>
</tr>
<tr>
<td>2</td>
<td>30000</td>
<td>75705</td>
<td>129,503.50</td>
<td>49,428.82</td>
</tr>
<tr>
<td>2</td>
<td>30000</td>
<td>72205</td>
<td>8,965.00</td>
<td>3,421.76</td>
</tr>
<tr>
<td>2</td>
<td>30000</td>
<td>74525</td>
<td>7,110.84</td>
<td>2,714.06</td>
</tr>
<tr>
<td>3</td>
<td>30000</td>
<td>71405</td>
<td>61,058.34</td>
<td>23,304.71</td>
</tr>
<tr>
<td>3</td>
<td>30000</td>
<td>73105</td>
<td>2,500.00</td>
<td>954.20</td>
</tr>
<tr>
<td>3</td>
<td>30000</td>
<td>71610</td>
<td>23,670.10</td>
<td>9,034.39</td>
</tr>
<tr>
<td>3</td>
<td>30000</td>
<td>72805</td>
<td>35,818.31</td>
<td>13,671.11</td>
</tr>
<tr>
<td>4</td>
<td>04000</td>
<td>71405</td>
<td>23,916.67</td>
<td>9,128.50</td>
</tr>
<tr>
<td>4</td>
<td>30000</td>
<td>75705</td>
<td>72,031.30</td>
<td>27,492.86</td>
</tr>
<tr>
<td>4</td>
<td>30000</td>
<td>71610</td>
<td>188,252.08</td>
<td>71,851.94</td>
</tr>
<tr>
<td>4</td>
<td>30000</td>
<td>72205</td>
<td>5,127.62</td>
<td>1,957.11</td>
</tr>
<tr>
<td>4</td>
<td>30000</td>
<td>74505</td>
<td>6,200.00</td>
<td>2,366.41</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td></td>
<td>1,198,506.25</td>
<td>457,445.14</td>
</tr>
</tbody>
</table>

UNDP Country Office has advised that these transactions represent project activities carried out in last quarter of 2009 but was not included in the 2009 CDR as the PR came in late. As the activities were carried out during 2009 these do not form part of our scope of work and as such no audit work has been performed by us on these balances.
We have been further advised by the UNDP Country Office that these are outside the scope of our audit. Therefore we have not performed any audit procedures in respect of these line items.

3) **Transactions included in UNDP Disbursements**

The following transactions have been included in the CDR under the UNDP disbursements whereas in fact these are the fourth quarter of 2010 expenses incurred by the project and should have been included in the Government Disbursement column.

<table>
<thead>
<tr>
<th>Fund Number</th>
<th>Budget Line Number</th>
<th>Amount in PGK</th>
<th>Amount in USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>30000</td>
<td>71405</td>
<td>510,517.07</td>
<td>203,393.25</td>
</tr>
<tr>
<td>30000</td>
<td>71610</td>
<td>162,431.90</td>
<td>64,713.91</td>
</tr>
<tr>
<td>30000</td>
<td>72505</td>
<td>12,005.15</td>
<td>4,782.93</td>
</tr>
<tr>
<td>30000</td>
<td>73405</td>
<td>15,566.21</td>
<td>6,201.68</td>
</tr>
<tr>
<td>30000</td>
<td>74230</td>
<td>20,585.77</td>
<td>8,201.50</td>
</tr>
<tr>
<td>30000</td>
<td>74525</td>
<td>7,669.07</td>
<td>3,055.40</td>
</tr>
<tr>
<td>30000</td>
<td>73105</td>
<td>83,293.40</td>
<td>33,184.63</td>
</tr>
<tr>
<td>30000</td>
<td>71615</td>
<td>28,722.20</td>
<td>11,443.11</td>
</tr>
<tr>
<td>30000</td>
<td>75709</td>
<td>199,647.38</td>
<td>79,540.79</td>
</tr>
<tr>
<td>30000</td>
<td>71620</td>
<td>1,776.00</td>
<td>707.57</td>
</tr>
</tbody>
</table>

| TOTAL       |                    | 1,042,214.15    | 415,224.79    |

4) **Basis of preparation of QFR**

We note that the QFR was prepared based on expenditures requested from the provincial centres and not based on the actual expenses incurred by them. As a result, the QFR is incorrect in respect of monies advanced but yet to be spent by the provincial centres.
Lack of deduction of taxes on salaries and wages paid by PCAB Project

We note that the project has not been deducting any taxes on the salaries and wages paid inclusive of accommodation allowances to project staff. We have been informed by the project that the Project staff have Designated Aid Status and also the initial project agreement provides for tax not to be deducted. We have not been provided with the initial agreement that provides for the above nor the approval from the Minister for the Designated Aid Status.

Audit Opinion

In our opinion except for matters discussed in the qualification paragraphs, the accompanying CDR gives a true and fair view of the cash expenditures of the project for the year ended 31st December 2010, in accordance with UNDP accounting requirements.

DATED at Port Moresby this 31st day of May 2011

KPMG
Chartered Accountants

Raghunathan Muralidharan
Partner

Registered under the Accountants Act 1996
## Combined Delivery Report With Encumbrance

### Selection Criteria:
- **Business Unit:** PNG10  
- **Period:** Jan-Dec (2010)  
- **Selected Award Id:** 00848256  
- **Selected Fund Code:** 04000,30000

### Fund Details:

<table>
<thead>
<tr>
<th>Award Id</th>
<th>Agreement Id</th>
<th>Amount</th>
<th>Govt Disb</th>
<th>UNDP Disb</th>
<th>UN Agencies Encumbrance</th>
<th>Total Exp</th>
</tr>
</thead>
<tbody>
<tr>
<td>71210</td>
<td></td>
<td>7,172.50</td>
<td>0.00</td>
<td>0.00</td>
<td>7,172.50</td>
<td></td>
</tr>
<tr>
<td>71405</td>
<td></td>
<td>6,958.71</td>
<td>0.00</td>
<td>0.00</td>
<td>18,087.21</td>
<td></td>
</tr>
<tr>
<td>72405</td>
<td></td>
<td>2,297.00</td>
<td>0.00</td>
<td>0.00</td>
<td>-297.38</td>
<td></td>
</tr>
<tr>
<td>78120</td>
<td></td>
<td>12,841.19</td>
<td>0.00</td>
<td>0.00</td>
<td>12,841.19</td>
<td></td>
</tr>
<tr>
<td>78130</td>
<td></td>
<td>13,068.82</td>
<td>0.00</td>
<td>0.00</td>
<td>-13,068.82</td>
<td></td>
</tr>
<tr>
<td><strong>Total for Fund 04000</strong></td>
<td></td>
<td>15,619.20</td>
<td>0.00</td>
<td>0.00</td>
<td>24,747.70</td>
<td></td>
</tr>
</tbody>
</table>

### Fund: 30000 (Programme Cost Sharing)

<table>
<thead>
<tr>
<th>Fund Code</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>63535</td>
<td>Contribution to Security</td>
<td>269.96</td>
</tr>
<tr>
<td>65135</td>
<td>Payroll Mgt Cost Recovery ATLA</td>
<td>16.03</td>
</tr>
<tr>
<td>71109</td>
<td>Salaries - ALD</td>
<td>3,939.87</td>
</tr>
<tr>
<td>71110</td>
<td>Medical Insurance - ALD</td>
<td>121.00</td>
</tr>
<tr>
<td>71115</td>
<td>Cont to Jt Staff Pens FD-ALD</td>
<td>1,074.94</td>
</tr>
<tr>
<td>71130</td>
<td>Mission Allowance - ALD</td>
<td>573.96</td>
</tr>
<tr>
<td>71135</td>
<td>Appoint/ Sep Cost Incl Trvl-ALD</td>
<td>2,178.11</td>
</tr>
<tr>
<td>71160</td>
<td>Other Personnel costs ALD(A&amp;T)</td>
<td>2,909.03</td>
</tr>
<tr>
<td>71405</td>
<td>Service Contracts-Individuals</td>
<td>203,393.25</td>
</tr>
<tr>
<td>71610</td>
<td>Travel Tickets-Local</td>
<td>158,482.77</td>
</tr>
<tr>
<td>71615</td>
<td>Daily Subsistence Allow-Intl</td>
<td>11,443.11</td>
</tr>
<tr>
<td>71620</td>
<td>Daily Subsistence Allow-Local</td>
<td>707.57</td>
</tr>
<tr>
<td>72205</td>
<td>Office Machinery</td>
<td>9,735.70</td>
</tr>
<tr>
<td>72405</td>
<td>Acquisition of Commuc Equip</td>
<td>5,922.07</td>
</tr>
<tr>
<td>72505</td>
<td>Stationery &amp; other Office Supp</td>
<td>4,027.29</td>
</tr>
<tr>
<td>72510</td>
<td>Publications</td>
<td>4,782.93</td>
</tr>
<tr>
<td>72805</td>
<td>Acquisition of Computer Hardware</td>
<td>3,223.48</td>
</tr>
<tr>
<td>8305</td>
<td>Rent</td>
<td>33,184.64</td>
</tr>
<tr>
<td>73405</td>
<td>Rental &amp; Maint-Other Office Eq</td>
<td>104,055.82</td>
</tr>
<tr>
<td>73410</td>
<td>Maint, Oper of Transport Equip</td>
<td>16,523.44</td>
</tr>
<tr>
<td>74205</td>
<td>Audio Visual Productions</td>
<td>3,405.02</td>
</tr>
<tr>
<td>74225</td>
<td>Other Media Costs</td>
<td>2,979.17</td>
</tr>
<tr>
<td>74230</td>
<td>Audio &amp; Visual Equipment</td>
<td>2,762.94</td>
</tr>
<tr>
<td>74505</td>
<td>Insurance</td>
<td>2,101.50</td>
</tr>
<tr>
<td>74525</td>
<td>Sundry</td>
<td>3,055.40</td>
</tr>
<tr>
<td>75115</td>
<td>Facilities &amp; Admin - OH &amp; Ind</td>
<td>65,021.00</td>
</tr>
<tr>
<td>75705</td>
<td>Learning costs</td>
<td>248,530.32</td>
</tr>
<tr>
<td>75709</td>
<td>Learning - training of counter</td>
<td>79,540.79</td>
</tr>
<tr>
<td>75710</td>
<td>Participation of counterparts</td>
<td>29,348.85</td>
</tr>
<tr>
<td>76120</td>
<td>Unrealized Loss</td>
<td>21,415.99</td>
</tr>
<tr>
<td>76130</td>
<td>Unrealized Gain</td>
<td>21,147.47</td>
</tr>
<tr>
<td>76135</td>
<td>Realized Gain</td>
<td>14,773.10</td>
</tr>
</tbody>
</table>

### Total for Fund 30000
- **1,013,915.69**  
- **476,724.10**  
- **1,490,639.79**

### Total for Project: 00059940
- **1,023,044.19**  
- **492,343.30**  
- **1,515,387.49**

---

**Signed:**
- **Date:** 26 May 2011  
- **Eddy Galele:** National Project Manager, FMIP, Dept. of Finance  
- **KPMG:**  
- **Papua New Guinea:**  
- **Audit Identified**
Independent Auditors Report to the United Nations Development Programme in respect of the Statement of Cash Position of the Provincial Capacity Building Project Phase II – (Project ID: 00059940) for the year ended 31 December 2010

Scope

We have audited the accompanying Statement of Cash Position (the statement) for the year ended 31 December 2010 in respect of the Provincial Capacity Building Project (PCaB).

This report is made solely to the United Nations Development Program (UNDP), in accordance with our audit contract signed on the 15th April 2011. Our audit work has been undertaken so that we might state to UNDP those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the UNDP as a body, for our audit work, for this report, or for the opinions we have formed.

Basis of preparation of the Statement of cash position

This Project is funded by UNDP and AUSAID who provides cost sharing for PCaB.

The Department of Finance (DoF) is the executing agency entrusted with the task of implementing the Project and maintains the details of the transactions incurred by PCaB. All cash balances are held in the local currency of Papua New Guinea Kina (K)

Respective responsibilities of the UNDP and auditors

DoF is responsible for the preparation and presentation of the statement and the information it contains. Our responsibility is to perform an audit of statement in order to express an opinion on them to UNDP.

Basis of opinion

Our audit has been planned and performed in accordance with International Standards on Auditing to provide a reasonable level of assurance as to whether the statement is free of material misstatement. Our procedures included examination, on a test basis, of evidence
supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the statement. We believe that our audit provides a reasonable basis for our opinion.

This report is based on the audit procedures performed by us as part of the audit of the Combined Delivery Report (CDR) for the year ended 31st December 2010 of PCaB. Therefore this report has to be read in conjunction with our audit opinion on the CDR of PCaB issued by us dated 31st May 2011.

The Quarterly Financial Reports (QFR) was prepared by DoF on the basis of the Quickbooks reports that were used for the Cash Book during 2010. The Statement of Cash Position provided to us for audit consequently reflects the transactions for 2010 as contained in the Quickbooks.

We are not required to consider whether the UNDP’s/DoF’s internal control procedures cover all risks and controls nor do we form an opinion on the effectiveness of the UNDP’s/DoF’s corporate governance procedures or its risk and control procedures.

**Bank Balance as per Statement of Cash Position**

The closing balance of bank of K286,466.04 as represented in Statement of Cash Position is the balance as per the Bank as of 31 December 2010 and does not take into account unpresented cheques of K42,333.35.

**Audit Opinion**

In our opinion except for the matters mentioned in the above paragraph the accompanying Statement of Cash Position presents fairly in all material respects the movements in the bank account of PCaB and the closing balance of the bank account as at 31st December 2010 as per the Quickbooks balance of K 244,132.69 in accordance with UNDP requirements.

DATED at Port Moresby this 31st day of May 2011

KPMG
Chartered Accountants

Raghunathan Muralidharan
Partner
Registered under the Accountants Act 1996
## Statement of Cash Position
as of 31 December 2010

**Country office:** UNDP Papua New Guinea

**Project title:** Provincial Capacity and Building

**Award ID:**

**Project ID:** 00059940

**Period covered:** 2010

<table>
<thead>
<tr>
<th></th>
<th>Amount Local currency</th>
<th>Amount USD</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A Opening Fund Balance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash in hand</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank</td>
<td>231,960.56</td>
<td></td>
</tr>
<tr>
<td>Sub Total</td>
<td>231,960.56</td>
<td></td>
</tr>
<tr>
<td><strong>B Advance Received from UNDP during 2010</strong></td>
<td>2,589,955.42</td>
<td></td>
</tr>
<tr>
<td>other deposits (W/shop &amp; supplier refunds) (GoPNG - FMIP)</td>
<td>17,250.35</td>
<td></td>
</tr>
<tr>
<td>write offs</td>
<td>1,775,000.00</td>
<td></td>
</tr>
<tr>
<td>total</td>
<td>47,642.15</td>
<td></td>
</tr>
<tr>
<td><strong>C Total Funds Available (A+B) for 2010</strong></td>
<td>4,631,808.48</td>
<td></td>
</tr>
<tr>
<td><strong>D Payments/Expenditure for 2010</strong></td>
<td>4,387,875.79</td>
<td></td>
</tr>
<tr>
<td><strong>E Exchange Gain/(Loss)</strong></td>
<td>NA</td>
<td></td>
</tr>
<tr>
<td><strong>F Closing Fund Balance (C-D)</strong></td>
<td>244,132.69</td>
<td></td>
</tr>
<tr>
<td><strong>G Closing Balance represented by:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash in hand</td>
<td>286,466.04</td>
<td></td>
</tr>
<tr>
<td>Bank</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>286,466.04</td>
<td></td>
</tr>
</tbody>
</table>

Signed by signature
Name: Eddy Galele
Title: National Project Manager
Date: 24/5/11

Signed by signature
Name: Son Elia R
Title: National Project Director
Date: 20/03/2011

Certified by: signature
Name: audit identified
Title: Senior Partner
Name of the Audit Firm: KPMG
Date: 20/03/2011

KPMG
Papua New Guinea
audit identified
Independent Auditors Report to the United Nations Development Programme in respect of Assets and Equipment of the Provincial Capacity Building Project Phase II – (Project ID: 00059940) for the year ended 31 December 2010

Scope

We have audited the accompanying Statement of Assets and Equipment (the statement) for the year ended 31 December 2010 in respect of the Provincial Capacity Building (PCAB) project activities.

This report is made solely to the United Nations Development Program (UNDP), in accordance with our audit contract signed on the 15th April 2011. Our audit work has been undertaken so that we might state to UNDP those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the UNDP as a body, for our audit work, for this report, or for the opinions we have formed.

Basis of preparation of the Statement of Assets and Equipment

This Project is funded by UNDP and USAID who provides cost sharing for the Project.

The Department of Finance (DoF) is the executing agency entrusted with the task of implementing the Project.

This statement has been prepared on the basis of the cost of acquisition of the assets in the local currency Kina (K). These Kina values have been converted into United States Dollar (USD) using the UN Operational Rates prescribed for Papua New Guinea CO, on the date of the transactions.
Respective responsibilities of the UNDP and auditors

UNDP Country Office and its senior management along with the executing agency, DoF are responsible for the preparation and presentation of the statement and the information it contains.

KPMG performed a sample physical inspection of the assets listed in the statement. This procedure was performed with the objective of satisfying ourselves on the existence of the assets listed in the statement.

Basis of opinion

Our audit has been planned and performed in accordance with International Standards on Auditing to provide a reasonable level of assurance as to whether the statement is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the statement. We believe that our audit provides a reasonable basis for our opinion.

This report is based on the audit procedures performed by us as part of the audit of the Combined Delivery Report (CDR) for the year ended 31st December 2010 of PCAB. Therefore this report has to be read in conjunction with our audit opinion on the CDR of PCAB issued by us dated 31st May 2011.

We are not required to consider whether the UNDP’s / DoF’s internal control procedures cover all risks and controls nor do we form an opinion on the effectiveness of the UNDP’s / DoF’s corporate governance procedures or its risk and control procedures.

Qualification Matters

1) Carrying values of Assets in Kina and USD

The statement includes the assets at its original cost of acquisition which are then required to be converted into USD using the appropriate exchange rate being the UN Operational Rates prescribed for Papua New Guinea CO, on the date of the transactions.

Our opinion is qualified on the following respects:

- KPMG have been appointed Project auditors of PCAB Project only for the year ended 31st December 2010 and consequently we are unable to comment on the completeness or the accuracy of the recorded cost of acquisition of assets procured before 1st January 2010.

- The assets have been recorded at their cost of acquisition and no depreciation has been provided on these assets since the date of acquisition.
2) **Inconsistency between CDR and Statement of Assets and Equipment**

The Budget Line 72405 – Acquisition of Communication Equipment of the CDR includes USD 5,922.07.

We are unable to reconcile this amount to the items disclosed in the Statement of Assets and Equipments.

**Audit Opinion**

In our opinion except for matters discussed in the qualification paragraphs, the accompanying Statement of Assets and Equipment presents fairly in all material respects the inventory balance of the project amounting to K 1,319,339 as at 31st December 2010 in accordance with UNDP accounting requirements.

DATED at Port Moresby this 31st day of May 2011.

KPMG
Chartered Accountants

Raghunathan Muralidharan
Partner

Registered under the Accountants Act 1996
<table>
<thead>
<tr>
<th>Customer</th>
<th>Order Date</th>
<th>Product Code</th>
<th>Quantity</th>
<th>Unit Price</th>
<th>Invoice Date</th>
<th>Order Number</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABC</td>
<td>09/01/2023</td>
<td>123</td>
<td>5</td>
<td>$100</td>
<td>10/01/2023</td>
<td>123456</td>
<td></td>
</tr>
<tr>
<td>DEF</td>
<td>08/15/2023</td>
<td>456</td>
<td>10</td>
<td>$50</td>
<td>09/15/2023</td>
<td>678901</td>
<td></td>
</tr>
<tr>
<td>GHI</td>
<td>07/20/2023</td>
<td>789</td>
<td>20</td>
<td>$25</td>
<td>08/20/2023</td>
<td>012345</td>
<td></td>
</tr>
<tr>
<td>JKL</td>
<td>06/10/2023</td>
<td>012</td>
<td>50</td>
<td>$150</td>
<td>07/10/2023</td>
<td>567890</td>
<td></td>
</tr>
<tr>
<td>MNO</td>
<td>05/15/2023</td>
<td>345</td>
<td>100</td>
<td>$50</td>
<td>06/15/2023</td>
<td>023456</td>
<td></td>
</tr>
</tbody>
</table>

**Note:** Some rows are intentionally omitted for brevity.
<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Date of Birth</th>
<th>Date Joined</th>
<th>Date Left</th>
<th>Months</th>
<th>Days</th>
<th>Total Days</th>
<th>Hours</th>
<th>Minutes</th>
<th>Total Hours</th>
<th>Total Minutes</th>
</tr>
</thead>
<tbody>
<tr>
<td>John Doe</td>
<td>Manager</td>
<td>01/01/1980</td>
<td>01/01/2010</td>
<td>01/01/2020</td>
<td>10</td>
<td>0</td>
<td>365</td>
<td>12</td>
<td>0</td>
<td>1200</td>
<td>0</td>
</tr>
<tr>
<td>Jane Smith</td>
<td>Assistant</td>
<td>01/01/1985</td>
<td>01/01/2012</td>
<td>01/01/2022</td>
<td>10</td>
<td>0</td>
<td>365</td>
<td>12</td>
<td>0</td>
<td>1200</td>
<td>0</td>
</tr>
</tbody>
</table>

**Total:**
- Days: 730
- Hours: 24,000
- Minutes: 1,440,000