

## II. Accounting and Auditing in PNG

This chapter presents an overview of accounting and auditing arrangements in Papua New Guinea. It provides context for the following chapters on professional infrastructure, accounting and auditing standards, accounting and auditing training, and government budgeting and accounting arrangements. The chapter comprises eleven sections, in two parts, as follows:

### Part One: Accounting

- 1 – Introduction
- 2 – Companies Act 1997
- 3 – Exempt Companies
- 4 – Generally Accepted Accounting Practice [GAAP]
- 5 – Contents of the Annual Report
- 6 – Accounting for Banks and Financial Institutions
- 7 – Accountants Registration Board of Papua New Guinea
- 8 – Accountants – Registration and Qualifications

### Part Two: Auditing

- 9 – The Auditor-General
- 10 – Private Sector
- 11 – International Accounting and Auditing Firms

## **Part One. Accounting**

### **1. Introduction**

The development of accounting in Papua New Guinea was largely influenced by the Australian accountants who were employed to work in PNG after the Second World War. There were five main areas where accounting systems were developed:

- Plantations;
- Large trading companies;
- Mining Companies;
- The PNG Administration; and
- The Australian Administration.

Many Australian companies were involved in the ownership of plantations and a form of plantation accounting was developed over the years up to independence in 1975. These procedures are now contained

in PNG Accounting Standard 3 - Plantation Accounting. The large trading companies, which were Steamships Trading Co. and Burns Philp at the time, were subsidiaries of Australian companies and therefore they adopted the accounting systems of their parent companies. Mining exploration commenced in the early 1950s and it was not until the early 1970s when Bougainville Copper Ltd. first went into production. Other international mining companies soon focused their attention on PNG and the accounting systems were adopted from the parent companies. The PNG Administration mainly employed professional accountants from Australia; locally educated PNG citizen accountants were not produced until the early 1970s. The Papua New Guinea Institute of Accountants was established in 1974 and more emphasis was placed on the importance of developing accounting systems and the training of accountants. With the assistance of the Australian Society of CPAs, many advances were made in the early 1990s and PNG has now adopted all International Accounting Standards in full, with some exceptions for exempt companies.

The new Companies Act and the Securities Act became effective in March 1998, with a six-month transitional period to this date. These Acts were both passed by Parliament on 27 March 1997, but their implementation had been delayed whilst the accompanying regulations and forms were completed. These Acts had a significant impact regarding financial reporting requirements on all companies operating in PNG.

## **2. Companies Act 1997**

The new Companies Act of 1997 was based on the corporate reforms introduced in New Zealand in 1993, and brought significant changes to the following aspects of Company Law in Papua New Guinea:

- the constitution of companies;
- the issue of shares;
- the requirement for audit;
- financial statement presentation and the annual report;
- distributions to shareholders;
- the duties of directors;
- the rights of shareholders;
- company records;
- liquidations, receiverships and insolvent trading;

- amalgamations; and
- overseas companies.

The 1997 Companies Act established the following requirements for Financial Statements and the Annual Report procedures:

- The directors of every company are required to prepare and sign financial statements that comply with generally accepted accounting practice (GAAP) within five months of the end of the balance date.
- A new Accounting Standards Board (ASB) was established which is responsible for approving GAAP and applicable financial reporting standards in PNG. This was formally a non-statutory function performed by the PNG Institute of Accountants.
- Consolidated accounts must be prepared by all holding companies unless they are themselves wholly owned by a PNG company, or unless they are an exempt company.

### **3. Exempt Companies**

An exempt company under the new Act, means a company that did not, at any time during the accounting period for which financial statements are required, have:

- total assets exceeding K5 million or such other amount as is prescribed, or
- more than 25 shareholders, or
- more than 100 employees.

Exempt companies are not required to be audited or to prepare an annual report as long as every shareholder has given notice in writing to the company waiving their right to receive a copy of the Annual Report. In addition, there is no requirement to lodge copies of their accounts with the Registrar.

An exempt company may also be a company that complies with one or two of the conditions listed above and each of the shareholders has agreed that an auditor should not be appointed in respect of the financial statements required, or a subsidiary of an exempt company.

### **4. Generally Accepted Accounting Practice [GAAP]**

Financial reports are required to be prepared in accordance with generally accepted accounting practice (GAAP). The Accounting

Standards Board (refer chapter on Accounting and Auditing Standards) has resolved that all International Accounting Standards and PNG Accounting Standards 3 and 4 are applicable in PNG.

Under the Act, financial statements will comply with GAAP where the statements comply with the following:

- applicable financial reporting standards; and
- where there is no applicable standard or rule of law, accounting policies that are appropriate to the circumstances of the reporting company and have authoritative support within the accounting profession in Papua New Guinea.

Accounting policies that have authoritative support within the accounting profession within Papua New Guinea are those that are approved by the Accounting Standards Board.

## **5. Contents of the Annual Report**

Under the 1997 Companies Act, the annual report of a company must include the following disclosures:

- Any material changes in the nature of its businesses or its subsidiaries;
- Where the business has an interest in any other company or companies, any changes to the classes of business in which the company has an interest;
- The signed financial statements of the company and the Group, where applicable, prepared in accordance with the Sections 179 and 182 of the Companies Act, respectively;
- The auditor's report (if required);
- Details of any changes in accounting policies;
- Details of entries in the company's interests register during the period;
- State the names of any person who is, or has been a director or secretary of the company during the period;
- For each director of the company state the total remuneration, including the value of other benefits, received during the period;
- The number of employees who were paid, whether in cash or by way of other benefits between K100,000 and K110,000, and thereafter in bands of K10,000;
- The total amount of donations paid by the company and its subsidiaries during the period;

- The audit fee paid or payable, and the total amount paid or payable to the company's auditors for other services.

Where all shareholders unanimously agree, the annual report need only include the financial statements and auditor's report.

## **6. Accounting for Banks and Financial Institutions**

A new Regulation, made under the Banks and Financial Institution Act 2000, covering financial statements and audit reports of banks and financial institutions, came into force on the 16 August 2000.

The financial statements of a bank or licensed financial institution must comply with generally accepted accounting practice for which purpose the bank or licensed financial institution will be treated as a reporting entity pursuant to Part XI of the Company Act 1997.

## **7. Accountants Registration Board of Papua New Guinea**

The current Accountants Registration Board was established under Part II of the Accountants Act 1996. The previous Board was established in 1978 under the Accountants Registration Act (Chapter 89) and this law was repealed under the new Act.

The Act comprises the following sections in relation to the Accountants Registration Board:

- Continuation in Establishment of the Board
- Constitution of the Board
- Alternate Members
- Tenure of Office
- Leave of Absence of Members
- Oath and Affirmation of Office
- Fees and Allowances
- Vacation of Office by Members
- Meetings of the Board
- Indemnity of Members of the Board
- Proceedings Validated
- Functions of the Board
- Powers of the Board
- Other Committees
- Delegation.

### Constitution of the Board

The Board comprises:

- the Auditor-General (Chairman);
- the President of the Papua New Guinea Institute of Accountants, (Deputy Chairman);
- four persons engaged in the practice of accountancy of whom – one is a Registered Public Accountant, and
  - o two are Registered Company Auditors, and
  - o one is a Registered Liquidator, and
- two persons who are professors or lecturers in accountancy or accountancy matters at different academic institutions; and
- a lawyer who holds a restricted practising certificate under the Lawyers Act 1988; and
- a Registered Accountant in Employment representing the Accountants in Employment.

The Minister for Finance and Treasury makes the appointments – each member is appointed for a term of three years.

### Meetings of the Board

The Board meets at such times and places as the Chairman decides. If requested by not less than three members, the Chairman will call a meeting of the Board as soon as practicable after receiving the request.

At a meeting of the Board, five members constitute a quorum and matters arising are decided by a majority of the votes of the members present.

### Functions of the Board

The functions of the board in relation to the regulation and control of the practice of accountancy in PNG are:

- to register persons qualified to practice accountancy;
- to determine the standard of qualifications and experience required for registration in the various categories of registration; and
- to make rules for the control and regulation of the practice of accountancy.

## **8. Accountants – Registration and Qualifications**

Part V of the Accountants Act 1996 outlines the requirements for the registration and qualifications of accountants.

A person may, in the prescribed form and in the prescribed manner, apply to the Board for registration in any of the categories specified in Section 42 of the Accountants Act. A person applying for registration must furnish to the Registrar:

- evidence of his qualifications, work experience, competence and character for registration, and
- evidence that he has Professional Indemnity Insurance cover in respect of the category of registration for which he is applying.

### Registration of Non-residents

A non-resident person may apply in writing to the Board for approval to provide accounting, auditing or liquidating services within Papua New Guinea for a fee. A person applying must furnish to the Board:

- particulars of the accounting, auditing or liquidating services which he proposes to provide within Papua New Guinea; and
- particulars of individuals and corporations to whom it is proposed to provide these services.

### Categories of Registration

Where it is satisfied that a person has the required qualifications and is otherwise a suitable person, the Board may authorize the registration of that person in any one or more of the following categories:

- an Accountant in Employment;
- a Registered Public Commercial Bookkeeper;
- a Registered Public Accountant;
- a Registered Company Auditor; and
- a Registered Liquidator.

### Accountants in Employment

A person who possesses qualifications at certificate, diploma, degree or professional level in commerce economics, business, etc., and is employed by the State, by a statutory body, or by a private organization to perform duties connected with:

- the recording, classifying and analyzing of financial transactions; or

- the preparing of financial information; or
- the making of financial or business decisions; or
- auditing and/or investigating transactions of an accounting nature; or
- book-keeping and accounting generally, must be registered as an Accountant in Employment.

The prospective employer must apply for the registration of that person before commencing employment.

Many firms and organizations including the PNG government are not complying with this part of the Act. This situation is covered in the Chapter on Issues and Recommendations (Section 8).

### Rules

The Board may make rules for regulating the practice of accountancy, and the procedures to be adopted by Accountants in Employment, Registered Public Commercial Book-keepers, Registered Public Accountants, Registered Company Auditors and Registered Liquidators.

### Registration and Minimum Qualifications

To be registered in any of the categories of registration as detailed in Section 68, a registration form must be completed with the Accountants Registered Board in accordance with the following:

- To be registered in any of the categories, the applicant must be a Fellow or an Associate member of the Papua New Guinea Institute of Accountants.
- Citizen applicants must have completed the Professional Examinations of the Papua New Guinea Institute of Accountants unless they have been admitted as an associate of the Papua New Guinea Institute of Accountants by virtue of being a member of an approved (by Papua New Guinea Institute of Accountants) overseas accountancy body; in which case the applicant must have completed the Papua New Guinea Institute of Accountants professional examinations of Taxation Law and Practice, and Business Law.
- Non-citizen applicants must be eligible by virtue of their membership of an approved (by Papua New Guinea Institute of Accountants) overseas accountancy body to be an Associate or

Fellow member of the Papua New Guinea Institute of Accountants; in which case the applicant must have completed the Papua New Guinea Institute of Accountants professional examinations of Taxation and Practice, and Business Law before applying for registration.

In the case of non-citizens not having an approved overseas accountancy qualification, all the professional examinations of the Papua New Guinea Institute of Accountants must be completed before applying for registration.

- No applicant will be approved as a Registered Public Accountant, Registered Company Auditor or Registered Liquidator if membership of the Papua New Guinea Institute of Accountants is obtained under Rule A. "Special Admission" (refers to applicants who are not formally qualified within the rules) of the Papua New Guinea Institute of Accountants Rules.
- No applicant will be approved unless the applicant has had at least three years' experience in a registered practicing firm, in the relevant category, which must be evidenced by appropriate certification.

### Non-citizens Wishing to Enter Practice

Non-citizens wishing to register or re-register in Papua New Guinea other than as a partner in an existing firm must enter into partnership arrangement with a citizen. This arrangement must include a clause in which the citizen or citizens have the control within the entity. A copy of the joint venture arrangement must be submitted to the Accountants Registration Board, at the same time as an application to practice is submitted. In the event that the partnership terminates, the non-citizen's registration lapses automatically.

## **Part Two. Auditing**

### **9. The Auditor-General**

The Auditor-General is responsible for the audit of the financial affairs and activities of the Government in terms of Section 214 of the Constitution of Papua New Guinea. The Auditor-General is not subject to ministerial direction and he reports directly to Parliament, except in the case of the provincial audits, he reports to the Minister for

Provincial and Local Government Affairs, who in turn tables his report in Parliament.

The Auditor-General provides objective evaluations, advice and opinions of the financial affairs and activities of the Government to Parliament. This information is designed to assist Parliament, Executive Government, Judiciary Services and Constitutional Institutions to assess the financial performance of public entities in terms of:

- adherence to legal and other requirements;
- maintenance of management procedures and systems to achieve economy, efficiency and effectiveness in implementing government programs; and
- fair presentation of financial statements.

#### Principal Legislation Governing the Work of the Auditor-General

The Audit Act 1989 is currently the principal statute incorporating the various constitutional and legal provisions relating to duties, responsibilities and powers of the Auditor-General and is the main legislation governing the work of the Office. Other provisions affecting the role and function of the Office of the Auditor-General are contained in the Constitution, Organic Law on Provincial Government and Local-level Governments, Organic Law on Certain Constitutional Office Holders, Public Finances (Management) Act and the various Acts establishing Public Bodies and subsidiary corporations.

#### Audit Responsibilities

The Office of the Auditor-General is responsible for the audit of organizations including:

- National Parliament;
- Government Departments;
- Public Bodies including their subsidiaries; and
- Provincial Governments and Local-level Government including their Public Bodies and Subsidiary Corporations.

These areas of operations cover public sector activities generally referred to as Budget and Non-budget Sectors.

The Budget Sector includes all Government departments and agencies that are financed by annual and special Parliamentary appropriations. These financial operations come under the control of

the central accounting systems operated by the Department of Finance and Treasury.

The Non-budget Sector comprises a large number of public bodies, many of which are established by separate legislation. These bodies have greater financial autonomy than departments. They are generally funded by Parliament appropriations and are not directly subject to budgetary controls by the Department of Finance and Treasury.

### Audit Process

The audit process involves the attestation of financial statements, examination of compliance with legal and administrative regulations and assessment of the economy, efficiency and effectiveness of operations of the audited organizations. The overall audit operations of the Office are directly supervised and controlled by the Deputy Auditor-Generals (Operations) and the Auditor-General. The three operational divisions are:

- Commercial Division
- National Government Division
- Provincial Government Division

Also within the audit operations, a new Value-For-Money (VFM) Audit Section was created. This section is responsible to ensure that due regard for economy, efficiency and effectiveness has been exercised over the incurrence of expenditure, avoidance of wastage, the maximization of revenue and the achievements of the objectives of the organization concerned.

The Investigations and Legal Services Section was created in 1992 in pursuance of Section 5 of the Audit Act 1989. Under this section, the Auditor-General is empowered to refer to the Public Prosecutor for prosecution all cases of misappropriation, misuse or fraud of public money, stores or property.

These Divisions are supported by a Finance and Administration Section, Training Research and Staff Development Section, Information Systems Section and Policy, Planning and Technical Division.

The Deputy Auditor-General (Support Services) is responsible for supervising and controlling the work of the Support Services and assists the Auditor-General with controlling the work of the Support Services and operational matters.

### National Government Division

The National Government Division is responsible for the audit of the Public Accounts of Papua New Guinea and the accounts and records of all National Government Departments and Projects funded by international donor agencies and to report to the National Parliament on the control of and on transactions involving the public moneys and properties of the State.

### Commercial Division

The Commercial Division is responsible for the audit of all Public Bodies and their subsidiaries, National Government-owned companies and their subsidiaries and review of the Registered Company Auditor's Report on audit of companies in which the Government has a minority shareholding.

In order to assist in the field audit work, the Division engages the services of Authorized Auditors who performed audits on the following:

- Investment Corporation of Papua New Guinea and its subsidiaries
- Investment Corporation Funds of Papua New Guinea and its subsidiaries
- National Airline Commission and its subsidiaries
- National Broadcasting Commission and its subsidiary
- National Capital District Commission
- National Provident Fund Board
- National Gaming Control Board
- Nuigini Insurance Corporation Limited
- Papua New Guinea Harbours Board
- Papua New Guinea Electricity Commission
- University of Papua New Guinea
- Minerals Resources Development Company Pty Ltd and its subsidiaries
- North Fly Highway Development Company Pty Ltd.
- Coffee Industries Corporation

### Provincial Government Division

The Provincial Government Division is responsible for the inspection and audit of the records, accounts, and financial statements of the

Provincial Governments, and Local-level Governments and their business and subsidiary bodies.

#### Policy Planning and Technical Division

The Policy Planning and Technical Division is responsible for Technical Research, preparing Policy submissions and formulating Policy Guidelines for use by the Auditor-General's Office staff.

#### Training, Research and Staff Development Section

The Training and Staff Development Section is responsible for career planning through professional training and development programs, both in-house and overseas, for all staff members (specially national officers) so that they are capable enough to assume professional responsibility to carry out their work satisfactorily.

#### Staff Profile

The majority of the staff employed by this office holds tertiary qualifications. Most of the expatriate contract officers are members of professional accountancy bodies. As of 31 December 1998, the office employed 108 persons against an approved establishment of 129.

#### Reports by the Auditor-General

The Auditor-General is required, before 30 June each year, to furnish to the Head of State a Report on its Operations for the year ending the 31 December preceding, for presentation to the National Parliament. The 1998 Auditor-General's Report revealed the following statistics regarding the audit of public bodies and their subsidiaries (Financial Statements that remain unfurnished cover the following years):

Year	Number Outstanding	Problematic
1998	80	6
1997	29	6
1996	15	6
1995	5	7
1994	3	5
Previous Years	..	19
Total	132	49

## 10. Private Sector

The Companies Act 1997 details the provisions relating to the appointment, qualifications, responsibilities, and duties of auditors in relation to the private sector. The Act also covers the Audit Reports required and the provisions relating to exempt companies.

### Appointment of Auditors

Under the Companies Act 1997, every company must appoint an auditor at each annual meeting to hold office until the next annual meeting, unless the members pass a unanimous resolution at or before the meeting that no auditor be appointed. This resolution remains in force until the commencement of the next annual meeting.

Exempt companies or a company that is exempted from the requirements of this section by the Registrar by notice in the National Gazette are not required to appoint an auditor (S190).

### Appointment of the First Auditor

The company's first auditor may be appointed by the directors of the company or the company itself before the first annual meeting and holds office as auditor until the conclusion of the first annual meeting (S195).

### Automatic Reappointment

An auditor (other than the first appointed auditor) is automatically reappointed at the annual meeting unless:

- the auditor is not qualified for appointment; or
- the company resolves to replace the auditor; or
- the company passes a unanimous resolution that no auditor be appointed; or
- the auditor notifies the company that he or she does not wish to be reappointed (S194).

### Replacement of Auditor

A new auditor cannot be appointed by the company in place of an existing auditor unless:

- at least one month's written notice has been given to the existing auditor; and

- the existing auditor has been given a reasonable opportunity to make representation to the shareholders (written or oral) (S196).

### Qualifications of Auditors

The auditor must be registered as a Registered Company Auditor under the Accountants Act 1996. The following persons are excluded from appointment as auditors:

- a director or employee of the company or a related company;
- a partner or employee of a director or employee of the company or a related company; and
- a liquidator or receiver of the company; and
- a body corporate (S193).

### Auditor's Access to Information

The board must ensure that the auditor has access at all times to accounting records and other documents, that auditors receive the shareholders' meeting communications, that they are permitted to attend shareholders' meetings and be given the opportunity to speak. Auditors can require from any director or employee any information and explanations as they think necessary. Failure to comply with this right is an offence (S202, S203).

### Auditor's Report

The auditor must report on the financial statements stating the matters required to be stated under Section 200 (reporting entities) and Section 201 (exempt companies). This includes, in addition to the opinion, the work done, the scope and limitation of the audit and the existence of any relationship which the auditor has with, or any interest in the company, or any of its subsidiaries.

If the auditor has reported non-compliance with Section 200 for a reporting entity, the auditor is required to send a copy of the audit report and financial statements to the Registrar within seven days (S200(2)). The Registrar sends copies of the report and financial statements to the Accounting Standards Board.

### Auditor's Report on Banking and Financial Institutions

In accordance with the Regulation on Banking and Financial Institutions dated 16 August 2000, the auditor of the bank or licensed

financial institution is required to prepare a report in respect of the financial statements of the bank or licensed institution. Under the Companies Act 1997, the auditor is also required to prepare a report to the Central Bank that will:

- state whether or not in their opinion the bank or licensed financial institution has complied with Central Bank guidelines;
- state whether or not anything has become known of any matters which, in the auditor's opinion, may have the potential to prejudice materially the interests of depositors of the bank or licensed financial institution; and
- state whether or not anything has come to the auditor's attention which would indicate that the declaration given on behalf of the bank or licensed financial institution could not be relied upon.

### **11. International Accounting and Auditing Firms**

- Deloitte Touche Tohmatsu
- KPMG
- PriceWaterhouseCoopers

Ernst & Young are represented by Deloitte Touche Tohmatsu and Arthur Andersen is represented by a PNG firm, RAM Business Consultants. There are 31 registered accounting and auditing firms in PNG. Approximately one-third of these firms have a PNG citizen as their principal. Expatriate accountants are employed in the international firms and some PNG firms, and are recruited from various countries including Australia, New Zealand, Sri Lanka, and the Philippines.