

Audited Project Financial Statements

Project Number: 40173-044
Loan/Grant Number: 3404/3408/G0485
Period covered: 31 December 2018

PNG: Highlands Region Road Improvement Investment Program -Tranche 3

Prepared by Department of Works and Implementation

For the Asian Development Bank
Date received by ADB: 28 June 2019

The audited project financial statements are documents owned by the borrower. The views expressed herein do not necessarily represent those of ADB's Board of Directors, Management, or staff. These documents are made publicly available in accordance with ADB's Access to Information Policy and as agreed between ADB and the Department of Works and Implementation.

Our Reference: 68-8-4

The Honourable Michael Nali, MP
Minister for Works and Implementation
Office of the Minister
PO Parliament Haus
WAIGANI
National Capital District

**INDEPENDENT AUDIT REPORT ON
HIGHLANDS REGION ROAD IMPROVEMENT INVESTMENT PROGRAM –
PROJECT III
(ADB/MFF 3404, 3408 AND GRANT 0485)
FOR THE YEAR ENDED 31 DECEMBER 2018**

OPINION

In accordance with *Section 8(4) of the Audit Act, 1989 (as amended)*, I have audited the financial statements of **Highlands Region Road Improvement Investment Program – Project III**, which comprise the Statement of Cash Receipts and Payments for the year ended **31 December 2018** and notes to the Statement of Cash Receipts and Payments, including a summary of significant accounting policies.

In my opinion the accompanying financial statements;

- i) are based on proper accounts and records;
- ii) are in agreement with those accounts and records and present fairly, in all material respects, the Project's financial performance for the year ended 31 December 2018;
- iii) comply with generally accepted accounting practice and statutory requirements in Papua New Guinea; and
- iv) are in compliance with relevant provisions set out in the *Loan Agreement ADB/MFF 3404, 3408 and Grant 0485*.

BASIS FOR OPINION

I conducted my audit in accordance with *International Standards on Auditing* and the *Audit Act, 1989 (as amended)*. My responsibilities under those standards are further described in the Auditor-General's responsibilities for the audit of the financial statements section of my report.

I am independent of the Highlands Region Road Improvement Investment Program – Project III in accordance with the ethical requirements that are relevant to my audit of the financial statements in Papua New Guinea, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Project Management and those charged with Governance for the Financial Statements

The Departmental Head overseeing the Project Implementation Unit (PIU) at the Department of Works and Implementation is responsible for the preparation and fair presentation of the financial statements submitted under *Section 63(3) of the Public Finance (Management) (Amendment) Act 2016* in accordance with the *International Public Sector Accounting Standards: Financial Reporting under the Cash Basis of Accounting* in compliance with relevant provisions set out in the ADB/MFF Loan 3404, 3408 and Grant 0485 and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Highlands Region Road Improvement Investment Program – Project III's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial statements.

As part of an audit in accordance with *International Standards on Auditing*, I exercise professional judgement and maintain professional scepticism throughout the audit. I also;

- Identify and assess the risks of material misstatement of the statement of cash receipts and payments, whether due to fraud or error, design and perform audit procedures responsible to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause the Project to cease to continue as a going concern.
- Evaluate the overall presentation and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

A handwritten signature in blue ink, appearing to read 'G. Kega'.

GORDON KEGA, MBA, CPA
Acting Auditor-General

25 July 2019

**Highlands Region Roads Improvement and Investment
Program – Tranche 3
ADB/MFF 3404,3408 and Grant 0485**

For the 12 months period ended 31 December 2018

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Statement by Management

In our opinion, the accompanying Statement of Income and Expenditure together with the notes thereto, have been properly drawn up in accordance with the accounting policy described in Note 2 to the Statement of Income and Expenditure, and present fairly the sources and uses of funds of the Highlands Region Roads Improvement and Investment Program – Tranche 3 ADB/MFF 3404, 3408 and Grant 0485 for the 12 months period ended 31 December 2018.

Port Moresby, this 28th day of June 2019



Ali Ingiki
A / Assistant Secretary (Finance and Budgeting)



David Wereh
Secretary for Works

Highlands Region Roads Improvement and Investment Program – Tranche 3 ADB/MFF 3404, 3408 and Grant 0485

Statement of Income and Expenditure

For the 12 months period ended 31 December 2018

Consolidated

	2018				2017
	Note	ADB Loan 3404	ADB Loan 3408	ADB Grant 0485	Total
Income					
Balance of funds at the beginning of the year		-	-	-	-
Direct funds from ADB		<u>24,721,982</u>	<u>43,401,165</u>	<u>14,181,948</u>	<u>82,305,096</u>
		<u>24,721,982</u>	<u>43,401,165</u>	<u>14,181,948</u>	<u>82,305,096</u>
Total income		<u>24,721,982</u>	<u>43,401,165</u>	<u>14,181,948</u>	<u>82,305,096</u>
Expenditures					
Direct payments from ADB		<u>24,721,982</u>	<u>43,401,165</u>	<u>14,181,948</u>	<u>82,305,095</u>
Total expenditures		<u>24,721,982</u>	<u>43,401,165</u>	<u>14,181,948</u>	<u>82,305,095</u>
Balance as at 31 December 2018		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Highlands Region Roads Improvement and Investment Program – Tranche 3 ADB/MFF 3404, 3408 and Grant 0485
Statement of Income and Expenditure
For the 12 months period ended 31 December 2018

ADB 3404

	Note	2018	2017
Income			
Balance of funds at the beginning of the year	3	-	-
Direct funds from ADB	5	24,721,982	23,714,605
		<u>24,721,982</u>	<u>23,714,605</u>
Total income		<u>24,721,982</u>	<u>23,714,605</u>
Expenditures			
Direct payments from ADB	6, 8	24,282,970	23,714,605
Finance charges	6, 8	439,012	-
Total expenditures		<u>24,721,982</u>	<u>23,714,605</u>
Balance as at 31 December 2018	3	<u>-</u>	<u>-</u>

Highlands Region Roads Improvement and Investment Program – Tranche 3 ADB/MFF 3404, 3408 and Grant 0485
Statement of Income and Expenditure
For the 12 months period ended 31 December 2018

ADB 3408

	Note	2018	2017
Income			
Balance of funds at the beginning of the year	3	-	-
Direct funds from ADB	5	43,401,165	39,355,553
		<u>43,401,165</u>	<u>39,355,553</u>
Total income		<u>43,401,165</u>	<u>39,355,553</u>
Expenditures			
Direct payments from ADB	6, 8	42,174,838	39,355,553
Finance charges	6, 8	1,226,327	-
Total expenditure		<u>43,401,165</u>	<u>39,355,553</u>
Balance as at 31 December 2018	3	<u>-</u>	<u>-</u>

Highlands Region Roads Improvement and Investment Program – Tranche 3 ADB/MFF 3404, 3408 and Grant 0485
Statement of Income and Expenditure
For the 12 months period ended 31 December 2018

ADB Grant 0485

	Note	2018	2017
Income			
Balance of funds at the beginning of the year	3	-	-
Direct funds from ADB	5	14,181,948	9,538,990
		<u>14,181,948</u>	<u>9,538,990</u>
Total income		<u>14,181,948</u>	<u>9,538,990</u>
Expenditure			
Direct payments from ADB	6, 8	14,181,948	9,538,990
Finance charges	6, 8	-	-
Total expenditure		<u>14,181,948</u>	<u>9,538,990</u>
Balance as at 31 December 2018	3	<u>-</u>	<u>-</u>

1. General

Statement of Compliance

These statements of income and expenditures have been prepared to accomplish the Highlands Region Roads Improvement and Investment Program – Tranche 3 ADB/MFF 3404, 3408 and Grant 0485 and relevant stakeholders. The significant accounting policies adopted in the preparation of the financial reports are described below. In the opinion of the Highlands Region Roads Improvement and Investment Program – Tranche 3 ADB/MFF 3404, 3408 and Grant 0485 accounting policies are appropriate to meet Generally Accepted Accounting Practices and the Public Finances (Management) Act 1995 as amended reporting requirements.

The statement of income and expenditures are for the Highlands Region Roads Improvement and Investment Program – Tranche 3 ADB/MFF 3404, 3408 and Grant 0485 funded by the Government of PNG with financial assistance from Asian Development Bank. The project is managed by Asian Development Bank (ADB) Project Coordination branch under the Department of Works.

2. Summary of Accounting Policy

The financial statements have been prepared on a "cash" basis, in that:

- Income is only recognised when cash is actually received;
- Assets are expensed when purchased; and
- Expenses have been brought to account on cash paid basis irrespective of the period to which that expense relates.

This Statement of Income and Expenditures covers the period 1 January 2018 to 31 December 2018.

3. Funds Available for the year/surplus for the period

Under the cash accounting system, the funds available for the period is generally the reconciled bank balance between the bank statement period end balance and cash book period end balance.

Balance per cash book	-
Add/(Subtract) Reconciling items	-
Bank balance as at 31 December 2018	-

4. Reporting currency

The Trust and Imprest Accounts operate in Papua New Guinea Kina (PGK) denominated bank accounts. Funds are received and expenses are paid out of the nominated bank accounts. Direct payments by ADB are made in USD into the beneficiaries nominated bank accounts. For reporting purposes, the Bank of Papua New Guinea mid rates applicable on the date transactions are used to convert in to PGK.

5. Direct funding

The amounts represent direct funds received from the ADB for the direct payments made to the contractors through direct bank transfers into the contractor's nominated bank account.

6. Direct payments

The amounts represent direct payments made by ADB to the contractors nominated bank accounts. The amount is comprised of the following:

	2018		
	ADB Loan 3404	ADB Loan 3408	ADB Grant 0485
			Total
Contractor payment	24,282,970	39,662,184	9,715,007
Consulting services	-	2,512,655	4,466,941
Finance charges	439,012	1,226,327	-
Total	24,721,982	43,401,165	14,181,948

7. Loan balance

ABD loan undisbursed balance for 3404, 3408 and grant 0485 as at 16 May 2019 in US Dollars are follow:

	Loan amount USD	Contracts USD	Disbursements USD	Un-disbursed balance USD
ADB Loan 3404	38,264,265	37,489,863	17,520,843	20,743,421
ADB Loan 3408	70,410,000	65,519,525	30,001,142	40,408,857
ADB Grant 0485	19,990,000	19,892,328	8,540,950	11,449,049
Total	128,664,265	122,901,716	56,062,935	72,601,327

8. Total Project Costs

The amount represents year to date project costs for the four Road Projects under the Highlands Region Roads Improvement and Investment Program – Tranche 3 ADB/MFF 3404, 3408 and Grant 0485.

Particulars	Total costs	ADB share	GoPNG share	Prior year payments	2018 Project cost payments		Balance payable as at 31 December 2018	
		91%	9%		ADB	GoPNG	ADB	GoPNG
Gewa - Gembogl	99,691,727	90,719,472	8,972,255	18,143,894	18,515,635	-	54,059,942	8,972,255
Nipa - Munihi	83,337,640	75,837,252	7,500,388	15,167,450	13,382,769	-	47,287,034	7,500,388
Pangia - Wiruloo	79,385,106	72,240,446	7,144,660	19,188,297	23,924,387	-	29,127,762	7,144,660
Henganofi - Nupuru	73,826,688	67,182,286	6,644,402	18,905,037	17,837,369	-	30,439,880	6,644,402
Sub total	336,241,161	305,979,457	30,261,704	71,404,678	73,660,160	-	160,914,618	30,261,704

Consulting services	-	-	-	345,520	6,979,596	-	6,730,506	-
Project administration	-	-	-	-	-	-	8,181,250	-
Finance charges	-	-	-	858,950	1,665,339	-	6,139,977	-
Miscellaneous Grant admin and support costs	-	-	-	-	-	-	12,303,228	-
Unallocated	-	-	-	-	-	-	56,974,561	-
Sub total	-	-	-	1,204,470	8,644,935	-	90,329,522	-
Total	336,241,161	305,979,457	30,261,704	72,609,148	82,305,095	-	251,244,140	30,261,704

9. Subsequent Events

From the end of the financial year to the date on which the report was authorised for issue there were no material subsequent events.

10. Going Concern

The statement of income and expenditure has been prepared on a going concern basis which assumes that Highlands Region Roads Improvement and Investment Program – Tranche 3 ADB/MFF 3404, 3408 and Grant 0485 will be able to meet its liabilities and obligations as and when they fall due in normal course of business for the foreseeable future. Government of PNG and ADB will under the different loan agreements will continue to support the trust account financially should the need arise future.

The operation of the trust is dependent on the continued financial support from GoPNG and ADB.

11. Trust Full Name

The full name of the trust account is Highlands Region Roads Improvement and Investment Program – Tranche 3 ADB/MFF 3404, 3408 and Grant 0485.