PNG provincial hospital boards' compliance with statutory financial reporting obligations

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PNG Provincial Hospital Boards’ Compliance With Statutory Financial Reporting Obligations

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Abstract

This article employs textual analysis to examine the financial statement reporting by provincial hospital boards in Papua New Guinea (‘PNG’) as they attempt to comply with mandatory financial statement reporting. Hospital boards in PNG are established under the Public Hospital Act 1994 (PNG), which requires the boards to satisfy the accounting, financial management and reporting requirements indicated under the Public Finances (Management) Act 1995 (PNG). The existing literature on hospital board reporting compliance has previously focused on developed countries with sound governance systems and developed infrastructures. In contrast, this paper provides an examination of hospital boards that operate in troublesome governance systems. This information could be of assistance to public entity stakeholders (for example, tax payers, donors and provincial and national governments) in future decision-making. Knowing the extent of reporting compliance allows stakeholders to assess both the performance and accountability of these health organisations.
Introduction

This paper looks at the financial reporting compliance of the provincial hospital boards of Papua New Guinea (‘PNG’). Much of PNG’s health care is provided by the government and church health providers through provincial hospital boards. Generally, PNG’s health system is marked by fragile administrative and management structures, deficient financial management, scarce funding, inadequate information systems and restricted access.¹ Entities operating in PNG lean towards a traditional (oral communication) and Western-narrow (some written financial statements) style of reporting and do not always comply with mandatory written reporting.²

Hospital boards in PNG work with the National Department of Health, National Aids and the Nursing Council, and operate under the Public Hospital Board. They are established under the Public Hospital Act 1994 (PNG), which provides that the Public Finances (Management) Act 1995 (PNG) is applicable to the boards on matters regarding accounting, financial management and reporting. PNG’s hospital system includes 19 provincial hospitals (sometimes referred to as district hospitals in the literature). HIV and AIDS are leading causes of hospitalisation, with HIV/AIDS patients accounting for 60 per cent of bed occupancy at Port Moresby General Hospital.³

In light of the mandatory reporting milieu, this study considers the level of compliance by PNG hospital boards with financial reporting as audited by PNG’s Auditor-General. More specifically, this paper poses the following research question: To what extent do PNG hospital boards comply with the requirements of the Public Hospital Act 1994 (PNG) and the Public Finances (Management) Act 1995 (PNG) on financial statement reporting?

This is an important paper because it looks at financial reporting compliance of public bodies in a developing country environment. Many compliance studies focus on hospital boards in developed countries with sound governance systems and developed infrastructures.⁴ By contrast, this paper focuses on hospital boards that

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³ AusAID, above n 1.
operate within troublesome governance systems.\(^5\) It is important that reporting compliance is examined in all environments, not just within sound governance systems. Those who work in the field of foreign aid delivery, non-government organisations with a working relationship with PNG and governments involved in the management and administration of public services should know how effectively the legislation in the *Public Finances (Management) Act 1995* (PNG) is complied with on the ground. Knowing the extent of compliance allows stakeholders to assess both the performance and accountability of these health organisations.

The study is structured as follows. Following a review of the literature on the reporting system of hospitals in PNG and financial reporting compliance, the paper’s methodology is presented, elaborating on the study’s use of textual analysis and the applied data sources. The results of the textual analysis are then reported, followed by conclusions and implications drawn from the study results.

**Overview of the Relevant Legislative Requirements and Standards**

Hospital boards in PNG were established by the *Public Hospitals Act 1994* (PNG) and are generally run by chief executive officers who are appointed by each of the provincial hospitals and report directly to the Minister of Health.

In Papua New Guinea, the purpose of financial reporting, as expounded by those accounting practices generally accepted in PNG, is to assist stakeholders of a reporting entity to make informed decisions about it and to determine whether that entity has complied with the directives and policy statements of financial reporting standards developed by the Accounting Standards Board of Papua New Guinea (‘ASBPNG’), a regulatory body corporate established under pt IX, div 5 of the *Companies Act 1997* (PNG). Through ss 205, 206 and 207 of the *Companies Act 1997* (PNG), the ASBPNG sets and enforces accounting standards and policies in PNG, and through ss 180, 181 and 183 the ASBPNG examines whether annual returns made by reporting entities comply with the approved reporting standards. These standards are based on the International Accounting Standards (or International Financial Reporting Standards) established by the International Accounting Standards Board, which have been generally adopted as part of PNG’s generally accepted accounting practices\(^6\).

A PNG reporting entity’s compliance with financial reporting obligations is also subject to external audit. Under ss 213 and 214 of the *Constitution of Papua New Guinea* and the *Audit Act 1989 (as amended)* (PNG), the


Auditor-General is given the power to inspect and audit the public accounts of PNG including departments of the public services; agencies of the national government; provincial governments and their arms, agencies and instrumentalities; and bodies established by statute or act of the national executive. The Auditor-General is also required to report annually to Parliament on the audits. Section 63(4) of the *Public Finances (Management) Act 1995* (PNG) requires public bodies to submit their financial statements for audit. Under pt II of the *Audit Act 1989 (as amended)* (PNG), the Auditor-General then reports to the public body’s Minister. Section 63(4) also obliges the public body, before 30 June each year, to present to its Minister those financial statements, with a report on its operations, for the year ended 31 December preceding.

Under the *Public Hospital Act 1994* (PNG), hospital boards in PNG are expected to follow the provisions of the *Public Finances (Management) Act 1995* (PNG) in matters dealing with accounting, financial management and reporting. Under s 117 of the *Public Finances (Management) Act 1995* (PNG), hospital boards are instructed to prepare their financial statements in a financial statement format that is used by all trading and non-trading entities. The *Public Hospital Act 1994* (PNG) also requires the *Audit Act 1989 (as amended)* (PNG) to apply to hospital boards. In performing the annual audits of the financial statements of the hospital boards, pt 3, s 8 of the *Audit Act 1989 (as amended)* (PNG) requires the Auditor-General to report on those audits to the Minister of Health and the Minister of Finance.

Hospitals are required to prepare their financial statements in accordance with a financial statement format for non-trading public entities. The accounts are prepared under the cash basis of accounting with the financial statements consisting of: statement of revenue and expenditure, statement of changes in net cash asset, schedule of capital assets and liabilities, and accounting policies. Under the *Public Finances (Management) Act 1995* (PNG), if the hospital board does not meet the deadline for submitting financial statements, the Minister may withhold half of the grants appropriated to that body for the following fiscal year.\(^7\)

The *Public Hospitals Act 1994* (PNG) lays down strict compliance rules in terms of reporting expectations. In developed countries, compliance may be imposed by strong regulatory enforcement, backed up by penalties or sanctions, or some form of accommodating self-regulation, supported by gentle persuasion.\(^8\) Regulatory enforcement or accommodating self-regulation influences the response of regulatees (in this case, the hospital boards) to regulations (*Public Hospitals Act 1994* (PNG) and *Public Finances (Management) Act 1995* (PNG)).\(^9\)

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Regulatees often weigh up the benefits and costs of regulations.\textsuperscript{10} Noncompliance may occur if the regulatee perceives the regulation as unreasonable,\textsuperscript{11} but compliance may improve if regulation is seen as fair and impartial.\textsuperscript{12} Self-regulation appears to work well if it is supported by enforcement strategies\textsuperscript{13} such as persuasion, warning letters, civic penalties, criminal penalties, licence suspension and licence revocation or encouragement. Thus, the flow of information between the regulator (in this case, the Parliament of PNG) and regulatee (hospital board) is important.

Parker\textsuperscript{14} advocates the nurturing of compliance professionalism. Braithwaite\textsuperscript{15} suggests that regulatees constantly evaluate and re-evaluate regulators in terms of their performance\textsuperscript{16} and adopt different motivational stances towards the regulator through capitulation, commitment, disengagement or resistance.\textsuperscript{17} Both capitulation and commitment demonstrate little social distance between the regulatee and the regulator. Capitulation indicates the complete acceptance of the regulator as an authority, and commitment reflects the desirability of, and obligation to the regulations.\textsuperscript{18} In contrast, both disengagement and resistance suggest a relatively greater distance between the regulatee and regulator, as disengagement implies a stepping out of the regulatory system by the regulatee, and resistance reflects doubt about the regulator and a call for the regulatee to be watchful of the regulator. In this context, this paper is an exploratory study of the reporting compliance of hospital boards operating in a developing country.

Textual Analysis

Textual analysis was employed in considering the textual material, written in English, of audits prepared by the Auditor-General’s Office (‘AGO’) of Papua New Guinea regarding hospital boards of PNG. The Auditor-General’s reports covered the years ending 2007 to 2010.

\textsuperscript{10} For example, K Ko, J Mendeloff and W Gray, ‘The Role of Inspection Sequence in Compliance with the US Occupational Safety and Health Administration’s (OSHA) Standards: Interpretations and Implications’ (2010) 4(1) Regulation & Governance 48.


\textsuperscript{12} T R Tyler, Why People Obey the Law (Princeton University Press, 2006); Murphy, Tyler and Curtis, above n 7.

\textsuperscript{13} I Ayers and J Braithwaite, Responsive Regulation: Transcending the Deregulation Debate (Oxford University Press, 1992).


\textsuperscript{16} Ibid.

\textsuperscript{17} Ibid; V Braithwaite, ‘Games of Engagement: Postures Within the Regulatory Community’ (1995) 17 Law and Policy 225.

\textsuperscript{18} Murphy, Tyler and Curtis, above n 7.
The audits of the 19 provincial hospital boards of PNG were analysed. These included the hospital boards of Boram, Modilon, Angau, Vanimo, Alotau, Kerema, Daru, Popondetta, Kimbe, Nonga Base, Kavieng, Lorengau, Buka, Kundiawa, Mount Hagen, Goroka, Mendi, Wabag and Port Moresby. This study does not examine the Port Moresby Private Hospital Limited although it does study the public hospital board of Port Moresby. This paper does not examine private hospitals as they are a different type of entity from public sector hospitals. Private hospitals are expected to generate profits for their shareholders, whilst public sector hospitals are essentially not-for-profit entities. Provincial hospitals are public sector hospitals and thus fall within the ambit of this paper.

Results of Textual Analysis
The AGO found that provincial hospital boards generally had difficulty with s 63(3) of the Public Finances(Management) Act 1995 (PNG) which requires that hospital boards present their financial statements in a form approved by the Minister. The AGO noted that the Ministry of Finance did not approve the financial statements of many hospital boards because they did not conform to a financial statement format for trading and non-trading public entities. Generally, the AGO found that all public hospitals experienced difficulties in preparing and submitting financial statements for audit within the requirements of the Public Finances (Management) Act 1995 (PNG), yet despite this, sanctions had never been imposed. Failure to prepare or submit annual reports makes it difficult for regulators and supervising bodies to know whether the hospital board is a going concern. This lack of accountability leaves open the question of whether the hospital board is, in fact, operating. Consequences of non-reporting might result in an ‘empty hospital’ or recurrent ‘funding for just being a hospital’.

Common difficulties with the hospital boards’ financial statements were that the records of accounts receivables, accounts payables, advance registers, asset registers, capital commitments, contingent liabilities and medical supplies were either simply not maintained or were inadequately prepared. Non-maintenance of these documents has far-reaching impacts. Without a record of accounts receivable, hospital boards are unlikely to track each of their debtors and the corresponding amounts they owe. This can lead to overdue accounts and thus rapid increases in expenses relating to bad debts and debt collection. Similarly, non-
maintenance of accounts payable could lead to late payments to creditors, missed discounts offered by the creditors, late payment penalties on past invoices, duplicate payments, payments to unregistered suppliers and deteriorating relations with, or losses of, suppliers and vendors. The risks of not being repaid a loan advance could also increase if a record of an advance register is not maintained. It would also be difficult for hospital boards to budget for vital equipment or track plans for property, plant and equipment if a record of capital commitments is not kept. In a legal sense, without a record of contingent liabilities, internal and external stakeholders of hospital boards will have little idea if hospital boards are facing impending litigation. Theft, loss and deterioration are also not uncommon in cases where records of medical supplies are not maintained.

Textual analysis of the AGO\(^{26}\) audit of provincial hospital boards reveals three patterns of financial report submission for the years ending 2006, 2007 and 2008. One group, including four hospital boards – Daru, Nonga Base, Kavieng and Lorengau – did not submit any financial statements for audit. This group is titled ‘hospital boards not submitting financial reports’. Another group, comprising six hospital boards – Kimbe, Buka, Kundiawa, Mount Hagen, Goroka and Wabag – submitted some financial statements for audit (‘hospital boards submitting some financial reports’). A final group, consisting of the hospital boards of Angau, Modilon, Boram, Vanimo, Alotau, Kerema, Popondetta, Mendi and Port Moresby, submitted all financial reports for audits (‘hospital boards submitting financial reports’).

**Hospital Boards Not Submitting Financial Reports**

**Daru Hospital Board**

The AGO\(^{27}\) noted that Daru Hospital Board had not submitted its 2005 and 2006 financial statements and, thus, audits were carried out. The 2007 and 2008 financial statements were also not submitted.\(^{28}\) Interim audits of 2007 and 2008 found that Daru had not prepared or maintained the following: budget estimates for the years 2007 and 2008, revenue ledgers for the years 2005 to 2008, bank statements for the years 2005 to 2007, a register for accountable forms (including receipt books) for the years 2005 to 2008, the filing of bank statements from 2005 to 2007, an assets register for the years 2004 to 2008, advance register from 2005 to 2008, nor bank reconciliation from 2005 to 2008.\(^{29}\)

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\(^{27}\) AGO (2008), above n 25.

\(^{28}\) AGO (2009), above n 6.

\(^{29}\) AGO (2009), above n 6.
The impact of a lack of budget estimates may have far-reaching effects on Daru Hospital Board’s planning for capital and non-capital works, with the blurring of capital and current expenditure items leading to inefficient allocations. It is difficult to enforce expenditure limits and meet deficit targets when budget estimates are not maintained. By failing to keep revenue ledgers, Daru Hospital leaves itself open to the risk of not knowing its sources of funding, which, in turn, can lead to poor planning. Internal controls are also weakened if bank statements and receipt books are not maintained or kept properly.

More generally, there was inadequate maintenance of bank statements, debit notes, human resource files, motor vehicle registrations, registration/ownership files, and the petty cash float book. Receipts were issued on an ad hoc basis, cheque books were not locked away, the filing system was unsystematic, many accounting documents were not filed, receipt books with serial numbers were not registered, payments of accounts were seldom recorded into their respective ledger accounts, some staff lacked qualifications and experience for record keeping leading to irregular payments, and clear land titles for the Hospital’s location had not been transferred from the Health Department in 1994.\(^{30}\) In addition, there was no corporate plan to establish long term objectives or set priorities or targets, and no associated financial, asset management, human resource, information technology, risk management and divisional operating plans.

**Nonga Base Hospital**

The Nonga Base Hospital also did not submit its financial statements from 2005 to 2008.\(^{31}\) The AGO’s\(^{32}\) audit report of the control environment for 2007 found missing cash fund certificates, no estimates of revenue and expenditure for the year, inadequate maintenance of cash books relating to the operating and hospital fees trust accounts, no proper segregation of duties between revenue collection and banking, no independent verification of banking, some payment vouchers not certified, no tenancy agreements between the Hospital and a local church, no reconciliation of the payroll assets register and no periodical stocktakes.\(^{33}\) The Nonga Base Hospital did not have a corporate plan.

As with the Daru Hospital Board’s lack of accounting records, Nonga Base Hospital suffers from internal control weaknesses within its accounting milieu. The lack of periodical stocktakes, for example, can increase the risk of theft, loss and deterioration of medical stock. Stock records are important to for the ordering of medical supplies and medical drugs. Lack of medical stock may lead to patient deaths.

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\(^{30}\) AGO (2009), above n 6.

\(^{31}\) AGO (2009), above n 6.

\(^{32}\) AGO (2009), above n 6.

\(^{33}\) AGO (2009), above n 6.
Kavieng Hospital Board

Similarly, the Kavieng Hospital Board did not submit financial statements for the period 2006 to 2008. The AGO testing of the control environment for 2007 found no corporate plan to identify the Hospital’s mission and goals; no documented internal finance and administration policies and procedures for hospital financial management activities and internal control; no formal review processes to monitor the performances of the Hospital’s divisions; no quarterly reports compiled for the Management and the Board; trust funds used for expenditures not specified under the Trust Instrument; no estimates of revenue and expenditure; and no proper accounting procedures to account for the monies either transferred or used to pay for expenses under the operating account.\(^{34}\) Further, control over decision-making within the Hospital management for financial matters was undocumented. There was also a lack of proper reporting processes for revenue collections. The Board failed to maintain an inward remittance register to register every incoming valuable in cash, cheques or donations. Other revenues posted in the cashbooks were not accounted for in either a register or a revenue ledger. No debtor ledgers were maintained to account for uncollected revenues. There were difficulties in bank reconciliations, no fixed assets register was maintained, there were no proper housing policy guidelines in place to facilitate eligibility, rental, maintenance, and terms and conditions for staff housing. Wages sheets were not checked by appropriate officers to ensure that the rates, period, deductions, additions, and other information were accurate and that the correct persons were being paid. Substantial overtime payments were paid without prior approval. Some Hospital staff received rental allowances as well as rent-free accommodation.

Clearly the reporting milieu of Kavieng Hospital Board is so poorly controlled that in many instances it would be difficult to track records of expensive medical fixed assets and monetary assets. Kavieng Hospital Board’s internal control weaknesses in the area of wages leaves it open to theft and misappropriation of funds.

Lorengau Hospital Board

The Lorengau General Hospital had not prepared its financial statements from 2004 to 2008. Results of a substantive audit review of the Hospital’s 2007 operations were deemed ‘unsatisfactory’.\(^{35}\)

Hospital Boards Submitting Some Financial Reports

In contrast to the previous four hospital boards, the six following hospital boards did provide some financial reports.

\(^{34}\) AGO (2009), above n 6.
\(^{35}\) AGO (2009), above n 6.
Kimbe Hospital Board

The audit of Kimbe General Hospital financial statements for the year 2007 was 'unsatisfactory' with a disclaimed audit opinion being issued. The Hospital did not maintain an asset register, kept inadequate inventory records and maintained scant records of drugs and medical supplies.

Buka Hospital Board

Similarly, the AGO issued a disclaimer of audit opinion on Buka General Hospital’s financial statements for the year ended 2007. The Auditor-General found that Buka General Hospital did not maintain assets, did not conduct stocktaking and was unable to obtain confirmation of salaries and wages totalling K3 392 617. Internal revenue collections could not be relied on as collectors’ statements had not been prepared, collections were not banked on a daily basis, no independent verification was performed, and no proper segregation of duties existed between revenue collection and banking. Furthermore, no advance register had been maintained, quotations were not sought when purchasing, no delivery dockets/consignment notes were sighted to confirm delivery, there were no valid invoices of payments, the administration officers were paid overtime allowances without prior approval by the management, and certain staff leave fares were paid directly to them instead of the airline or travel agent.

Kundiawa Hospital Board

The audit of Kundiawa General Hospital financial statements for the year ended 2007 was similarly found to be 'unsatisfactory' with a disclaimed audit opinion being issued. The AGO found that the Kundiawa General Hospital did not maintain accounting records and asset registers, did not maintain an expenditure ledger to record expenditure under the various notes as a basis for the production of the financial statements, and had no system of control over the collection of hospital fees.

Mount Hagen Hospital Board

The results of the audit of Mount Hagen General Hospital financial statements for the years ended 2005 and 2006 were unsatisfactory with disclaimed audit opinions being issued. The financial statements for the year ended 2007 were yet to be submitted for audit. For the 2006 financial statements, Mount Hagen General Hospital did not maintain accounting records and assets register for fixed assets, had no system of control over the collection of hospital fees and there was an absence of satisfactory records of salary advance payments.
Goroka Hospital Board

The AGO\textsuperscript{36} noted that Goroka General Hospital improved in the areas of corporate governance, budgetary control and calculation and payment of salaries and wages. However, the financial statements were qualified.\textsuperscript{37} Financial statements for years ending 2004, 2005 and 2006 were unaudited and dispensed. Goroka Hospital did not update the asset register or undertake an annual stocktake. There were inadequate inventory records as well as a lack of effective in-built systems and procedures (checks and balances) to ensure receiving, storage, issue and usage of drugs and medical supplies were recorded and controlled. Cashbook and bank account reconciliations were not prepared in the prescribed format, there was no segregation of duties maintained between the recording of the cash transactions and preparation of bank reconciliation statements, the bank reconciliation statements were not checked or verified for their validity and accuracy by an independent person, there were delays in the banking of collected revenue, some delivery docket from suppliers and goods received from recipients were not sighted, no works report was provided on the maintenance and upgrading of hospital facilities, and a register of Board members’ attendance at Board meetings was not produced. Furthermore, control procedures exercised over the repayment of salary advances were poor and ineffective.

Wabag Hospital Board

The audit of the Wabag General Hospital’s financial statements for the year ended 2007 was unsatisfactory with a disclaimer of audit opinion being issued. Wabag General Hospital did not maintain general ledger accounts, and cashbooks for both the operating and trust accounts were not updated on a daily basis. Furthermore, the internal revenue of K450,949, representing nine per cent of the year end revenue, could not be relied upon because collector’s statements had not been prepared. Banking of cash collection was not done on a daily basis, there was no safe custody of cash collected, no segregation of duties to reduce the risk of fraud, and no registers were maintained at various revenue collection centres. Discrepancies occurred in the payment of accounts because there was no proper appointment of an enquiry officer, registration officer, commitment or examiner officer. Quotations were not sought when purchasing, tenancy agreements were not provided, the asset register for other equipment lacked vital information such as serial numbers, dates of purchase, location, etc, no physical stocktakes were undertaken, no advance register had been maintained and the acquittal of advances had no supporting documentation.

Although Kimbe General Hospital, Buka General Hospital, Kundiaua General Hospital, Mount Hagen General Hospital, Goroka General Hospital and Wabag General Hospital did provide some financial reports, there appeared to be major internal control weaknesses that might impact on their accountability to the

\textsuperscript{36} AGO (2009), above n 6.
\textsuperscript{37} AGO (2009), above n 6.
government, other resource providers, suppliers, creditors, debtors and patients. In comparison to the four hospital boards of Daru, Nonga Base, Kavieng and Lorengau, the six hospital boards of Kimbe, Buka, Kundia, Mount Hagen, Goroka and Wabag are providing greater accountability to their stakeholders. However, it appears that operational and financial impact of partial financial reporting leaves them open to the risk of loss of current and capital assets.

**Hospital Boards Submitting Most Financial Reports**

The hospital boards of Angau, Modilon, Boram, Madang, Wewak, Vanimo, Alotau, Kerema, Popondetta, Mendi and Port Moresby all attempted to produce timely financial reports for audit.

**Port Moresby Hospital Board**

For year ending 2007, the AGO found an absence of complete and enabling records of drugs and medical supplies, inadequate inventory records, and bank balances were not reconciled with cash books. The Operation Open Heart PNG account and Donors Special Project account were not made available for audit review, there was no proper vehicle register and there was no proper register of Board of Director details. The Hospital Board did not keep a Minutes of Meetings book, there were significant weaknesses in controls over payroll and staff wages. There were no checks and balances in place to ensure that pays were made only to individuals who worked for the Hospital. Put another way, the Auditor-General was confronted by a number of internal control issues that the Hospital Board needed to correct.

**Boram Hospital Board**

The Boram Hospital’s 2003 to 2007 financial statements were disclaimed because they did not contain adequate notes to the financial statements. Details of accounting policies were not disclosed, in particular, the basis upon which the financial statements were prepared, and accounting treatment of various financial statement items was not provided to the Auditor-General’s office. Bank reconciliations were not well maintained, cashbooks with running balances for both operating and trust accounts were not maintained, there were details lacking in some of the key accounts. Boram Hospital Board did not maintain accounting records nor a proper assets register and did not conduct an annual stocktake. Funds allocated annually through the national budget were not expended in accordance with the *Appropriation Act 1991-1992* (PNG). The duties of the collectors and receivers of public monies were not defined. Reporting processes for revenue collections, comparative analysis and reconciliation were lacking. There was no proper procedure for the checking of balances established for kiosk sales and preparation of summary sheets at the cash office. There was no inward remittance register, resulting in missing cheques. Donations were also deposited without

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38 AGO (2009), above n 6.
proper recording in the books. There were a number of accounts opened by the Hospital without required approvals. Some accounts were not disclosed in the financial statements. Manual cashbooks for the operating account and kiosk account were not kept and maintained. Neither a cashbook nor a ledger was maintained for the Trust and the other accounts.

There were no delegated responsibilities constructed for the requisition officer and financial delegates, resulting in claims not being examined properly. Not enough quotations were obtained. Estimates of revenue and expenditure were not compiled. Proper and up-to-date information on the value of assets and the useful life of asset items was lacking. Although an assets register was maintained, the value of assets was in most cases not registered and an extensive portfolio of fixed assets was not effectively managed nor appropriately safeguarded through performance of asset stocktakes or insurance. There was no effective monitoring or reporting system in place to assess damage, servicing, and registration of vehicles, leading to an ineffective and poor monitoring system. Furthermore, vehicle damage, theft, and major services were not reported or registered. Operational logbooks and service registers were also not maintained. No proper housing policy guidelines were in place to detail eligibility, rental, maintenance, and terms and conditions for staff housing. The Hospital provided accommodation for the staff in institutional houses, quarters, compounds, and rented accommodations at the expense of the Hospital. No charges or rental were received. Officers on employment contract received a double benefit at the expense of the Hospital.

The management of advances lacked compliance. There was no registration of advances paid to holders and also no acquittal process. Jobs were not properly described and defined. There was a lack of staff capable of providing accounting or financial management. Officers responsible for preparing wages sheets could not be identified. Wages were prepared by unauthorised officers and not checked by senior officers. There was no corporate plan to identify the Hospital’s mission. Quarterly reports were not compiled for management or the Board.

*Kerema Hospital Board*

The AGO’s audit reports of Kerema Hospital’s 2004 and 2005 financial statements were disclaimer. Revenue and individual ledger accounts were not maintained systematically for prompt identification, classification and recording of revenues. Records of grants from the national government, interest, hospital fees, hospital rental, donor corporate grants and other grants were not maintained. Deficiencies and irregularities occurred in the processing of receipts, collectors’ statements, revenue summary reports and deposit slips. There were delays in banking of revenue collection. The control environment was weak and thus susceptible to misappropriation and fraud. There were discrepancies in paid vouchers in relation to doctor airfares, mental health allowances

39 AGO (2009), above n 6.
and travel allowances. Doctors were being paid housing allowances whilst being accommodated in institutional houses as well as having their rent paid for by the Hospital’s management. Some overtime was paid without proper timesheets being prepared, there was no independent verification, and some overtime claims were prepared by the claimants themselves. There were lapses in advance management practices. In terms of asset management, biomedical equipment was excluded from total assets and equipment owned by the Hospital. The value of all assets was not disclosed in the financial statement in a schedule.

Modilon Hospital Board

An audit of Modilon’s General Hospital accounts and internal control systems was conducted for the year ended 2007 but no mention was made of earlier reports. In terms of the budget, the revised appropriation total was K7 700 200 while year to date expenditure under the expenditure items was K8 030 141. There was no explanation accounting for the difference, and no remedial action taken by management in rectifying the control weaknesses relating to collection, receipting, banking and reporting of hospital user fees that were highlighted in previous reports. There was no inward mail register maintained to record details of money received by mail prior to being forwarded to the cashier for banking. Delays in banking continued to exist in 2007. A dishonoured cheques register was not maintained. Some medical fees were collected directly by Medical Officers and not properly brought to account. Debtor’s ledgers were not maintained. The signatories to the two bank accounts were also financial delegates who authorised expenditure. Proper procurement and tender procedures were not followed. Payments were not supported by work-in-progress or job completion reports. Proper individual ledgers were not maintained for the various landlords/properties that the doctors were occupying to record details of all invoices issued and payments made. Rental payment schedules were not adequately updated. An assets register was not maintained and no stocktake was conducted during the year. Furthermore, advance registers were not maintained, salary history cards were not updated, and salaries and wages tax declarations lodged by the employees were not kept. Current signed employment contract agreements were not kept. The Modilon General Hospital did not have a corporate plan.

Alotau Hospital Board

The Alotau General Hospital 2004 financial statements received a disclaimer of audit opinion and the financial statements for 2005 to 2007 received a qualified opinion. The AGO found that a register for accountable forms including receipt books and chequebooks had not been maintained since 2004. Official revenue receipt books, debit notes, trust account cheque books and operating account cheque books were not properly locked away in safes and, additionally, were not recorded in a register. Collector’s statements were seldom prepared for cash collections. Banking was not done on a daily basis, there were bank reconciliation difficulties, quotes were not sought for purchases, delivery consignment notes were not sighted to confirm delivery and invoices for payments were missing. Since 2004 the assets register had not been updated in a timely manner. Some land
titles for the Hospital’s location had not been obtained. The motor vehicles register had not been adequately maintained and the human resources records were not systematically maintained. An expatriate dental officer attached to the dental section had no contract of employment; sometimes he was on the payroll and other times he was off the payroll. The AGO could not ascertain the nature of his employment due to lack of documentation.

Angau Hospital Board

The Angau Hospital Board submitted their financial statements for the period 2002 to 2007 for audit in January 2008. Disclaimers of audit opinions were issued for all the mentioned reports in December 2008. In 2007, salaries and allowances paid during the year totalled K6 832 460, well in excess of the appropriated amount. At times doctors were raising and collecting fees directly from hospital patients. The Ageing Debtors Report, which records debts which have not been paid up for a considerable time, revealed no follow-up action taken by the administration to recover the long outstanding debts. Receipts collected from the dental services were never remitted. Bank reconciliations were not checked and certified by a senior officer. Contract documents for various different security firms for security services were not provided. There was no register of properties rented by the Hospital for doctors and senior staff. Sometimes the Hospital had made double payments of rent. Lease agreements were missing. Significant monthly telephone bills were not accounted for. Some leave fares payments were made directly to the individual staff and not to airline or shipping companies. There was no asset register and no regular periodical stocktakes.

Popondetta Hospital Board

The auditing of Popondetta Hospital Board’s 2007 and 2008 financial statements was still to be undertaken. Popondetta Hospital Board’s control environment was considered in 2007.

Vanimo Hospital Board

Vanimo Hospital Board’s financial statements for 2007 received a disclaimer of audit. The Hospital lacked documented policies and procedures to address internal control issues. The appointment of requisitioning and approving officers was not documented. There was inadequate reporting of financial information (budgets/cash flow) and performance measurement of achievements. There were budgetary irregularities in the hospital fees trust account. Collector statements were not properly filed but were placed loosely in folders. The cash book was missing. Bank reconciliations were not checked by the Director of Finance and Administration to ensure accuracy of the process. A comprehensive assets register was not maintained and no annual stocktake of assets and inventories was taken.
**Mendi Hospital Board**

Mendi Hospital Board’s 2008 financial statements received a qualified audit. The Chief Executive Officer did not sign the financial statements. The cashbook and bank accounts for both the operational and trust accounts were not properly reconciled. Some official receipts were not kept. Monthly bank reconciliation statements were not properly prepared and as a result, the cash book balances did not agree with the reconciled balances. There was no segregation of duties maintained between the recording of the cash transactions and preparation of bank reconciliation statements.

The bank reconciliation statements were not checked or verified for their validity and accuracy by an independent person who was not directly involved in collection and recording of cash. The Hospital seldom obtained three quotations from appropriate suppliers. Delivery dockets from suppliers and goods were missing. The organisation and storage of drugs and medical supplies was poor. There was no register maintained to keep record of cleaning detergents, chemicals, tools and other sundry items. Additionally, there was no segregation of duties in relation to the custody of records, or the receiving and issuing of goods. The cash advance and travel allowance registers were incomplete. The Hospital did not maintain an advance acquittal file to keep records of receipts, reports and summaries of cash advances acquitted. Some cash advances were not recorded in the cash advance register. There was no Board in the year 2008 and the Hospital operated without a Board in breach of s 6 of the *Public Hospitals Act 1994* (PNG).

Although the hospital boards of Angau, Modilon, Boram, Madang, Wewak, Vanimo, Alotau, Kerema, Popondetta, Mendi and Port Moresby all attempted to produce timely financial reports for audit, there was not a single hospital that was fully accountable for its operations. The impact of this on all the hospital boards is that it produces more work for employees to rectify accounts and recordings that are incomplete. Further, the lack of full reports and accounts leads to a loss of a sense of priorities for each respective hospital board, leading to frustration in planning, monitoring and targeting of hospital human resources and assets.

**Conclusion**

The findings of this study show that many hospital boards struggled to prepare financial statements for audit. When financial statements were prepared, they were inadequate and the AGO was compelled either to disclaim the statements or qualify them. Common difficulties with the hospital boards’ financial statements were that the records of accounts receivable, accounts payable, advance registers, asset registers, capital commitments, contingent liabilities and medical supplies were either not maintained or were inadequately
prepared, and opening balances of the cash-at-bank account did not correspond to closing balances from the previous year.\textsuperscript{40}

In terms of compliance, it appears that the practice of not sanctioning hospital boards is not working. Ayers and Braithwaite’s\textsuperscript{41} suggestions of persuasion, warning letters, civic penalties, criminal penalties, licence suspension and licence revocation or encouragement may need to be considered. The Minister has the power to withhold half of the national grants appropriate to a hospital board for noncompliance. The Minister might consider using this power.

Further research might consider the perspective of hospital boards on the reporting regulations and consider the boards’ reasons for noncompliance. It should be noted that chief executive officers of hospital boards are given an opportunity to respond to the AGO’s comments. This opportunity, however, is rarely taken up. Further research might seek to determine the perspectives of multilateral aid donors on reporting noncompliance and could consider whether donor funds might be specifically earmarked to improve hospital board reporting compliance.

\textsuperscript{40} AGO (2009), above n 6.

\textsuperscript{41} Ayers and Braithwaite, above n 12.