

Audited Project Financial Statements

Project Number: 43141
Loan/Grant Number: 3069/3070-PNG
Period covered: 01 January 2014 to 31 December 2014

Papua New Guinea: Civil Aviation Development Investment Program – Tranche 2

Prepared by National Airports Corporation

For the Asian Development Bank
Date received by ADB: 06 July 2015

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2014

CADIP ANNUAL PROJECT FINANCIAL STATEMENTS



DOCUMENT AUTHORISATION

Title	CADIP ANNUAL PROJECT FINANCIAL STATEMENTS FOR 2014
Purpose	Issued to AGO and CADIP's Stakeholders for Auditing on the 24 th of March 2015.

Authorisation

This Document has been reviewed and verified in compliance with the Quality System of National Airports Corporation, and is authorised for release for the purpose stated herein.


MANUAI KAMETAN

Program Director

CADIP Project Implementation Unit

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CIVIL AVIATION DEVELOPMENT INVESTMENT PROGRAMME

Project Financial Statements

For The Year Ended 31 December 2014

ANNUAL REPORT OF THE CADIP PROJECT MANAGEMENT

The Program is presenting its Annual Report and the Financial Statements for the year ended 31 December 2014.

ESTABLISHMENT AND PRINCIPAL ACTIVITIES

Civil Aviation Development Investment Programme (CADIP) is established through a loan agreement between the Asian Development Bank and the Government of Papua New Guinea to focus on ensuring the 22 National Airports which carry the bulk of international and domestic passengers and freight traffic throughout the country meet national and international safety and security standards. This loan agreement specifies all activities in which CADIP is responsible for and amongst other things, contributing to achieving the objectives, resulting in the much safer and more efficient all-weather access to air transport services.

RESULTS

CADIP Batch 1 projects are all completed except for Hoskins airport pavement upgrading and the new terminal building at Mount Hagen Airport. Mount Hagen Airport received extra funding approval of K15 million for the completion of the International Terminal upgrade. Hoskins is now set to be completed in August 2015 whilst Hagen is expected to be opened in September 2015.

2014 saw the signing and awarding of four contracts worth K134million. The four contracts are:- Vanimo Pavement upgrade to Global Constructions; - Girua Airport upgrade to China Harbour Engineering Company; - Chimbu Airport upgrade to Shornccliffe and the supply of 9 Fire Trucks to Oshkosh Corporations. Mobilisations have commenced in 2015 with expected project being implemented by April 2015. Goroka Airport upgrades will be awarded in August 2015.

MANAGEMENT AND STAKEHOLDER'S DECLARATION

CADIP's proper accounting records have been kept for the Financial Year Ended 2014 and the Project Financial Statements- Balance Sheet; Profit and Loss Statement and the Statement of Cash Flows for Year Ended 31 December 2014 are reflected as the true and fair results of the project.

For and on behalf of NAC CADIP



JOSEPH TUPIRI
ACTING MANAGING DIRECTOR/CEO
NATIONAL AIRPORTS CORPORATION (NAC)

DATED: 30 June 2015



**INDEPENDENT AUDITORS' REPORT TO THE NATIONAL AIRPORT CORPORATION
CIVIL AVIATION DEVELOPMENT INVESTMENT PROGRAM
FOR THE YEAR ENDED 31 DECEMBER 2014**

Scope

We have audited the attached Profit and Loss Statement, Balance Sheet and Statement of Cash Flows and a summary of significant accounting policies and other explanatory notes contained on pages 6 to 11 (together the 'Summary') reported to the Asian Development Bank (the 'ADB') for Loan No. 2588-PNG, Loan No. 2589-PNG and Loan No. 2590-PNG (the 'Loans') for the Civil Aviation Development Investment Program (the 'Project') for the year ended 31 December 2014. The Summary has been prepared using the basis outlined in the summary of significant accounting policies by the Project Steering Committee (the 'Committee') based on the Loan Agreement dated 28 January 2010 (the 'Agreement') for the Project, using the accrual basis of accounting as described in Note 1.

Steering Committee's responsibilities for the Summary

The Committee is responsible for the preparation and fair presentation of the Summary in accordance with the Agreement, and for such internal control as the Committee determines is necessary to enable the preparation of the Summary that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the Summary to the National Airports Corporation. We conducted our audit in accordance with International Auditing Standards. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Summary is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Summary. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Summary, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Committee's preparation and fair presentation of the Summary 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 Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Committee, as well as evaluating the overall presentation of the Summary.

Our procedures included the examination on a test basis, of evidence supporting the amounts disclosed in the Summary and the examination of whether the amounts included in cash payments have been utilised for the purpose of the Project. These procedures have been undertaken to form an opinion whether, in all material respects, the attached Summary is presented fairly in accordance with the Agreement, using the accrual basis of accounting.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

1. Opening balances

We were unable to obtain sufficient appropriate audit evidence over the completeness, existence and accuracy of the opening balances for cash at bank, GST and IRC receivable balances, Capital Works in Progress, staff advances and current liabilities. Since the opening balances of these accounts enter into the determination of profit and loss and cash flows for the year ended 31 December 2014 any adjustments that are found to be necessary on such opening balances would have a consequential effect on the Profit and Loss and Cash Flows for the year ended 31 December 2014. We were unable to determine whether such adjustments to the Project Summary might be necessary for the year ended 31 December 2014.

**INDEPENDENT AUDITORS' REPORT TO THE NATIONAL AIRPORT CORPORATION
CIVIL AVIATION DEVELOPMENT INVESTMENT PROGRAM
FOR THE YEAR ENDED 31 DECEMBER 2014**

2 Goods and Services Taxes (GST)

Included in the Balance Sheet as at 31 December 2014 is a GST receivable totalling K17,276,379. We have not received a reconciliation to support this balance or been able to complete alternative procedures. As a result we were unable to confirm the completeness and the accuracy of the GST balance included in the Balance Sheet or whether adjustments might be necessary to the Summary as at 31 December 2014.

3 Staff Advance

Included in the Balance Sheet for the year ended 31 December 2014 are Staff Advances totalling K250,933. These payments have not been utilised for the purpose of the Project.

4 Expenses without valid supporting documentation

Included in the Summary for the year ended 31 December 2014 are Project Implementation Unit expenses totalling K9,332,776 that have been funded by the Government of Papua New Guinea. Of this balance we have been unable to substantiate K948,302 and as a result we are unable to determine whether these payments have been utilised for the purpose of the Project for the year ended 31 December 2014, or the existence and accuracy of these items as recorded in the Summary.

Qualified audit opinion

In our opinion:

1. Except for the possible effects of the matters disclosed in the Basis for the Qualified Opinions Paragraphs 1,2 and 4, the attached Summary presents fairly in all material respects, in accordance with the agreement dated 28 January 2010, the Profit and Loss, Balance Sheet and Statement of Cash Flows of the Civil Aviation Development Improvement Program for the year ended 31 December 2014; and
2. Except for the possible effects of the matters disclosed in the basis for Qualified Opinion paragraphs 3 and 4, the amounts included in the cash payments have been utilised for the purpose of the Project for the year ended 31 December 2014.

Basis of accounting and restriction on distribution and use

Without further modifying our opinion, we draw attention to Note 1 of the Summary, which describes the basis of accounting. The Summary has been prepared as required by the Agreement for the purpose of reporting to National Airport Corporation. As a result, the Summary may not be suitable for another purpose. Our report is intended solely for the Steering Committee, the ADB and the Auditor General's Office and should not be distributed to or used by parties other than the Steering Committee or the ADB and the Auditor General's Office.



KPMG Chartered Accountants

A handwritten signature in black ink, appearing to read 'Peter Zabaks'.

Peter Zabaks

Partner

Registered under the Accountants Act 1996

Port Moresby, Papua New Guinea

30 June 2015

BACKGROUND

The Aviation Industry in PNG plays a pivotal role in the changing economic, political and social development in the life of the people and the country as an alternative source of transport where not all parts of the land in Papua New Guinea is reachable. Given the complexity of PNG's topography and terrain which presents major constraints to road constructions, air transport for many parts of PNG is and will continue to be the means that link them to main services and centres of the country.



MT. HAGEN APRIL 2014: Laying of Visqueen Sheet (moisture barrier) in preparation for laying of concrete slab for the New Terminal Building

PURPOSE AND RATIONALE FOR CADIP

The Civil Aviation Development Investment Programme (CADIP) has been developed and adopted by the Government of PNG to revitalise and maintain the country's civil aviation network, mainly the 22 national airports. Its purpose is to ensure airports and air navigational infrastructure is intended to establish a sustainable civil aviation network that supports the growth and economic infrastructure development of PNG. CADIP has been approved by the Government through NEC Decision No.145/2009.

CADIP'S MAIN FOCUS

CADIP's main focus is the 22 National Airports which carry the bulk of international and domestic passengers and freights throughout the country. Its Terms of References and deliverables includes;

- Enabling projects that enhances the safety and security requirements to ensure compliance with ICAO safety and security standards and upgrade capacity to meet future needs and demands
- Design and supervise airport improvement works, prepare and administer long-term airport maintenance systems and contracts for the National Airports
- Monitor the socioeconomic benefits of improved National Airports.

The outcomes from CADIP will establish a sustainable Civil Aviation network that will support the economic growth of the country. This will among other things, contribute to achieving the objectives of the PNG Government's Medium Term Development Strategy in Economic Growth, Fostering Rural Development, Poverty Reduction and Human Resources Development.

The CADIP Program will result in a much safer and more efficient all-weather access air transport services.



HOSKINS APRIL 2014: Compacting of the Shoulders for the Runway Pavement (Batch 1 Project)

NOTES TO THE PROJECT FINANCIAL STATEMENTS

For the Financial Year ended 31 December 2014

Without duplicating the Project Financial Statements, the notes herewith forms an integral part of and should be read in conjunction with the accompanying project financial statements.

PROJECT FINANCIAL STATEMENTS

Balance Sheet

Profit and Loss Statement

Statement of Cash Flows Year Ended 31 December 2014

Notes to the Project Financial Statements

Civil Aviation Development Investment Program	
31 December 2014	
BALANCE SHEET	
ASSETS	
Current Assets	
Travelling Allowance Aquittal	1,325
Prepayments & Staff Advance	250,933
Prepayments	24,388,464
CADIP GoPNG Project - ANZ Airp	4,287,369
Petty Cash	85
2-1330 GST Paid	17,276,379
Total Current Assets	46,204,554
Non-Current Assets	
Office While Goods At Cost	44,744
Office Electrical Supplies	6,541
Accounting Software FMIS	94,526
Project Motor Vehicle Purchase	561,840
Furniture & Fixtures at Cost	10,063
Office Computers & Supplies	258,161
Office Mobile Supplies	7,051
Office Improvements at Cost	243,616
Property plant and equipment (Adjustment)	(25,003)
Property plant and equipment (Accumulated depreciation)	(669,134)
PPE CADIP Assets	532,406
POM Domestic Apron GoPNG Funde	13,421,867
POM Domestic Apron ADB Funded	24,358,585
Hoskins Pavement & Ass GoPNG F	7,141,903
Hoskins Pavement & Asst ADB F	34,857,086
MT HGN PVMT UPG GoPNG Funded	9,324,885
MT HGN PVMT UPG ADB Funded	25,026,660
Kavieng Fencing GoPNG Funded	747,748
Kavieng Fencing ADB Funded	5,314,261
Fencing Pack Wewak GoPNG Funde	1,014,339
Fencing Pack ADB Funded	29,911,922
Fencing Pack Hoski GoPNG Funde	1,470,184
Fencing Pack Gurne GoPNG Funde	1,232,655
Fencing Pack GKA GoPNG Funded	2,164,912
POM ILS GoPNG Funded	613,399
POM ILS ADB Funded	2,511,635
POM Fire Trucks GoPNG Funded	526,796
POM Fire Trucks ADB Funded	5,847,378
CNAC-Equipment-GoPNG Funded	263,685
CNAC-Equipment-ABD Funded	274,004
DSC Capital Project	8,506,700
Accumulated depreciation - capital projects	(5,382,843)
Total Project Assets	169,147,760
Total Non-Current Assets	169,680,166
TOTAL ASSETS	215,884,720
LIABILITIES	
2-1200 Trade Creditors	(25,145,344)
2-1405 Staff Payroll Clearing	(44,261)
2-1406 Staff Superannuation Clearing	(37,950)
2-1407 IRC Group Tax Payable	(23,113)
2-1600 Customer Deposits	(235)
Total Liabilities	(25,250,903)
Net Assets	190,633,818
EQUITY	
3-8000 Retained Earnings	(113,409,770)
Current year profit	(77,223,948)
3-9999 Historical Balancing	(100)
Total Equity	(190,633,818)

Civil Aviation Development Investment Program	
31 December 2014	
PROFIT & LOSS STATEMENT	
GoPNG 1st Quarter	(13,128,000)
GoPNG Second Quarter	(1,097,000)
GoPNG Third Quarter	(3,012,000)
GoPNG Fourth Quarter	(8,763,000)
GoPNG Funding	(26,000,000)
ADB Direct Project Hoskins PV	(23,300,457)
ADB Direct Project Hagen PV	(14,082,401)
ADB Direct Vanimo Pave & Ass	(7,272,261)
ADB Direct Girua Pave & Ass	(4,937,872)
ADB Direct Chimbu Pave & Ass	(3,286,979)
ADB Direct Supply F/trucks B2	(3,550,278)
ADB Direct DSC BECA	(4,102,994)
Project Bid and Tender Fees	(22,936)
Project Other Fees	(544)
Total ADB Funding	(60,556,723)
Total Funding Revenue	(86,556,723)
Office Expenses	6,531
Office Display Advertisements	2,375
Staff Relocation	9,716
Superannuation	64,984
Superannuation Employer Contri	5,376
Wages & Salaries	1,609,482
Sal & Wages - Overtime	22,146
Expat Consultant's Remuneratio	772,888
Seconded NAC Allowance	3,600
Salary & Wages Casual	4,030
Consultants Local Hire	43,375
Other Employer Expenses	834
Employment expenses	(14,348)
CB - Airfares Overseas	59,539
CB-Travelling Domestic	10,541
CB-Accomodation O'Seas	28,852
CB-Accomodation Domestic	24,415
CB-Transport Expenses	6,136
CB-Travel Allowances	53,407
CB-Training & Development	143,758
CB Training & DEV NAC	260,007
CB Training & DEV PNGASL	366,794
CB-All Other Expenses	10,155
Capacity Building expenses	51,687
Project Travel Accomodation	89,386
Project Travel MV Hire	74,979
Project Travel Allowance	117,013
Project Travel Airfares	165,671
Project Meetings & Venue Hire	30,606
Project LO-Compensation_Others	6,163
Project Surveying & Drafting	106,836
PM Other Costs	53,954
Project Costs Geotechnical Ser	61,071
Project Costs Batch 2 Costs	8,000
Project expenses	164,314
Security Costs	13,216
Advertising	266,455
Motor Vehicle Expenses	273,843
MV Fuel & Lubricants	4,147
Dues & Subscriptions	37,426
Insurance	2,623
Legal Fees	23,000
Maintenance	23,793
Office Supplies Staff Use	2,877
Office Supplies Consumables	312
Office Printing Consumables	40,766
Office Stationary	8,609
Office Systems & Softwares	4,180
Postage & Shipping	3,797
Telephone	10,936
Electricity	250,000
Water	50,000
Internet & IT Expenses	21,120
Banks TT Associated Fees	1,147
Depreciation expenses - PPE	194,564
Depreciation expenses - Capital Projects	3,438,535
Administrative expenses	237,156
Total Expenses	9,332,776
CURRENT YEAR PROFIT	(77,223,948)

Civil Aviation Development Investment Program		
31 December 2014		
STATEMENT OF CASH FLOWS	PGK	
Opening Cash balance as at 31 December 2013		798,820
CASH FROM OPERATING ACTIVITIES		
Cash received from NAC (Debtors)	2,000,000	
Cash received from GoPNG	26,000,000	
Other cash received	23,480	28,822,300
<i>Less</i>		
Operating costs paid	- 5,699,677	23,122,623
CASH FROM INVESTMENT ACTIVITIES		
ADB direct funding (Paid direct to suppliers)	60,556,723	83,679,347
<i>Less</i>		
Capital project costs (Includes ADB funded cost)	- 79,391,978	4,287,369
Closing cash balance as per bank statement		4,287,369

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparations

The projects financial statements have been prepared in accordance with the Generally Accepted Accounting Principles (GAAP) under the Accrual Basis Accounting in line with National Airports Corporations Limited's Financial Management and Reporting with the exception of grant Income and capital project costs as outlined below.

CADIP receives its revenue from the GoPNG and in 2014 the ADB component of funding which are paid directly to contractors have been brought into account and reflected as Income in the 2014 Financial Statements. This is on the basis that the Loan Agreements of Loan Numbers 2588, 2589, 2590 (Batch 1) and 3069 and 3070 (Batch 2) have been signed with the GoPNG and ADB thus, is an Income to CADIP.

The income is recognised once the Government and ADB make the payment whilst the expenses and assets are recognised upon receipt of invoice from the contractors for progressive claims on project deliverables therefore becomes a liability as a commitment to each stages of contract obligations has occurred.

The accounting policy has been applied consistently throughout the period.

2. REPORTING ENTITY

The Financial Statements are for Civil Aviation Development Program (CADIP) which is aimed at revitalising and development of the 22 National Airports in compliance with the required safety and security standards with the Batch 1 coming to near completion and the Batch 2 projects have since been rolled out in 2014. There is a total of 4 Batches at an estimated cost of K1.2billion (USD\$640mill) and is funded in partnership with ADB and GoPNG.

These financial statements encompasses the reporting requirements as specified in the relevant legislation in Section 19 (4) (d) of the Public Finances Management Act 1995, the ADB's best Procurement Guidelines including Lump Sum payment procedures for travelling allowances and in accordance with CADIP Project Trust Agreement dated 8th February 2010.

3. REPORTING CURRENCY

The Financial Statements are presented in PNG Kina (K) (PGK) – all transactions are presented in PGK.

4. DEPRECIATION

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the

lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Leasehold land is not depreciated.

The depreciation rates used for each class of asset are as follows:

Equipment	20%
Capital projects	4%
Instrument Landing System (ILS)	10%

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

5. NOTES TO THE PROJECT FINANCIAL STATEMENTS

BALANCE SHEET

a. Assets

- i. Current Assets totals to K46,204,554 and comprises mainly of Prepayments of K24,388,464 which are contracts awarded and paid over time and GST paid to date of K17,276,379. Cash at Bank as at 31 December 2014 K4, 287,369 after taking into account unrepresented cheques of K5, 448 at the end of the year.

- ii. Non-Current Assets

Total non-current assets totals to K169, 680,166 and is comprised of

1. PPE K532,406
2. Capital Projects - K169,147,760

Total Assets arrives at K215, 884,720

b. Liabilities & Equity Account

- i. The Trade Creditors of K25, 145,344 reflects the total outstanding accounts as at 31 December 2014 and includes both the GoPNG and ADB Portion of payments processed in 2015 FY from both Batch 1 outstanding invoices and Batch 2 Advance Payments.
- ii. The total Equity K190,633,818 reflects Retained Earnings and the current year profit which also equals the net assets of NAC in the CADIP project.

PROFIT & LOSS STATEMENT

c. Income

- i. Total Income of K86, 556,723 is comprised of GoPNG's total appropriation of K26, 000,000 and ADB's direct payments to contractors totalling to K60, 556,723.

STATEMENT OF CASHFLOW

d. NAC Debtors

- i. The NAC debtors received by CADIP in FYE 2014 reflects a K2, 000,000 payment for 2013 FYE Appropriations that were incorrectly paid into NAC Projects Accounts.