

NATIONAL SUPERANNUATION FUND

1999 Annual Report

BOARD OF TRUSTEES

JIMMY MALADINA, LLB

Jimmy was appointed to NPF Board in January 1999 as an employer representative and became the Chairman of NPF Board in the same year. Jimmy a lawyer by profession has held senior positions in various law firms and other executive roles in mining, petroleum and financial institutions.

CLEMENCE KANAU

With a trade union background, Clemence was appointed to NPF Board as an employee representative in February 1999.

NATHANIEL POYA

Nathaniel serves on the NPF Board as a representative of the employer. He was appointed as one of the Trustees in January 1999.

JOHN G. JEFFERY

John sits on the NPF Board as an employer representative since his appointment in June 1999.

A NPF Trustee is not only the executive post John has been entrusted with. He was an Executive Committee of Employers Federation of PNG before being chosen as its current President, served as Chairman and the current Deputy Chairman of Madang Club Inc.

John has an education background in food technology. He is now the General Manager for James Barnes PNG Limited.

HENRY T. FABILA, MBE

Henry was formerly the Managing Director for PNG Banking Corporation before his appointment as NPF's Managing Director.

He holds directorship of organisations including Bank of South Pacific Limited, Cue Energy Holdings Limited, Macmin NL, Steamships Company Limited, Crocodile Catering Limited, Amalpack (PNG) Limited and Ambusa Copra Oil Mill Limited.

With vast experience in banking industry, Henry was awarded a PNG Independence Medal in 1982. He was later awarded the Member of British Empire medal for his services to banking and community.

TAU NANA MBE

Tau is an employer representative on the NPF Board following his admission in February 1996.

He joined the PNG Employers' Federation in 1974, and worked his way up to the current position of Executive Director.

Tau was a former member of the Minimum Wages Board in 1976, 1989 and 1992 respectively. In 1992, he was an alternate member representing Employers' Federation on the PNGIPA Council.

HENRY LEONARD

He was instrumental in the formation of Misima Mining Workers Union and its registration in 1991. His role earned him the union's General Secretary position, of which he holds to date.

In recognition of his trade union involvement, Henry Leonard was nominated to NPF Board as an Employee Representative.

Henry graduated with a Bachelor of Agricultural Science from UPNG in 1985. His career as a Scientific Officer with the Department of Agricultural and Livestock began in 1986. Four years later, Henry resigned and returned to home to Misima Island in Milne Bay Province.

JOHN PASKA

He regards himself as a 'true trade unionist' after many years of active involvement in the movement. John Paska is the current General Secretary of the PNG Trade Union Congress.

Among his dedication to unions, John is a board representative of several organisations including the PNG Apprenticeship Board, the PNG Foundation for Law, Order and Justice, PNG Halfway House Board and the International Confederation of Free Trade Unions/Asia Pacific Regional Organisation Board.

John was appointed in 1996 as employee representative on the NPF Board for a three-year term.

TREASURY MINISTER'S STATEMENT

Dear Members,

The contents of this report show clearly that the National Provident Fund is facing very severe problems which are affecting your individual accounts and the performance of the fund as a whole.

I will not dwell on the problems, as they are dealt with in the Managing Director and the Chairman in their statements. But I will say that these difficulties have been caused by many failures in the processes and systems of the Fund.

Officers have failed to fulfil their statutory responsibility moral duties. There has been an almost total breakdown in operational procedures.

Checks and balances that ensure accountability have been ignored. There is evidence to show that laws may have been broken.

Management of the fund has begun the long and difficult task of restoring to you the financial performance required. It has begun investigating the failures that led to the losses you are experiencing. It has sought legal advice to bring to justice those responsible.

The fund's performance and the failings that caused it are unacceptable to the Government. As part of the privatisation process, the Government will prepare legislation to regulate and liberalise the superannuation sector in Papua New Guinea.

This legislation will ensure that fund Trustees, Management and Board in every part of the industry are subject to the most rigorous monitoring possible and that fund processes and decisions are fully accountable and transparent.

It will introduce competition in the industry so it will ensure that fund performance matches the world's best. It will ensure that the best practices from overseas are brought in to Papua New Guinea.

The Government is committed to preventing the failings and excesses that have occurred within the National Provident Fund from happening again and to ensuring that members get the returns they are entitled to.

Hon. Sir Mekere Morauta Kt MP

Prime Minister & Minister for Treasury & Finance

MANAGING DIRECTOR'S STATEMENT

The year 1999, is the worst year NPF has seen in its near 20-year history. The magnitude of the problems accumulated over a number of prior years and manifesting itself fully in 1999 has left the fund at the cross-roads. Severe write downs in members accounts sometime in 2000 is but a surety and strong leadership will be required to keep membership faith over what is going to be a difficult rebirth during 2000. The most depressing finding is that one wonders what previous management's were doing to keep the fund in tune with key objectives like client servicing, information based technology, sound investment practices and strong and rigorous accountability/transparency regimes. None were present when the new management took over. NPF is indeed coming off a very low base and both the Board and management must not waiver in its goal of bringing NPF up to worlds best practice in all aspects of the business.

The interest rate environment has been extremely hard for all businesses in PNG and NPF is not excluded. At interest rates of 20% and above, NPF has been faced with tight cashflow over the last six months. It is therefore not surprising that by far the most pressing issue has been debt reduction, especially when K60 million is supporting the Tower, a non income-producing asset for the next two years. The \$54 million Australian dollar facility now reduced to under Aud \$100,000 gave rise to serious currency related issues as well. Thankfully, hard work and persistence has meant that NPF is now well ahead of schedule for full debt elimination by December 2000.

You will be asking by now if you have not read previous discussions by NPF, on how the asset base deteriorated so rapidly. While there is a myriad of contributing factors, the central theme is as follows. The previous Board and management embarked on a very expansionary growth strategy built on borrowed capital. Many of the assets purchased with borrowed capital were equities with strong resource exposure and with no income generation through dividends to meet the interest cost. Over 1998 and early 1999 resource markets generally came under strong downward pressure, with rising interest rates and a falling Kina. The end result of the NPF equity portfolio was a number of very large positions in very illiquid assets and it has taken considerable time to sell these assets to retire debt. The other major asset built solely on borrowed money was the Tower- to the amount of K60 million with an interest bill of approximately 12 million per annum. Why the previous Board embarked on borrowing

strategies, ignored investment guidelines and was advised incorrectly on cash flow and the risk profile of the fund by the previous management is not for this discussion. Needless to say certain individuals are under investigation and further developments on this will be forthcoming later on this year.

The problems faced by NPF over the year has been met with very strong resolves by the Board and Management to date and this augers well for the coming year, if government support can be maintained and harnessed. The measures implemented over the year can be summarised as follows

Investments

- Full investment transaction ledgers established
- Debt reduction from over K150 million to under K40 million in an environment of increasing debt to complete the Tower or
- From near 50% debt to equity to under 20% debt to equity ratio
- Debt servicing down from forward projection K19 million p.a to 7 million p.a
- Resolution of no new borrowings after the elimination of NPF's current debt
- Monthly cashflow projections established
- Implementation of the balance portfolio objective
- Establishment of a mission statement and fund objectives

MANAGING DIRECTOR'S STATEMENT (Cont.)

- Establishment of an investment committee based on bottom up decision making
- Establishment of modern investment guidelines based on Australian practice.
- Targets for debt elimination
- A more balanced portfolio as we reduce debt
- Reduced risk exposure to the fund
- Submissions to the Government re outstanding interest favourably received and being enacted upon
- Submissions to the government re validation of guarantees on loan stock progressing but unfortunately slow and costing NPF contributors.
- Strategy devised on Crocodile Catering
- Clamp down on rorts exposed in Housing Advance rules
- Write down of all non performing assets

Expenses

- New budgets with 17% reduction in expenses planned over 2000
- Targets established for expense reduction going forward
- Reduction in staff numbers from 96 to 84 with a plan of 75 by December, 2000

Accountability and Transparency measures

- Establishment of Audit & Remuneration Committee with an external appointment as Chairman from Price Waterhouse Coopers with wide ranging reporting functions and powers
- Establishment of a code of conduct for all employees and as a condition precedent to their employment
- Re introduction of tendering process
- Removal of conflicts of interest
- Board endorsement of strict payments, allowances and entitlements to Board members
- New cheque signing authorities to remove conflicts of interest
- New Board meeting procedures to recognise conflicts of interest of Board members and management staff
- Deliberate engagement with the media and membership informing both of the difficulties currently faced at NPF
- Establishment of 11 Board meetings each year

- Management objectives for all senior staff
- Establishment of a Seal Register, with mandatory tabling at each Board meeting
- Issuing of receipts quarterly to employers for contributions received
- Re introducing issuing of quarterly statements to members.

Legislative Initiatives

Draft legislation prepared for

- Removing government control of the NPF Board and there by remove public perception of interference
- Acceptance of a regulatory need by government
- Allowing the Chairman and managing director to be chosen by the board
- Enshrining the Audit & Remuneration Committee in the Act, not just by board resolution
- Reducing the retirement entitlement period from 55 years to 50 years
- Removing some of the forfeiture provisions that adversely effect the membership

MANAGING DIRECTOR'S STATEMENT (Cont.)

Accounting

- Contribution bank account, which was unreconciled for 18 months now, reconciled. This was the major hold up for the 1998 accounts being delayed.
- 1997 accounts issued and outstanding matters re-equity accounting and Bank of Hawaii transaction resolved
- The 1998 accounts completed and sent to the Auditor General.

Client Service

Establishment of a client service division solely devoted to meeting the needs of the membership with the result that

- Withdrawals are now being processed in a more controlled environment
- Faster payments
- Reduction in queues at Boroko to an average waiting time of under 10 minutes
- Introduction of staff multi-skilling to handle all types of claims and ability to shift staff into areas to meet peak period demands

Operations

- Five-day turn around of all claims as long as full information provided. Down from 17 working days
- Reduction in staff due to efficiencies
- Introduction of check lists to help employers and members meet all claim information requirements.
- Unallocated contributions down from K33 million to approximately K600,000
- Unallocated Contributions reconciled with program built to print out by employer
- Compilation of a user manual started for the contributions system
- Upgrade of memory on our data system to allow faster processing.
- Membership card backlog down from 12,000 outstanding to 3,000 outstanding

Reports undertaken

- Accounting firm, Price Waterhouse Coopers review of the Fund January, 1999
- Accounting firm, Price Waterhouse Coopers review of the Fund November, 1999
- Instigation of a Special Audit undertaken by accounting firm KPMG on bequest of the Prime Minister commencing December 1999.
- Financial Investigations from the Finance Department, July, 1999
- NPF Management investigations June, 1999 and October, 1999

MANAGING DIRECTOR'S STATEMENT (Cont.)

Other

- A successful defeat of an illegal attempt by Finance Pacific Limited to take control of the management of assets of NPF and absorption into their operations.
- A plan going forward for full debt elimination, client service phone in centre, a revamped Compliance area and a strengthened Accounting Area
- A plan going forward for the sale of The Tower.
- Y2K successfully implemented

"The road to NPF runs through many lives, working together we will once again all arrive."

So where do we go from here? NPF Board and Management will keep members informed as we go forward together. The story of the past year as you can see is not all gloom, nor was it unfortunately glowingly positive. We have attempted to show you as frankly as possible the situation we faced, the situation at present, and for the future we can draw much comfort that the lion share of the debt has been extinguished and will be fully eliminated during the course of this year. We can also draw further comfort that expenses are under control and the necessary rigors are now in place to ensure that accountability, transparency and common sense investing is the order of the day going forward. We also know that supporting NPF is supporting the national interest and that this strengthened institution is a vital cog in the wheel of capital formation in this country. In this respect we must not get emotive and seek solutions that have a negative impact on the progress of the country and the national interest. So as I can clearly say that NPF's sun and feast days have been overtaken by abstinence and truth, the light of restoration and integrity is clearly now with us. We can now only ask for you to have faith, to renew the partnership with us on infinitely better terms than previous and that you persevere with us as we ride the wave of renewal through the year 2000 and beyond.:- And I promise you that the Board, Management and I have only one purpose on our minds – insuring your interests remain paramount.

Henry T Fabila MBE
Managing Director

AUDITOR GENERAL'S STATEMENT

The Auditor General's Office
P O Box 423

WAIGANI

National Capital District

12 April 2000

Dear Sir,

Audit of The National Provident Fund of Papua New Guinea ("Fund") for the year ended 31 December 1999

Scope

In accordance with Section 8(4) of the Audit Act 1989 (as amended) we have audited the accompanying financial statements of the National Provident Fund of Papua New Guinea for the year ended 31 December 1999, consisting of the statement of net assets, operating statement, cash flow statement and notes as set out on pages 12 to 27, submitted by the Board under Section 63(4) of the Public Finances (Management) Act 1995.

Respective responsibilities of the Fund's board of trustees and auditors.

The Fund's trustees are responsible for the preparation and presentation of the financial statements and the information they contain. Our responsibility is to perform an audit of these financial statements in order to express an opinion on them to the Auditor-General.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing except that the scope of our work was limited as explained below. International auditing standards requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

These procedures have been undertaken to form an opinion whether, in all material respects, the financial statements have been prepared in accordance with the relevant accounting standards as adopted by the Accounting Standards Board of Papua New Guinea ("ASB") and present a view which is consistent with our understanding of the Fund's financial position, the results of its operations and its cash flows. The ASB has adopted International Accounting Standards and Interpretations issued by the Standing Interpretations Committee as the applicable reporting framework. The audit opinion expressed in this report is formed on the above basis.

Year 2000 Disclaimer

Neither our audit of the Fund's financial report for the year ended 31 December 1999, nor any reviews or other services provide any assurance, nor will we express any opinion that the Fund's systems or any other systems such as those of its vendors, service providers, customers, associates or joint ventures in which the Fund has an investment or third parties are Year 2000 compliant, nor will we express any opinion or provide any assurance with respect to these matters.

AUDITOR GENERAL'S STATEMENT (Cont.)

Qualified audit opinion - Members' accounts - Interest allocated to members of K20.1 million in 1998

In 1998 the trustees did not comply with National Provident Act and Rules in respect of the allocation to members of interest. Rule 31 of the National Provident Fund Rules stipulates that interest can only be allocated to members if there are sufficient funds held in a designated "interest suspense account". This account records "all interest, rent and all other income realized, and net profits or losses (if any) from the sale of investments". The trustees awarded a 11% interest award to members for the financial year ended 31 December 1998. As can be seen from note 14 and 15 the Fund recorded losses in 1998 and therefore the allocation of credit interest to members was contrary to the rules and as a consequence individual members' accounts recorded are overstated as at 31 December 1999 and 1998.

Qualified audit opinion - Prior year qualification in respect of bank overdraft and accounting for members' funds

Our audit opinion in 1998 was qualified. During the course of our audit of the financial statements for the year ended 31 December 1998 a number of weaknesses in the Fund's accounting systems were identified. Significantly, we identified that in 1998 key balance sheet reconciliations were not prepared properly throughout the period nor were they performed in a timely manner. This failing in 1998 in the Fund's accounting procedures necessitated management with the assistance of a firm of external accountants to reperform reconciliations for the Fund's bank accounts.

As a consequence of the break-down in the Fund's internal control procedures in this area, the bank reconciliation was difficult and time consuming. Following these reconciliations material adjustments were identified and these have been accounted for in the comparative figures in the attached financial statements. However due to the nature of certain of these adjustments, as at 31 December 1998 management had yet to allocate approximately K9.5 million of net debit items and as a consequence our opinion on the opening balance figure of K250 million (see note 14, page 23) recorded as funds allocated to individual members was qualified as we were unable to obtain sufficient audit evidence concerning the completeness and accuracy of accounting for individual members' accounts. In 1999 the unallocated net debit items of K9.5 million have been allocated.

Our opinion is also qualified in respect of the 1998 comparative bank overdraft balance recorded in the financial statements at K6,770,000. Due to the poor maintenance of accounting records in 1998 and difficulty in establishing a full audit trail it was not possible for us to perform the auditing procedures necessary to obtain sufficient appropriate audit evidence to confirm the accuracy of the comparative 1998 bank overdraft balance recorded.

Qualified opinion as a result of the non-compliance with the National Provident Fund Act and Rules concerning the power to borrow
The total borrowings as at 31 December 1999 are K37.4 million (1998; K135.6 million). The Fund has obtained a legal opinion on this matter that indicates the Fund is in breach of the National Provident Fund Act and Rules.

Qualified opinion arising from limitation in scope concerning disclosures within the operating statement (page 12) Included in the operating statement for the year are exchange losses of K24.1 million and an adverse movement in market value of investments of K54.7 million. Due to the poor maintenance of accounting records and difficulty in establishing a full audit trail it was not possible for us to perform the auditing procedures necessary to obtain sufficient appropriate audit evidence to confirm the accuracy of these balances. If we had been able to obtain sufficient audit evidence concerning these items to determine whether the recorded amounts were correct or not, any consequent adjustments to these disclosures would not have an impact on the overall operating deficit for the year of K84 million. Any adjustment would have a compensating effect on the amount disclosed as exchange losses and net movement in market value of investments.

AUDITOR GENERAL'S STATEMENT (Cont.)

Qualified Audit opinion

In our opinion, except for the matters referred to above;

(a) The financial statements of the National Provident Fund of Papua New Guinea for the year ended 31 December 1999

(i) comply with generally accepted accounting practice; and

(ii) the financial statements are based on proper accounts and records and are in agreement with those accounts and records and show fairly the state of affairs of the Fund as at 31 December 1999 and of the results of its operations and cash flows for the year ended on that date; and

(iii) In respect of the Fund's investment portfolio proper accounting records were not kept during the year sufficient for us to determine the accuracy and completeness of exchange losses and net movements in market value of investments.

Emphasis of matter

Going Concern

In forming our opinion, we have considered the adequacy of the disclosures made in notes 1b and 20 and within the Joint Statement by the Chairman and Managing Director concerning the uncertainty surrounding the going concern of the Fund resulting from the poor financial performance of the Fund and the consequent fall in value of the net assets of the Fund. In view of the significance of the uncertainties we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

Investment Portfolio

The Government has established investment guidelines to assist the Fund manage its investment risk through the adoption of a prudent balanced investment portfolio. As indicated below the trustees have not adhered to the recommended investment guidelines during the year ended 31 December 1999.

Asset category	Minimum % per Guidelines	Maximum % per Guidelines	% per NPF as at 31 December 1999
Equities	20	35	26
Government Securities	30	40	49
Interest Bearing Deposits	10	20	0
Loans	10	25	0
Property	20	30	24
International	0	0	0

We consider that the fact that the Fund's portfolio does not comply with recommended guidelines should be drawn to your attention but our opinion is not qualified in this respect. In accordance with the Public Finances (Management) Act 1995, Ministerial approval has been obtained by

the trustees in respect of the Fund's investments. However, in our view the ability of the trustees to over-ride the investment guidelines by this mechanism represents a significant weakness in the current regime. It provides for potential conflicts of interest and political interference by Government in the operations and investments of the Fund and which may be inconsistent with the interests of the members.

Net Cumulative Fund losses recognised in 1998 and 1999 and charged against Members' accounts

We draw your attention to notes 14 and 21. The total members' Funds as at 31 December 1999 are K249.3 million (1998; K250 million). As a result of losses incurred in 1998 and 1999, the cumulative losses at 31 December 1999 are K125.3 million (1998; K41.3 million). As can be seen from note 14, these losses have been set against members' funds.

A working committee representing all interested parties has been set up to determine the precise mechanism of how the losses should be allocated and to ensure that the most fair and equitable treatment is determined. The trustees have indicated that before any decision is reached, the Fund intends to seek the ruling of the National Court. In view of the significance of this matter I consider that it should be drawn to your attention but our opinion is not qualified in this respect.

Mark Wani, MBE

Auditor General

MANAGEMENT DECLARATION

Dear Sir

DECLARATION BY MANAGEMENT

In our opinion the Funds' accounts set out on pages 13 to 29 are drawn up so as to give a true and fair view of the state of affairs as at 31 December 1999, and the deficit before distribution for the year ended on that date, of the National Provident Fund Board of Trustees so far as they concern members of the National Provident Fund.

Except as disclosed in the attached statements or in notes thereto, we are of the opinion that:

- a) The results of the National Provident Fund Board of Trustees' operations for the period have not been materially affected by items, transactions or events of an abnormal or extraordinary nature;
- b) No circumstances have arisen which would render any amount shown in the statements misleading;
- c) The current assets of the National Provident Fund Board of Trustees, including debtors, are expected to realise the full value at which they are carried at in the statements in the ordinary course of business;
- d) Fixed assets to the value shown in the statements, were in existence at 31 December 1999, and
- e) All contingent liabilities that would materially affect the ability of the National Provident Fund Board of Trustees to meet its obligations as and when they become due have been disclosed in the statements.

Yours faithfully

JIMMY MALADINA

Chairman

HENRY FABILA

Managing Director

STATEMENT OF NET ASSETS

	Note	1999 K'000	1998 K'000
Investments			
Government securities and other loans	5	81,299	45,795
Interest Bearing Deposits	6	133	69,547
Shares	7	42,715	211,637
Investment properties	8	38,233	22,971
		<u>162,380</u>	<u>349,950</u>
Other assets			
Cash		2	-
Interest receivable		3,062	1,137
Dividends receivable	10	179	2,556
Sundry debtors and prepayments	9	697	545
Property, plant and equipment		3,175	3,517
Deferred tax assets		-	-
		<u>7,115</u>	<u>7,755</u>
Total assets		<u>169,495</u>	<u>357,705</u>
Liabilities			
Bank overdraft		5,467	6,770
Sundry creditors and accruals		1,174	1,594
Provisions for employee entitlements		321	296
Interest bearing loans and borrowings	19	37,434	135,699
Interest payable	11	7	3,835
Taxes payable	12	1,059	707
Deferred tax liabilities	13	-	-
Total liabilities		<u>45,462</u>	<u>148,901</u>
Net assets		<u>124,033</u>	<u>208,804</u>
Represented by	14		
Members' accounts	15	124,033	208,804
General reserve		-	-
		<u>124,033</u>	<u>208,804</u>

For and on behalf of the board of trustees

The statement of net assets is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 16 to 29.

OPERATING STATEMENT

		1999	1998
	Note	K'000	K'000
Net investment (deficit) / surplus			
Interest Income		13,828	16,360
Dividend Income		991	6,243
Property Rentals		790	1,349
Movement in net market value of investments	2(a)	(54,716)	(68,264)
Exchange losses		(24,138)	(8,043)
Interest on loans		(13,472)	(13,923)
Direct investment expenses		(2,442)	(584)
		<u>(79,159)</u>	<u>(66,862)</u>
Other income		433	511
Sundry Income	2(b)	1,215	(706)
Movement in net market value of other assets		1,648	(195)
Expenditure			
Rental expenses			
Staff related expenses		(493)	(790)
Board expenses		(2,905)	(2,589)
Other administration expenses		(211)	(82)
		(2,904)	(2,955)
		<u>(6,513)</u>	<u>(6,416)</u>
Net operating (deficit) before income tax		(84,024)	(73,473)
Income tax credit / (expense)	4	-	2,482
Net operating (deficit) after income tax		(84,024)	(70,991)
Interest credited to members accounts		-	(20,113)
(Deficit) transferred to Members Accounts, 1998 to General Reserve (see note 15)	14	<u>(84,024)</u>	<u>(91,104)</u>

The operating statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 16 to 29.

CASH FLOW STATEMENT

	Note	1999 K'000	1998 K'000
OPERATING ACTIVITIES			
Interest received			
Rent received		11,903	18,630
Dividends received		790	1,349
Other fees received		3,368	3,687
Payments		433	511
Taxation		(12,966)	(12,070)
		-	(2,910)
		<u>3,528</u>	<u>9,197</u>
Cash flows from operating activities			
INVESTING ACTIVITIES			
Purchase of plant and equipment			
Proceeds from sale of plant and equipment		(447)	(2,803)
Purchase of shares		-	140
Proceeds from sale of shares		-	(36,150)
Other investments		115,031	11,055
Loan repayments		3,525	939
Purchase of government securities		(119,328)	-
Proceeds from government securities		-	(17,102)
Payments for work in progress		26,215	-
Interest paid		(17,268)	(34,023)
		(17,300)	(10,088)
Cash flows used by investing activities			
FINANCING ACTIVITIES			
Proceeds from borrowings		-	52,369
Broker account movement		-	-
Contributions received		51,352	44,189
Withdrawals paid		(52,099)	(39,439)
		(747)	57,119
Cash flows from financing activities			
Net (decrease) increase in cash and cash equivalents		(6,791)	(21,716)
Cash and cash equivalents at beginning of the year		1,459	23,175
Cash and cash equivalents at end of the year 19		<u>(5,332)</u>	<u>1,459</u>

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 16 to 29.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR 1999

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements of National Provident Fund ('the fund') have been prepared in accordance with the accounting standards as adopted by the Accounting Standards Board of Papua New Guinea (ASB). The ASB has adopted International Accounting Standards and Interpretations issued by the Standing Interpretations Committee as the applicable reporting framework.

(b) Basis of preparation

The financial statements have been prepared primarily on the historical cost basis, however market valuations have been used in accordance with International Accounting Standard 26, Accounting and Reporting by Retirement Benefit Plans (IAS 26) where appropriate.

No distinction has been made between the non-current and current nature of assets and liabilities in the Statement of Net Assets Available for Members.

The accounting policies have been consistently applied by the Fund and they are consistent with those of the previous year except that no consolidated accounts have been prepared on the basis that the inclusion of the operating results of companies controlled by the Fund is not appropriate.

The Fund's financial statements have been prepared on a going concern basis (refer note 20).

All figures are rounded to the nearest thousand Kina.

(c) Members accounts

Contributions are accounted for, and members' accounts credited with their contributions and employers contributions, on a cash basis based on the receipt of reconciled contribution schedules.

Accounting for interest credited to members' accounts is in accordance with Section 40 of the National Provident Fund Rules 1981 as follows;1. Interest credited to members is on the basis of the period to which the contributions relate;2. The rate of interest is determined by the Board of Trustees every year and is calculated on the opening balance of the members' accounts.

Members' contributions forfeited under Section 53 of the National Provident Fund Rules 1981 are credited to the general reserve.

(d) Foreign currency

The reporting currency adopted in the preparation of the financial statements is the Papua New Guinea currency, the Kina. Transactions in foreign currencies are recorded at the exchange rate at the date of the transaction. Foreign currency monetary assets and liabilities are translated at the exchange rate at the balance sheet date. Resulting exchange differences are recognised in the profit and loss account for the year. Non-monetary assets and liabilities denominated in foreign currency are recorded at the exchange rate at the date of the transaction.

(e) Investment assets

In accordance with IAS 26, investment assets are included in the Statement of Net Assets Available for Members at net market value as at the balance date and movements in the net market value of investment assets are recognised in the Operating Statement in the periods in which they occur.

(f) Property, plant and equipment

Items of property, plant and equipment are stated at original cost or at valuation less accumulated depreciation and impairment losses.

Construction cost for self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of construction overheads.

Depreciation is provided on cost or revalued amount of all fixed assets, including buildings so as to write off the assets progressively over their estimated useful lives. Fixed assets are first depreciated in the year of acquisition, or, in the case of construction, in the year of substantial completion of the asset.

The straight line method of depreciation is used and the rates of depreciation are :

Buildings and construction	2 – 3 %
Office equipment	10 %
Furniture & fittings	7.5 %
Motor vehicles	20 %
Computer equipment	25 %

(g) Trade and other receivables

Trade and other receivables are stated net of provisions.

(h) Interest bearing loans and borrowings

Interest bearing loans and borrowings are initially recorded at the net proceeds received. Any discount, premium or other difference between the net proceeds and the redemption value is amortised and included in finance costs over the term of the loan.

If debt is repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the Operating Statement.

(i) Provisions

Provisions are recognised when the Fund has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(j) Taxation

Tax on the surplus or deficit for the year comprises current tax and the change in deferred tax.

Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted by the balance sheet date, and any adjustment of tax payable for previous years.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes.

(k) Deferred expenditure

Housing subsidies are available to all employees under the NPF Housing Scheme. The subsidies advanced prior to 31 December 1993 are amortised on a straight line basis over five years from the date the subsidy was advanced to the employee. All subsidies advanced after 1 January 1994 are also amortised over a five year period with 50% amortised in both years four and five.

(l) Revenue

Income on investments is recognised on an accruals basis.