

Audited Project Financial Statements

Project Number: 48444-004
Loan/Grant Number: 3547/3548/G0538
Period covered: 31 December 2019

PNG: Sustainable Highlands Highway Investment Program-Tranche 1

Prepared by Department of Works and Implementation

For the Asian Development Bank
Date received by ADB: 17 August 2020

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

Our Reference: 68-18-4

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

***INDEPENDENT AUDIT REPORT ON THE
SUSTAINABLE HIGHLANDS HIGHWAY INVESTMENT PROGRAM – TRANCHE 1
(ADB LOAN NO.L3547-PNG, 3548-PNG AND GRANT NO.0538-PNG)
FOR THE YEAR ENDED 31 DECEMBER 2019***

OPINION

In accordance with *Section 8(4) of the Audit Act, 1989 (as amended)*, I have audited the special purpose project financial statements of **Sustainable Highlands Highway Investment Program - Tranche 1** which comprise the Statement of Cash Receipts and Payments, Statement of Disbursement, Statement of Imprest Accounts and Statement of Budget and Actual for the year ended **31 December 2019** and notes to the Financial Statements, including a summary of significant accounting policies and other explanatory information.

In my opinion the accompanying financial statements;

- i) are based on proper accounts and records;
- ii) are in agreement with those accounts and records and present fairly, in all material respects, the Project's financial performance for the year ended 31 December 2019;
- iii) comply with generally accepted accounting practice and statutory requirements in Papua New Guinea; and
- iv) are in compliance with relevant provisions set out in the *ADB Loan Agreement for Loan No. L3547-PNG, 5348-PNG and Grant No.0538-PNG*.

BASIS FOR OPINION

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

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

EMPHASIS OF MATTER

GoPNG Counterpart Funding

The total amount committed by the State for this project was USD44m. However, during the year under review, I noted that of the total K5m appropriated in the budget, only K1m was drawn down to the project. This may not be fully compliant with the loan agreement entered into between ADB and the Independent State of Papua New Guinea.

Basis of Accounting and Restriction on Distribution

I draw attention to *Note (2.1)* to the financial statements which describe the basis of accounting. The financial statements have been prepared to assist the entity in connection with the requirements set out in the ADB loan agreement No.3457 and 3458. As a result, the financial statements may not be suitable for any other purpose. My report is intended solely for the Independent State of Papua New Guinea and ADB and should not be distributed for use by other parties.

My opinion is not modified in respect of these matters.

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

The Departmental Head overseeing the Project Implementation Unit (PIU) at the Department of Works is responsible for the preparation and fair presentation of the financial statements submitted under *Section 63(3) Public Finance (Management) (Amendment) Act, 2016* in accordance with the *International Public Sector Accounting Standards: Financial Reporting under the Cash Basis of Accounting* in compliance with relevant provisions set out in the ADB Loan Agreement for Loan No.L3547, 3548-PNG and Grant No. 0538-PNG and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Sustainable Highlands Highway Investment Project's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatements of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions may cast significant doubt on the Project's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Project to cease to continue as a going concern.
- Evaluate the overall presentation and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

GORDON KEGA MBA, CPA
Acting Auditor-General

29 June, 2020



DEPARTMENT OF WORKS AND IMPLEMENTATION
SUSTAINABLE HIGHLANDS HIGHWAY INVESTMENT PROGRAM - TRANCHE 1
ADB LOAN 3547 PNG, LOAN 3548 PNG, GRANT 0538 PNG

PROJECT MANAGEMENT UNIT

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

**DEPARTMENT OF WORKS AND IMPLEMENTATION
SUSTAINABLE HIGHLANDS HIGHWAY INVESTMENT PROGRAM - TRANCHE 1
ADB LOAN 3547 PNG, LOAN 3548 PNG AND GRANT 0538 PNG
PROJECT MANAGEMENT UNIT**

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

CONTENTS

| | Page No. |
|---|-----------------|
| Management Declaration | 1 |
| Project Description | 2-3 |
| Project Implementation Progress | 4 |
| Statement of Cash Receipts and Payments | 5 |
| Statement of Disbursement | 6 |
| Statement of Imprest Accounts | 7-9 |
| Statement of Budget Vs Actual | 10 |
| Notes to the Project Financial Statements | 11-16 |




DEPARTMENT OF WORKS AND IMPLEMENTATION
PO BOX 1108, BOROKO, NCD, PAPUA NEW GUINEA


SUSTAINABLE HIGHLANDS HIGHWAY INVESTMENT PROGRAM - TRANCHE 1
ADB LOAN 3547 PNG, LOAN 3548 PNG AND GRANT 0538 PNG
PROJECT MANAGEMENT UNIT

MANAGEMENT DECLARATION
FOR THE YEAR ENDED 31 DECEMBER 2019

- 1 In the opinion of management of the Department of Works and Implementation, Executing Agency for the Sustainable Highlands Highway Investment Program:
 - a) The Financial Statements are drawn up so as to give a true and fair view of the Statement of Receipts and Payments of the SHHIP project for the year ended 31 December 2019; and
 - b) The Statement of Trust Account are drawn up so as to give a true and fair view of the state of affairs of the Projects Trust Accounts for the Year ended 31 December 2019; and
- 2 The accounts have been made in accordance with applicable accounting Standards; and
- 3 The Project has, in respect of financial year:
 - a) Kept such accounting records as to correctly record and explain the transactions and financial affairs of the Project; and
 - b) Kept it's accounting records in such a manner as would enable true and fair accounts of the Project to be prepared from time to time; and
 - c) Kept it's accounting records in such a manner as would enable the accounts of the Project to be conveniently and properly audited.



DAVID WEREH
Secretary
Department of Works and Implementation



ALI INGIKI
Assistant Secretary (Finance & Accounting)
Department of Works and Implementation

**SUSTAINABLE HIGHLANDS HIGHWAY INVESTMENT PROGRAM – TRANCHE 1
ADB LOAN 3547 PNG, LOAN 3548 PNG AND GRANT 0538 PNG
PROJECT ANAGEMENT UNIT**

PROJECT DESCRIPTION

A. Background

The Highlands region of Papua New Guinea (PNG) is a major contributor to the fragile nation state's economy through its agricultural and mineral exports. It is also home to approximately 40% of the country's population, who rely almost exclusively on the road network for movement of people and goods, and thus livelihood opportunities as well as access to health, education, and social facilities. The road network is vulnerable because of the mountainous terrain, the fragile geological conditions, and the climate. The Government of PNG (GoPNG) and its development partners have invested significantly in improving the road network, but a lack of strategically planned and consistently implemented periodic and routine maintenance has left the network in such a poor condition that a significant amount of appropriated funding is annually expended on emergency works. Currently, DoW is implementing the Highlands Region Road Improvement Investment Program (HRRIIP) which has also been financed by ADB, focusing on the improvement of the Highlands Core Road Network (HCRN) of 2,500 kilometers (km) of major national and some provincial roads.

In this respect, now, and with this Program, the Sustainable Highlands Highway Investment Program (SHHIP), the GoPNG intends to rehabilitate, upgrade and maintain the Highlands Highway (HH) through physical investment. The (MFF) consists of three tranches, with the expected SHHIP outputs are: (i) 430 Km's of two-lane national Highlands Highway from Lae Nadzab airport to Kagamuga airport in Mt Hagen, is rehabilitated, upgraded, and effectively maintained as required to be safe, climate- and disaster resilient for all users; (ii) road safety increased and sustained for pedestrians and vehicle passengers on the Highlands Highway; (iii) transport logistics and services improved in the Highlands region to strengthen agricultural value chain for domestic and international trade; and (iv) program management and institutional capacity of DOW strengthened to deliver the SHHIP and sustain its benefits.

B. Tranche 1 Scope of Works

Civil works

Three contracts for civil works have been awarded to three different firms, as follows:

1. CW1 which refers to the repair, rehabilitation, upgrading, and maintenance of the Highlands Highway between Lae Nadzab in Morobe Province and Henganofi Bridge in the Eastern Highlands Province, a distance of 210 kms.
2. CW 2 which refers to the repair rehabilitation and upgrading of the Highlands Highway between Henganofi Bridge and Mangiro Bridge and from Miunde Bridge to Kagamuga Bridge, near Mount Hagen, Western Highlands Province, a distance of 161 kms.
3. Road Investment Contract (RIC) which refers to the rehabilitation of the 57 kms of the Simbu Section of the Highlands Highway between Mangiro Bridge and Miunde Bridge.

**SUSTAINABLE HIGHLANDS HIGHWAY INVESTMENT PROGRAM – TRANCHE 1
ADB LOAN 3547 PNG, LOAN 3548 PNG AND GRANT 0538 PNG
PROJECT ANAGEMENT UNIT**

PROJECT DESCRIPTION (Cont.)

Consulting Services

Two contracts have been awarded for consulting engineering services, as follows:

1. CS 1 for the construction supervision of the works of CW1.
2. CS 2 for the construction supervision of the works of CW2 and RIC.

PMO Office

One contract has been awarded for the construction of the PMO office, located in the DoW Compound in Goroka.

Design Works

Each Tranche includes the design works for the follow-on works of the next Tranche. Accordingly, Tranche 1 includes the design of the Goroka Bypass (included in CS2) and the design of the bridge replacements (Procurement action to commence.). The Bridge Engineering Consultancy will initially prepare a feasibility study, and a conceptual design. After completion of this work, a decision can be made to implement the bridge replacement as either a design-bid-build or a design-build contract.

Other Major Activities

- i. Ensuring environmental compliances,
- ii. Assuring social safeguards and resettlement compliance,
- iii. Implementing DoW capacity building,
- iv. Implementing Gender Equality/Equity and Social Inclusion (GESI) provisions,
- v. Public Safety,
- vi. Awareness programs on HIV/AIDS and other sexually transmitted infections (STIs),
- vii. Stakeholder consultation and participation,
- viii. Grievance Redress Mechanism (GRM)

DEPARTMENT OF WORKS AND IMPLEMENTATION
SUSTAINABLE HIGHLANDS HIGHWAY INVESTMENT PROGRAM - TRANSCHE 1
ADB LOAN 3547 PNG, LOAN 3548 PNG AND GRANT 0538 PNG
PROJECT MANAGEMENT UNIT

PROJECT IMPLEMENTATION PROGRESS

| Contract | Contractor | Physical Accomplishment (%) | | Slippage/ Increment | Financial Disbursement ent. (%) | Remarks |
|--|----------------|-----------------------------|-----------|------------------------|---------------------------------------|--|
| | | Actual | Scheduled | | | |
| CSTB 3774 - CW1 NADZAB, LAE - HENGANOFI BRIDGE | MCC | 12.3 | 25 | (-) 12.7 | 15.93 | 1. Mobilization is more than 87 % complete. Main camp is established at Kainantu with two other site camps. 2. Sustaining maintenance is being performed along strategic location in the project corridor. 3. Permanent works commenced with the installation of RCPs along Waterais to Kassam Pass. 4. Pothole patching, pavement repair, desilting of drains, cleaning of culvert pipes etc. ongoing. 5. Late mobilization and lack of proper planning causing delay in their schedule. |
| | | 12.7 | 19 | (-) 6.3 | 18.22 | 1. Mobilization 95 % completed. Key plant & equipment and personnel are at Camp located at Kamaili. 2. Sustaining maintenance is being performed along strategic location in the project corridor. 3. Permanent works commenced between Henganofi and Daulo. Ongoing works include pavement repair and sealing, line drains and culvert installation 4. Pothole patching, pavement repair, desilting of drains, cleaning of culvert pipes etc. ongoing. 5. Emergency works at critical sections ongoing. 6. Late mobilization and lack of proper planning causing delay in their work schedule. |
| | | 12 | 10.5 | (+) 1.5 | 20.35 | 1. Mobilization is complete. Engineer's site established at Ganige. 2. Sustaining maintenance ongoing at badly affected areas to maintain the riding comfort at a serviceable level 3. Permanent works commenced with the installation of RCPs, gabion and masonry protection works ongoing. 4. Pothole patching, pavement repair, desilting of drains, cleaning of culvert pipes etc. ongoing. 5. Progressing well but with needs improvement in quality monitoring. |
| | | 87 | 93.5 | (-) 6.5 | 56.02 | 1. Mobilization complete. 2. Foundation and main building frame completed. 3. Installation of service utilities ongoing nearing completion. 4. Interior finishing ongoing. Fixtures to be installed. 5. Main issue for the slippage is due to the procurement time of the materials to site. |
| | | 87 | 93.5 | (-) 6.5 | 56.02 | 1. Mobilization complete. 2. Foundation and main building frame completed. 3. Installation of service utilities ongoing nearing completion. 4. Interior finishing ongoing. Fixtures to be installed. 5. Main issue for the slippage is due to the procurement time of the materials to site. |
| CSTB 3782 - PMO PROJECT MANAGEMENT OFFICE, GOROKA | CHEC Zemith | 87 | 93.5 | (-) 6.5 | 56.02 | 1. Mobilization complete. 2. Foundation and main building frame completed. 3. Installation of service utilities ongoing nearing completion. 4. Interior finishing ongoing. Fixtures to be installed. 5. Main issue for the slippage is due to the procurement time of the materials to site. |

SUSTAINABLE HIGHLANDS HIGHWAY INVESTMENT PROGRAM - TRANCHE 1
ADB LOAN 3547 PNG, LOAN 3548 PNG AND GRANT 0538 PNG
PROJECT MANAGEMENT UNIT

STATEMENT OF RECEIPTS AND PAYMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

| Particulars | Note Reference | Year Ended 12 Months 31-Dec-19 | Year Ended 12 Months 31-Dec-18 | Cumulative Project to Date 31-Dec-19 |
|---|-------------------|--------------------------------------|--------------------------------------|--|
| | | PGK | PGK | PGK |
| Funds Received from GoPNG | 4.0 | 1,008,000 | 0 | 1,008,000 |
| ADB Loan 3547 | 5.0 | 111,556,519 | 21,616,760 | 133,484,947 |
| ADB Loan 3548 | 6.0 | 8,430,257 | 1,663,513 | 10,093,770 |
| Grant # 0538 | 7.0 | 4,741,174 | 521,639 | 5,262,813 |
| Total Receipts | | <u>125,735,951</u> | <u>23,801,912</u> | <u>149,849,530</u> |
| Total | | <u>125,735,951</u> | <u>23,801,912</u> | <u>149,849,530</u> |
| Payments | | | | |
| Investment Costs | | | | |
| Civil Works | 8.0 | 81,927,913 | 15,400,714 | 97,328,627 |
| Supervision Consultants | | 25,891,950 | 6,250,000 | 32,141,950 |
| PMO Consultants | | 7,408,108 | 815,061 | 8,223,169 |
| PMO Building | | 2,471,247 | 42,385 | 2,513,632 |
| Sub Total | | <u>117,699,219</u> | <u>22,508,160</u> | <u>140,207,379</u> |
| Recurrent Costs | | | | |
| Salaries-PMO Support Staff | | 287,594 | 0 | 287,594 |
| Accommodation - Staff | | 14,720 | 0 | 14,720 |
| Security | | 201,900 | 0 | 201,900 |
| Water | | | | |
| Power | | | | |
| Communication | | 23,238 | 0 | 23,238 |
| PMO Operations | | 653,660 | 0 | 653,660 |
| ICT Equipment | | 155,064 | 0 | 155,064 |
| Furnitures & Fittings | | 5,664 | 0 | 5,664 |
| Plants & Equipments | | 3,408 | 0 | 3,408 |
| Fuel | | 35,294 | 0 | 35,294 |
| Vehicle Maintenance | | 12,640 | 0 | 12,640 |
| Forex gain/loss | | | | |
| Sub Total | | <u>1,393,182</u> | <u>0</u> | <u>1,393,182</u> |
| Total Payments | | <u>119,092,400</u> | <u>22,508,160</u> | <u>141,600,560</u> |
| Financing Charges During Implementation | 9.0 | 3,733,838 | 1,293,752 | 5,339,258 |
| Total Project Cost | | <u>122,826,239</u> | <u>23,801,912</u> | <u>146,939,818</u> |
| Closing Balance | | <u>2,909,712</u> | <u>0</u> | <u>2,909,712</u> |



DEPARTMENT OF WORKS AND IMPLEMENTATION
 SUSTAINABLE HIGHLANDS HIGHWAY INVESTMENT PROGRAM - TRANCHE 1
 ADB LOAN 3547 PNG, LOAN 3548 PNG AND GRANT 0538 PNG
 PROJECT MANAGEMENT UNIT

STATEMENT OF DISBURSEMENT FOR THE
 YEAR ENDED 31 DECEMBER 2019

Funds Disbursed from ADB

| ADB Funds Claimed During the Year | Note | Current Year 2019 | Prior Year 2018 | Cumulative Project to Date 2019 |
|--|------|-------------------------|-----------------------|---------------------------------------|
| Reimbursements | | PGK | PGK | PGK |
| Imprest Account (Loan 3547) | | 3,294,893 | | 3,294,893 |
| Direct Payment | | 116,691,884 | 23,280,273 | 140,283,824 |
| Commitment Procedure | | | | |
| Total Loan from ADB | | 119,986,777 | 23,280,273 | 143,578,717 |
| ADB Grant | | 4,741,174 | 521,639 | 5,262,813 |
| ADB Loan and Grant Total | | 124,727,951 | 23,801,912 | 148,841,531 |
| Total Expenditure made during the year: | | 124,727,951 | 23,801,912 | 148,841,531 |
| Less: | | | | |
| Expenditure not yet claimed | | | | |
| GoPNG Share | | | | |
| Total Eligible Expenditure Claimed | | 124,727,951 | 23,801,912 | 148,841,531 |



DEPARTMENT OF WORKS AND IMPLEMENTATION
 SUSTAINABLE HIGHLANDS HIGHWAY INVESTMENT PROGRAM - TRANCHE 1
 ADB LOAN 3547 PNG, LOAN 3548 PNG AND GRANT 0538 PNG
 PROJECT MANAGEMENT UNIT

STATEMENT OF IMPREST ACCOUNT - LOAN 3547
 FOR THE YEAR ENDED 31 DECEMBER 2019

| Particulars | Current Year 2019 PGK | Prior Year 2018 PGK |
|--|-----------------------------|---------------------------|
| Balance brought forward from previous period | | |
| Account Openning | 1,000 | 0 |
| Add: | | |
| Advance | 3,294,893 | 0 |
| Replenishment received during the year | | |
| Sub total | <u>3,295,893</u> | <u>0</u> |
| Deduct: | | |
| Payments made during the year | 2,000,052 | 0 |
| Replenishment/Liquidation | | |
| Expenditure Yet to be Claimed | 2,000,052 | 0 |
| Amount refunded during the year | | |
| Sub Total | <u>2,000,052</u> | <u>0</u> |
| Closing Balance | 1,295,841 | 0 |
| As per Bank Statement | <u>1,295,841</u> | <u>0</u> |

** ADB Loan 3547 Imprest Account was established in 2019, hence there are no comparative figures for 2018.



DEPARTMENT OF WORKS AND IMPLEMENTATION
 SUSTAINABLE HIGHLANDS HIGHWAY INVESTMENT PROGRAM - TRANCHE 1
 ADB LOAN 3547 PNG, LOAN 3548 PNG AND GRANT 0538 PNG
 PROJECT MANAGEMENT UNIT

STATEMENT OF IMPREST ACCOUNT - LOAN 3548
 FOR THE YEAR ENDED 31 DECEMBER 2019

| Particulars | Current Year 2019 PGK | Prior Year 2018 PGK |
|--|-----------------------------|---------------------------|
| Balance brought forward from previous period | | |
| Account Opening Balance | 1,000 | 0 |
| Add: | | |
| Advance | | |
| Replenishment received during the year | | |
| Sub total | 1,000 | 0 |
| Deduct: | | |
| Payments made during the year | 32 | 0 |
| Replenishment/Liquidation | | |
| Expenditure Yet to be Claimed | | |
| Amount refunded during the year | | |
| Sub Total | 968 | 0 |
| Closing Balance | | |
| As per Bank Statement | 968 | 0 |

** ADL Loan 3548 Imprest Account was established in 2019, hence there are no comparative figures for 2018.



DEPARTMENT OF WORKS AND IMPLEMENTATION
 SUSTAINABLE HIGHLANDS HIGHWAY INVESTMENT PROGRAM - TRANCHE 1
 ADB LOAN 3547 PNG, LOAN 3548 PNG AND GRANT 0538 PNG
 PROJECT MANAGEMENT UNIT

STATEMENT OF IMPREST ACCOUNT - GOPONG COUNTERPART FUNDS
 FOR THE YEAR ENDED 31 DECEMBER 2019

| Particulars | Current Year 2019 PGK | Prior Year 2018 PGK |
|--|-----------------------------|---------------------------|
| Balance brought forward from previous period | | |
| Account Openning Balance | 5,000 | 0 |
| Add: | | |
| Receipts | 3,000,000 | 0 |
| Replenishment received during the year | | |
| Sub total | 3,005,000 | 0 |
| Deduct: | | |
| Payments made during the year | | |
| Replenishment/Liquidation | | |
| Expenditure Yet to be Claimed | 1,431,461 | 0 |
| Amount refunded during the year | | |
| Sub Total | 1,573,539 | 0 |
| Closing Balance | | |
| As per Bank Statement | 1,573,539 | 0 |

** GoPNG Counterpart Funds Imprest Account was established in 2019, hence there are no comparative figures for 2018.



DEPARTMENT OF WORKS AND IMPLEMENTATION
SUSTAINABLE HIGHLANDS HIGHWAY INVESTMENT PROGRAM - TRANCHE 1
ADB LOAN 3547 PNG, LOAN 3548 PNG AND GRANT 0538 PNG
PROJECT MANAGEMENT UNIT

STATEMENT OF BUDGET VS ACTUAL
FOR THE PERIOD ENDED 31 DECEMBER 2019

| Category | Budget | Actual | Variance |
|-------------------------------------|--------------------|--------------------|-------------------|
| | PGK | PGK | PGK |
| Civil Works 1 | 60,333,613 | 37,267,079 | 23,066,534 |
| Civil Works 2 | 34,160,000 | 27,018,625 | 7,141,375 |
| Civil Works 3 | 26,710,000 | 17,951,985 | 8,758,015 |
| PMO Buliding | 4,491,142 | 2,471,247 | 2,019,895 |
| Total Civil Works | 125,694,755 | 84,708,936 | 40,985,819 |
| Supervision Consultancy 1 | 8,686,650 | 12,499,322 | -3,812,672 |
| Supervision Consultancy 2 | 16,249,593 | 13,082,853 | 3,166,740 |
| Total Supervion Consultancy | 24,936,243 | 25,582,175 | -645,932 |
| Project Management Consultancy | 6,887,302 | 7,408,108 | -520,806 |
| Project Management Costs | 6,610,215 | 1,393,182 | 5,217,033 |
| Total Project Managemet Cost | 13,497,517 | 8,801,290 | 4,696,227 |
| Interest and Commitment Charges | 4,000,000 | 3,733,838 | 266,162 |
| Total | 168,128,514 | 122,826,239 | 45,302,275 |



DEPARTMENT OF WORKS AND IMPLEMENTATION
SUSTAINABLE HIGHLANDS HIGHWAY INVESTMENT PROGRAM - TRANCHE 1
ADB LOAN 3547 PNG, LOAN 3548 PNG AND GRANT 0538 PNG
PROJECT MANAGEMENT UNIT

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

- 1 Project and Nature of Activities**
- 1.1 Sustainable Highlands Highway Investment Program (SHHIP) focuses on the 430 km of Highlands Highway (HH) from Lae Nadzab airport to Kagamuga airport in Mt Hagen, a major national road. The investment program outputs will be:
- (i) 430 km of two lane national highway from Lae Nadzab airport to Kagamuga airport in Mt Hagen, is rehabilitated, upgraded, and effectively maintained as required to be safe, climate and disaster resilient for all users;
 - (ii) road safety increased and sustained for pedestrians and vehicle passengers on the Highlands Highway;
 - (iii) transport logistics and services improved in the Highlands region to strengthen agricultural value chain for domestic and international trade; and
 - (iv) program management and institutional capacity of Department of Works strengthened to deliver the Investment Program and sustain its benefits.
- 1.2 **Legislative Framework**
Implementation of the Sustainable Highlands Highway Investment Program is governed by the Loan 3547, 3548 and Grant 0538 agreements signed by the Asian Development Bank and the State of Papua New Guinea on 17 July 2017.
- 2 STATEMENT OF COMPLIANCE**
- The principal accounting policies adopted in the preparation of these Financial Statements are set out below. These policies have been consistently applied to all the periods presented unless otherwise stated.
- 2.1 ✓ These Financial Statements of Sustainable Highlands Highway Investment Program Tranche 1 are prepared in accordance with the international Public Sector Accounting Standards "(IPSAS): Cash basis of accounting" as issued by the International Public Sector Accounting Standards Board (IPSASB).
- International Public Sector Accounting Standards are a set of accounting standards issued by the IPSAS Board for the use by public sector entities around the world in the preparation of financial statements. These standards are based on International Financial Reporting Standards issued by the International Financial Reporting Standards Board.
- 2.2 The Financial Statements are presented in Papua New Guinea Kina. Foreign Currency transactions are converted using the conversion rates as of end of each month provided in the ADB LFIS.
- 3 Basis of Preparation/Accounting**
- 3.1 The Statement of Receipts and Payments and Statement of Trust Account and the accompanying notes to Financial Statements have been prepared in accordance with cash receipts and disbursement basis for the purpose of providing information, which is appropriate to meet the needs of the Asian Development Bank and Independent State of Papua New Guinea. The cash basis of accounting recognises transactions as funds are received and payments are made directly to the contractors and consultants by ADB or from the Trust Accounts.
- 3.2 **Reporting Entity**
- These Financial Statements are prepared and presented for the Project Management Unit of the Sustainable Highlands Highway Investment Program, Executing agency being the Department of Works and Implementation.



DEPARTMENT OF WORKS AND IMPLEMENTATION
SUSTAINABLE HIGHLANDS HIGHWAY INVESTMENT PROGRAM - TRANCHE 1
ADB LOAN 3547 PNG, LOAN 3548 PNG AND GRANT 0538 PNG
PROJECT MANAGEMENT UNIT

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

4 FUNDS RECEIVED

Government of PNG:

| Funds Received | Amount in PGK |
|----------------------------|------------------|
| Funds transferred from DoW | 8,000 |
| GoPNG Counterpart Funding | 1,000,000 |
| Total | 1,008,000 |

5 Asian Development Bank Loan 3547

| WA Nos. | Date | Payee | Amount in USD | Amount in PGK |
|-------------|---------|-----------------------------|----------------------|--------------------|
| Various WAs | Various | Civil Works | 21,955,235.25 | 73,823,283 |
| Various WAs | Various | Supervision Consultants | 7,655,393.13 | 25,891,950 |
| Various WAs | Various | PMO Consultants | 789,864.59 | 2,666,934 |
| Various WAs | Various | PMO Building | 678,434.72 | 2,264,542 |
| Various WAs | Various | Interest Capitalised | 1,063,931.75 | 3,614,917 |
| ADV01 | 26/4/19 | Trust Loan Account No. 3547 | 1,000,000.00 | 3,294,893 |
| | | | 33,142,859.44 | 111,556,519 |

6 Asian Development Bank Loan 3548

| WA Nos. | Date | Payee | Amount in USD | Amount in PGK |
|-------------|---------|----------------------|---------------------|------------------|
| Various WAs | Various | Civil Works | 2,410,803.34 | 8,104,630 |
| Various WAs | Various | PMO Building Works | 61,822.14 | 206,704 |
| Various WAs | Various | Interest Capitalised | 34,981.09 | 118,922 |
| | | | 2,507,606.57 | 8,430,257 |

7 Grant - 0538

| WA Nos. | Date | Payee | Amount in USD | Amount in PGK |
|-------------|---------|-----------------|---------------------|------------------|
| Various WAs | Various | PMO Consultants | 1,398,292.97 | 4,741,174 |
| | | | 1,398,292.97 | 4,741,174 |



DEPARTMENT OF WORKS AND IMPLEMENTATION
SUSTAINABLE HIGHLANDS HIGHWAY INVESTMENT PROGRAM - TRANCHE 1
ADB LOAN 3547 PNG, LOAN 3548 PNG AND GRANT 0538 PNG
PROJECT MANAGEMENT UNIT

STATEMENT OF EXPENDITURE BY CATEGORY AND FINANCIER
FOR THE PERIOD ENDED 31 DECEMBER 2019

| Particulars | ADB Loan 3547 | | ADB Loan 3548 | | Grant 0538 | | GoPNG | | Total | |
|---|--------------------|----------------|--------------------|----------------|--------------------|-------------|--------------------|-------------|--------------------|----------------|
| | Actual Expenditure | | Actual Expenditure | | Actual Expenditure | | Actual Expenditure | | Expenditure | |
| | Amount (PGK) | % | Amount (PGK) | % | Amount (PGK) | % | Amount (PGK) | % | Amount (PGK) | % |
| Investment Costs | | | | | | | | | | |
| Civil Works | 73,823,283 | 67.698% | 8,104,630 | 91.729% | | | | | 81,927,913 | 66.702% |
| Supervision Consultants | 25,891,950 | 23.744% | | | 4,741,174 | 100% | | | 25,891,950 | 21.080% |
| PMO Consultants | 2,666,934 | 2.446% | 206,704 | 2.339% | | | | | 7,408,108 | 6.031% |
| PMO Building | 2,264,542 | 2.077% | 8,311,335 | 94.068% | 4,741,174 | 100% | | | 2,471,247 | 2.012% |
| Sub Total | 104,646,710 | 95.964% | | | | | | | 117,699,219 | 95.826% |
| Recurrent Costs | | | | | | | | | | |
| Salary PMO | 86,279 | 0.079% | 44,447 | 0.503% | | | 156,869 | 77.852% | 287,594 | 0.234% |
| Staff Accommodation | 1,584 | 0.001% | 816 | 0.009% | | | 12,320 | 6.114% | 14,720 | 0.012% |
| Security | 125,664 | 0.115% | 64,736 | 0.733% | | | 11,500 | 5.707% | 201,900 | 0.164% |
| Water | | | | | | | | | | |
| Power | | | | | | | | | | |
| Communication | 15,337 | 0.014% | 7,901 | 0.089% | | | | | 23,238 | 0.019% |
| PMO Operation Costs | 417,683 | 0.383% | 215,170 | 2.435% | | | 20,807 | 10.326% | 653,660 | 0.532% |
| ICT Equipment | 102,342 | 0.094% | 52,722 | 0.597% | | | | | 155,064 | 0.126% |
| Furnitures & Fittings | 3,738 | 0.003% | 1,926 | 0.022% | | | | | 5,664 | 0.005% |
| Plant & Equipment | 2,249 | 0.002% | 1,159 | 0.013% | | | | | 3,408 | 0.003% |
| Fuel | 23,294 | 0.021% | 12,000 | 0.136% | | | | | 35,294 | 0.029% |
| MV Maintenance | 8,342 | 0.008% | 4,298 | 0.049% | | | | | 12,640 | 0.010% |
| Forx Gain / Loss | | | | | | | | | | |
| Sub Total | 786,513 | 0.721% | 405,173 | 4.586% | | | 201,496 | 100% | 1,393,182 | 1.134% |
| Interest Cost | 3,614,917 | 3.315% | 118,922 | 1.346% | | | | | 3,733,839 | 3.040% |
| Total Project Cost - 31 Dec 2019 | 109,048,139 | 100.00% | 8,835,430 | 100.00% | 4,741,174 | 100% | 201,496 | 100% | 122,826,239 | 100.00% |



DEPARTMENT OF WORKS AND IMPLEMENTATION
 SUSTAINABLE HIGHLANDS HIGHWAY INVESTMENT PROGRAM - TRANCHE 1
 ADB LOAN 3547 PNG, LOAN 3548 PNG AND GRANT 0538 PNG
 PROJECT MANAGEMENT UNIT

FIXED ASSET SCHEDULE SUMMARY
 FOR THE PERIOD ENDED 31 DECEMBER 2019

10

| ITEMS | Purchase Date | Cost | Accumulated Depreciation | Net Book Value |
|----------------------|---------------|-------------------|--------------------------|-------------------|
| | | PGK | | PGK |
| Motor Vehicles | | | | |
| Furniture & Fittings | Various dates | 5,664.00 | | 5,664.00 |
| ICT Equipment | Various dates | 155,063.99 | | 155,063.99 |
| Plant & Mechnery | Various dates | 3,408.00 | | 3,408.00 |
| Total | | 164,135.99 | | 164,135.99 |



DEPARTMENT OF WORKS AND IMPLEMENTATION
SUSTAINABLE HIGHLANDS HIGHWAY INVESTMENT PROGRAM - TRANCHE 1
ADB LOAN 3547 PNG, LOAN 3548 PNG AND GRANT 0538 PNG
PROJECT MANAGEMENT UNIT

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

KEY TERMS AND CONDITIONS OF ADB LOAN AGREEMENTS

1 Loan Number 3547 - PNG (Ordinary Capital)

Date of Agreement - 19 July 2017

Loan Amount - USD 272,000,000/-

Loan Effectiveness Date - 90 days after date of Loan Agreement

Commitment Fees - 0.15% per annum, on the full amount less amount amounts withdrawn from time to time commencing 60 days after the Loan Agreement, payable on 15 June and 15 December yearly

Interest Rate - LIBOR Plus 0.50% on the Loan withdrawn from time to time

| ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS | | | | |
|--|-------------------------------|--|------------------|---|
| No. | Item | Total Amount Allocated for ADB Financing | | Basis of Withdrawal from the Loan Account |
| | | Category USD | Sub Category USD | |
| 1 | Works | 192,740,000 | | 85% of total expenditure claimed |
| 2 | Consulting Services | 47,320,000 | | 100% of total expenditure claimed |
| 3 | Project Management | 12,230,000 | | |
| 3A | PMO Consultants | | 5,530,000 | 36% of total expenditure claimed |
| 3B | PMO Operations | | 6,700,000 | 66% of total expenditure claimed |
| 4 | Interest & Commitment Charges | 14,290,000 | | 100% of total amount due |
| 5 | Unallocated | 5,420,000 | | |
| | Total | 272,000,000 | | |

2 Loan Number 3548 - PNG (Ordinary Operations Concessional)

Date of Agreement - 19 July 2017

Loan Amount - USD 21,907,000/-

Repayment Period - 20 years

Loan Effectiveness Date - 90 days after date of Loan Agreement

Interest Rate - 2% per annum on the amount of Loan withdrawn and outstanding from time to time

| ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS | | | | |
|--|--------------------|--|------------------|---|
| No. | Item | Total Amount Allocated for ADB Financing | | Basis of Withdrawal from the Loan Account |
| | | Category USD | Sub Category USD | |
| 1 | Works | 17,234,000 | | 10% of total expenditure claimed |
| 2 | Project Management | 2,687,000 | | |
| 2A | PMO Operations | | 2,527,000 | 34% of total expenditure claimed |
| 2B | Audits | | 160,000 | 100% of total expenditure claimed |
| 4 | Interest Charges | 840,000 | | 100% of total amount due |
| 5 | Unallocated | 1,146,000 | | |
| | Total | 21,907,000 | | |



DEPARTMENT OF WORKS AND IMPLEMENTATION
 SUSTAINABLE HIGHLANDS HIGHWAY INVESTMENT PROGRAM - TRANCHE 1
 ADB LOAN 3547 PNG, LOAN 3548 PNG AND GRANT 0538 PNG
 PROJECT MANAGEMENT UNIT

**NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 DECEMBER 2019**

KEY TERMS AND CONDITIONS OF GRANT AGREEMENT

1 Grant Number 0538-PNG (Externally Financed)

Date of Agreement - 19 July 2017

Grant Amount - USD 11,500,000/-

Grant Effectiveness Date - 90 days after date of Grant Agreement

| ALLOCATION AND WITHDRAWAL OF GRANT PROCEEDS | | | |
|---|--------------------|--|---|
| No. | Item | Total Amount Allocated for the Government of Australia Financing | Basis of Withdrawal from the Grant Account |
| | | Category USD | |
| 1 | Project Management | 10,000,000 | 64% of total expenditure claimed |
| 2 | Unallocated | 1,500,000 | |
| | Total | 11,500,000 | |

