



**COMMISSION OF INQUIRY INTO  
ASPECTS OF THE FORESTRY INDUSTRY**

**INTERIM REPORT NO 3**

**THE FOREST INDUSTRIES COUNCIL  
AS THE STATE MARKETING AUTHORITY**

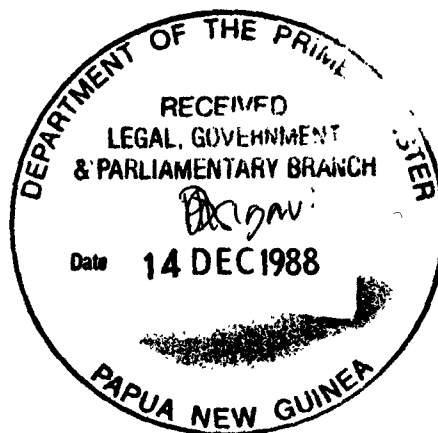
**VOLUME 4  
APPENDICES 49 – 57**

**November 1988**

VOLUME 4

APPENDICES 49 - 57

49.	FIC Profit and Loss Account - Oct-Dec 1986	587
49A	FIC Shipments Deductions from Buyers' Price	607
50.	FIC Financial Statements 1 January - 30 June 1987	611
51.	Auditor General's Letter 18.7.88	644
52.	Analysis of FIC Accounts - Contingency Factors	670
53.	NEC Submission 14-9-87	671
54.	Draft Trust Account Instrument	677
55.	Guidelines for SPD Running Costs	679
56.	SPD Shipments 1988	681
57.	Problems said to exist in DOF Marketing	682



FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA  
STATE MARKETING ACTIVITY

PROFIT AND LOSS ACCOUNT - 3 MONTHS PERIOD ENDED  
31ST DECEMBER, 1986

FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA  
STATE MARKETING ACTIVITY

CONTENTS

1. Management Letter
2. Profit and Loss Account (Appendix 1)
3. 1987 Budgeted Cashflow (Appendix 2)
4. Schedule of Log Sales (Appendix 3)

RD/RAB/qcq/A3\*4

PRIVATE & CONFIDENTIAL

6th August

Mr. Imari Trawa,  
Acting Executive Director,  
Forest Industries Council,  
P.O. Box 1829,  
PORT MORESBY

Dear Sir,

STATE MARKETING ACTIVITY (SMA)

1. We refer to your letter of 15th June, 1987 and to our letter of 26th June, 1987 in respect of our appointment to prepare a separate profit and loss account for the State Marketing Activity (SMA) for the three months period ended 31st December, 1986.
2. Enclosed herewith as Appendix 1 is the profit and loss account of SMA for the 3 month period ended 31st December 1986.
3. The profit and loss account was prepared by us from books and records of the Forest Industries Council and information provided by Officers of the Council. Under the terms of our engagement we have not audited the accounting records of Forest Industries Council or the accompanying profit and loss statement. Accordingly, we express no opinion on whether they present a true and fair view of the position or of the period's trading and no warranty of accuracy or reliability is given.
4. The profit and loss account was prepared on the following assumptions:-
  - (a) Overseas trips made by officers of the Council to Taiwan, Korea, Japan, India, Manila, Australia and Singapore did not relate to State Marketing Activity.
  - (b) Expenses during the 3 months period ended 31st December 1986 were analysed by Kennedy Ako and were split into FIC normal operation and State Marketing Activity.
  - (c) In the absence of sufficient records to identify the expenses paid for the State Marketing Activity, the following expenses were split between FIC normal operations and SMA using the following ratios provided in the 1987 budget:-



	F.I.C	S.M.A
Salaries & wages, leave fare and gratuity	72%	28%
Telephone and telex	30%	70%
Electricity and water	70%	30%
Printing and stationery	70%	30%
Bank charges	30%	70%
Postages	70%	30%

(d) Enclosed herewith as Appendix 2 is a copy of the 1987 budget obtained from the files of Forest Industries Council.

5. During the course of our work in the preparation of the above accounts we have noted the following matters for your attention.

(a) Accounts, Books and Records

Monthly profit and loss accounts, which we understand were meant to be prepared were not available for the months of August to November.

(b) Expenses for SMA and FIC were not identified on the cheque vouchers, resulting in the use of Kennedy Ako's limited knowledge of SMA activity and of the above ratios where applicable. We would presume that a percentage of the costs included in the Income and Expenditure Statement of FIC under 'conference, research and development costs, miscellaneous' relates to the SMA but no apportionment was possible because all vouchers were coded to FIC. These costs increased by K21,827 from 1985 representing a 95% rise, similarly 'Accommodation' rose 176% from K9,612 to K26,549 and possibly SMA costs are included in these figures.

(c) Log Sales

From the information supplied by officers of the Council, the SMA operation appears to have been monitored and controlled almost exclusively by Mr Cowan, the Executive Director.

Several apparent irregularities have been noted for attention within the SMA operation and we strongly suggest that steps be taken to fully qualify the apparent irregularities and establish responsibility for them.

Between 22% and 30% of the gross sales receipts were withheld by the Council's bank (Bank of South Pacific) in US dollars on the instructions of Mr. Cowan, supposedly for freight and shipping. The amount withheld for the three months ended 31st December 1986 was US\$806,534 of which US\$76,476 was paid out to credit Sound View Shipping Limited in USA. The balance is not reflected in the Balance Sheet for the year ended 31st December 1986. Enclosed as Appendix 3 is a schedule of log sales of which monies were withheld by the Bank of South Pacific as per instructions.

- (d) It appears that FIC was acting in a trustee position on behalf of a company called Angus Limited whereby FIC would receive money on behalf of Angus and pay expenses for them when requested. There is insufficient documentation to substantiate such payments.
6. Because such matters raised above are not within our present scope of engagement, we can not comment on the apparent irregularities, but strongly suggest such matters are investigated at your earliest convenience.
7. There are several other areas in which we have found apparent irregularities and we would be happy to discuss these with you. The following areas that should be looked at:-
- (a) Contracts of employment;
  - (b) Salary and wages/termination payments;
  - (c) Expenses not relating to FIC operations.

8. 1987 Financial Statements

We advise that we are in the process of preparing the financial statements for the 6 months period ended 30th June, 1987. The delay in the preparation of these accounts is due to the delay in receiving the books and other information from your accountant.

Please do not hesitate to contact this office if you require any further information in respect of the above.

We strongly recommend that an independent audit be conducted in respect of the financial statements for the year ended 31st December, 1986, and period ended 30th June, 1987 together with a review of the existing accounting system.

We would be pleased to discuss this matter with you at your earliest convenience.

Yours faithfully,

*Lopes & Green*

**FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA  
STATE MARKETING ACTIVITY  
PROFIT AND LOSS ACCOUNT - 3 MONTHS PERIOD ENDED  
31ST DECEMBER, 1986**

**INDEX**

**Page No.**

<b>1</b>	<b>Accountants Report</b>
<b>2</b>	<b>Profit and Loss Account</b>

FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA  
STATE MARKETING ACTIVITY

ACCOUNTANTS' STATEMENT

We have prepared the accompanying profit and loss statement for the 3 months ended 31st December, 1986 from books and records of Forest Industries Council and other information provided by the officers of that company and at the request of and exclusively for the use and benefit of Forest Industries Council and its members. Under the terms of our engagement we have not audited the accounting records of Forest Industries Council or the accompanying profit and loss statement. Accordingly, we express no opinion on whether they present a true and fair view of the position or of the period's trading and no warranty of accuracy or reliability is given. Neither the firm nor any member or any employee of the firm undertakes responsibility in any way whatsoever to any person (other than Forest Industries Council of PNG) in respect of the statements, including any errors or omissions therein however caused.

COOPERS & LYBRAND

FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA  
STATE MARKETING ACTIVITY

PROFIT AND LOSS ACCOUNT  
FOR THE 3 MONTHS ENDED 31ST DECEMBER, 1986

INCOME	K	K
Commission - Received	48,331	
- Receivable	17,396	65,727
	-----	
Less: EXPENDITURE		
<u>Promotions &amp; Selling Expenditures</u>		
Travelling expenses	3,876	
Conference, research & development costs, miscellaneous travel expenses	536	
Accommodation	385	
Entertainment	1,353	
	-----	
	6,150	
	-----	
<u>Management &amp; Staff Expenses</u>		
Meetings	144	
Salaries, wages & recruitment	15,541	
Annual leave & leave fares	2,277	
	-----	
	17,962	
	-----	
<u>General &amp; Administration Expenses</u>		
Bank charges	645	
Electricity	606	
Postage	111	
Printing & Stationery	1,021	
Telephone & Telex	10,443	
Car expenses	95	
	-----	
	12,921	37,033
	-----	-----
NET INCOME		K28,694
		=====

The above profit and loss account is not audited.

Refer accountants report on page 1.

FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA  
CONSOLIDATED BUDGETTED CASH FLOW (QUARTERLY) FOR 1987

595

	<u>TOTAL</u>	<u>MARCH</u>	<u>JUNE</u>	<u>SEPT</u>	<u>DEC</u>	<u>NOTES</u>
OPENING BALANCE/(DEFICIT)	38,199	38,199	( 4,390)	( 2,996)	11,783	
<u>CASH INFLOW</u>						
Levies	322,324	88,523	68,929	76,501	88,371	Schedule A
Commission	163,196	53,846	36,450	36,450	36,450	1
Rental	15,433	2,806	4,209	4,209	4,209	2
Interest	5,400	—	2,700	—	2,700	3
Sundry debtors - 1986	9,836	9,836				
	<u>516,189</u>	<u>155,011</u>	<u>112,288</u>	<u>117,160</u>	<u>131,730</u>	
YAL CASH INFLOW	554,388	193,210	107,898	114,164	143,513	
<u>CASH OUTFLOW</u>						
<u>Promotion &amp; Marketing</u>						
Conference, Promotion & Marketing						
. Overseas	80,000	18,000	29,000	17,500	15,500	4
. Local	26,600	6,650	6,650	6,650	6,650	5.
Entertainment	9,000	2,250	2,250	2,250	2,250	6
Exhibitions	14,100	—	—	8,000	6,100	7
Sponsorship	10,000	2,500	2,500	2,500	2,500	
	<u>139,700</u>	<u>29,400</u>	<u>40,400</u>	<u>36,900</u>	<u>33,000</u>	
<u>Management &amp; Staff</u>						
Council Meeting expenses	17,400	5,800	—	5,800	5,800	8
Wages & Staff benefits	196,226	45,500	44,313	36,500	69,413	9
House rental & expenses	10,200	2,550	2,550	2,550	2,550	
Recruitment & staff training	5,000	—	2,500	—	2,500	
	<u>228,826</u>	<u>53,850</u>	<u>49,863</u>	<u>44,350</u>	<u>80,263</u>	

	<u>TOTAL</u>	<u>MARCH</u>	<u>JUNE</u>	<u>SEPT</u>	<u>DEC</u>	<u>NOTES</u>
<u>General &amp; Administration</u>						
Telephone & Telex	42,000	10,500	10,500	10,500	10,500	10
Electricity & Water	8,400	2,100	2,100	2,100	2,100	10
Printing & Stationery	6,000	1,500	1,500	1,500	1,500	10
Bank Charges	2,400	600	600	600	600	10
Postage	1,800	450	450	450	450	10
Insurance	4,500	4,500	-	-	-	
Accountancy & Audit fees	3,500	-	-	-	3,500	
Professional fees	3,000	750	750	750	750	
Repairs & M'ce - Off/Eqpt	3,600	900	900	900	900	
Vehicle running expenses	4,800	1,200	1,200	1,200	1,200	
Publications & Subscriptions	1,800	450	450	450	450	
General office expenses	3,600	900	900	900	900	
	<u>85,400</u>	<u>23,850</u>	<u>19,350</u>	<u>19,350</u>	<u>22,850</u>	
<u>Accruals - 1986</u>	86,000	86,000	-	-	-	
<u>Capital Expenditure</u>						
Computer	4,500	4,500	-	-	-	
Photocopier	2,160	-	720	720	720	11
Word Processor	1,683	-	561	561	561	11
Motor Vehicle	1,920	-	-	-	1,920	11
	<u>10,263</u>	<u>4,500</u>	<u>1,281</u>	<u>1,281</u>	<u>3,201</u>	
 TOTAL CASH OUTFLOW	 550,189	 197,600	 110,894	 102,381	 139,314	
 CLOSING BALANCE/(DEFICIT)	 <u>4,199</u>	 <u>( 4,390)</u>	 <u>( 2,996)</u>	 <u>11,783</u>	 <u>4,199</u>	

## FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA

CONSOLIDATED BUDGETTED INCOME AND EXPENDITURE STATEMENT (QUARTERLY) FOR 1987

	<u>TOTAL</u>	<u>MARCH</u>	<u>JUNE</u>	<u>SEPT</u>	<u>DEC</u>	<u>NOTES</u>
<u>INCOME</u>						
Levies	333,250	72,025	80,625	93,525	87,075	Schedule A
Commission	145,800	36,450	36,450	36,450	36,450	1
Rental	15,433	2,806	4,209	4,209	4,209	2
Interest	5,400	1,350	1,350	1,350	1,350	3
	<u>499,883</u>	<u>112,631</u>	<u>122,634</u>	<u>135,534</u>	<u>129,084</u>	
<u>EXPENDITURE</u>						
<u>Promotion &amp; Marketing</u>						
Conferences, Promotion & Marketing						
. Overseas	80,000	18,000	29,000	17,500	15,500	4
. Local	26,600	6,650	6,650	6,650	6,650	5
Entertainment	9,000	2,250	2,250	2,250	2,250	6
Exhibitions	14,100	-	-	8,000	6,100	7
Sponsorship	10,000	2,500	2,500	2,500	2,500	
	<u>139,700</u>	<u>29,400</u>	<u>40,400</u>	<u>36,900</u>	<u>33,000</u>	
<u>Management &amp; Staff</u>						
Council Meeting expenses	17,400	5,800	-	5,800	5,800	8
Wages & Staff benefits	196,226	45,500	44,813	36,500	69,413	9
House rental & expenses	10,200	2,550	2,550	2,550	2,550	
Recruitment & staff training	5,000	-	2,500	-	2,500	
	<u>228,826</u>	<u>53,850</u>	<u>49,863</u>	<u>44,850</u>	<u>80,263</u>	

	<u>TOTAL</u>	<u>MARCH</u>	<u>JUNE</u>	<u>SEPT</u>	<u>DEC</u>	<u>NOTES</u>
<u>General &amp; Administration</u>						
Telephone & Telex	42,000	10,500	10,500	10,500	10,500	10
Electricity & Water	8,400	2,100	2,100	2,100	2,100	10
Printing & Stationery	6,000	1,500	1,500	1,500	1,500	10
Bank Charges	2,400	600	600	600	600	10
Postage	1,800	450	450	450	450	10
Insurance	4,500	1,125	1,125	1,125	1,125	
Accountancy & Audit fees	3,500	875	875	875	875	
Professional fees	3,000	750	750	750	750	
Repairs & M'ce - Off/Eqpt	3,600	900	900	900	900	
Vehicle running expenses	4,800	1,200	1,200	1,200	1,200	
Publications & subscriptions	1,800	450	450	450	450	
Lease rental	5,763	-	1,281	1,281	3,201	11
General Office expenses	3,600	900	900	900	900	
Doubtful debts	4,200	1,050	1,050	1,050	1,050	
Depreciation	27,600	6,900	6,900	6,900	6,900	
	<u>122,963</u>	<u>29,300</u>	<u>30,581</u>	<u>30,581</u>	<u>32,501</u>	
 TOTAL EXPENDITURE	 491,489	 112,550	 120,844	 112,331	 145,764	
 EXCESS/(DEFICIT) OF INCOME OVER EXPENDITURE	 <u>8,394</u>	 <u>81</u>	 <u>1,790</u>	 <u>23,203</u>	 <u>( 16,680)</u>	

FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA  
EXCLUDE STATE MARKETING AGENCY

599

BUDGETTED CASH FLOW (QUARTERLY) FOR 1987

	<u>TOTAL</u>	<u>MARCH</u>	<u>JUNE</u>	<u>SEPT</u>	<u>DEC</u>	<u>NOTES</u>
OPENING BALANCE/(DEFICIT)	38,199	38,199	(20,282)	( 72)	6,711	
<u>CASH INFLOW</u>						
Levies	322,324	88,523	68,929	76,501	88,371	Schedule A
Rental	15,433	2,806	4,209	4,209	4,209	2
Interest	5,400	-	2,700	-	2,700	3
Sundry Debtors - 1986	9,836	9,836				
	<u>352,993</u>	<u>101,165</u>	<u>75,838</u>	<u>80,710</u>	<u>95,280</u>	
TOTAL CASH INFLOW	391,192	139,364	55,556	80,638	101,991	
<u>CASH OUTFLOW</u>						
<u>Promotion &amp; Marketing</u>						
Conferences, Promotion						
Overseas	19,500	7,000	-	7,000	5,500	4
Entertainment	4,500	1,125	1,125	1,125	1,125	6
Exhibitions	14,100	-	-	8,000	6,100	7
Sponsorship	10,000	2,500	2,500	2,500	2,500	
	<u>48,100</u>	<u>10,625</u>	<u>3,625</u>	<u>18,625</u>	<u>15,225</u>	
<u>Management &amp; Staff</u>						
Council Meeting expenses	17,400	5,800	-	5,800	5,800	8
ages & Staff benefits	141,226	35,306	35,307	35,306	35,307	9
House rental & expenses	10,200	2,550	2,550	2,550	2,550	
Recruitment & staff training	5,000	-	2,500	-	2,500	
	<u>173,826</u>	<u>43,656</u>	<u>40,357</u>	<u>43,656</u>	<u>46,157</u>	

	<u>TOTAL</u>	<u>MARCH</u>	<u>JUNE</u>	<u>SEPT</u>	<u>DEC</u>	<u>NOTE</u>
<u>General &amp; Administration</u>						
Telephone & Telex	12,600	3,150	3,150	3,150	3,150	10
Electricity & Water	5,880	1,470	1,470	1,470	1,470	10
Printing & Stationery	4,200	1,050	1,050	1,050	1,050	10
Insurance	4,500	1,125	1,125	1,125	1,125	
Accountancy & Audit fees	3,500	875	875	875	875	
Professional fees	3,000	750	750	750	750	
Repairs & M'ce - Off/Eqpt	3,600	900	900	900	900	
Bank Charges	720	180	180	180	180	10
Postage	1,260	315	315	315	315	10
Vehicle running expenses	4,800	1,200	1,200	1,200	1,200	
Publications & subscriptions	1,800	450	450	450	450	
Lease rental	5,763	-	1,281	1,281	3,201	11
General Office expenses	3,600	900	900	900	900	
Doubtful debts	4,200	1,050	1,050	1,050	1,050	
Depreciation	27,600	6,900	6,900	6,900	6,900	
	<u>87,023</u>	<u>20,315</u>	<u>21,596</u>	<u>21,596</u>	<u>23,516</u>	
 TOTAL EXPENDITURE	 308,949	 74,596	 65,578	 83,877	 84,898	
 EXCESS/ (DEFICIT) OF INCOME OVER EXPENDITURE	 <u>45,134</u>	 <u>1,585</u>	 <u>20,606</u>	 <u>15,207</u>	 <u>7,736</u>	

FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA  
STATE MARKETING AGENCY

APPENDIX

A) BUDGETTED INCOME AND EXPENDITURE STATEMENT (QUARTERLY) FOR 1987

<u>INCOME</u>	<u>TOTAL</u>	<u>MARCH</u>	<u>JUNE</u>	<u>SEPT</u>	<u>DEC</u>	<u>NOTES</u>
Commission	145,800	36,450	36,450	36,450	36,450	1
<u>EXPENDITURE</u>						
<u>Promotion &amp; Marketing</u>						
Promotion & Marketing						
Overseas	60,500	11,000	29,000	10,500	10,000	4
Local	26,600	6,650	6,650	6,650	6,650	5
Entertainment	4,500	1,125	1,125	1,125	1,125	6
	<u>91,600</u>	<u>18,775</u>	<u>36,775</u>	<u>18,275</u>	<u>17,775</u>	
<u>Management &amp; Staff</u>						
Wages & staff benefits	55,000	13,750	13,750	13,750	13,750	9
<u>Administration</u>						
Telephone & Telex	29,400	7,350	7,350	7,350	7,350	10
Electricity & Water	2,520	630	630	630	630	10
Printing & Stationery	1,800	450	450	450	450	10
Bank Charges	1,680	420	420	420	420	10
Age	540	135	135	135	135	10
	<u>35,940</u>	<u>8,985</u>	<u>8,985</u>	<u>8,985</u>	<u>8,985</u>	
TOTAL EXPENDITURE	182,540	41,510	59,510	41,010	40,510	
EXCESS/(DEFICIT) OF INCOME OVER EXPENDITURE	( 36,740)	( 5,060)	(23,060)	( 4,560)	( 4,060)	

B) BUDGETTED CASH FLOW (QUARTERLY) FOR 1987

OPENING BALANCE/(DEFICIT)	0	0	12,336	(10,724)	(15,284)
CASH INFLOW - COMMISSION	163,196	53,846	36,450	36,450	36,450
TOTAL CASH INFLOW	163,196	53,846	48,786	25,726	21,166
CASH OUTFLOW - EXPENDITURE	182,540	41,510	59,510	41,010	40,510
CLOSING BALANCE/(DEFICIT)	( 19,344)	12,336	(10,724)	(15,284)	(19,344)

## FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA

BUDGETTED BALANCE SHEET AT 31 DECEMBER 1987

FIXED ASSETS @ B.V.

K316,943

CURRENT ASSETS

Receivable	K90,893
Interest Bearing Deposit	60,000
Security deposit	1,212
Cash at bank and in hand	4,199

156,304

NET ASSETS

473,247FOREST INDUSTRIES COUNCIL FUND

Balance 1 January 1987

464,853

Add: Excess of income over expenditure  
for the year8,394473,247

BUDGETTED LEVIES RECEIVABLE FOR 1987

<u>Month</u>	<u>Quantity (m3)</u>	<u>Value (K)</u>
January	115,000	24,725
February	105,000	22,575
March	115,000	24,725
April	115,000	24,725
May	125,000	26,875
June	135,000	29,025
July	140,000	30,100
August	145,000	31,175
September	150,000	32,250
October	140,000	30,100
November	135,000	29,025
December	130,000	27,950
	<hr/>	<hr/>
	1,550,000	333,250
	<hr/>	<hr/>

NOTES:

Collection based on ratio of 10:70:15. to be collected 2:3:4 months after production respectively. 5% budgetted for doubtful debts.

2. Levies outstanding less doubtful debt as at end 1986 is K96,000 breakdown as follows:

Dec - K28,000. Nov - K27,000. Oct - K14,000. Sept & other months -K26,000.

NOTES TO BUDGETGeneral

All expenditure assumed to be paid in the month incurred.

1. Estimate to sell 120,000m<sup>3</sup> of logs at average FOB price US\$65p/m<sup>3</sup>, from which producer is to pay 2% as commission. Payment is by Letter of Credit and commission assumed to be paid in month of sales. Exchange rate K1.00 = US\$1.07. March cash inflow includes K17,396 paid in January for December 1986 sales. (SMA)
2. House at Le Hunte Road rented out at K350 per week commencing 1st February. Commission to housing agent at 7.5%. (FIC)
3. Current IBD of K60,000 with interest rate of 9% per annum. (FIC)
4. Represent propose overseas trips (inclusive airfare, hotel, entertainment & out-of-pocket expenses) as follows:

By SMA

Korea/Japan	2 trips x 2 persons at K5,000 per trip/person	
Taiwan	1 trip x 2 persons at K2,750	"
India	1 trip x 2 persons at K5,500	"
Australia	1 trip x 2 persons at K2,500	"
Europe	1 trip x 4 persons at K4,750	"

By FIC

Sealpa	2 trips x 2 persons at K3,500 per trip/person	
Sarawak	1 trip x 2 persons at K2,750	"

5. Represent 28 local trips of average 6 days duration per trip to oversee loading at Average K350 for airfare and K100 per day for hotel and out of pocket expenses. (JMS)
  6. Entertainment expenses K9,000 shared equally between FIC and SMA.
  7. Represent propose exhibitions (inclusive airfare, hotel, entertainment & out-of-pocket expenses) as follows: (FIC)
- |        |                                  |
|--------|----------------------------------|
| Europe | - 2 persons @ K4,000 per person. |
| Asia   | - 2 persons @ K3,050 per person. |
8. Estimated cost for 3 council meeting per year of 3 days duration per meeting for 10 members, of which 5 are from outside of Moresby.

Airfare (5 x 3 x K50)	= K5,250
Hotel & Car Hire (5 x 3 x 3 x K170)	= K7,650
Allowances (10 x 3 x 3 x K50)	= K4,500

9. Includes education allowance (K9,000) leave fare (K19,000) & gratuity (K16,625) and bonus (K5,600).

Total expenditure K196,226 of which K55,000 charged to SMA and balance K141,226 to FIC. (20.0%)

10. Expenses to be shared between FIC & SMA in following ratio.

Telephone & Telex	K42,000	FIC K12,600 (0.3)	SMA K29,400 (0.7)
Electricity & Water	K 8,400	FIC K 5,880 (0.7)	SMA K 2,520 (0.3)
Printing & Stationery	K 6,000	FIC K 4,200 (0.7)	SMA K 1,800 (0.3)
Bank Charges	K 2,400	FIC K 720 (0.3)	SMA K 1,680 (0.3)·7
Postage	K 1,800	FIC K 1,260 (0.7)	SMA K 540 (0.3)

11. Capital goods to be lease over 24 months @ estimate interest 14% p.a. with principal cost as follows: (FIC)

Photocopier	K 4,500
Word Processor	K 3,500
Motor Vehicle (less trade-in)	K12,000

**LOG SALES OF WHICH MONIES WERE WITHHELD  
BY B.S.P. AS PER INSTRUCTIONS OF FIC**

Date/Bank Ref	L/C No.	Gross US\$	Monies Withheld US\$	Net US\$	Kina Taken Up As Sales K
2/1/87 CSB 8039/5383	M1918612 EV00370	547,619.13	124,735.46	422,883.67	402,938.22
23/12/86 CSB 8039/5374	"	323,219.12	82,824.89	240,394.23	230,837.55
19/12/86 CSB 8039/5374	012-LC108625 Sanko Ltd.	387,023.30	129,217.29	257,806.01	248,847.50
4/12/86	M3218611NV 00025	552,388.01	122,074.71	430,313.30	417,577.19
26/11/86	BOM/CE/ 86115	91,955.43	30,470.59	61,484.84	60,061.38
25/11/86	"	127,454.52	46,006.23	81,448.29	79,353.36
20/11/86	M1917611 EV00331	420,022.95	106,405.81	308,016.84	300,768.32
28/10/86	BOM/20/86 2080	174,625.08	63,300.00	111,325.08	107,581.25
24/10/86	"	273,888.02	101,500.00	172,388.02	166,333.48
28/11/86	LC in favour of Shatin Bay	369,139.92	-	369,139.92	358,530.98

-----  
US\$806,534.98<sup>4</sup>  
=====

1. As per instruction from FIC this was remitted to Credit Soundview Shipping Limited account with Connecticut Bank, USA refer BSP letter dated 28/11/86 - US\$76,476.82.
2. Only the commission of K8,432.98 was recorded in the log sales analysis sheet.
3. The balance and the movements of this monies were not taken up in the accounts.

## APPENDIX 49 A

FIC SHIPMENTS DEDUCTIONS FROM BUYER PRICE

<u>PART SHIP PRODUCER</u>	<u>DESCRIPTION</u>
---------------------------	--------------------

## 1A. (STETTIN BAY)

The producer received K148,203.88 and FIC K6,639.61. Of the total FIC received 4.29%. There were no other agents. (Appendix 36.2).

## 1B. (TONOLEI)

The producer received K95,953.72 and FIC K3,974.28. Of the total FIC received 3.98%. There were no other agents (Appendix 36.2)

## 2A-B (KUMUSI)

FIC had an agreement to receive 3% of the FOB price to producer but neglected to deduct it. Other agents were the same as in 2C-H. (Appendix 36.3)

## 2C-H (STETTIN BAY)

FIC received 3% of the FOB price to producer. In addition it seems clear on the whole of shipment 2:-

- (a) Tri Une Produce Brokers of Bombay received USD2.00 per m<sup>3</sup> deducted from the letter of Credit; and
- (b) Pars Ram Bros of Brisbane received USD 8.00 per m<sup>3</sup>; and
- (c) Another agent may have received commission as well. (Appendix 36.3)

## 3. (WOODLARK)

FIC received USD 0.50 per m<sup>3</sup> and S.J.Park USD1.00 per m<sup>3</sup> (UNDISCLOSED) for an aggregate USD1.50 per m<sup>3</sup>. (Appendix 37).

## 4.A (TONOLEI)

The producer received K72,101.18 and FIC K1,849.32. Of the total FIC received 2.5%. There were no other agents. (Appendix 36.4)

## 4.B (KUMUSI)

The producer received K55,174.96 and FIC K823.77. Of the total FIC received 1.47%. (Appendix 36.4)

## 5. (WAWOI GUAVI)

FIC received USD0.50 per m<sup>3</sup> and S J Park USD1.00 per m<sup>3</sup> (UNDISCLOSED) for an aggregate USD1.50 per m<sup>3</sup>. FIC also deducted USD1,000.00 from freight payable on account of despatch but has not finalised such claim with either the shipper or shipowner.

Further FIC knew the producer was obliged to pay 6% of the disclosed FOB price to its contracted marketer making a total of 6% of disclosed FOB plus USD1.50 per m<sup>3</sup> (Appendix 38)

6A) (WAWOI GUAVI)  
6C)

FIC received 3% of the FOB price disclosed and paid to the producer. In addition FIC paid (UNDISCLOSED) S.J Park USD 1.00 per m<sup>3</sup> and was entitled to a further (UNDISCLOSED) USD1.00 per m<sup>3</sup> which Cowan misappropriated. Further FIC knew the producer was obliged to pay 6% of the disclosed FOB price to its contracted marketer. Total deductions were thus 9% of disclosed FOB price plus an undisclosed USD2.00 per m<sup>3</sup>. (Appendix 39.1)

## 6B. (ANGUS)

FIC received 3.5% of the understated FOB price disclosed to the producer. By fraudulent false accounting FIC received an additional USD2.50 per m<sup>3</sup> (payable to the producer on a true accounting) which Cowan misappropriated. (Appendix 39.2)

7A. (ULABO)  
7B. (B.F.E)

What occurred cannot be explained from FIC's records. On the face of things FIC planned USD0.50 per m<sup>3</sup> (DISCLOSED) commission plus USD1.00 per m<sup>3</sup> (UNDISCLOSED) for S J Park plus USD 0.50 per m<sup>3</sup> (UNDISCLOSED) freight differential. In the result

on 7A the producer received K226,835.18 and FIC K3,955.08. FIC thus received 1.71% of the total. In the result on 7B the producers received K369,635.68 and FIC K4617.05. FIC thus received 1.15% of the total. In addition on 7A Park received USD2431.66 and FIC was entitled to an additional USD 4040.24 which Cowan misappropriated. (Appendix 40)

8. (OPEN BAY)

FIC received 3% of the FOB price paid to producer. In addition FIC paid S.J Park USD 1.00 per m<sup>3</sup> (UNDISCLOSED). (Appendix 41)

9. (WAWOI GUAVI)

No commission was charged or paid at all. (Appendix 42)

10A. (BISMARK)

10B. (LEYTRAC)

These two parts were sold together as a parcel at an average price and thus the apparent massive profit and large loss respectively. On 10A FIC received 3% of the FOB price paid to producer and in addition paid S.J Park USD 1.00 per m<sup>3</sup> (UNDISCLOSED). (Appendix 43)

On 10B FIC received USD 2.00 per m<sup>3</sup> and paid S.J Park USD 1.00 per m<sup>3</sup> (UNDISCLOSED).

11A. )(AMAZON BAY)

11C )

FIC had an agreement to receive 3% of the FOB price paid to the producer but neglected to deduct it. It paid S.J Park an (UNDISCLOSED) USD1.00 per m<sup>3</sup>. (Appendix 44)

11B. (ANGUS)

FIC received 3.5% of the FOB price paid to producer. In addition it made a further (UNDISCLOSED) USD1.00 per m<sup>3</sup>. The total FIC percentage was 4.06%. (Appendix 44)

## 12A. (LAKI)

The original 3% contract was amended and FIC charged and was paid no commission at all. (Appendix 45.1)

## 12B.) (SANTA)

## 12C)

Again full explanation cannot be gleaned from FIC files and returns depend on whether the true freight rate was USD17 or USD17.50 per m<sup>3</sup>. FIC received 3% of the FOB price paid to the producer. In addition FIC received USD 1.00 per m<sup>3</sup>; S.J Park was paid USD1.00 per m<sup>3</sup>; USD 1.00 per m<sup>3</sup> was used to pay off Francis Sias loan and either USD1.00 or USD 0.50 per m<sup>3</sup> was paid as an addition on account of freight. The total deduction was 3% of FOB to producer plus either USD3.50 or USD 4.00 per m<sup>3</sup>. (Appendix 45.2)

## 12D.) (SANTA)

FIC received 3% of the FOB price paid to producer. (Appendix 45.2)

## 12F) (STETTIN BAY)

FIC received 3% of the FOB price paid to producer.

In addition on 12D Park was paid USD1.00 per m<sup>3</sup> (UNDISCLOSED). FIC also received on 12F a sum of K6460.30 against which it has to meet a defect claim of USD8,583.75. (Appendix 45.3)

## 13 (WAWOI GUAVI)

FIC received 50 toea per m<sup>3</sup> (DISCLOSED). It probably received a further USD0.50 per m<sup>3</sup> freight margin which has to be confirmed. (Appendix 42.2)

## 14. (ANGUS)

FIC received 3.5% of the FOB price paid to the producer. (Appendix 46)

## 15. (WAWOI GUAVI)

FIC received USD 0.50/m<sup>3</sup>. (Appendix 42.3)

FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA  
FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD  
ENDING 30TH JUNE, 1987

## FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA

## C O N T E N T S

1. MANAGEMENT LETTER
2. FINANCIAL STATEMENTS (APPENDIX 1)
3. 1987 BUDGET (APPENDIX 2)
4. LOG SALES OF WHICH MONIES WERE WITHHELD  
BY B.S.P. (APPENDIX 3)

JH/RAB/ts/A11\*6

27th August, 1987

Mr. Imari Trawa.  
Acting Executive Director,  
Forest Industries Council,  
P.O. Box 1829,  
PORT MORESBY

Dear Sir,

FINANCIAL STATEMENTS FOR THE SIX MONTHS  
PERIOD ENDED 30TH JUNE, 1987

1. We refer to your letter of 15th June, 1987 and to our letter of 26th June, 1987 in respect of our appointment to prepare financial statements for the Forest Industries Council for the six month period ended 30th June, 1987.
2. Enclosed herewith as Appendix 1 are the financial statements for the six month period ended 30th June, 1987.
3. We have prepared the enclosed Financial Statements from the books and records of the Forest Industries Council and information provided by officers of the Council. Under the terms of our engagement we have not audited the accounting records of the Forest Industries Council or the accompanying Financial Statements. Accordingly, we express no opinion on whether they present a true and fair view of the position or of the period's trading and no warranty of accuracy or reliability is given.
4. The financial statements have been prepared on the basis of the following assumptions:-
  - (a) Expenses during the six month period ended 30th June, 1987 were analysed by Kennedy Ako (Accountant FIC) and were correctly split into FIC normal operation and State Marketing Activity.
  - (b) In the absence of sufficient records to identify expenses paid for the State Marketing Activity, certain expenses were split between FIC normal operations and SMA using the following ratios provided in the 1987 budget:-

resident director  
Ron A Brash



	F.I.C.	S.M.A.
Electricity	70%	30%
Postage	70%	30%
Printing & Stationary	70%	30%
Telephone	30%	70%
Telex	30%	70%
Wages & Salaries	72%	28%
Bank Charges	30%	70%

- (c) Enclosed herewith as Appendix 2 is a copy of the 1987 budget obtained from the files of the Forest Industries Council.
5. During the course of our work in the preparation of the above Financial Statements we noted the following matters for your attention:-

(a) Accounts, Books and Records

- (i) Expenses for SMA and FIC were not identified on cheque vouchers, we have therefore relied upon explanations provided by Kennedy Ako, and the above ratios where applicable. We would presume that a percentage of the costs included in the Income and Expenditure Statement of FIC under 'conference, research and development costs, miscellaneous' relates to the SMA but no apportionment was possible because all vouchers were coded to FIC normal operations.
- (ii) It appears that the level of accounting knowledge of FIC staff is inadequate to produce the reliable management information you require. Kennedy Ako is the only person with any knowledge of the accounting system; i.e. bookkeeping, payroll, creditors and debtors. Due to this shortage of staff, the cash book for the six month period ended 30th June, 1987 was not completed until 27th July, 1987 and the accounting information given to us for the preparation of the financial statements was deficient.

The following accounting information requested by us was not available resulting in a delay in preparing the financial statements.

- Trial balance as at 30th June, 1987.
  - Schedule of travel advances at 30th June, 1987.
  - Accrued salaries payable at 30th June, 1987.
  - Accrued leave and annual leave fares payable at 30th June, 1987.
  - Provision for gratuity payments at 30th June, 1987.
  - Depreciation schedules for the six month period ended 30th June, 1987.
  - Sundry debtors schedule at 30th June, 1987.
  - Levies receivable summary at 30th June, 1987.
  - Accrued expenses schedule at 30th June, 1987.
  - Summary of commissions received/receivable at 30th June, 1987 which is reconciled with the cash receipts and cash payment book.
- (iii) Monthly profit and loss accounts with comparatives to budget and with variances, which we understand were meant to be prepared were not available for the months of January to June, 1987.
- (iv) Log production report for the month of June 1987 of levy paying companies were not received from Department of Forest in time for the preparation of June financial statements. Levy receivable for the month of June was calculated based on average receivable for the five month period to May 1987.
- (v) It appears that the levies receivable book does not show the invoice reference that was raised to levy paying companies. Furthermore there is no control card or schedule to reconcile the receivable book with the invoices raised by Forest Industries Council and with the cash received by FIC.
- (vi) It appears that the FIC computer is not being utilised for accounting purposes. We would be pleased to assist you in this matter.
- (vii) It appears also that there is a lack of internal control, as only one staff member is involved in the accounting operations of FIC.

(b) Log Sales

Further to our letter dated 6th August, 1987 enclosed as Appendix 3 is a schedule of log sales for which monies were withheld in US dollars by the Bank of South Pacific as per instructions.

- (c) The balance of the US dollar account at 6th April, 1987 of US\$11,863.02 (K10,711.53) was transferred to FIC's cheque account with the Bank of South Pacific, Waigani. In the absence of details of the movement of the US dollar account, the amount transferred of K10,711.53 was taken up in the profit and loss account as commission received.
- (d) It appears that FIC continued to act in a trustee position on behalf of a company called Angus Limited whereby FIC would receive money on behalf of Angus and pay expenses for them when requested.
6. Because such matters raised above are not within our present scope of engagement, we cannot comment on the apparent irregularities, but strongly suggest such matters are investigated at your earliest convenience.
7. There are several other areas in which we have found apparent irregularities, and we would be happy to discuss these with you. The areas that should be looked at are as follows:-
- (a) Contracts of employment.
  - (b) Salary and wages/termination payments.
  - (c) Expenses not relating to FIC operations.
  - (d) FIC's role as manager/trustee.
  - (e) Operations of offshore US dollar accounts.
  - (f) Recording of log sales on a shipment by shipment basis.
8. We strongly recommend that you undertake a complete review of your accounting and reporting systems and suggest a detailed audit of transactions and year end balances.
9. With our experience in the logging industry, we would be prepared to undertake the following work on a consultancy basis:-
- (a) Review of accounting system.
  - (b) Audit.
  - (c) Review of current computer system.
  - (d) Set up a system of management reporting.
10. Should you wish to discuss the contents of this letter in further detail, please do not hesitate to contact this office.

Yours faithfully,

*Ernest L. L. L.*

## FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA

FINANCIAL STATEMENTS - 30TH JUNE, 1987

## I N D E X

## Page

1	Declaration by Management
2	Accountants' Statement
3	Balance Sheet
4-7	Notes to the Financial Statements
8	Detailed Profit and Loss Statement
9	Trading Statement Forest Industries Council
10	Trading Statement State Marketing Agency

## FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA

## DECLARATION BY MANAGEMENT

In our opinion the accompanying Statement of Income and Expenditure and Balance Sheet and Notes to and forming part of the Financial Statements of the Forest Industries Council of Papua New Guinea have been drawn up from the accounts and records of the Council and are in agreement herewith.

.....  
Chairman

.....  
Executive Director

## FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA

## ACCOUNTANTS' STATEMENT

The accompanying accounts have been prepared by us from records, information and instructions furnished to us by the abovenamed client. As our instructions did not include an audit we have not audited the accounts and we as accountants responsible for the preparation of the accounts do not express any opinion as to whether they present a true and fair view of the position and of the operating results for the period, and neither we nor any of our employees accept any responsibility for the accuracy of the material from which the accounts have been prepared. Further, the accounts have been prepared at the request of and for the purpose of the abovementioned client only and neither we nor any of our employees accept any responsibility on any ground whatsoever to any other party.

COOPERS &amp; LYBRAND

Signed at                      this                      day of                      1987.

## FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA

BALANCE SHEET  
AS AT 30TH JUNE, 1987

	NOTES	30.6.87 K	31. 12.86 K
Forest Industries Council fund	2	493,813 =====	465,229 =====
Represented by:			
CURRENT ASSETS			
Cash on hand and at Bank		22,158	307,262
Interest Bearing Deposit		87,346	70,883
Receivable	3	118,429	102,900
Security Deposit		1,213	1,213
Sundry Debtors & Prepayments		30,917	11,601
		-----	-----
		260,063	493,859
		-----	-----
LESS			
CURRENT LIABILITIES			
Monies held in trust	5	-	269,063
Trade Creditors			
and Accruals		98,419	99,610
		-----	-----
		98,419	368,673
		-----	-----
NET CURRENT ASSETS		161,644	125,186
FIXED ASSETS	4	332,169	340,043
		-----	-----
NET ASSETS		493,813	465,229
		=====	=====

The above statement is to be read in conjunction  
with the notes hereto.

These accounts are unaudited - refer Accountants' Statement.

## FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30TH JUNE. 1987

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Set out hereunder are the significant accounting policies adopted by the company in the preparation of its financial statements for the period ended 30th June, 1987. Unless otherwise stated, such accounting policies were also adopted in the preceding year.

(a) Historical Cost Convention

The financial statements have been prepared under the historical cost convention and have not been adjusted to take account of the current costs of specific assets or their impact on the operating results, or changes in the general purchasing power of the kina. Except to the extent of a revaluation of leasehold land and buildings.

(b) Depreciation

Depreciation is calculated on a straight line basis so as to write off the net costs of the various classes of fixed assets during their effective working lives. Additions are depreciated from the date of purchase in the year of acquisition.

The principal annual rates in use are:-

Staff House and Improvements	5%
Motor vehicles	20%
Office & House Equipment	20%
Office Furniture & House Furniture	12 1/2%
Office Building	5%

(c) Income Tax

Income of the Forest Industries Council is exempt from Income Tax under Section 23(c) of the Income Tax Act.

(d) State Marketing Activity

The State Marketing Activity commenced operation on 1 October, 1986 and ceased operation on 30th April, 1987.

(e) Monies Held in US Dollars

The balance at 31 December, 1986 and the movements of this account during the period were not reported in the financial statements. The balance of this account at 6 April, 1987 was transferred to the cheque account. Refer Note 2.

These financial statements are unaudited - see page 3.

## FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30TH JUNE, 1987

## 2. Council Fund

	30.6.87 K	31.12.86 K
Forest Industries Council Fund	465,229	592,169
Operating Profit/(Loss)	28,584	(126,940)
	-----	-----
	493,813	465,229
	=====	=====

## 3. Receivable

Interest Receivable	1,576	1,337
Commission Receivable	-	17,396
Levies Receivable	147,384	114,698
	-----	-----
	148,960	133,431
Less Provision for doubtful debts	30,531	30,531
	-----	-----
	118,429	102,900
	=====	=====

## 4. (a) Fixed Assets are included in the accounts on the following basis:

	30.6.87 K	31.12.86 K
Office Building - Cost	277,280	277,280
Less Accumulated Depreciation	38,222	31,290
	-----	-----
	239,058	245,990
	=====	=====
Staff Housing - Cost	67,755	67,755
Less Accumulated Depreciation	23,719	22,025
	-----	-----
	44,036	45,730
	=====	=====
Motor Vehicle - Cost	16,888	24,092
Less Accumulated Depreciation	5,149	10,663
	-----	-----
	11,739	13,429
	=====	=====

## FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30TH JUNE, 1987  
(CON'T)

	31.6.87 K	31.12.86 K
Office Equipment - Cost	48,449	40,918
Less Accumulated Depreciation	24,733	21,094
	-----	-----
	23,716	19,824
	=====	=====
Office Furniture & Fittings	16,859	16,859
Less Accumulated Depreciation	7,037	6,144
	-----	-----
	9,822	10,715
	=====	=====
House Equipment - Cost	4,919	4,919
Less Accumulated Depreciation	4,516	4,272
	-----	-----
	403	647
	=====	=====
House Furniture & Fittings	7,948	7,948
Less Accumulated Depreciation	4,553	4,240
	-----	-----
	3,395	3,708
	=====	=====
Total - Cost	440,098	439,771
Less Accumulated Depreciation	107,929	99,728
	-----	-----
	332,169	340,043
	=====	=====

These accounts are unaudited - refer Accountants' Statement.

## FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30TH JUNE, 1987  
(CON'T)5. Monies Held in Trust - Angus Pty. Limited

An amount of K191,277.73 was deposited into interest bearing deposit resulting to an interest income of K4,149.79. This interest income was taken up in the profit and loss account as interest income of Forest Industries Council. An amount equivalent to US\$200,000 was paid to Sanko Co. Limited - Tokyo, Japan on 22nd April, 1987. This resulted to a gain from foreign exchange of K9,045.38 which was disclosed in the profit and loss account as other income.

6. Other Income

Interest income from interest bearing deposit	9,010
Foreign exchange gains	9,045
Other income	2,064
	-----
	K20,119
	=====

7. Monies Held in US Dollars

The balance of the US dollars account on 6th April, 1987 was transferred to Forest Industries Council cheque account with Bank of South Pacific, Waigani. The balance transferred was K10,715.53 and this was disclosed in the profit and loss account as commission received.

These accounts are unaudited - refer Accountants' Statement.

## FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA

DETAILED PROFIT AND LOSS STATEMENT  
FOR THE PERIOD ENDED 30TH JUNE, 1987

	Notes	30.6.87 K	31.12.86 K
<b>REVENUE</b>			
Forest Industries Council		46,377	(93,860)
State Marketing Activity		7,635	28,694
Other Income Received	5 & 6	20,119	14,246
		-----	-----
<b>TOTAL INCOME</b>		74,131	(50,920)
			-----
<b>LESS</b>			
Audit and Accountancy fees		9,021	3,000
Advertising		37	-
Accommodation		340	-
Bad debts		-	3,488
Consultant fees		4,355	5,946
Depreciation		15,405	28,223
General expenses		2,101	6,409
Insurance		4,834	4,475
Motor vehicle expenses		-	-
Medical expenses		1,093	162
Profit/loss on disposal		(1,199)	-
Rent & rates		7,138	10,240
Repairs & maintenance		1,335	10,460
Subscriptions & publications-		1,742	-
Superannuation		988	2,333
		-----	-----
<b>OVERHEAD EXPENSES</b>		45,547	76,478
		-----	-----
<b>OPERATING PROFIT/(LOSS)</b>		28,584	(127,398)
Prior Year Adjustments		-	458
		-----	-----
<b>Operating Profit(Loss) After Extraordinary Items</b>		K28,584 =====	(K126,940) =====

The above statement is to be read in conjunction  
with the notes hereto.

These accounts are unaudited - refer Accountants' Statement.

## FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA

FOREST INDUSTRIES COUNCIL  
FOR THE PERIOD ENDED 30TH JUNE, 1987

	30.6.87 K	31.12.86 K
Levies Received	159,249	221,305
Levies Receivable	32,685	114,698
	-----	-----
TOTAL INCOME	191,934	336,003
	-----	-----
LESS		
Advertising	86	612
Accommodation	4,411	26,164
Bank charges	154	958
Electricity	2,311	6,507
Entertainment	1,656	18,280
Freight	451	-
Log costs & samples	506	45
Conference, research/ dev. travel	12,405	44,245
Meetings	11,288	19,234
Motor vehicle expenses	3,594	10,494
Postage	367	1,375
Printing & stationery	4,382	6,087
Salaries, wages & recruitment	55,680	174,744
Other staff housing expenses	6,915	1,474
Annual leave & leave fares	12,977	42,798
Telephone & telex	7,213	25,898
Timber training	-	4,126
Travelling expenses	21,161	46,822
	-----	-----
	145,557	429,863
	-----	-----
	46,377	(93,860)
	=====	=====

These accounts are unaudited - refer Accountants' Statement.

## FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA

STATE MARKETING AGENCY  
FOR THE PERIOD ENDED 30TH JUNE, 1987

		30.6.87 K	31.12.86 K
Commission Received (Note 7)		68,534	48,331
Commission Receivable		-	17,396
		-----	-----
TOTAL INCOME		68,534	65,727
		-----	-----
LESS			
Advertising	1,375		-
Accommodation	2,249		385
Bank charges	4,204		645
Conference, research/dev. travel	-		536
Electricity	783		606
Entertainment	2,685		1,353
Freight	8,127		-
Meetings	3,917		144
Car expenses	247		95
Postages	135		111
Printing & stationery	1,017		1,021
Salaries, wages & recruitment	17,961		15,541
Annual leave & leave fares	(2,479)		2,277
Telephone & telex	16,830		10,443
Travelling expenses	3,848		3,876
	-----		-----
DIRECT EXPENSES		60,899	37,033
		-----	-----
		7,635	28,694
		=====	=====

These accounts are unaudited - refer Accountants' Statement.

FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA  
CONSOLIDATED BUDGETTED CASH FLOW (QUARTERLY) FOR 1987

	<u>TOTAL</u>	<u>MARCH</u>	<u>JUNE</u>	<u>SEPT</u>	<u>DEC</u>	<u>NOTES</u>
OPENING BALANCE/(DEFICIT)	38,199	38,199	( 4,390)	( 2,996)	11,783	
<u>CASH INFLOW</u>						
Levies	322,324	88,523	68,929	76,501	88,371	Schedule A
Commission	163,196	53,846	36,450	36,450	36,450	1
Rental	15,433	2,806	4,209	4,209	4,209	2
Interest	5,400	—	2,700	—	2,700	3
Sundry debtors - 1986	9,836	9,836				
	<u>516,189</u>	<u>155,011</u>	<u>112,288</u>	<u>117,160</u>	<u>131,730</u>	
 TOTAL CASH INFLOW	 554,388	 193,210	 107,898	 114,164	 143,513	
<u>CASH OUTFLOW</u>						
<u>Promotion &amp; Marketing</u>						
Conference, Promotion & Marketing						
. Overseas	80,000	18,000	29,000	17,500	15,500	4
. Local	26,600	6,650	6,650	6,650	6,650	5
Entertainment	9,000	2,250	2,250	2,250	2,250	6
Exhibitions	14,100	—	—	8,000	6,100	7
Sponsorship	10,000	2,500	2,500	2,500	2,500	
	<u>139,700</u>	<u>29,400</u>	<u>40,400</u>	<u>36,900</u>	<u>33,000</u>	
 <u>Management &amp; Staff</u>						
Council Meeting expenses	17,400	5,800	—	5,800	5,800	8
Wages & Staff benefits	196,226	45,500	44,813	36,500	69,413	9
House rental & expenses	10,200	2,550	2,550	2,550	2,550	
Recruitment & staff training	5,000	—	2,500	—	2,500	
	<u>228,326</u>	<u>53,850</u>	<u>49,363</u>	<u>44,350</u>	<u>80,263</u>	

	<u>TOTAL</u>	<u>MARCH</u>	<u>JUNE</u>	<u>SEPT</u>	<u>DEC</u>	<u>NOTES</u>
<u>General &amp; Administration</u>						
Telephone & Telex	42,000	10,500	10,500	10,500	10,500	10
Electricity & Water	8,400	2,100	2,100	2,100	2,100	10
Printing & Stationery	6,000	1,500	1,500	1,500	1,500	10
Bank Charges	2,400	600	600	600	600	10
Postage	1,800	450	450	450	450	10
Insurance	4,500	4,500	-	-	-	
Accountancy & Audit fees	3,500	-	-	-	3,500	
Professional fees	3,000	750	750	750	750	
Repairs & M'ce - Off/Eqpt	3,600	900	900	900	900	
Vehicle running expenses	4,800	1,200	1,200	1,200	1,200	
Publications & Subscriptions	1,800	450	450	450	450	
General office expenses	3,600	900	900	900	900	
	<u>85,400</u>	<u>23,850</u>	<u>19,350</u>	<u>19,350</u>	<u>22,850</u>	
<u>Accruals - 1986</u>	86,000	86,000	-	-	-	
<u>Capital Expenditure</u>						
Computer	4,500	4,500	-	-	-	
Photocopier	2,160	-	720	720	720	11
Word Processor	1,683	-	561	561	561	11
Motor Vehicle	1,920	-	-	-	1,920	11
	<u>10,263</u>	<u>4,500</u>	<u>1,281</u>	<u>1,281</u>	<u>3,201</u>	
 TOTAL CASH OUTFLOW	 550,189	 197,600	 110,894	 102,381	 139,314	
 CLOSING BALANCE/(DEFICIT)	 <u>4,199</u>	 <u>( 4,390)</u>	 <u>( 2,996)</u>	 <u>11,733</u>	 <u>4,199</u>	

## FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA

CONSOLIDATED BUDGETTED INCOME AND EXPENDITURE STATEMENT (QUARTERLY) FOR 1987

	<u>TOTAL</u>	<u>MARCH</u>	<u>JUNE</u>	<u>SEPT</u>	<u>DEC</u>	<u>NOTES</u>
<u>INCOME</u>						
Levies	333,250	72,025	80,625	93,525	87,075	Schedu A
Commission	145,800	36,450	36,450	36,450	36,450	1
Rental	15,433	2,806	4,209	4,209	4,209	2
Interest	5,400	1,350	1,350	1,350	1,350	3
	<u>499,883</u>	<u>112,631</u>	<u>122,634</u>	<u>135,534</u>	<u>129,084</u>	
<u>EXPENDITURE</u>						
<u>Promotion &amp; Marketing</u>						
Conferences, Promotion & Marketing						
. Overseas	80,000	18,000	29,000	17,500	15,500	4
. Local	26,600	6,650	6,650	6,650	6,650	5
Entertainment	9,000	2,250	2,250	2,250	2,250	6
Exhibitions	14,100	-	-	8,000	6,100	7
Sponsorship	10,000	2,500	2,500	2,500	2,500	
	<u>139,700</u>	<u>29,400</u>	<u>40,400</u>	<u>36,900</u>	<u>33,000</u>	
<u>Management &amp; Staff</u>						
Council Meeting expenses	17,400	5,800	-	5,800	5,800	8
Wages & Staff benefits	196,226	45,500	44,313	36,500	69,413	9
House rental & expenses	10,200	2,550	2,550	2,550	2,550	
Recruitment & staff training	5,000	-	2,500	-	2,500	
	<u>228,326</u>	<u>53,850</u>	<u>49,863</u>	<u>44,850</u>	<u>80,263</u>	

	<u>TOTAL</u>	<u>MARCH</u>	<u>JUNE</u>	<u>SEPT</u>	<u>DEC</u>	<u>NOTE</u>
<u>General &amp; Administration</u>						
Telephone & Telex	42,000	10,500	10,500	10,500	10,500	10
Electricity & Water	8,400	2,100	2,100	2,100	2,100	10
Printing & Stationery	6,000	1,500	1,500	1,500	1,500	10
Bank Charges	2,400	600	600	600	600	10
Postage	1,800	450	450	450	450	10
Insurance	4,500	1,125	1,125	1,125	1,125	
Accountancy & Audit fees	3,500	875	875	875	875	
Professional fees	3,000	750	750	750	750	
Repairs & M'ce - Off/Eqpt	3,600	900	900	900	900	
Vehicle running expenses	4,800	1,200	1,200	1,200	1,200	
Publications & subscriptions	1,800	450	450	450	450	
Lease rental	5,763	-	1,281	1,281	3,201	11
General Office expenses	3,600	900	900	900	900	
Doubtful debts	4,200	1,050	1,050	1,050	1,050	
Depreciation	27,600	6,900	6,900	6,900	6,900	
	<u>122,963</u>	<u>29,300</u>	<u>30,581</u>	<u>30,581</u>	<u>32,501</u>	
 TOTAL EXPENDITURE	 491,489	 112,550	 120,844	 112,331	 145,764	
 EXCESS/(DEFICIT) OF INCOME OVER EXPENDITURE	 <u>8,394</u>	 <u>81</u>	 <u>1,790</u>	 <u>23,203</u>	 <u>16,680</u>	

FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA  
EXCLUDE STATE MARKETING AGENCY

BUDGETTED CASH FLOW (QUARTERLY) FOR 1987

	<u>TOTAL</u>	<u>MARCH</u>	<u>JUNE</u>	<u>SEPT</u>	<u>DEC</u>	<u>NOTES</u>
OPENING BALANCE/(DEFICIT)	38,199	38,199	(20,282)	( 72)	6,711	
<u>CASH INFLOW</u>						
Levies	322,324	88,523	68,929	76,501	88,371	Schedule A
Rental	15,433	2,806	4,209	4,209	4,209	2
Interest	5,400	-	2,700	-	2,700	3
Sundry Debtors - 1986	9,836	9,836				
	<u>352,993</u>	<u>101,165</u>	<u>75,838</u>	<u>80,710</u>	<u>95,280</u>	
TOTAL CASH INFLOW	391,192	139,364	55,556	80,638	101,991	
<u>CASH OUTFLOW</u>						
<u>Promotion &amp; Marketing</u>						
Conferences, Promotion						
Overseas	19,500	7,000	-	7,000	5,500	4
Entertainment	4,500	1,125	1,125	1,125	1,125	6
Exhibitions	14,100	-	-	8,000	6,100	7
Sponsorship	10,000	2,500	2,500	2,500	2,500	
	<u>48,100</u>	<u>10,625</u>	<u>3,625</u>	<u>18,625</u>	<u>15,225</u>	
<u>Management &amp; Staff</u>						
Council Meeting expenses	17,400	5,800	-	5,800	5,800	8
Wages & Staff benefits	141,226	35,306	35,307	35,306	35,307	9
House rental & expenses	10,200	2,550	2,550	2,550	2,550	
Recruitment & staff training	5,000	-	2,500	-	2,500	
	<u>173,826</u>	<u>43,656</u>	<u>40,357</u>	<u>43,656</u>	<u>46,157</u>	

	<u>TOTAL</u>	<u>MARCH</u>	<u>JUNE</u>	<u>SEPT</u>	<u>DEC</u>	<u>NOV</u>
<u>General &amp; Administration</u>						
Telephone & Telex	12,600	3,150	3,150	3,150	3,150	
Electricity & Water	5,880	1,470	1,470	1,470	1,470	
Printing & Stationery	4,200	1,050	1,050	1,050	1,050	
Bank Charges	720	180	180	180	180	
Postage	1,260	315	315	315	315	
Insurance	4,500	4,500	-	-	-	
Accountancy & Audit fees	3,500	-	-	-	3,500	
Professional fees	3,000	750	750	750	750	
Repairs & M'ce - Off/Eqpt	3,600	900	900	900	900	
Vehicle running expenses	4,800	1,200	1,200	1,200	1,200	
Publications & Subscriptions	1,800	450	450	450	450	
General office expenses	3,600	900	900	900	900	
	<u>49,460</u>	<u>14,865</u>	<u>10,365</u>	<u>10,365</u>	<u>13,865</u>	
Accruals - 1986	86,000	86,000	-	-	-	
<u>Capital Expenditure</u>						
Computer	4,500	4,500	-	-	-	
Photocopier	2,160	-	720	720	720	1
Word Processor	1,683	-	561	561	561	1
Motor Vehicle	1,920	-	-	-	1,920	1
	<u>10,263</u>	<u>4,500</u>	<u>1,281</u>	<u>1,281</u>	<u>3,201</u>	
TOTAL CASH OUTFLOW	367,649	159,646	55,628	73,927	78,448	
CLOSING BALANCE/(DEFICIT)	<u>23,543</u>	<u>( 20,282)</u>	<u>( 72)</u>	<u>6,711</u>	<u>23,543</u>	

FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA  
EXCLUDE STATE MARKETING AGENCY

APPENDIX  
**634**

BUDGETED INCOME AND EXPENDITURE STATEMENT (QUARTERLY) FOR 1987

	<u>TOTAL</u>	<u>MARCH</u>	<u>JUNE</u>	<u>SEPT</u>	<u>DEC</u>	<u>NOTES</u>
<u>INCOME</u>						
Levies	333,250	72,025	80,625	93,525	87,075	Schedule A
Rental	15,433	2,806	4,209	4,209	4,209	2
Interest	5,400	1,350	1,350	1,350	1,350	3
	<u>354,083</u>	<u>76,181</u>	<u>86,184</u>	<u>99,084</u>	<u>92,634</u>	
<u>EXPENDITURE</u>						
<u>Promotion &amp; Expenses</u>						
Conferences & Promotion						
Overseas	19,500	7,000	-	7,000	5,500	4
Entertainment	4,500	1,125	1,125	1,125	1,125	6
Exhibitions	14,100	-	-	8,000	6,100	7
Sponsorship	10,000	2,500	2,500	2,500	2,500	
	<u>48,100</u>	<u>10,625</u>	<u>3,625</u>	<u>18,625</u>	<u>15,225</u>	
<u>Management &amp; Staff</u>						
Council Meeting expenses	17,400	5,800	-	5,800	5,800	8
Wages & Staff benefits	141,226	35,306	35,307	35,306	35,307	9
House rental & expenses	10,200	2,550	2,550	2,550	2,550	
Recruitment & staff training	5,000	-	2,500	-	2,500	
	<u>173,826</u>	<u>43,656</u>	<u>40,357</u>	<u>43,656</u>	<u>46,157</u>	

	<u>TOTAL</u>	<u>MARCH</u>	<u>JUNE</u>	<u>SEPT</u>	<u>DEC</u>	<u>NOT</u>
<u>General &amp; Administration</u>						
Telephone & Telex	12,600	3,150	3,150	3,150	3,150	10
Electricity & Water	5,880	1,470	1,470	1,470	1,470	10
Printing & Stationery	4,200	1,050	1,050	1,050	1,050	10
Insurance	4,500	1,125	1,125	1,125	1,125	
Accountancy & Audit fees	3,500	875	875	875	875	
Professional fees	3,000	750	750	750	750	
Repairs & M'ce - Off/Eqpt	3,600	900	900	900	900	
Bank Charges	720	180	180	180	180	10
Postage	1,260	315	315	315	315	10
Vehicle running expenses	4,800	1,200	1,200	1,200	1,200	
Publications & subscriptions	1,800	450	450	450	450	
Lease rental	5,763	-	1,281	1,281	3,201	1
General Office expenses	3,600	900	900	900	900	
Doubtful debts	4,200	1,050	1,050	1,050	1,050	
Depreciation	27,600	6,900	6,900	6,900	6,900	
	<u>87,023</u>	<u>20,315</u>	<u>21,596</u>	<u>21,596</u>	<u>23,516</u>	
 TOTAL EXPENDITURE	 308,949	 74,596	 65,578	 83,877	 84,898	
 EXCESS/ (DEFICIT) OF INCOME OVER EXPENDITURE	 <u>45,134</u>	 <u>1,585</u>	 <u>20,606</u>	 <u>15,207</u>	 <u>7,736</u>	

FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA  
STATE MARKETING AGENCY

Appendix E

A) BUDGETTED INCOME AND EXPENDITURE STATEMENT (QUARTERLY) FOR 1987

	<u>TOTAL</u>	<u>MARCH</u>	<u>JUNE</u>	<u>SEPT</u>	<u>DEC</u>	<u>NOTES</u>
<u>INCOME</u>						
Commission	145,800	36,450	36,450	36,450	36,450	1
<u>EXPENDITURE</u>						
<u>Promotion &amp; Marketing</u>						
Promotion & Marketing						
. Overseas	60,500	11,000	29,000	10,500	10,000	4
. Local	26,600	6,650	6,650	6,650	6,650	5
Entertainment	4,500	1,125	1,125	1,125	1,125	6
	<u>91,600</u>	<u>18,775</u>	<u>36,775</u>	<u>18,275</u>	<u>17,775</u>	
<u>Management &amp; Staff</u>						
Wages & staff benefits	55,000	13,750	13,750	13,750	13,750	9
<u>Administration</u>						
Telephone & Telex	29,400	7,350	7,350	7,350	7,350	10
Electricity & Water	2,520	630	630	630	630	10
Printing & Stationery	1,800	450	450	450	450	10
Bank Charges	1,680	420	420	420	420	10
Postage	540	135	135	135	135	10
	<u>35,940</u>	<u>8,985</u>	<u>8,985</u>	<u>8,985</u>	<u>8,985</u>	
TOTAL EXPENDITURE	182,540	41,510	59,510	41,010	40,510	
EXCESS/(DEFICIT) OF INCOME OVER EXPENDITURE	( 36,740)	( 5,060)	(23,060)	( 4,560)	( 4,060)	

B) BUDGETTED CASH FLOW (QUARTERLY) FOR 1987

OPENING BALANCE/(DEFICIT)	0	0	12,336	(10,724)	(15,284)
CASH INFLOW - COMMISSION	<u>163,196</u>	<u>53,846</u>	<u>48,786</u>	<u>25,736</u>	<u>21,166</u>
TOTAL CASH INFLOW	163,196	53,846	48,786	25,736	21,166
CASH OUTFLOW - EXPENDITURE	<u>182,540</u>	<u>41,510</u>	<u>59,510</u>	<u>41,010</u>	<u>40,510</u>
CLOSING BALANCE/(DEFICIT)	( 19,344)	12,336	10,724	15,284	19,344

## FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA

637

BUDGETTED BALANCE SHEET AT 31 DECEMBER 1987

FIXED ASSETS @ B.V.

K316,943

CURRENT ASSETS

Receivable	K90,893
Interest Bearing Deposit	60,000
Security deposit	1,212
Cash at bank and in hand	4,199

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156,304

NET ASSETS

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473,247

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FOREST INDUSTRIES COUNCIL FUND

Balance 1 January 1987

464,853

Add: Excess of income over expenditure  
for the year

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8,394

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473,247

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## SCHEDULE A

638

BUDGETTED LEVIES RECEIVABLE FOR 1987

<u>Month</u>	<u>Quantity (m3)</u>	<u>Value (K)</u>
January	115,000	24,725
February	105,000	22,575
March	115,000	24,725
April	115,000	24,725
May	125,000	26,875
June	135,000	29,025
July	140,000	30,100
August	145,000	31,175
September	150,000	32,250
October	140,000	30,100
November	135,000	29,025
December	130,000	27,950
	<hr/>	<hr/>
	1,550,000	333,250
	<hr/>	<hr/>

NOTES

1. Collection based on ratio of 10:70:15 to be collected 2:3:4 months after production respectively. 5% budgetted for doubtful debts.
2. Levies outstanding less doubtful debt as at end 1986 is K96,000 breakdown as follows:

Dec - K28,000. Nov - K27,000. Oct - K14,000. Sept & other months -K26,000.

NOTES TO BUDGETGeneral

All expenditure assumed to be paid in the month incurred.

1. Estimate to sell 120,000m<sup>3</sup> of logs at average FOB price US\$65p/m<sup>3</sup>, from which producer is to pay 2% as commission. Payment is by Letter of Credit and commission assumed to be paid in month of sales. Exchange rate K1.00 = US\$1.07. March cash inflow includes K17,396 paid in January for December 1986 sales.
2. House at Le Hunte Road rented out at K350 per week commencing 1st February. Commission to housing agent at 7.5%. FIC
3. Current IBD of K60,000 with interest rate of 9% per annum.
4. Represent propose overseas trips (inclusive airfare, hotel, entertainment & out-of-pocket expenses) as follows:

By SMA

Korea/Japan	2 trips x 2 persons at K5,000 per trip/person	
Taiwan	1 trip x 2 persons at K2,750	"
India	1 trip x 2 persons at K5,500	"
Australia	1 trip x 2 persons at K2,500	"
Europe	1 trip x 4 persons at K4,750	"

By FIC

Sealpa	2 trips x 2 persons at K3,500 per trip/person	
Sarawak	1 trip x 2 persons at K2,750	"

5. Represent 28 local trips of average 6 days duration per trip to oversee loading at Average K350 for airfare and K100 per day for hotel and out of pocket expenses.
6. Entertainment expenses K9,000 shared equally between FIC and SMA.
7. Represent propose exhibitions (inclusive airfare, hotel, entertainment & out-of-pocket expenses) as follows:
 

Europe	- 2 persons @ K4,000 per person.
Asia	- 2 persons @ K3,050 per person.
8. Estimated cost for 3 council meeting per year of 3 days duration per meeting for 10 members, of which 5 are from outside of Moroby.
 

Airfare (5 x 3 x K350)	= K5,250
Hotel & Car Hire (5 x 3 x 3 x K170)	= K7,650
Allowances (10 x 3 x 3 x K50)	= K4,500

9. Includes education allowance (K9,000) leave fare (K19,000) & gratuity (K16,625) and bonus (K5,600).

Total expenditure K196,226 of which K55,000 charged to SMA and balance K141,226 to FIC.

10. Expenses to be shared between FIC & SMA in following ratio.

Telephone & Telex	K42,000	FIC K12,600 (0.3)	SMA K29,400 (0.7)
Electricity & Water	K 8,400	FIC K 5,880 (0.7)	SMA K 2,520 (0.3)
Printing & Stationery	K 6,000	FIC K 4,200 (0.7)	SMA K 1,800 (0.3)
Bank Charges	K 2,400	FIC K 720 (0.3)	SMA K 1,680 (0.3)·7
Postage	K 1,800	FIC K 1,260 (0.7)	SMA K 540 (0.3)

11. Capital goods to be lease over 24 months @ estimate interest 14% p.a. with principal cost as follows:

Photocopier	K 4,500
Word Processor	K 3,500
Motor Vehicle (less trade-in)	K12,000

LOG SALES OF WHICH MONIES WERE WITHHELD BY B.S.P.  
AS PER INSTRUCTIONS OF F.I.C.

Date/Bank Ref	L/C No.	Gross US\$	Monies Withheld US\$	Net US\$	Kina Taken Up as Sales
29/12/87 CSB 8039/5381	M3222612NU 00018	312,222.61	59,556.90(1)	252,665.71	-
5/1/87 CSB 8039/5384	M3218612NU 00018	634,668.32	125,916.15	508,752.17	484,249.16
13/1/87 CSB 8039/5385	M1621612NU 00040	368,457.14	5,582.68	362,874.46	344,904.91
9/2/87 CSB 8039/5397	M2027701NU 00057	387,572.99	78,569.77	309,003.22	291,127.96
9/2/87 CSB 8039/5398	M2701701NU 00057	397,291.10	90,946.14	306,344.96	288,623.47

Date/Bank Ref	L/C No.	Gross US\$	Monies Withheld US\$	Net US\$	Kina Taken Up as Sales
9/2/87 CSB 8039/5396	60F2/02330	58,944.27	6,934.62	52,009.65	49,000.98
9/2/87 CSB 8039/5395	60F2/02330	77,965.57	9,172.42	68,793.15	64,673.45
10/2/87 CSB 8039/5399	M0612701NU 00025	219,872.98	52,259.81	167,613.17	157,634.88
24/2/87 CSB 8039/5402	M6701702NU	214,851.81	54,360.10	160,491.71	150,994.17
24/2/87 CSB 8039/5409	M6701702NU - 00299	105,312.64	26,645.37	78,667.27	73,872.91
26/2/87 CSB 8039/5407	BSB876002	131,646.02	32,911.50	98,734.52	92,612.81

Date/Bank Ref	L/C No.	Gross US\$	Monies Withheld US\$	Net US\$	Kina Taken Up as Sales
10/3/87 CSB 8039/5415	BSN876002	271,923.39	51,940.42	219,982.97	204,654.35
10/3/87 CSB 8039/5416	GJ9517410	718,001.48	133,203.89	584,797.59	544,048.36
17/3/87 CSB 8039/5424	L/C00387027 4CC	237,027.70	67,429.73	169,597.97	155,096.45
		----- 4,135,758.02 =====	----- 795,429.50 =====	----- 3,340,328.52 =====	

1. Net commission of K7,302.85 was recorded in 1986 accounts.



RECV'D

6 11 20 JUL 1988

## AUDITOR-GENERAL'S OFFICE

TELEPHONE: 276200  
FAX: 252872  
TELEX: NE23492

P.O. BOX 4039,  
BOROKO,  
PAPUA NEW GUINEA.

The Chairman  
Forest Industries Council  
P O Box 1829  
PORT MORESBY  
National Capital District

Date: 18 July, 1988  
Our Reference: 30-21-4  
Action Officer:  
Designation:  
Your Reference:  
Date:

Dear Sir,

1986 AUDIT OF THE FOREST INDUSTRIES COUNCIL

The audit of the accounts and records of the Forest Industries Council of Papua New Guinea for the year ended 31st December 1986 has been completed.

The Council's accounting system was fundamentally weak and ineffective in safeguarding the Council's assets and in providing the essential information needed by management for operating and financial control.

I am enclosing separately a Schedule of the Findings and Recommendations indicating the weaknesses noted during the audit and the recommended remedial actions. The procedural weaknesses, noted have already been discussed with the former Executive Director Mrs. N. Ronney, the Acting Accountant Mr. K. Ako of your Office and Mr. Saira of this Office on 20 April, 1988. The matters noted in the Schedule are for your comments and/or remedial action, as appropriate. Attached is a copy of the Financial Statements requiring your signature and that of the A/Executive Director.

REPORT TO THE MINISTER

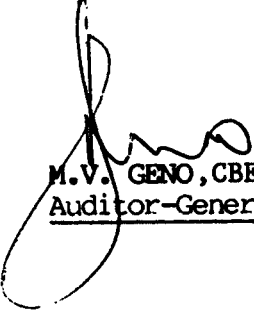
As part of this letter may form the basis of a Report to the Minister under Section 63 of the Public Finances (Management) Act 1986, your reply strictly within 15 days will be appreciated so that your views may be incorporated in the Auditor-General's Report or the report amended as deemed appropriate.

615

GENERAL

Finally, this Office wishes to place a record of our appreciation to your staff for their co-operation and assistance given during the course of the audit.

Yours faithfully,



M.V. GENO, CBE  
Auditor-General

FINDINGS AND RECOMMENDATIONSA. WEAKNESSES IN INTERNAL CONTROLS AND PROCEDURAL LAPSESB. RECEIPTS1. LEVIES RECEIVED

The levies received for the year 1986 was K221,305 as against K208,505 in 1985 representing a small increase of K12,800 or 6%. Audit was unable to find a budget for this item. However, the collection process of levies is rather very slow in the areas of levy assessment by the Provincial Forest Officers (PFO). There is also time lag of about three months from the time the levy is assessed by the PFO and the remittance thereof to FIC.

In addition, the following weaknesses were revealed:-

- (a) Several receipts were missing from the receipt books and there were no acceptable explanations for the cancelled receipts.

It is recommended that all copies of receipts should be kept intact in the Receipt Books, and cancelled (original) receipts should also be retained therein.

- (b) Numerous original receipts were retained in the Receipt Books. These should have been sent to the payers as an acknowledgement of receipt of their money.

It is recommended that all original receipts should be sent to the payers.

- (c) In several instances, the Provincial Forest Officers (PFO) made erroneous assessments of the levies and incorrect completion of the levy assessment forms.

It is recommended that FIC, in collaboration with the Forest Department, ensure that the PFO have been given the proper training required to effectively perform their duties should FIC continue to require their assistance.

617

2. **LEVIES RECEIVABLE**

The Levies Receivable for the year 1986 was K114,698 as against K142,846 representing a decrease of K28,148. This slight improvement in the collection of outstanding receivables is encouraging, although the process is still slow and requires further improvement.

3. **COMMISSIONS RECEIVED**

Although commissions were being received from Log Sales only after the establishment of the State Marketing Agency (SMA), the following weaknesses were noted during the audit:

- (a) No fixed rates were established as the commission chargeable per cubic metre of log sales.
- (b) Commissions were determined solely by the Executive Director. In the absence of any established policy on charging commission, it was at his discretion and was, perhaps, lacking internal control.

It is recommended that a policy be established covering the rates and criteria for assessing commission charges.

C. **PROMOTIONS AND SELLING EXPENSES**

1. **ENTERTAINMENT EXPENSES**

- (a) The entertainment expenses for 1986 was K19,633 as against K4,582 in 1985 representing an increase of K15,051 or 328% over that of 1985. The actual expenditure for 1986 also exceeded the budgeted expenditure of K5,000 by K14,633 or 293%.

There were significant increases in the number of individuals or groups, amongst them overseas log buyers, executives of logging companies, and government executives who were entertained during the year 1986 at the Council expense.

618

- (b) There were overpayments or reimbursements of entertainment expenses to the then Executive Director totalling K840.89 above the K400 per month allowance provided for in his contract of employment, e.g,

<u>Date</u>	<u>Cheque No.</u>	<u>Amount K</u>	<u>Per allow- ance</u>	<u>Excess K</u>
16/07/86	029909	1,007.65	400.00	607.65
04/10/86	024668	607.65	400.00	207.65
31/12/86	036616	425.59	400.00	25.59
				<u>840.89</u>
				=====

Please ensure that this money is recovered, if possible.

In addition, the then Accountant was, in a period of four months, paid or re-imbursed K1,400.00 of entertainment allowance. This was neither stipulated in her contract of employment nor approved by the FIC Council. These payments were as follows:-

<u>Date</u>	<u>Cheque No.</u>	<u>Amount K</u>
06/05/86	017788	600.00
18/06/86	029873	400.00
29/08/86	029982	200.00
26/09/86	024631	200.00
		<u>1400.00</u>
		=====

Please ensure that this money is recovered from the then Accountant, who, it appears, is still in the country.

- (c) The following functions or activities were held during the year, in which, an amount of K1,320.85 was paid but whose benefits do not relate to the operations of the Council:-

619

<u>Date</u>	<u>Cheque No.</u>	<u>Paid to</u>	<u>Amount K</u>
03/03/86	17670	Galley Restaurant	247.50
10/04/86	17739	Davara Hotel	146.55
12/08/86	29900	Kuban Lodge	111.80
10/12/86	24737	Forest R. Club	500.00
24/12/86	36608	Childrens' Gifts	315.00
			<u>1320.85</u>
			=====

Please ensure that payments are made for activities officially recognised as FIC activities.

- (d) There were no supporting documents in respect of the following payments:-

<u>Date</u>	<u>Cheque No.</u>	<u>Paid to</u>	<u>Amount K</u>
20/02/86	17644	Mr. G. E. Gresham	379.70
24/03/86	17702	P.T.	100.00
12/05/86	29801	Marco Polo Restaurant	142.90
18/06/86	29873	C. Gante	400.00
27/12/86	36608	Childrens Gifts	315.00
31/12/86	36616	Steamships Tr.Co	425.59*
			<u>1763.19</u>
			=====

- \* About K202.16 received as change in cash was not accounted for.

Please ensure that supporting documents accompany all payments.

- (e) The majority of purchase orders for entertainment were authorised independently by more than one person, an indication that no formal control of purchase transactions existed.

Authorisation for all purchases should be centralized and in each case approved by the Executive Director or his delegate.

### 3. ACCOMMODATION EXPENSES

- (a) The accommodation cost for the year 1986 was K26,549 as against K9,612 in 1985 representing an increase of K16,937 or 176% over that of 1985. The actual expenditure for the year 1986 also exceeded the budgeted expenditure of K10,000 for 1986 by K16,549 or 165%.

There were significant increases in local trips, may be because of the SMA activity, but the amount of liquor, private telephone charges, laundry etc, also increased and were charged to this account. This weaknesses was reported during 1985 audit as well.

It is recommended again that liquor, private telephone, laundry etc costs should be paid for by the person concerned.

- (b) No proper explanation was obtained for the specific purpose of the trip to Rabaul from 18/08/86 to 21/08/86 by Mr. Cowan, the Executive Director and Mr. Maraleu resulting in expenditure of K1470.17 as per Voucher No. 4497 and Cheque No. 024658.

Please advise whether or not this trip was official, if not, whether the amount is recoverable.

### 4. TRAVELLING EXPENSES

The travelling cost for 1986 was K50,698 as against K31,774 in 1985 and records an increase of K18,924 or 60% over that of 1985. The actual expenditure for the year 1986 also exceeded the budgetted expenditure of K24,000 for 1986 by 111%.

There were trips to Taiwan, India, The Philippines, Korea, Singapore, New Zealand and Australia for conferences/seminars, trade promotions which were attended by persons from the Council itself, the Government and Forest Industry private entrepreneurs. A number of these trips included four or more people in the itinerary at Council expense. In fact, the monetary benefits of these trips overseas could not be quantified in the FIC records.

Please advise whether reports have been submitted by persons attending these trips and the benefits accruing therefrom.

Audit was unable to obtain evidence of acquittals of money given to the following persons as travel advances during the year:-

<u>Name</u>	<u>Date</u> <u>1986</u>	<u>Voucher</u> <u>No</u>	<u>Cheque</u> <u>No</u>	<u>Amount</u>	<u>Total</u>
M.P. Tay	07/04	4191	17732	3,200.00	
M.P. Tay	26/11	4546	24711	<u>1,974.59</u>	5,174.59
M. Maraleu	22/04	4224	17755	10,435.00	
M. Maraleu	22/04	4225	17755	146.51	
M. Maraleu	26/11	4546	24711	<u>4,936.47</u>	15,517.98
M. Cowan	30/05	3404	29840	100.00	
M. Cowan	18/06	4333	29872	2,892.40	
Mrs. Cowan	16/07	4368	29909	3,344.14	
M. Cowan	11/12	4505	24736	498.95	
M. Cowan	11/12	4568	24740	299.37	
M. Cowan	11/12	4567	24739	<u>1,197.48</u>	8,332.34
O. Mamalai	11/09	4451	24608	808.24	
O. Mamalai	26/11	4546	24711	<u>2,961.88</u>	3,770.12
I. Trawa	06/10	4476	24635	100.00	
I. Trawa	20/10	4498	24659	100.00	
I. Trawa	04/11	4516	24675	<u>100.00</u>	300.00
A. Aopo	30/10	4515	24674	200.00	
A. Aopo	29/12	4586	36609	<u>260.00</u>	460.00
					<u>K33,555.03</u>
					=====

It is recommended that action be taken to ensure the money is appropriately acquitted or, recoveries are made from the individual concerned.

#### D. MANAGEMENT AND STAFF EXPENSES

##### 1. CONFERENCES/MEETINGS

- (a) An amount of K10,865.08 as per voucher No. 4154 and cheque No. 017701 of 21-03-86 was spent on testing of PNG lessor known timbers in the Netherlands at 26000 AD DELFT, with a view to obtain a reimbursement from them. Audit was unable to obtain evidence of reimbursement.

It is recommended that follow-up be made to recover the money.

- (b) The following payments by FIC to the Chairman of the Council during 1986 were in excess of reasonable allowances payable in the conduct of FIC businesses. It would appear that purposes other than FIC business were catered for:

<u>Date</u>	<u>Voucher No</u>	<u>No of Days</u>	<u>Amount Paid</u>
11-02-86	4086	4	K200.00
03-03-86	4118	4	200.00
24-03-86	4158	3	150.00
21-05-86	4286	5	250.00
13-06-86	4320	6	300.00
29-06-86	4349	18	900.00
18-07-86	4373	2	100.00
12-08-86	4116	10	500.00
21-08-86	4419	1	50.00
25-08-86	4423	3	150.00
04-09-86	4443	3	150.00
08-10-86	4480	4	200.00
12-11-86	4524	9	450.00
21-11-86	4535	1	50.00
10-12-86	4563	9	450.00
19-12-86	4582	-	540.00
		<u>82</u>	<u>K4,640.00</u>

- (c) According to the Minutes of the Council, there were only three meetings during 1986 which lasted only one-day each (a total of 3 - days at K50 for the Chairman - K150.00). No Council approval was obtained by audit to show that the Chairman could individually transact Council business on its behalf. Audit was unable to obtain proper explanations over the payments in (b) above.

It is strongly recommended that the former Chairman should account for these payments or alternatively recoveries be made from him.

## 2. SALARIES, WAGES AND RECRUITMENT

### (a) Employees Files

Audit check revealed that employees files are not maintained. Instead all records of employees were accumulated on an annual basis in one folder. It is recommended that each employee should have his/her own personal file.

Authorization for pay increases as a result of CPI adjustment were not established. In the absence of employee record cards, it is difficult to trace the history of individual pay rates.

The current procedures in the personnel administration are not satisfactory as to the above matters and steps should be taken to ensure that individual employees files are maintained and records are complete and up-to-date.

(b) Salaries and Conditions Monitoring Committee (SCMC) Approval.

It is a requirement under the Salaries and Conditions Monitoring Committee Act 1981 that all Public Authorities obtain SCMC approval for all variations of Salaries or Conditions of Service for its officers or employees. Audit checks revealed that SCMC approval was not obtained for the following changes:-

- (i) The contract of Mr. G. Gresham as Executive Director until 6 March 1986 when he resigned.
- (ii) The contract of Mr. M. Cowan of 6 March 1986 and the subsequent variation into a second contract which was in force till 9 February 1987.
- (iii) The contract of Employment of other contract officers: Messrs Standley Tay and Mrs. Gante, and the award of entitlements for expatriate employees such as long service leave backdated to January 1981.
- (iv) Contract conditions for Mr. Cowan for the Council to meet the costs of electricity, gas, water charges and house servant and such other related expenses.

While the Council has powers to appoint officers as are necessary under the Forest Industries Council Act 1979, the variations of the Terms and Conditions of Service were null and void without the SCMC approval. Please explain why no SCMC approval was obtained.

(c) Superannuation

The insertion of a superannuation clause in the contracts of expatriate officers, in addition to long service leave entitlements, gratuity and other fringe benefits were not in accordance with the standard Public Service contracts.

651

No Minutes of the Council provide for the variations and the payment to Mrs. K. Standley of the following items:

- (a) Variation of annual salary from K13,506 as at January 1986 to K14,086.54 as of April 1, 1986.
- (b) The payment of deferred salary of K3,521.63 (25% of K14,086.54) on April 11, 1986.
- (c) The award of a car allowance of K1,800 per annum not specified in the contract of employment. It would seem appropriate that these matters would have required the attention and approval of the Council. Audit could not sight the Minutes of the Council regarding this matter.

It is recommended that all variations in the Superannuation conditions of employees be approved by the Council; and in addition the approval of SCMC be obtained.

### 3. ANNUAL LEAVE AND LEAVE FARES

- (a) There are no accurate and up-to-date employee annual leave records. All matters related thereto are left to the Accountant to peruse through the employee's personal file to determine date of commencement, total previously approved leave, and whether he/she is entitled to further leave. This is certainly time consuming.

It is recommended that:-

- (i) a manual record card be introduced for each employee to record all leave taken, to be up-dated annually with the current year's entitlement accrued and actual leave taken.
- (ii) These records form the basis for the calculation of an accurate end of year provision for annual leave.
- (iii) Should the records system be computerized, initially the manual records prepared be retained to run parallel until it is established that the computer is operating effectively.

615

- (b) The management had allowed the Accountant to accumulate her annual leave since 1984 and by the time she resigned in October 1986 she had 110.5 working days of leave with a monetary value of K12,886.51 which was paid to her on 10 October 1986. This is in contravention of the Public Service regulations.

It is recommended that no employee should be allowed to accumulate any leave. Ensure that every employee takes his annual leave whenever it is due without fail.

E. GENERAL AND ADMINISTRATIVE EXPENSES

1. BANK CHARGES

Bank charges rose from K982 in 1985 to K1603, an increase of K711 or 80% over that of 1985. The increase was attributed to the SMA operations in the last three months of 1986. No attempt was made to recoup extra charges from the logging companies benefiting from the use of the FIC Bank Account.

It is recommended to monitor Bank Charges on a monthly basis.

2. CAR EXPENSES

The following weaknesses were revealed during the audit:-

Overpayment of an officer beyond the amount specified in the contract as re-imburseable car running expenses.

Payments to Mrs. Carol Gante above the K150.00 per month entitlements were as follows:

<u>Date</u>	<u>No</u>	<u>Cheque Particulars</u>	<u>Amount</u>	<u>Entitl- lement</u>	<u>Excess</u>
4/3/86	017679	January Expenses	K204.25	K150.00	K54.25
	017679	February-Servicing & Registration	282.84	150.00	132.94
6/5/86	077785	1986 Reg & Insurance Prem.	170.00	150.00	20.00
		Comprehensive Insurance	487.00	-	487.00
		Repairs	205.31	150.00	55.31
			<u>K1,349.50</u>	<u>600.00</u>	<u>749.50</u>
			=====	=====	=====

An amount of K749.50 is in excess of her entitlements provided for in the contract of employment. Non-approval of these payments by the Executive Director indicates a lack of internal control.

It is recommended that care should be exercised to ensure that payments are within the stipulated entitlements only, and for bonafide purposes.

### 3. **ELECTRICITY AND OTHER UTILITY EXPENSES**

#### (a) Electricity

Electricity expenses for the year 1986 was K7,113 as against K3,925 in 1985 recording an increase of K3,188 or 81% over that of 1985. The increase was not a result of changes in electricity rates, but rather to the uncontrolled use, in both domestic and official residences.

It is recommended that in future electricity charges should be monitored closely to avoid extravagance.

#### (b) Insurance

Audit checks revealed payments of insurance costs on behalf of personal staff vehicles. The then accountant's car insurance were paid for by the Council (see item D.2 (a) Car Expenses).

It is recommended that Insurance payments should cover only FIC activities.

#### (c) Telephone and Telex

The cost of telephone and telexes for the year 1986 was K36,341 against K14,831 in 1985 resulting in an increase of K21,510 or 145% over that of 1985. Major contributor to this increase were the telex and cables associated with SMA operations. A substantial sum of this cost should perhaps, be recovered from the logging companies on whose behalf the FIC negotiated log sales contracts.

It is recommended that the cost of using FIC telephone and telex services for private or business purposes by non FIC employees/companies should be made to pay for those services.

#### 4. EDUCATION ALLOWANCE

There were no receipts presented to FIC by the then Executive Director Mr. M. J. Cowan, in respect of his children's education allowance claim. The details of such reimbursements are:-

<u>Date</u>	<u>Voucher No</u>	<u>Cheque No</u>	<u>Amount</u>
25/04/86	4228	17767	K1,898.63
08/05/86	4258	17790	7,101.37
01/08/86	4395	29943	515.00
			<u>K9,515.00</u>
			=====

Steps should be taken to obtain supporting documents or reimbursements from Mr. Cowan.

It is recommended that reimbursements or payments of allowances be made on presentation of receipts only. Otherwise, such payments tantamount to misappropriation of funds.

#### 5. SUBSCRIPTIONS AND PUBLICATIONS

- (a) Audit checks revealed that K1,947 received from sales of publications were not recorded in a separate account in the ledger and shown in the income and expenditure statement, instead receipts from sales were netted against the publications expense account.

This is a violation of accepted accounting practice and it is recommended that this practice should be avoided. All cash receipts arising from the sale of publications or other service related thereto should be shown separately in the accounts.

- (b) There is no specific stock record of the number of publications printed during the year, how many were sold and/or how many remain in stock. Audit was also unable to establish whether all publication sales were properly recorded.

It is recommended that a proper stock record be maintained, and all sales from publications recorded separately.

(c) Pricing

There is insufficient evidence to indicate whether the following checks have been carried out:

- (i) That the selling prices of publications at least recoups their printing cost.
- (ii) That a proper pricing policy exists.
- (iii) That the correctness of the price used have been checked independently from time to time.

It is necessary to establish proper procedural controls as mentioned above.

(d) Free Distribution of Publications

Audit checks revealed that some of the publications were being distributed to outsiders free of charge regardless of the costs involved in their printing, at least, which should be recouped. In addition, related postage, packaging and distributions costs are involved.

It is recommended that free of charge distribution of publications should be strictly monitored, or alternatively subscribers be made to pay for the service at a fixed annual fee which should be reviewed regularly.

F. CASH

The following weaknesses were revealed during the audit:-

- (a) No prompt procedure of daily banking all monies received.
- (b) Bank reconciliations are prepared by the same person who is recording of bank transactions.
- (c) Authority to sign cheques is not restricted up to a fixed amount. For example, the then Executive Director could sign cheques of over K50,000 without prior approval of the FIC Council.

- (d) All payments are not made by cheque. A spot check of the Petty Cash revealed that the Accountant could authorize payment without the specific approval of the Executive Director. The step taken to close the Petty Cash Fund is in the right direction and is commendable.
- (e) The accounting system does not prohibit cash payments unsupported by vouchers and IOUs.
- (f) Imprest cash documents are not independently checked before reimbursing the float.
- (g) No independent verification is made on the balance of cash in hand at random intervals by another FIC officer.

It is recommended that:

- (i) All daily collections should be banked promptly.
- (ii) Bank Reconciliations should be made by another person independent of the recording of bank transactions.
- (iii) FIC Council should fix a limit beyond which no payments can be done without specific approval. Specific instructions should be used so that authorised limits of payment are not exceeded.
- (iv) All payments be made by cheque only and supported by duly approved payment vouchers.

G. FIXED ASSETS

Audit checks revealed the following weaknesses:-

- (a) Although a Fixed Assets Register is maintained, some of the items recorded in the register cannot be located or identified. House and office furniture and equipment have not been numbered, making it difficult to identify them.
- (b) Physical checks of fixed assets do not appear to have been made on a regular basis. A list of items either recorded in the Fixed Assets Register or not is given in Appendix A.

- (c) No formal system exists to control the movement of the furniture and office equipment and loose tools.
- (d) Donated Furniture do not seem to have been recorded in the Fixed Assets Register or given a value for recording purposes (eg., 6 Maroon Moko Chairs).
- (e) Artifacts, most of which are expensive items, do not appear to have been included in the register (these are included in Appendix A).

It is recommended that:

- (i) Proper systems be established to identify the fixed assets (e.g, numbering them).
- (ii) A physical check be carried out at regular interval (e.g, half-yearly) and the movement of the assets controlled.
- (iii) A need exists to value any donated property.
- (iv) Artifacts should be properly recorded and accounted for.

#### H. BUDGETS

The annual budgets prepared by management were actually not used as a means of budgetary control. Audit checks and discussions with the Assistant Accountant appear to confirm that the budgets were simply overlooked as tools of control.

It was not possible to ascertain the basis of the preparation of the revenue and expenditure budgets or the correctness of the monthly budgets during 1986 financial year.

It is recommended that budgets prepared and approved by the Council should be used not only as a means of planning, but also for measuring whether revenues and expenditures are in line with budgets.

I. MINUTES OF COUNCIL

The Meeting of the Council of 3 March 1986 did not have a valid quorum as recorded and noted by the Chairman. The then Chairman reverted it to a meeting of the Executive Committee whose quorum was present. However, the adoption of the Agenda for the Council was improper, and the decisions and resolutions passed at this meeting are not legally binding.

It is recommended that the Council should seek legal opinion in this matter, to determine whether the Executive Committee of the Council has the legal mandate to adopt the Agenda of the Council to constitute matters of business to be executed by it.

RESOLUTIONS OF THE MEETINGS

The records of the Minutes of the Council consist of rather, unnecessary deliberations and opinions of the members without indicating the exact decisions and resolutions made at the meeting.

It is recommended that the Minutes record the exact decisions and resolutions of the Council. This will also cut down on clerical time and costs in paper work.

J. OTHER MATTERS

1. LEVY ASSESSMENT

The following weaknesses were revealed:

There is a considerable delay between the levy assessment day and the submission of the actual money to FIC from the Forest Product Operators. At least 3 to 4 months elapse before receipt of moneys by FIC. This is due to:

- (a) The Provincial Forest Officers (PFO) normally do not visit the logging sites to assess the volume of logs harvested for a particular month, to the extent that it is difficult to verify the accuracy of the figures submitted by the Forest Product Operators.

- (b) The Provincial Forest Officers (PFO) do not give first priority to the duty of log assessment, naturally because their duty statements do not require them to do so. In effect, it is improper for FIC to rely solely upon the Department of Forests to undertake levy assessments on their behalf. It is time FIC considers to have its own staff do the assessment.
- (c) There is no pressure upon the Forest Product Operators to submit the volume of logs harvested on a timely basis. Naturally the delays, understating the volume of logs harvested, non disclosure of timber species harvested could be construed as a means of levy assessment avoidance. It is imperative that this could be avoided by FIC having its own field staff making regular levy assessments wherever this is feasible.

## 2. SUNDRY DEBTORS

Audit checks revealed unpaid bills amounting to K11,274.45 as at 31 December 1986, despite the fact that invoices had been duly delivered to those concerned. Amounts indicated in the following invoices remained unpaid.

<u>Date</u>	<u>Invoice No</u>	<u>To whom Sent</u>	<u>Amount</u> <u>K</u>
13-02-86	173	Wewak Timbers	4.00
14-02-86	175	Beechwood Sawmill	3.00
24-02-86	180	Rex Edmond	58.00
27-02-86	183	Tim Kahata	3.00
08-05-86	200	Diralas P/L	22.50
20-05-86	203	Timbersales	126.48
20-05-86	204	H. Vikani	171.50
20-05-86	205	Punnen P. Maikos	582.15
06-06-86	211	M. Maraleu	25.00
06-06-86	213	Tonolei Dev. Corp.	21.82
25-06-86	219	Investment Corp.	1,513.87

663

<u>Date</u>	<u>Invoice No</u>	<u>To whom Sent</u>	<u>Amount</u> <u>K</u>
25-06-86	220	Investment Corp.	1,197.00
18-07-86	225	Wewak Timbers	3.00
31-07-86	227	M. Maraleu	606.90
31-07-86	228	M. Cowan	650.51
31-07-86	229	Angus (PNG) Pty Ltd	84.00
20-08-86	232	PNG Forest College	3.75
28-08-86	233	G.E. Gresham	12.00
04-09-86	235	Investment Corp.	1,567.83
18-09-86	236	S.K. Kelly Arch. Ass	3.60
24-09-86	237	M. J. Cowan	364.12
24-09-86	238	M. J. Cowan	312.90
07-10-86	239	Brash & Hammer Const.	37.44
01-09-84	240	Linda Ravu	16.00
01-09-84	241	G.E. Gresham	20.00
01-09-84	242	Glen Eliolon Timber	6.00
19-10-86	248	M. Miskus	83.84
21-10-86	250	G. Orchards	5.00
21-10-86	251	Wewak Timbers	29.75
28-11-86	252	Questor PNG	2,974.00
19-12-86	254	Forest Manacrehui	15.00
30-12-86	257	Investment Corp.	83.84
29-12-86	258	I. Mordeen	66.65
			<u>K11,274.45</u> =====

There is no proper follow up on the part of FIC of these moneys through reminders. Action should be taken to recover these outstanding moneys as soon as possible.

### 3. FOREST INDUSTRIES ASSOCIATION (FIA)

The Council has spent K1,298.21 since 1984 incurring expenses for FIA running costs (postage, stationery, labour, printing etc). Even though FIA is recognized by the FIC Act, it is legally an independent private organisation, whose operations should not be at the expense of the Council.

It is strongly recommended that all services rendered to FIA should be duly recovered.

#### 4. PAYMENTS ON BEHALF OF ANGUS

There were internal arrangements between the FIC Executive Director (without Council approval) and Angus (PNG) Pty Ltd, whereby the FIC facilitated the payment of certain expenses on behalf of Angus and recoveries made against their log sales earnings.

The specific payments under this arrangement were:

Number of Shipments	Shipments	
	1 K	2 K
Angus Log Sales Credited to FIC Bank A/C	97,646.71	247,883.35
Less: Paid on Angus behalf		
Wages/Supplies/Parts (696)	40,000.00	
Wages (712)	27,000.00	
Wages (717)	7,608.00	
Other (729)	9,710.00	
Other (738)	13,000.00	
Wages & Salaries (605)		20,000.00
Lease Equipment (617)		25,000.00
Other (612)		111,553.22
Total Payments.	97,318.00	156,553.22
Balance	328.71	91,330.13
	=====	=====
		K91,658.84

- (a) This arrangement was unauthorized and unapproved by the Council. It is also an improper accounting practice for the financial affairs of FIC to be jointly merged with those of Angus. Separate books of account should have been maintained for Angus, so that there was a clear independence in book-keeping matters of the two entities.
- (b) It was inappropriate to use the FIC account with the Bank of South Pacific - Waigani, as a "clearing account" for logging companies. A "trust account" should have been opened if this was considered necessary. And in so doing, the Executive Director should have obtained the approval of the Council, especially where large sum of money were paid beyond the limits specified for the Executive Director's approval. This constituted a severe breakdown of the internal control of the FIC.

(c) Overloading FIC Account

During the six months the SMA was in operation, the FIC account at Bank of South Pacific was overloaded with short-term credit gains which seems to over balance FIC cash-flow shortcomings.

This perhaps, overshadowed FIC's smallness as a trading enterprise to the extent that extortionate claims were to be made in the form of varying the Executive Director's salary from a minimal K32,942 p.a. to K50,000 p.a. in less than a year of the term of the first contract. It was obvious that FIC was attempting to pay a salary beyond its financial capability.

(d) Administrative Work

The Executive Director committed FIC to do certain administrative duties on behalf of Angus (PNG) Pty Ltd free of charge. In fact, this increased FIC workload without reciprocity in monetary terms at arm's length.

It is recommended that any administrative assistance to clients be made on purely business terms.

5. LOG SALES PAYMENTS

(a) Under-charging the Log Companies.

The system of charging PNG logging companies a commission only was inadequate. There were other related costs incurred on behalf of these companies by FIC from the time of the sale contract negotiation on behalf of the loggers to the time payments were made to them. Please advise whether these expenses are recoverable and if so, what steps have been taken in this regard.

In future, adequate control should be exercised to incur such operating expenses on behalf of logging companies.

(b) Freight on Log Shipments

US\$741,365.42 was withheld at the Bank of South Pacific, Waigani Branch, as at 31 December 1986, apparently according to the instructions of Mr. Cowan, Executive Director. The money is a portion of the gross receipts of log sales presumably withheld to pay for freight charges and commissions to shipping companies overseas.

However, audit check revealed the following anomalies:

- (a) No mention was made in the Minutes of the Council of the specific authorization and approval to the Executive Director to retain certain moneys in US Dollars for the purpose of settling shipping freight, commissions and service charges.
- (b) The method of obtaining shippers overseas was rather questionable, especially where this was entrusted in the hands of one person, viz, Mr. S. J. Park, the President of Daihiwa Timber Marketing Co, Seoul, Korea. Audit was unable to obtain the contract between FIC and Mr. S.J. Park for his shipping services.
- (c) There is no evidence that the granting of exclusive rights to Mr. S.J. Park to engage shippers on behalf of FIC was officially approved by the Council.
- (d) Audit received no account of the transfers of funds from the amount of US\$741,356.42 as at 31 December 1986 as these amounts were usually paid by the Bank of South Pacific, Waigani Branch to shippers and other parties as per the instructions of the then Executive Director, Mr. M. J. Cowan. These monies were never credited to the FIC account with the Bank.

However, transactions of the nature stated above have now been stopped with the cessation of SMA activities.

It is recommended that in future extreme care should be exercised and ultimate control established.

(c) Log Sales Invoicing System

Audit checks revealed that the invoicing system under the SMA operation had been changed from the normal procedures and a complete system of "Commercial Invoices" had been introduced. Six copies of the invoices (including the original) were prepared for each shipment of logs as follows:-

First Copy (original)	- Sent to the Importer Overseas
Second Copy	- retained on file at FIC
Third Copy	- (unknown)
Fourth Copy	- (unknown)
Fifth Copy	- (unknown)
Sixth Copy	- (unknown)

It was not possible to establish the exact distribution of the third, fourth, fifth and sixth copies of the invoices and no explanation was given. In addition, the following weaknesses were apparent:

- (a) The Commercial Invoices were not pre-numbered.
- (b) The invoices were normally typed as per instructions of the then Executive Director, and varied at his discretion.
- (c) No proper filing system existed.
- (d) No evidence of the ultimate number of invoices prepared and despatched during the operations of SMA.
- (e) There is insufficient evidence on the retained "Commercial Invoices" to show that the following checks were carried out:
  - (f) That they have been compared with the importers' orders with regard to volume of logs (or quantities).
  - (g) That the correctness of the prices used were checked independently.
  - (h) That the extensions and additions were checked independently.

K. SMA ACTIVITIES

Audit saw no justification for the setting up of an agency within FIC to deal with the specific sale of logs, as the FIC Act of 1979 empowers FIC to enter into the marketing of forest products.

However, any major entry into a new operation would require both administrative and financial re-adjustment of the organisation structure to cater for, facilitate, co-ordinate, and accommodate new activities. At the time SMA activities began, this was not done. It was later to prove rather difficult for FIC, ending up to the abandonment of the project.

It is recommended that in future entry into any new activity, operation or venture should take into account the need to make certain related administrative changes.

APPENDIX "A"LIST OF ASSETS EITHER RECORDED IN THE FIXED ASSETS  
REGISTER OR NOT ARE AS FOLLOWS:

1. Refrigerator (Model Not Marked in the Printing Room)
2. Ricoh Electronic Printer S-1 in the Printing Room (PR)
3. Paper Cutting Machine (in PR)
4. Ricoh Fuser (Remington type)
5. Mistral Fan-in the Conference Room (CR)
6. Maroon Moko-6 Chairs in the CR
7. 3-Cassette Tapes (Now Rusting) in CR
8. 3-Large Conference Tables in CR
9. 2-Air Conditioners in CR
10. 2-Coffee Tables in CR
11. 4-Sony Cassette (KCA) Tapes in CR
12. Artifacts-2 Birds of Paradise Emblems, 1-Crocodile and 4-snakes  
2-wall photographs, 1-owl, 1-dolphin, 1-Highlander standing in  
Conference Room.
13. TF-Auto Breezer (Revolving Louver) in CR
14. 1-Ironing Flat Table (In Flat)
15. Cutlery and Crockery (In Flat)
16. 1-Sewing Machine (In Flat)
17. 1-VCR Video Cassette Recorder N1700 (In Flat)
18. 3-Beds and 3 Bed Mattresses (In Flat)
19. 4-Lounge Chairs, 2-Coffee Tables, 3 Red (Oak) Chairs  
- All in the Executive Director's Office
20. 1-Fan (in Executive Director's Office)
21. 1-Bird of Paradise Emblem (In Executive Director's Office)
22. 1-Display Stand and Table (in Executive Director's Office)
23. 1-IBM Typewriter
24. 1-MT 100N OKI Telex Machine
25. 1-Selex 2050 Photocopier Machine
26. 1-Electrolux Refrigerator (Made in Sweden)
27. 1-Hot Water Boiler.



THE INDEPENDENT STATE OF PAPUA NEW GUINEA

"CONFIDENTIAL"

Minister for Forests

File: 377-1-2/3-2-2

Date: 14 September, 1987

POLICY SUBMISSION NO. /87FOR MEMBERS OF NATIONAL EXECUTIVE COUNCILSTATE'S PURCHASE OPTION IN LOG EXPORT.A. PURPOSE

To seek approval of the National Executive Council for exercising the right of State's Purchase Option by the Department of Forests in order to identify the proper market prices and reduce transfer pricing in log exports.

B. FACTS AND CONSIDERATIONS

The facts and figures of PNG log exports have shown that all log exports are carried out by the management contractors and middleman agents or overseas principals by involving third parties in Hongkong/Singapore with substantial amount of transfer pricing resulting in (i) loss of foreign exchange for the country, (ii) loss of income for the resource owners, and (iii) loss of revenues (export levies and corporate taxes) for the government.

MINIMUM EXPORT PRICES (MEP)

As a remedy to the above, MEP is fixed by the government under the Export (control and valuation) Act. Initially, MEP was considered to be a sufficiently effective step, but in practice it has not been found so. PNG logs are exported in mixed parcels which include tens of timber species under five groups and six grades. The market prices of different parcels therefore, vary depending on the number, volume, groups and grades of timber species in each parcel.

Logs are multi-purpose raw materials whose prices are negotiated on spot market basis. The review and administration of the MEP require a minimum of 3 weeks (for allowing shipments under prior contracts), during which the market prices may change again. It has been the experience in the past that MEP could not be revised quickly in response to market movements.

MEP is also the 'minimum' price or the bottom-line price, below which there is no price. Since MEP sets the market standard at bottom-line we lose out significant amounts by selling at MEP, particularly in the parcels having larger proportion of higher groups and better grade species.

Given the nature of our mixed parcel and the facts of log marketing, MEP has not been an effective instrument; rather it has been used as a legal protection for underpricing.

#### STATE'S PURCHASE OPTION (SPO)

All timber permits include a clause for State's Purchase Option in order to sell the logs at arms length prices. Under this clause, the Permit holder is obliged to offer 25% of its annual allowable log export volume to the State for sale at or above the company's proposed price. The objectives are mainly to check market prices and identify the most competitive offer for establishing a market standard for the company's logs. But such option was not exercised until December/86 when the special licencing system was replaced by an ordinary ship-by-ship licence for checking FOB prices for every shipment of logs.

Under the Export (Control and Valuation) Act, two kinds of export licences can be granted, (i) ordinary, and (ii) special. The ordinary export licence is granted for one consignment. The special export licence is granted for more than one consignment. In the former case, the shipper is required to declare the actual FOB price, volume, value, buyer, destination, name of the ship and expected time of shipment.

While checking FOB prices, it was observed that many timber companies were not receiving the proper market prices but were selling the logs at significantly lower prices. In order to check underpricing and stimulate selling at the correct market prices, exercise of the SPO became an integral part of the new system. The SPO is exercised in the following manner.

The company, under the conditions of the Timber Permit, offers a representative parcel of logs to the Department at company's best price. The Department then checks the price with other buyers and if significantly higher prices are available, advises the company to sell at the higher price, either to company's selected buyers or to the new buyers. If significantly higher prices are not available, the company is allowed to sell at its proposed price. All financial transactions are done directly by the buyers and the shippers. The Forest Department remains as a coordinator and a witness as and where required.

The Department undertakes the above exercise only when there are significant benefits for the government and the company. So far, the SPO was exercised in cases where there were a net benefit of minimum USD 12000. A list of few cases is attached as annex-1. These amounts would have been certainly lost had there been no exercise of the SPO.

The other significant benefits of the exercise were found in determining a standard price level for balance of the products of the company. The land owners companies were directly involved in SPO having direct letters of credits at buyers prices in their own accounts for the first time in the history of their log exports. It not only enhanced their marketing knowledge and experience for managing their marketing activities by themselves but also yielding higher profits by eliminating the middlemen.

The ship-by-ship licencing system with price-checking through SPO has enabled the government and the timber industry to take full advantage of market movements resulting in dramatic improvement of FOB prices of PNG logs, for the first time almost at par with South Sea Logs.

The Forest Department has been providing the above services so far free of charge, but finds it difficult to continue due to additional costs involved in the form of market intelligence, telex, fascimiles, phone calls, travels, overtimes, inspections, etc. Moreover, the Department requires to use an agent in export markets to identify the best prices from different end-users for which a reasonable sales commission is to be paid. The Forest Department, therefore, proposes to collect 2% of the FOB value for every sale made under the SPO, in order to cover all costs including sales commission for the agent.

#### LOST AND FOUND REVENUE:

Under the SPO, logs are offered to the State at the company's best prices. Anything above that price is a bonus that makes up lost-and-found revenue, which would have been certainly lost in the absence of the SPO exercise.

Currently we have two shipments - (a) Wawoi Guavi and (b) Kumusi. The total amount of lost-and-found revenue from these two shipments is USD 103,500 as shown in the attached annex-1. The beneficiary of this revenue should be determined. Since the company would have lost this amount which was recovered due to efforts of the State, no one but the State should be the logical beneficiary. Thus it would generate additional revenue for the government and deter the timber companies from selling logs at less than market prices.

#### VIEWS OF OTHER MINISTERS

To be sought in the cabinet meeting.

#### FINANCIAL IMPLICATIONS

No expenditure will be required by the government. On the other hand, a significant amount of foreign exchange and government revenue will be generated. In the absence of this exercise, however, significant amount of foreign exchange and government's revenue will be lost.

E. STAFFING IMPLICATIONS

Nil. No additional staff will be required. The exercise will be carried out by the existing staff.

F. LEGISLATIVE IMPLICATIONS

Nil.

G. CONSTITUTIONAL IMPLICATIONS

Nil

H. POLITICAL IMPLICATIONS

Nil.

I. PLANNING IMPLICATIONS

Nil

J. DECENTRALISATION IMPLICATIONS

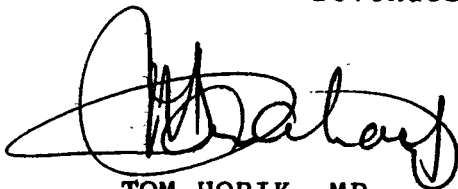
Nil

K. PREVIOUS POLICY REFERENCE

Nil

L. RECOMMENDATIONS

- (1) Approval be given for exercising the right of State's Purchase Option by the Department of Forest in accordance with the terms and conditions of Timber Permit.
- (2) Approval be given for receiving 2% of the FOB value as sales commission and handling charges from the sales made under the SPO to meet the running costs.
- (3) Approval be given for realising the lost and found revenues for the state.



TOM HORIK MP  
Minister for Forests

SOME OF THE CASES OF STATE'S PURCHASE OPTION EXERCISED  
OR PRICE IDENTIFIED BY THE DEPT. OF FOREST SINCE JAN/87..

<u>Name of Company</u>	<u>Company's proposed sales price/M3</u>		<u>State's Purchase price/M3</u>	<u>Difference of Quantity Price/M3 in M3</u>		<u>Lost &amp; Found Revenue (USD)</u>	<u>Remarks Month of shipment</u>	
GAISHO	USD	64/M3	USD	75/M3	USD 11/M3	6,300 M3	USD 69,300	January
OPEN BAY-	(1)	58/M3		65/M3	8/M3	6,000 M3	48,000	January
	(2)	64/M3		66/M3	2/M3	6,000 M3	12,000	June
STETTIN BAY-		58/M3		60/M3	2/M3	6,000 M3	12,000	March
WEWAK TIM-		51/M3		55/M3	4/M3	6,000 M3	24,000	March/87
BISMARCK-	(1)	60/M3		64/M3	4/M3	4,800 M3	19,200	March
	(2)	56/M3		60/M3	4/M3	4,800 M3	19,200	May/87
MUSSAU TIM.-	(1)	60/M3		66/M3	6/M3	6,000 M3	36,000	March
	(2)	61/M3		69/M3	8/M3	5,500 M3	44,000	May
AMAZON BAY-	(1)	65/M3		70/M3	5/M3	6,600 M3	33,000	May
	(2)	74/M3		79/M3	5/M3	6,500 M3	32,000	July
NAWOI GUAVI-		90/M3		96/M3	6/M3	6,000 M3	36,000	Oct/87
KUMUSI TIMBER CO.		90/M3		99/M3	9/M3	7,500 M3	67,500	Oct/87

**Public Finances (Management) Act, 1986**

**ESTABLISHMENT OF STATE PURCHASE OPTION LOG MARKETING TRUST ACCOUNT**

I, GALEVA KWARARA, Minister for Finance and Planning by virtue of powers confirmed on me by Section 15 of the Public Finance (Management) Act, 1986 and all other powers me enabling hereby;

- 1) In accordance with Section 15 of the Public Finances (Management) Act, 1986.
  - (a) establish a Trust Account to be known as the State Purchase Option Log Marketing Trust Account.
  - (b) direct that the purpose of the account is to receive 2% of FOB value from logs exported by Logging Companies in PNG as Sales Commission Charges.
- 2) For the better Control and Management of the Trust Account and in accordance with Section 16 & 17 of the Public Finance (Management) Regulation issue the following Financial Instructions.
  - (a) moneys received from various Logging Companies as Sales Commission Charges be credited into the Trust Account.
  - (b) payment out of the Trust Account will be made towards the Cost of Letters of Credit from the Buyers to the Shippers, Sales Commission to sales agents, and to meet other running costs.

Payment out of the Trust Account will be authorised jointly by the Secretary for Forests, the Principal Marketing Officer, and the Accountant as their alternate.

The Department of Forests shall submit Quarterly Statements and Summaries of the Trust Account to the Secretary for Finance and Planning within seven (7) days of end of each quarter.

Dated this ..... day of ..... 1987

Galeva Kwarara  
Minister for Finance & Planning

**ASPECTS AND GUIDELINES OF SPO RUNNING COSTS:****(1) Costs for communications**

Payments for all sorts of mail, courier, telephone, telex fax bills including the installation or purchase and maintenance of typewriter, telephone, telex, fax and photocopy machines.

**(2) Entertainments of buyers**

Payments for tea, coffee, business lunch/dinner for buyers or their agents while they are in Port Moresby.

**(3) Transport**

Costs for courtesy transport to and from airport, hotels and offices in Port Moresby for buyers or their agents while they are in Port Moresby.

**(4) Log Inspection**

Costs for air travels to and from the loading ports or clearing ports and accomodation for log inspectors for SPO log shipments.

**(5) Overseas Visits**

Cost for travels, accomodation and other essential expenses for visiting overseas for negotiation of prices, freight, terms of L/C, any demurrage claims, and any other relevant jobs involved in connection with marketing of SPO logs.

**(6) Sales Commission**

Payment of Sales Commission to the agents in accordance with the terms and conditions of SPO log sales.

**(7) Overtime**

Payment of overtime for the staff and any other expenses essentially incurred for the interest of SPO log marketing.

**(8) Cost for the Staff**

Salary & Wages accomodation transport and any other costs involved in keeping any additional staff outside the departmental ceiling who might be considered necessary for successful running of the SPO.

**(9) Cost for Incentives**

Expenditures, if any, by way of incentives for efficient performances of the SPO.

(10) Cost for Office Accomodation

Expenditure if any required for hiring the office accomodation for the purpose of SPO.

Expenditures

All expenditures regarding the SPO running costs as stated above must be made with prior approval of the following authority:

up to K 1,000.00	-	The Principle Marketing Officer.
up to K50,000.00	-	The Secretary Dept of forests
up to K100,000.00	-	The Minister for Forests
up to K300,000.00	-	The Minister for Finance & Planning
above K300,000.00	-	The Governor general

Surplus Revenue

All surplus revenue will <sup>be</sup> remitted to the Department of Finance as consolidated revenue of the government.

STATEMENT OF SPO SHIPMENTS 1988

MONTH	COMPANY	VOLUME M <sup>3</sup>	COMPANY'S PRICE	SPO PRICE	COMPANY'S VALUE	SPO VALUE	DIFFERENCE IN VALUE	2% ON FOB	Remarks
JAN	DAHANAMALTI LOGGING	2883.186		72		207,589.39		4151.79	STATE SEIZED LOGS
FEB	LEYTRAC PTY LTD	4079.685	79	85	322,295.11	346,773.22	24,478.11	6935.46	
MAR	LUABA LOGGING P/L	5487.211		50		274,360.25		5487.20	STATE SEIZED LOGS
APR	DAHANAMALTI LOGGING P/L	6631.917		50		331,595.85		6631.92	STATE SEIZED LOGS
MAY	AMAZON BAY SAWMILLING	5184.733		65		337,007.64		6740.15	STATE SEIZED LOGS
JUN	BISMARCK INDUSTRIES P/L	5999.991	59	60	341,999.49	359,999.46	17,999.97	7199.99	
JUL	TONOLEI DEV. CORP.	5084.854	81	83	411,873.17	442,042.88	10,169.71	8440.86	
"	ULABO TIMBER COMPANY	3974.479	70.50	73	280,200.77	290,136.97	9,936.20	5802.74	
"	TASOKULAK PTY LTD	2999.636	90	91	269,967.24	272,966.87	2,999.63	5459.34	
SEP	CATHOLIC MISSION-ULAMONA	4232.844	66.00	68.00	279,367.70	287,833.39	8,465.69	5756.67	
"	N W B.	3956.116	88.00	91.00	348,138.21	360,006.56	11,868.35	7200.13	
OCT	UNEVULG DEV'T P/L	2939.881		63		188,362.50		3767.25	
"	TASOKOLAK PTY LTD	3015.006	90	92	271,350.54	277,380.55	6,030.01	5547.01	
"	UMBOI TIMBER COMPANY	2941.818	88	92	258,879.98	270,647.26	11,767.28	5412.95	
	TOTAL	59,461.357M <sup>3</sup>				USD 4,246,702.79	103,714.95	84,534.06	

**PROBLEMS SAID TO EXIST IN DOF MARKETING****(1) Remuneration**

- (a) Log marketing is a commercial operation. There are private sector counterparts (marketing managers and staff) who perform the same functions and are remunerated at much higher than public service levels. Marketing is a high tension, responsible and risky business and public service pay rates are not loaded to reflect such matters.
- (b) Because of time differentials between PNG and buyers or agents in other countries, and because of the exigencies of the log marketing business, long hours are spent at night and weekends transacting business and conferring with, and entertaining, producers and customers. Under Public Service constraints overtime is not paid.
- (c). The nature of log marketing renders personal contact and constant availability important. Telephone calls are received at, and made from residences, (often late at night or early in the morning); home entertainment is important for visitors and provision of transport to visitors and customers is important. The Public Service constraints preclude reimbursement of home telephone bills, reimbursement of cost of home (and some external) entertainment and do not provide for transport or adequate reimbursement for transport provided privately (particularly outside working hours).
- (d). Many successful marketing ventures gain success from performance related incentives. Such a concept is foreign to Public Service wage and salary systems.

**2. Accommodation and Facilities**

The bureaucratic attitude to work accommodation and facilities is not appropriate to a commercial activity.

- (a). Office space, furniture and furnishing are inadequate and of poor standard and these create a poor impression with commercial buyers and sellers.

- (b). There is a lack of administrative and logistic support; the DOF Marketing Section does not have a typist as there is no position for one; though facsimile and telex machines are available in DOF they are routinely functional and manned only during public service working hours; and not available or operative after hours telephone expenses are limited by public service budget constraints and a commercial operation conducting business with overseas buyers is foreign to such constraints.
- (c). Legal advice through Government channels is not adequate for or time responsive to the demands of a commercial operation.
- (d). the concept of entertainment in a commercial operation is foreign to and not provided for in the public service system.

### 3. Operations

The processes of decision making and expenditure controls which are appropriate to public service operations impose severe impediments to a commercial operation.

- (a). decision making is essentially vested in the Secretary DOF who of necessity is not constantly available and who has many other responsibilities.
- (b) the bureaucratic system of written Minutes and Briefs and written replies (whilst protecting all concerned) is just not workable in commercial log marketing where time is of the essence.
- (c). the system of authorities and documents necessary to conclude and amend contracts and letters of credit, to make payments and to authorise expenditures is cumbersome and not appropriate to a commercial activity.