



annual
report
1996

13 January 1998

The Hon. Bill Skate, CMG, MP
Prime Minister and Minister for Defence
National Parliament
PO Waigani
National Capital District

Dear Sir,

In accordance with the Defence Force Retirement Benefits Act (chapter no. 76), section 16,
we submit the Annual Report for the year ended 31 December 1996.

Yours faithfully,



LALEPA PATAPU
Chairman of the Board



EREMAN RAGI, CBE
Managing Director



AUDITOR-GENERAL OF PAPUA NEW GUINEA

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The Honourable Bill Skate, CMG, MP
Prime Minister and Minister for Defence
PO Wards Strip
WAIGANI
National Capital District

Date: 12 January, 1998
Our Reference: 30-28-4
Action Officer:
Designation:
Your Reference:

Dear Sir,

DEFENCE FORCE RETIREMENT BENEFITS FUND

In accordance with Section 8(4) of the Audit Act 1989 (as amended), I have audited the accompanying financial statements of the Defence Force Retirement Benefits Fund for the year ended 31st December, 1996 as set out on pages 1 to 9, submitted by the Fund under Section 63(4) of the Public Finances Management Act, 1995. The Fund's Board of Trustees is responsible for the preparation and presentation of these financial statements and the information contained therein. I have conducted an independent audit of these financial statements in order to express an opinion on them.

My audit was conducted in accordance with International Standard of Auditing to provide reasonable assurance as to whether the financial statements are free from material misstatement. My audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements are presented fairly in accordance with International Accounting Standard and Statutory requirements so as to present a view which is consistent with my understanding of the Fund's financial position, the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis

AUDIT OPINION

I now report that in my opinion:

- (a) the financial statements are based on proper accounts and records; and
- (b) the financial statements are in agreement with those accounts and records and show fairly the state of affairs of the Defence Force Retirement Benefits Fund as at 31 December 1996, and the results of its financial operations and its cash flows for the year then ended.

Yours faithfully,

SIR MAKENA V. GENO, KBE, CBE
Auditor-General



PAPUA NEW GUINEA DEFENCE FORCE RETIREMENT BENEFITS FUND

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 1996

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DEFENCE FORCE RETIREMENT BENEFITS FUND
REVENUE ACCOUNT
 FOR THE YEAR ENDED 31ST DECEMBER 1996

NOTE	1996 K	1995 K
REVENUE		
Contributions	2,246,260	2,141,436
Investment Income	2 5,163,623	3,997,796
Sundry Income	3,222,122	0
TOTAL REVENUE	10,632,005	6,139,232
LESS: EXPENDITURE		
BENEFITS:		
Benefits (net)	3 579,056	603,042
Insurance (net)	3a 92,887	0
ADMINISTRATION		
Management	4 648,357	540,445
TOTAL EXPENDITURE	1,320,300	1,143,487
Changes in Net Market		
Value of Investments	6a 5,849,986	(1,087,174)
FUND SURPLUS BEFORE TAX	15,161,691	3,908,571
Less: Taxation	7 174,141	25,863
Less: Extra ordinary items	50,000	0
NET INCREASE IN MEMBERS FUNDS	14,937,550	3,882,708

The accompanying notes form part of these Financial Statements

DEFENCE FORCE RETIREMENT BENEFITS FUND
BALANCE SHEET
AS AT 31ST DECEMBER 1996

	NOTE	1996 K	1995 K
ACCUMULATED MEMBERS FUNDS			
Opening Balance		36,149,458	32,266,750
Surplus for the year		14,937,550	3,882,708
TOTAL MEMBERS FUNDS		51,087,008	36,149,458
REPRESENTED BY:			
CURRENT ASSETS			
Cash at Bank		1,394,708	1,980,423
Tax refund due	7	0	88,877
Receivables	8	1,062,556	1,326,629
Total Current Assets		2,457,264	3,395,929
LESS:			
CURRENT LIABILITIES			
Creditors	9	418,440	310,665
Unclaimed moneys		160,603	132,358
Provision for Income tax	7	89,416	0
		668,459	443,023
NET CURRENT ASSETS			
1,788,805		2,952,906	
INVESTMENTS			6
49,440,637		33,343,138	
Less: TERM LIABILITIES			
Deferred Taxation			7
142,434		146,586	
NET ASSETS			
51,087,008		36,149,458	

The accompanying notes form part of these Financial Statements

DEFENCE FORCE RETIREMENT BENEFITS FUND
STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED 31 DECEMBER 1996

	1996 K	1995 K
CASH FLOW FROM OPERATING ACTIVITIES		
Cash receipts in the course of operations	5,620,037	3,552,461
Cash paid to suppliers in the course of operations	(507,477)	(792,796)
Income tax paid	0	0
Net cash provided by operating activities	5,112,560	2,759,665
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds of maturity of govt. inscribed stock	0	442,560
Payment for purchase of govt. inscribed stock	0	0
Placement of term deposits (net)	(11,500,000)	1,450,000
Payment for acquisition of equities	(2,974,240)	0
Proceeds on sale of equities	7,285,303	0
Loan granted	0	(5,000,000)
Preliminary expenses on proposed investments	0	(12,690)
Payment on convertible notes	0	(245,131)
Payment for fixed assets	(4,466)	(16,590)
Net cash used in investing activities	(7,193,403)	(3,381,851)
CASH FLOW FROM ACTIVITIES WITH CONTRIBUTORS		
Contributions received from members	2,247,058	2,222,846
Benefits paid (including state share)	(1,949,558)	(1,266,527)
	297,500	956,319
CASH FLOW FROM ACTIVITIES WITH THE STATE		
Cash receipts of State share (Benefits)	1,197,628	983,868
Net (decrease)/increase in cash & cash equiv.	(585,715)	1,318,001
Cash & cash equiv. at the beginning of the year	1,980,423	662,422
Cash & cash equiv. at the end of the year	1,394,708	1,980,423

Details of reconciliation of operating surplus after income tax to net cash provided by Operating activities are provided in Note 10.

The accompanying notes form part of these Financial Statements

DEFENCE FORCE RETIREMENT BENEFITS FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 1996

1. Set out hereunder are the significant accounting policies adopted by the Fund in the preparation of the accounts for the year ended 31st December 1996, such accounting policies were adopted in the preceding period unless specifically stated otherwise.

(a) Basis of Financial Statements

The presentation of these Accounts in accordance with generally accepted accounting principles for Superannuation Funds. The net appreciation/depreciation of investment assets is shown in the revenue Account which now more closely reflects the total increase in member's funds for the year. While the current treatment is not in complete accordance with the International Accounting Standard on revaluation of investments, this standard is not considered appropriate to superannuation funds.

(b) Historical Cost Convention

The accounts have been prepared under the historical cost convention with the exception of Investment assets which are revalued periodically as determined by the Board in order to reflect current worth to the fund. (Refer Note 1(d)).

(c) Valuation of Investment Assets

In accordance with the Board's policy, the Fund's Investments should be revalued at least once every three years. An exception is quoted shares which are adjusted annually to market prices at year end. It is also the Board's policy that no depreciation should be charged on investment assets (buildings).

Investments are valued as at 31st December 1996 as follows:

- i. Quoted shares - at last sale price as at 31st December 1996.
- ii. Unquoted shares - at a fair value as at 31st December 1996.

This valuation involved the adoption of an independent professional valuation. The main factors used in the analysis was a combination of dividend yield and net tangible asset backing, as appropriate.

- iii. Land & Buildings - by a valuation carried out by the Valuer General's Office as at 31st December 1996. The basis of the valuation was market value.

DEFENCE FORCE RETIREMENT BENEFITS FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31ST DECEMBER 1996

(d) Basis of Accounting

The Fund accounts for income and expenditure on an accrual basis except dividend income which is brought to account when received. Contributors from members are brought into income when receivable. Pension payments lump sums, refunds of contributions and related government contributions are brought to account as they become payable. Accrued benefit liabilities are based on the history of payments.

(e) Income Tax

The Fund adopts the principles of tax effect accounting whereby the income tax expense for the year in the Revenue Accounts is matched with the accounting result (after allowing for permanent differences). Where the realisation of the future tax benefit relating to timing differences is not considered to be virtually certain the future tax benefit is not brought to account.

	1996 K	1995 K
2. INVESTMENT INCOME		
Gross Property Rentals	192,142	200,509
Less: Property Expenses	(58,668)	(62,298)
Net Property Rentals	133,474	138,211
Dividends	785,445	721,159
Interests:		
- Government Securities	116,632	139,394
- Interest Bearing Deposits	3,326,736	2,894,545
- Debentures/Loans	764,925	59,487
- Sundry Income	36,411	45,000
	5,163,623	3,997,796
3. BENEFITS (NET)		
Pension	761,582	642,450
Refunds	125,757	147,060
Gratuities	22,450	28,020
Lump Sum	397,074	534,544
	1,306,863	1,352,074
Less: Government Share	(727,807)	(749,032)
	579,056	603,042
(a) INSURANCE		
Contributor insurance expenses	592,887	0
Less: Life insurance premium rec.	(500,000)	0
	92,887	0

DEFENCE FORCE RETIREMENT BENEFITS FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31ST DECEMBER 1996

4. ADMINISTRATION EXPENSES

The PNG Defence Force Retirement Benefits Fund is administered by Public Officers Superannuation Fund Board staff under delegation. Administration expenses (including charge for depreciation for use of POSFB assets) for all Funds administered by the POSFB are met by POSFB and recovered from the other Fund after year end. Exceptions to this are Bank fees, interest charged and certain professional fees paid directly by each Fund. The amount shown represents these plus Defence Force Fund's share of administration expenses paid through the account operated by the POSFB.

5. MANAGEMENT

	1996 K	1995 K
Staff	324,441	284,681
Vehicles	10,749	10,385
Travel	12,599	8,403
Professional Fees	65,505	28,685
Directors	23,749	6,251
Conferences	0	0
Office	83,514	83,330
Staff Housing	66,195	58,860
Office Building	30,527	30,979
Depreciation	31,078	27,894
Loss on sale of assets	0	977
	648,357	540,445

6. INVESTMENTS

Investments are made up as follows: -

Unquoted Shares	6,442,815	2,563,172
Quoted Shares	2,840,360	4,228,707
Government Securities	1,570,692	1,621,276
Land & Buildings	3,481,639	2,882,162
Loans	7,505,131	5,947,821
Interest Bearing Deposits	27,600,000	16,100,000
	49,440,637	33,343,138

a. The "Change in Net Market Value of Investments" for the year included in the Revenue Account is as follows:

Quoted Shares	1,197,220	(1,087,174)
Unquoted Shares	3,997,347	0
Land & Buildings	655,419	0
	5,849,986	(1,087,174)

DEFENCE FORCE RETIREMENT BENEFITS FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31ST DECEMBER 1996

7. TAXATION

The income tax charged against the Fund surplus is determined in accordance with the policy set out in Note 1 (f) and relates to:

	1996 K	1995 K
Income tax expense for the year		
Current	178,293	5,271
Deferred	(3,939)	13,083
Overprovision in prior years	(213)	7,509
Income tax expense	174,141	25,863
Provision for income tax		
Prima facie tax payable at 25% on operating surplus	3,777,923	977,143
Net effect of permanent differences - current year	(3,603,782)	(958,789)
Net effect of timing differences	4,152	(13,083)
	178,293	5,271
Prior years	(88,877)	(94,148)
Provision for Income Tax	89,416	(88,877)
Deferred Taxation		
Opening balance	146,586	125,994
Movement during year	(3,939)	13,083
Prior year	(213)	7,509
Closing balance	142,434	146,586
Comprising:		
Depreciation	130,176	126,678
Interest Receivable	6,074	19,908
Provision for Doubtful Debts	6,184	0
Deferred Taxation	142,434	146,586

8. RECEIVABLES

Debtors	33,722	15,515
Less: Provision for Doubtful Debts	0	0
	33,722	15,515
Interest accrued - IBD	524,720	834,753
Interest accrued - Gov't Stock	19,883	20,143
Interest accrued - Loan	4,412	59,488
Government share - Benefits	335,364	305,185
Contribution in arrears	90,747	91,545
Sundry debtors	53,708	0
	1,062,556	1,326,629

DEFENCE FORCE RETIREMENT BENEFITS FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31ST DECEMBER 1996

9. CREDITORS

Associated Funds	137,566	226,427
Accruals	0	5,975
Sundry creditors	13,011	0
Benefits due & unpaid	0	78,053
NCDC Sales Tax & Benefit tax deduct.	2,863	210
Department of Defence - payable	265,000	0
	418,440	310,665

10. NOTES TO THE STATEMENT OF CASH FLOWS:

1. Reconciliation of cash

For the purpose of this Statement of Cash Flows, cash includes balance at bank net of bank overdrafts, and in call deposits with banks. Cash and cash equivalents at the end of the year as shown in the Statement of Cash Flows is reconciled to the related items in the Balance Sheet as follows:

	1996 K	1995 K
Balance at Bank-Current account	694,708	980,423
Balance at Bank-Call account	700,000	1,000,000
	1,394,708	1,980,423
2. Reconciliation of Cash Flow from operations with operating surplus after income tax		
Increase in member funds	14,947,308	3,882,708
Less: Contributions	(2,246,260)	(2,141,436)
Add: Benefits (net)	671,943	603,042
	13,372,991	2,344,314
Cash Flows in operating surplus attributable to non-operating activities	(8,979,505)	1,149,750
Non Cash Flow in operating surplus		
Depreciation	31,078	27,894
Net cash provided by operating Activities before changes in assets & liabilities	<u>4,424,564</u>	<u>3,521,958</u>
Changes in assets & liabilities during the year		
Increase/(decrease) in tax provisions	177,394	25,863
Increase in debtors	337,785	(558,220)
Increase/(decrease) in creditors	172,817	(229,936)
	5,112,560	2,759,665

Defence Retirement Benefit Fund Board and Subsidiaries
PROFIT AND LOSS ACCOUNTS
For the the Year Ended 31 December 2000

11. RELATED PARTY DISCLOSURES

During the year of the following transactions with related parties occurred:

- a. Payment of administration expenses to Public Officers Superannuation Fund Board - K643,576
- b. At 31 December 1996, the fund owed Public Officers Superannuation Fund Board - K137,566
- b. At 31 December 1996, the Fund was owed K690,000 by Hunter Pty Ltd.
(The Fund is a 70% shareholder in Hunter Pty Ltd.)

12. ACTUARIAL INFORMATION

- a. The effective date of the actuarial report is 31 December 1996;
- b. The name of the actuary producing the reports is Peter William May and his qualification is that he is a Fellow of the Institute of Actuaries of Australia;
- c. The market value of the net assets of the Fund amounted to K51,087,008. This is the amount available to meet the benefits accrued to the date of the report, including existing pensions.

On the basis that pensions are not increased in line with inflation the vested benefits at the dated of the report were K28,056,561. This value includes existing pensions.

If pension indexation is included then, on the basis that the increases are at the rate of 4% p.a in the long term, the vested benefits at the date of the report were K36,293,480.

- d. At the valuation date the vested benefits of the Fund were adequately covered by the net assets at market value.
- e. The actuary recommended that the contribution rate for contributors remains at 6% of salary and that the State's share of benefits remains at 60%. The actuary suggested that whilst the current financial position of the fund could support the introduction of pension indexation he did not recommend such an action at this time because:
 - (i) The current financial status is the result of exceptional investment performance over the last 3 years which was unlikely to be sustainable;
 - (ii) as a result of personal details of new contributors not being advised to the Fund's administrator the data cannot be considered fully reliable. Changes to personal details, such as changes in rank, are not advised to the Fund's administrator, further compromising the data; and
 - (iii) the new entrant contribution rate suggests there is a reasonable match between the current contribution rate and the current benefits.

DEFENCE FORCE RETIREMENT BENEFITS FUND DECLARATION BY MANAGEMENT

In our opinion the accompanying Balance Sheet, Revenue Account, Statement of Cash Flows and Notes to and forming part of the accounts for the year ended 31st December 1996, have been properly drawn up and show the true state of affairs of the fund as at that date. We are of the opinion that:

- a) the results of the Fund's operations for the year have not been materially affected by items, transactions or events of an abnormal character;
- b) no circumstances have arisen which would render any amount in the statements misleading;
- c) there are no contingent liabilities that could materially affect the ability of the Fund to meet its obligations as and when they become due.



LALEPA PATAPU
Chairman of the Board



EREMAN RAGI CBE
Managing Director

Notes

Defence Force Retirement Benefits Fund

PO Box 7039

BOROKO

National Capital District