

annual
report
1997

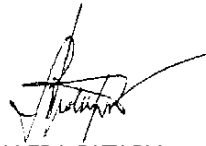
28 October 1998

The Hon. Peter Waieng, MP
Minister for Defence
National Parliament
PO Waigani
National Capital District

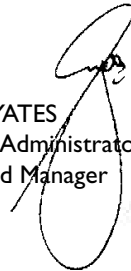
Dear Sir,

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 1997.

Yours faithfully,



LALEPA PATAPU
Chairman of the Board



SYD YATES
Fund Administrator
& Fund Manager



DEFENCE FORCE RETIREMENT BENEFITS FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 1997

CONTENTS	PAGE
REVENUE ACCOUNT	5
BALANCE SHEET	6
STATEMENT OF CASH FLOWS	7
NOTES TO THE FINANCIAL STATEMENTS	12
DECLARATION BY MANAGEMENT	13



AUDITOR-GENERAL OF PAPUA NEW GUINEA

TELEPHONE: 301 2203
FAX: 325 2872

LEVEL 6, TISA INVESTMENTS P/L
PO BOX 423
WAIGANI
PAPUA NEW GUINEA

The Honourable Peter Waieng, MP
Minister for Defence
PO Wards Strip
WAIGANI
National Capital District

Date: 27 May, 1999
Our Reference: 30-28-4
Action Officer:
Designation:
Your Reference:
Date:

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 31 December, 1997, as set out on pages 1 to 10, submitted by the Fund under Section 63 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 they contain. I have performed an audit of these financial statements in order to express an opinion on them.

My audit was conducted in accordance with International Standards on 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 and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with International Accounting Standards 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, 1997 and the results of its financial operations and its cash flows for the year then ended.

Your faithfully,

MARK WANI, MBE
Auditor-General

DEFENCE FORCE RETIREMENT BENEFITS FUND
REVENUE ACCOUNT
 FOR THE YEAR ENDED 31ST DECEMBER 1997

	NOTE	1997 K	1996 K
REVENUE			
Contributions		2,339,822	2,246,260
Investment Income	2	4,408,418	5,163,623
Sundry Income		-	3,222,122
TOTAL REVENUE		6,748,240	10,632,005
LESS: EXPENDITURE			
BENEFITS: -			
Benefits (net)	3	1,751,076	579,056
Insurance (net)	3 (a)	220,504	92,887
Administration & Inv. Mgmt. Fees	4	749,114	0
Management	5	177,155	648,357
TOTAL EXPENDITURE		2,897,849	1,320,300
Changes in Net Market Value of Inv.	6 (a)	74,220	5,849,986
FUND SURPLUS BEFORE TAX		3,924,611	15,161,691
Less: Taxation	7	123,031	174,141
Less: Extra Ordinary Items		-	50,000
NET INCREASE IN MEMBERS FUNDS		3,801,580	14,937,550

The accompanying notes form part of these Financial Statements

DEFENCE FORCE RETIREMENT BENEFITS FUND
BALANCE SHEET
AS AT 31ST DECEMBER 1997

	NOTE	1997 K	1996 K
ACCUMULATED MEMBERS FUNDS			
Opening Balance		51,087,008	36,149,458
Surplus for the year		3,801,580	14,937,550
TOTAL MEMBERS FUNDS		54,888,588	51,087,008
REPRESENTED BY:			
CURRENT ASSETS			
Cash at Bank	11 (1)	1,581,932	1,394,708
Receivables	8	2,905,911	1,062,556
TOTAL CURRENT ASSETS		4,487,843	2,457,264
LESS:			
CURRENT LIABILITIES			
Creditors	9	568,811	418,440
Unclaimed Monies		163,396	160,603
Provision for Income Tax	7	110,054	89,416
TOTAL CURRENT LIABILITIES		842,261	668,459
NON CURRENT ASSETS	10	13,306	0
NET CURRENT ASSETS		3,658,888	1,788,805
INVESTMENTS	6	51,385,111	49,440,637
LESS: TERM LIABILITIES			
Deferred Taxation	7	155,411	142,434
NET ASSETS		54,888,588	51,087,008

The accompanying notes form part of these Financial Statements

DEFENCE FORCE RETIREMENT BENEFITS FUND
STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED 31ST DECEMBER 1997

	1997 K	1996 K
CASH FLOW FROM OPERATION ACTIVITIES		
Cash receipts in the course of operations	4,896,884	5,620,037
Cash paid to suppliers in the course of operations	(835,745)	(507,477)
Income tax paid	(89,416)	-
Net cash provided by operation activities	3,971,723	5,112,560
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds of maturity of Govt.Inscribed Stock	-	-
Payments for purchase of Govt.Inscribed Stock	-	-
Placement of Term Deposits (Net)	1,608,845	(11,500,000)
Placement of Treasury Bills (Net)	(2,906,850)	-
Payment for acquisition of equities	(632,380)	(2,974,240)
Proceeds on sale of equities	-	7,285,303
Loan granted	-	-
Preliminary expenses on Proposed Investments	-	-
Payment on Convertible Notes	-	-
Payment for Fixed Assets	(10,874)	(4,466)
Net cash used in investing activities	(1,941,259)	(7,193,403)
CASH FLOW FROM ACTIVITIES WITH CONTRIBUTORS		
Contributors received from members	2,036,897	2,247,058
Benefits paid (Including State Share)	(4,044,512)	(1,949,558)
	(2,007,615)	297,500
CASH FLOW FROM ACTIVITIES WITH THE STATE		
Cash receipts of State Share (Benefits)	164,375	1,197,628
Net (decrease) / Increase in cash & cash equivalents	187,224	(585,715)
Cash & cash equivalents at the beginning of the year	1,394,708	1,980,423
Cash & cash equivalents at the end of the year	<u>1,581,932</u>	<u>1,394,708</u>

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.

- I. Set out hereunder are the significant accounting policies adopted by the Fund in the preparation of the accounts for the year ended 31st December 1997, such accounting policies were adopted in the preceding period unless specifically stated otherwise.

(a) Basis of Financial Statements

The presentation of these Accounts is in accordance with generally accepted accounting principles for Superannuation Funds. The net appreciation or depreciation of investment assets is shown in the Revenue Account which now more closely reflects the total increase in members' 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 I(d)].

(c) Valuation of Investments 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 the Board's policy that no depreciation should be charged on Investments Assets (Buildings).

Investments are valued as at 31 December 1997 as follows: -

- i. Quoted shares - at last sale price as at 31st December 1997.
- ii. Unquoted shares - at the fair value as at 31 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 and Buildings - by a valuation carried out by the Valuer as at 31st December 1996. The basis of the valuation was based on the market value.

d) Basic of Accounting

The Fund accounts for income and expenditure on an accrual basis except dividend income which is brought to account when received. Contributions 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.

4. ADMINISTRATION & INVESTMENT MANAGEMENT FEES

The Defence Force Retirement Benefits Fund is administered by Kina Securities Limited under delegation from 01st January 1997. Administration expenses and Investment Management Fees

(including charge for depreciation for use of KSL assets) for all Funds administered and managed by the KSL are met by KSL and recovered from the other Fund after year end. Exceptions to this are bank fees, interest charged, telephone and fax fees, printing and stationery, postage and courier, rent and certain professional fees paid directly by the Fund.

	1997	1996
	K	K
Administration Fees	583,017	-
Investment Management Fees	166,097	-
	749,114	-

5. MANAGEMENT

Staff	13,531	324,441
Vehicles	461	10,749
Travel	3,197	12,599
Audit Fees	25,000	-
Professional Fees	71,540	65,505
Directors	40,309	23,749
Office	325	83,514
Staff Housing	2,565	66,195
Office Buildings	-	30,527
Depreciation	1,147	31,078
Bank Charges	1,827	-
Office Rent	3,120	-
Training Expenses	2,160	-
Printing & Stationery	4,057	-
Staff Amenities	21	-
Postage & Courier	1,317	-
Telephone Expenses	6,578	-
	177,155	648,357

6. INVESTMENTS

Unquoted Shares	6,642,815	6,442,815
Quoted Shares	3,346,960	2,840,360
Government Securities	1,520,108	1,570,692
Land & Buildings	3,472,092	3,481,639
Loans	7,505,131	7,505,131
Interest Bearing Deposits	25,991,155	27,600,000
Treasury Bills	2,906,850	-
	51,385,111	49,440,637

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

Quoted Shares	74,220	1,197,220
Unquoted Shares	-	3,997,347
Land & Buildings	-	655,419
	74,220	5,849,986

7. TAXATION

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 1997

	1997 K	1996 K
INCOME TAX EXPENSE FOR THE YEAR		
Current	110,054	178,293
Deferred	12,977	(3,939)
Overprovision in prior years	-	(213)
Income Tax expense	123,031	174,141
PROVISION FOR INCOME TAX		
Prima Facie tax payable at 25% on operating surplus	981,153	777,923
Net effect of permanent differences - current year	(858,122)	(3,603,782)
Net effect of timing differences	(12,977)	4,512
	110,054	178,293
Prior years	-	(88,877)
Provision for Income Tax	110,054	89,416
DEFERRED TAXATION		
Opening balance	142,434	146,586
Movement during the year	12,977	(3,939)
Prior year	-	(213)
Closing balance	155,411	142,434
Comprising: -		
Depreciation	136,408	130,176
Interest Receivable	8,157	6,074
Rent Receivable	17,096	-
Provision for Audit Fee	(6,250)	-
Provision for Doubtful Debts	-	6,184
Deferred Taxation	155,411	142,434

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: -

	1997 K	1996 K
Balance at Bank - Main Account	214,912	694,708
Balance at Bank - Benefit Account	167,020	-
Balance at Bank - Call Account	700,000	700,000
Cash in Transit	500,000	-
	1,581,932	1,394,708

2. Reconciliation of Cash Flow from operations with operating surplus after Income Tax.

	1997 K	1996 K
Increase in members funds	3,801,580	14,947,308
Less: Contributions	(2,339,822)	(2,246,260)
Add: Benefits (Net)	1,971,580	671,943
Operating surplus after Income Tax	3,433,338	13,372,991
Cash Flows in operating surplus attributable to non-operating activities	(23,636)	(8,979,505)
Non Cash Flow in operating surplus Depreciation	10,694	31,078
Net cash provided by operating activities before changes in Assets and Liabilities	3,420,396	4,424,564
Changes in Assets & Liabilities during the year		
Increase /(decrease) in Tax provisions	33,615	177,394
Increase/(decrease) in Debtors	370,920	337,785
Increase/(decrease) in Creditors	146,792	172,817
	3,971,723	5,112,560

II. RELATED PARTY DISCLOSURES

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

(a) At 31st December 1997, the Fund owed K80,711.93 to Public Officers Superannuation Fund Board.

(b) At 31st December 1997, the Fund was owed K690,000 by Hunter Pty Ltd. (The Fund is a 70% shareholder in Hunter Pty Ltd).

The accompanying notes form part of these Financial Statements

DEFENCE FORCE RETIREMENT BENEFITS FUND
STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED 31ST DECEMBER 1997

	1997 K	1996 K
CASH FLOW FROM OPERATION ACTIVITIES		
Cash receipts in the course of operations	4,896,884	5,620,037
Cash paid to suppliers in the course of operations	(835,745)	(507,477)
Income tax paid	(89,416)	-
Net cash provided by operation activities	3,971,723	5,112,560
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds of maturity of Govt.Inscribed Stock	-	-
Payment for purchase of Govt.Inscribed Stock	-	-
Placement of Term Deposits (Net)	(2,906,850)	-
Placement of Treasury Bills (Net)	(632,380)	(11,500,000)
Payment for acquisition of Enquiries	-	(2,974,240)
Proceeds on sale of Equities	-	7,285,303
Loan granted	-	-
Preliminary expenses on Proposed Investments	-	-
Payment on Convertible Notes	-	-
Payment for Fixed Assets	(10,874)	(4,466)
Net cash used in investing activities	(1,941,259)	(7,193,403)
CASH FLOW FROM ACTIVITIES WITH CONTRIBUTORS		
Contributors received from members	2,036,897	2,247,058
Benefits paid (Including State Share)	(4,044,512)	(1,949,558)
	(2,007,615)	297,500
CASH FLOW FROM ACTIVITIES WITH THE STATE		
Cash receipts of State Share (Benefits)	164,375	1,197,628
Net (decrease) /Increase in cash & cash equivalents	187,224	(587,715)
Cash & cash equivalents at the beginning of the year	1,394	

DEFENCE FORCE RETIREMENT BENEFITS FUND
DECLARATION BY MANAGEMENT

In our opinion the accompanying the Balance Sheet, Revenue Account, Statement of Cash Flows and Notes and forming part of the accounts for the year ended 31 December 1997, have been properly drawn up and show the true state of affairs of the Fund as at the date. We are of the opinion that:

- (a) the results of the Fund's operations for the year have not been materially affected by item transaction 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 meet its obligations as and when they become due.



LALEPA PATAPU
Chairman of the Board



SYD YATES
Fund Administrator & Fund Manager

NOTES

NOTES

Defence Force Retirement Benefits Fund
PO Box 1141
PORT MORESBY
National Capital District