



**Office of the Auditor-General
of
Papua New Guinea**

**PART II
Report of the Auditor-General - 2009**

**National Government Departments
and Agencies**

**ACCOUNTS AND RECORDS 2009
CONTROLS 2010**

**On the controls and on transactions with or concerning
the Public Monies and Property of Papua New Guinea in
2009 and the controls in 2010**



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23 April, 2012

The Honourable Jeffery Nape, MP
Speaker of the National Parliament
Parliament House
WAIGANI
National Capital District

Dear Mr. Speaker,

In accordance with the provisions of Section 214 of the Constitution of the Independent State of Papua New Guinea, I have the honour to transmit to the National Parliament Part II of my Report for the year 2009.

The Report deals with National Government Departments and Agencies on the controls in 2010 and on transactions with or concerning the public monies and property of the State of Papua New Guinea in 2009.

Yours faithfully,

PHILIP NAUGA
Auditor-General

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LIST OF ACRONYMS

Abbreviation	Full Description
AGO	Auditor-General's Office
AMS	Asset Management System
APC	Authority to Pre-Commit
ASYCUDA	Automated Systems for Customs Data
BSP	Bank South Pacific
BOS	Board of Survey
CACC	Central Agencies Coordinating Committee
CFC	Cash Fund Certificate
COI	Certificate of Inexpediency
CRF	Consolidated Revenue Fund
CRL	Cheque Reconciliation Listing
CSTB	Central Supply and Tenders Board
DMA	Domestic Market Allowance
EDP	Electronic Data Processing
EMT	Executive Management Team
ETD	Expenditure Transaction Detail
FAS	First Assistant Secretary
FF3	Requisition for Expenditure Form
FF4	General Expenses Form
FMM	Financial Management Manual
GO	General Order
GoPNG	Government of Papua New Guinea
GPM	Goods Procurement Manual
GST	Goods and Services Tax
HDA	Higher Duty Allowance
HRM	Human Resources Management
IEO	Internal Examine Officer
ILPOC	Integrated Local Purchase Order and Claim Form
IPA	Investment Promotion Authority
ITC	Information Technology Configuration
JE	Journal Entry
KRA	Key Result Areas
MBA	Master of Business Administration
MOU	Memorandum of Understanding

NEC	National Executive Council
NEP	National Education Plan
OIC	Officer-In-Charge
OTC	Overseas Travel Committee
PFM Act	Public Finances (Management) Act 1995
PGAS	PNG Government Accounting System
PIP	Public Investment Program
PNG IPA	PNG Institute of Public Administration
PTB	Plant Transport Branch
RAC	Revenue Accounting System
SAD	Single Administrative Document
SDMA	Special Domestic Market Allowance
SIEO	Senior Internal Examine Officer
SRC	Salaries and Remuneration Commission
SSG	Special Support Grant
TMS	Treasury Management System
WA	Warrant Authority

FOREWORD

My Report to the National Parliament for 2009 is being presented in four parts.

Part I of my Report deals with the Public Accounts of Papua New Guinea (to be tabled in early 2012).

Part II (this Part) of the Report deals with National Government Departments and their agencies.

Part III of my Report deals with audits of the Provincial Governments, their Public Bodies and Subsidiary Corporations, Local-level Governments, Hospital Boards and some Trust Funds.

Finally, Public Bodies and Subsidiaries, National Government-owned Companies and National Government's share holdings in Other Companies are covered in Part IV of my Report.

This (Part II) report contains two sets of findings in respect of each agency audited:

- **Summary results of audits of 2009 accounts** to support the audit of the Public Accounts for 2009. In order to assess the reliability and accuracy of the reported expenditure and revenue of the 2009 Public Accounts, 18 agencies of significant budgetary appropriation were selected and their results evaluated under the Chapter "Controls Environment"; and
- **The control environment audits in 2010 of individual agencies** examined corporate governance, controls surrounding procurement and payments, asset management, human resource management, management of advances, bank accounts and budgetary controls. Individual reports or management letters were sent to Agency Heads to report on the control weaknesses in order to provide management sufficient time to improve on the processes prior to the end of the fiscal year 2010. Results of these are detailed under the individual agencies included in this Report.

ROLE OF THE AUDITOR-GENERAL - Introduction

Authority to Audit

Section 214 of the *Constitution of the Independent State of Papua New Guinea* requires the Auditor-General to inspect and audit, and to report at least once in every fiscal year (as provided by an Act of the Parliament) to the Parliament on the Public Accounts of Papua New Guinea and on the control of and on transactions with or concerning the public moneys and property of Papua New Guinea, and such other functions as are prescribed by or under a Constitutional Law. These functions have been amplified by the *Audit Act 1989*.

Section 3, Sub-section (4) of the *Audit Act 1989* states that:

“the Auditor General shall in such manner and at such times as he thinks proper inspect and audit all accounts that relate directly or indirectly to:-

- (a) the collection, receipt, expenditure or issue of public moneys or,*
- (b) the receipt, custody, disposal, issue or use of stores or other property of the State”.*

The audit of National Government Departments and Agencies has been conducted under the above guidance.

Audit Coverage

The audit of the National Government Departments and agencies covered the following areas:

- **Audit of 2009 accounts** - to examine statutory reporting, cash management practices, budgetary appropriations and in particular erroneous charges to itemized expenditure and year end processes. To support the audit of the Public Accounts for 2009, sixteen (16) Departments have been selected on the basis of significant funding in the 2009 budgeted recurrent and development expenditure as well as audit issue areas in two (2) agencies.
- **The control environment in 2010** - to examine corporate governance, controls surrounding procurement and payments, asset management, human resource management, management of advances, cash management and budgetary controls. Individual reports/management letters were sent to Departmental Heads to report on the 2010 control weaknesses in order to provide them sufficient time to improve the process prior to the end of 2010. Results are detailed under the individual agencies included in this Report.

Responsibilities of Management

Departmental Heads are responsible for the efficient management of administrative services and are also responsible for keeping proper accounting and subsidiary records. In addition, the Departmental Head, in accordance with Section 5 of the *Public Finances (Management) Act 1995* is also responsible for safeguarding the collection and custody of public moneys, that expenditure is properly authorized and applied to the purposes for which it is appropriated, and all expenditure is incurred with due regard to economy, efficiency and avoidance of waste.

The primary responsibility for the prevention and detection of fraud rests with the Departmental Head.

Responsibilities of the Auditor-General

Section 3 of the Audit Act requires me to satisfy myself that:

- the functions performed by, and the operations carried out by the relevant body, are being carried out in an economical, efficient and effective manner.
- all such expenditure has been properly accounted for;
- all such expenditure has been made with due regard to economy and the avoidance of waste and extravagance;
- all reasonable precautions have been taken to safeguard the receipt, custody, disposal, issue and proper use of stores and other property of the State;
- all reasonable precautions have been taken to safeguard the collection and custody of public moneys;
- all expenditure of public moneys has been properly authorized and applied to the purposes for which they were appropriated; and
- all applicable laws, directions and instructions have been duly observed.

My audits are performed in accordance with the International Standards on Auditing (ISA) as promulgated by the International Federation of Accountants. The audits are designed to provide reasonable assurance that a financial report (the Public Accounts of PNG) taken as a whole is free from material misstatement. Concerns about quality of financial reporting, in light of international and national corporate collapses in recent years, have led to more stringent auditing requirements and added to the importance of evidence of compliance with the standards. I use the ISAs to ensure that my audits are conducted with appropriate rigor and professionalism.

Other than in relation to his own staff and administrative control of his own Office, neither the Constitution nor any other legislation provides the Auditor-General any executive or directive powers over the organizations subject to his audit. Although the evaluations and investigations performed under the direction of the Auditor-General assist the respective management in detecting weaknesses in controls and procedures, compliance in identifying causes of inefficiencies and uneconomic practices, and in recommending remedial measures, it is unethical for the Auditor-General to undertake executive responsibilities in relation to the formulation of accounting systems and policies or the setting of standards for administrative and accounting purposes. To assume such responsibilities may impede the Auditor-General's independence and objectivity requirements in the performance of his primary functions.

However, it has been the policy of this Office to engage into discussions with agencies on general matters in relation to accounting systems, internal controls and administrative procedures.

Regrettably, the findings in this Report do not vary much from the findings in previous reports. After five years of reporting recurring weaknesses, as the incumbent Auditor-General, I am concerned about the lack of progress in improving financial management within Government Departments and agencies. At the recent PAC hearings (20 March) the Deputy PAC Chairman spoke of the need for agencies to take positive action to rectify these recurring issues. He also stated the Auditor-General needed to take a stronger stance on ensuring agencies comply with financial management policy and guidelines.

CONTROLS ENVIRONMENT – Summary Results

Introduction

Internal control is a process designed to provide reasonable assurance that an organization abides by the applicable laws and regulations and ensures the reliability of financial reporting and the effectiveness and efficiency of operations. Internal control is often accepted as consisting of five interrelated components as follows:

Control Environment – The control environment sets the tone for an organization. It provides discipline and structure and strongly influences the control consciousness of the people within the organization. Key factors in the control environment include the integrity, ethical values and competence of personnel, and are often reflected in a Code of Ethics.

Risk Assessment – Risk assessment is the identification and analysis of relevant risks which may prevent an entity from meeting its operational, financial and compliance objectives. Entity management should assess risk based on the types of activities performed, organizational structure, staffing levels and attitudes within the entity.

Control Framework – Control framework consists of the policies and procedures established to ensure that management's directives are implemented. Managers must be aware of the entity's policies and the procedures and supplement these procedures with department level guidance when necessary.

Information and Communication – Pertinent information must be identified, captured and communicated in a form and timeframe that enables people to carry out their responsibilities. Reports containing operational, financial and compliance-related information make it possible to run and control the entity's business.

Monitoring – Monitoring is a process that assesses the quality of the internal control process over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations and regular management and supervisory management's monitoring of controls includes considering whether they are operating as intended and whether they are modified as appropriate for changes in conditions.

The audits of internal controls

The audits of 2010 controls were designed to assess the reliability of control structures to produce complete, accurate and valid information for financial reporting purposes.

In performing the audits, my officers focused primarily on evaluation of internal controls, together with such examinations considered necessary to assess the performance of financial operations of the entity, with a view to assess the reliability and integrity of financial data.

The audits reviewed corporate governance in entities, internal audit functions, the reporting regime, the existence of budgetary controls and bank reconciliations, asset management procedures, purchases and payments, human resource management, trust account management and management of temporary advances issued including other control functions exercised within the Department/Agency.

The audits are not required to search specifically for fraud and therefore the audits cannot be relied upon to disclose all such matters. However, the audits were planned and executed so that I can have a reasonable expectation of detecting material misstatements resulting from irregularities, including fraud.

Corporate Governance

Corporate governance can be defined as the practices, principles and values that guide an entity and its operations every day, at all levels of the organization.

In the public sector environment, corporate governance is the framework established by the top management to ensure that the stakeholders, primarily the Parliament, the Government and the wider community, have assurance that the entity is fulfilling its responsibilities with due diligence and accountability.

For the purpose of the audit, in 2010 the AGO assessed whether an agency's control environment includes measures to contribute positively to sound corporate governance. These measures are in the form of key elements of a control environment designed to provide a sound basis for effective financial management.

The results of the audits identified:

- Thirteen (13) out of the sixteen (16) Departments had Corporate Plans and only four (4) had Annual Plans despite the requirements for all Government entities to have such plans. Corporate and Business Plans are important as they set the targets and performance indicators to assist with monitoring of achievements and taking corrective actions. Departments without these plans have difficulty in measuring performance which in turn leads to ineffective and inefficient service delivery.
- In General, for Departments that had Corporate Plans performance indicators were not precise enough and therefore did not provide an effective basis for proper assessment of the achievements. Performance is better accounted for when measures of output quantity, quality, timeliness and costs are identified as performance indicators.
- There was no evidence to suggest that findings or recommendations in audit reports were considered at the executive management meetings for three (3) agencies reviewed.

Internal Audit and Audit Committees

Internal Audit is a key source of independent and objective assurance advice on an agency's internal control and risk framework. Depending on the role and mandate of an agency's internal audit function, it can play an important role in assessing the adequacy of systems and processes that underpin an agency's financial statements.

From the AGO perspective, Internal Audit is an important component of the system of internal control. Because of similarities in the nature and scope of activities performed by internal and external auditors, especially in the public sector, there are significant efficiencies to be achieved if external auditors are able to rely on the work of Internal Audit. An effective Internal Audit program should facilitate external audit to place greater reliance on their work, thereby making better use of overall audit resources.

In that respect it was found that two (2) agencies did not have an Internal Audit function established. For twelve (12) departments that had Internal Audit, there was no Audit Charter and Audit Plan to set out the mandate and scope of audit coverage. In the majority of cases there is insufficient capacity in trained staff and funding for Internal Audit to carry out its duties during the year.

Audit Committees have an important role to play in reviewing and advising on important components of corporate governance. An effective Committee has the potential to strengthen the agency's control structure and to assist the Chief Executive/Secretary to foster and maintain an appropriate control culture. Of the sixteen (16) departments covered in this Report, only six (6) had established Audit Committee functions in 2010.

Statutory Reporting

Quarterly and Annual Financial Reports

Part II Section 5 of the *Public Finances (Management) Act 1995* requires Departmental Heads to submit a report on financial management quarterly and an Annual report, including overall assessment of the Department at end of each fiscal year to the Secretary, Department of Finance.

Nine (9) out of sixteen (16) Departments did not comply with this requirement during the 2009 and 2010 financial years.

The Cash Management and Expenditure Control Division within the Department of Finance has responsibility to monitor, review and analyse the quarterly and annual financial management reports. This important role is also specified in the Department's Corporate Plan. The Division has not been performing this function resulting, in my view, a lack of compliance with the legislative requirements aimed at ensuring overall financial accountability in government.

Annual Management Reports

Division 4 Section 32(a) of the *Public Service (Management) Act 1995* stipulates that:

"Each Departmental Head shall by 31st March in each year, prepare a report on the attainment of the planned objectives of his Department for the year ending 31st December preceding."

Public Service General Order 8.12 reinforces this by directing that the Departmental Head is to forward to Secretary, Department of Personnel Management a report on the work and achievements of the Department in relation to the Corporate and Annual Management Plans.

Only five (5) out of the sixteen (16) Departments have submitted these reports for 2009 to the Department of Personnel Management. Moreover, the Department of Personnel Management has not acted on this non-compliance or undertaken any follow up action.

If the results of the Annual Reports are not summarised, analysed and tabled in the Parliament, the attainment of planned objectives at the nationwide level would not be properly monitored.

Budgetary and Funds Controls

An effective financial management environment is demonstrated by strong integration of budgeting with the entity's corporate plan priorities and external accountabilities. Appropriations represent the primary source of revenue for all agencies. The efficiency of a Department's cash management and budgetary controls depend on accurate information on the availability and the requirements of funds, as well as a reliable procedure for tracking variances from its records against Department of Finance's records, in order to ensure that:

- Funds transferred by way of Warrant Authorities agreed with funds recorded in the Department's PGAS ledger;
- Monthly reconciliations of Departmental expenditures and Department of Finance are carried out to eliminate any differences to agree with Public Accounts;
- That differences noted are communicated with Department of Finance and are sorted out as soon as possible, and
- funds are spent within the budgetary allocation.

My audits disclosed that controls in agencies relating to the funds management and budgetary controls were generally inadequate. Weaknesses noted related to:

- Lack of monitoring of expenditure in ten (10) out of the sixteen (16) Departments. Agencies did not employ a Budget Officer to be responsible for Cash Flow Management and no cash flow statements were prepared on a regular basis to report on significant anticipated shortfalls or surpluses and to enable the Head of Department to make informed financial decisions. This lack of monitoring expose the Public Accounts to the risk that moneys could be spent in excess of the appropriation limit, resulting in breaches of the *Appropriation Act approved for the budget year including the Public Finances (Management) Act 1995* or even the *Constitution of the State of PNG*.
- Incorrectly charged expenditures to Vote items for which funds were not appropriated, either through use of incorrect expenditure codes or through journal entries. There were also instances noted of funds being transferred between divisions and functions as at 31 December, 2008, contrary to the *2008 Appropriation Act for the 2009 budget year*.
- Lack of reconciliation between the PNG Government Accounting System (PGAS) and the TMS which captures all the financial transactions processed through the PNG Government Main Public Accounting System. Each Government agency is expected to reconcile their records (PGAS) on both revenue and expenditure with the monthly records produced by the Department of Finance (TMS). If there are any differences between the two records, journal entries are required to be raised by the departments to make the necessary adjustments ensuring that both records have the same information on their respective ledgers. Materials variances in agencies for example; Department of Finance – K22.3million, Department of Foreign Affairs – K6.3million, Department of National Planning and Monitoring – K5.5million.
- The non-performance of this very important reconciliation has a significant impact in the balancing of the General Ledger of the Public Account of PNG. Namely, what is captured on the main Public Account may not be a true and fair representation of the information being generated and processed during the financial year at the various agencies.

Bank Reconciliations

A bank reconciliation represents an independent verification by management to ensure that cashbook transactions reconcile to the bank statements. Performing bank reconciliations periodically (monthly) ensures that receipts and payments are accurately processed, cashbook or bank errors are identified, and misappropriation or fraud is detected in a timely manner. Bank account reconciliations are a key control in assisting management to identify anomalies or errors in the payment and receipting processes and assisting management to discharge its accountability requirements. Reconciliations need to be prepared within a reasonable period to ensure anomalies or errors have been identified and appropriate action taken.

The Finance Manual requires Heads of Government Departments and Statutory Authorities to reconcile their bank accounts on a monthly basis. Bank balances should be reconciled against the cashbook balance and the reconciled cash book balance should be agreed with the Appropriation Ledger for National Government, Provincial Government and Local Level Government transactions.

Copies of bank reconciliation statements should be forwarded to Accounting Frameworks and Standard Division, Department of Finance no later than 14 days of the close of each month. Failure to comply may necessitate withholding further issuance of Warrant Authorities.

Weaknesses identified related to either no reconciliations performed or untimely completion of reconciliations, including no clearance of reconciling items, as follows:

- Bank reconciliations were current in only ten (10) out of sixteen (16) Departments. However, even in those entities, significant unreconciled items were carried over for long periods of time. Two (2) agencies had their last reconciliation completed back in year 2005 and 2006.

- The officers responsible for preparation of the bank reconciliation were not qualified and sufficiently trained.
- In a number of agencies, the reconciliations were not reviewed and certified as correct by a senior officer.

AGO reviewed the status of bank reconciliations for National Government Departments conducted at the Department of Finance to observe the extent to which the Department of Finance monitors compliance with set guidelines and Financial Instructions.

AGO noted that not all departments were submitting their bank reconciliation statements within 14 days after the close of each month as stated in the PFM Act. Some of the more significant issues were:

- As at 14th February 2011, only ten (10) Departments have submitted their bank reconciliation statements to current, for the period ended 31st December 2010.
- Twenty (20) departments reconciliations were in arrears by 11 months from November back to January 2010; and
- Three (3) Departments reconciliations were last completed for October/May 2009 and December 2006.

AGO acknowledges that the Accounting Standards and Framework Division (ASFD) has been advising the agencies to submit their bank reconciliation statements for the outstanding years. However, given the importance of this control, AGO considers that the Department of Finance should use its powers under the existing legislation, such as withholding Warrant Authorities, to enforce legal compliance.

Assets Management

Government Departments and agencies spend significant amounts of money on asset purchases, especially on computers and accessories. It is the responsibility of the Departmental Head to account for and safeguard the State's assets within their respective jurisdiction.

The maintenance of a reliable asset register that includes adequate information about assets acquired and disposed and asset reconciliations with periodical stock-takes is a prerequisite to effective asset management. Regular reconciliations of the asset register with the entity's financial systems (i.e. procurement function) will help ensure the timely and accurate recognition of asset items and facilitate their physical control.

From the asset records of sixteen (16) Departments and two (2) agencies audited, it was evident that:

- Asset registers were either nonexistent or they were not maintained properly in all agencies. The lack of register exposes the entity to the risk that assets may not be utilised effectively, may not be protected from physical deterioration or maintained properly.
- Periodic stock-takes were not being conducted to determine the accuracy of assets on hand in agencies. In most cases the physical condition and durability of assets held is not properly ascertained. The risk of assets being removed without authority or through theft is high in agencies that do not conduct periodic stock-takes.
- From the samples of vouchers AGO selected for testing, in excess of K6.4 million was identified as unrecorded assets in which payment details of these assets could not be traced to asset recording, both resulting from lack of a register or simply not being recorded by any means.
- Controls surrounding management of vehicle fleets were nonexistent. Custodianship of vehicles was not documented and identified to officers in possession, nor any review conducted on the custodial arrangements to ensure that the vehicles do exist.

Procurement and Payments Procedures

Strong controls over purchases and payments will help ensure that the quality of goods or services purchased are acceptable and that goods are actually received in good order.

Controls including reconciliation processes, segregation of duties, appropriate delegations and access controls provide an effective means of ensuring that payments are valid and accurately recorded, and that funds are not mismanaged or subject to material fraud.

The AGO noted that in most cases there was an extremely high rate of non-compliance with procurement and payment procedures. In the majority of agencies there were no procurement plans or quotation registers maintained. Most importantly, monitoring of quality and quantity of goods and services received was not performed.

Other significant issues were:

- Payment vouchers were not examined for completeness and certified correct prior to processing them for payment. These were noted in eleven (11) entities out of eighteen (18) audited.
- In nine (9) agencies, where AGO undertook detailed testing, the amounts relating to missing documentation was in excess of K29.2 million.
- Payments to suppliers were often made on pro-forma invoices and without required quotations. A number of agencies were making payments through this process.
- An agency paid K5 million for rental of a property that was not occupied and is yet to be recovered.

The significant lack of controls over procurement and payments expose the State to the risk of:

- unauthorised purchases;
- over-commitment of funds without recourse to cash flows;
- uneconomical purchasing;
- fraud (kick backs/secret commissions); and
- purchase of inferior or expensive goods and services.

HR Management

Human resource (HR) management processes encompass the day to day management and administration of employee entitlements and payroll functions. The salaries and wages costs within Government Departments represent one of the largest items of expenditure. On average, direct salaries comprise around 20% of the annual recurrent budget of the State. This represents a significant area of risk and management should ensure that these costs are carefully controlled and monitored and that those responsible for payroll functions have the necessary skills and knowledge to effectively execute these functions.

Given the significance of employee expenses, and the fact that by their nature some employee entitlement calculations can be inherently prone to human error, agencies need to have adequate control mechanisms in place to capture and process employee data and related payments. In addition, key controls should include appropriate approval and review processes.

Common problems identified across the agencies were:

- Although the payroll is processed centrally by the Information Technology Division (ITD) of the Department of Finance for public servants, it is the responsibility of the Departmental Head to ensure the Department's payroll is accurate and complete. AGO found that there was no payroll reconciliation performed by the HR area throughout the 2009 and part of the 2010 in two (2) agencies tested, although previous audits indicate that not many agencies perform such reconciliations. The agencies did not maintain their own PGAS ledger records but relied on the Department of Finance records. The lack of this key control can facilitate fraudulent payroll activities where payments processed outside the system such as manual cheques would not be easily detected in the absence of independent records and reconciliation.
- AGO observed that an agency employed 52 casuals, which exceeded the staff ceiling (the number of funded positions). For example, 38 employees were not on the Department of Community Development concept payroll system, but were paid by cheques. These casuals and part time employees were not held against position numbers and no approval was obtained from the Secretary of DPM prior to engagement. Proper selection process appears to have not been followed in their employment.
- One of the important aspects of the HR function is to maintain records that demonstrate compliance with applicable human resource statutory and regulatory requirements, agency policy and agreements with other parties. Up to date records in respect to individual employees are vital and should be properly maintained. Testing of a sample of employee files in three (3) agencies noted that salary history cards were not updated on a regular basis with recreational leave, HDA, sick leave or tax declaration forms on dependants claimed.
- Personnel files were generally not kept in a satisfactory manner. The files were left lying around on the floor area and not in a secure environment. There is a risk of loss of payroll, personal information or documents, damage to the files and also unauthorised access to payroll and personal information.
- Employees on contract of employment are paid certain entitlements and are appointed to such positions based on minimum qualifications and experience required for the position. In addition, their claims for entitlements are based on a signed and valid contract of employment. In two (2) agencies, AGO observed that employees were paid entitlements including gratuities when not having a signed renewed contract of employment. In addition, two (2) officers in an agency were holding contract positions without the minimum qualification required for the job.

Trust Account Management

Government agencies (or the Heads of Departments) are responsible for maintenance of trust accounts. To ensure proper accountability of trust money, Part 3 of the *Public Finances (Management) Act 1995* requires maintenance of adequate records, that collection of receipts and payments from trust accounts is in accordance with the Trust Instruments and submission of periodic reports to Department of Finance including a requirement to submit monthly bank reconciliations.

Consistent with the findings from previous years, the agencies were unable to ensure that the collection of receipts and the payments of trust money were in accordance with the trust instruments. Other issues noted were:

- Out of the 10 agencies operating trust accounts, AGO identified the existence of 40 trust accounts that are not operating on the agencies' system - PGAS. When records are not properly maintained, monitoring of expenditure and compliance cannot be effectively performed.
- In most of the agencies with trust accounts, payments were made contrary to the purpose of the trust. Payments include school fees, salary advances, financial assistance, etc. to cite an example from the National Disaster T/A. These agencies have also not submitted monthly reconciliations and statements of receipts and payment to the Department of Finance.
- Surplus funds available in the Trust Accounts were not invested in line with the *Public Finances (Management) Act*. Such action was not taken on most of the trust accounts administered by agencies.

Sub-sections 19(2) and (3), of the *Public Finance (Management) Act 1995* requires that an estimate of receipts and payments expected to be made into and withdrawn from the Account are to be submitted before commencement of each fiscal year and monthly bank reconciliations to be submitted no later than 14 days after the close of each month to the Accounting Frameworks and Standards Division, Department of Finance. The Division is to ensure compliance on monthly and annual reporting by all departments and agencies.

AGO reviewed the status of trust accounts at the Department of Finance to observe the extent to which the Department of Finance monitors compliance. A status report prepared by the Division on the Bank Reconciliation Statements for all the Trust Accounts in the Waigani Public Accounts detailed the following:

- No departments have submitted their trust bank reconciliation statements within 14 days of the close of each month as required by legislation.
- Only 40 Trust Accounts out of the estimated 375 had submitted their trust bank reconciliation statements as at end of December 2009.

Advance Management

Part 20 of the Financial Management Manual requires all advances paid relating to traveling for both overseas and domestic travel, including cash advances, are to be recorded in the Register of Advances to be controlled and managed by the financial delegates.

In addition, no second advance is to be made when the first advance is outstanding. Furthermore, the financial delegates should be reviewing the register of advances to make sure that all advances are being acquitted regularly as required and the advances should be used for the purpose paid for.

Although advances are not a material amount in the Public Accounts, due to the significance of the issues identified, such as non-existence of controls, management overriding the controls and potential fraudulent activities occurring, I have examined in detail the area of management of advances. The following significant issues were identified:

- In nine (9) out of 18 agencies tested, unacquitted advances as at 31st December, 2009 were in excess of K4 million. It was observed that most of these agencies issued further advances to officers whilst their previous advances remained outstanding.
- Two (2) agencies had unacquitted salary/cash advances of K57,050. It should be noted that there were additional unacquitted cash advances accumulating from previous years noted in nine (9) agencies tested. There were many instances identified where officers had resigned without acquitting their advances. The agencies had no established limit on cash advances and, in some instances, the amount of the cash advances given to employees exceeded their annual salary.
- AGO observed the practice of agencies paying significant amounts to the Paymaster as cash advances. These cheques were cashed by the Paymaster/Paymistress and paid to officers of the departments for various purposes. Such practice could lead to fraud as there is no documentation/audit trail. Examples observed were in the Office of Rural Development, Department of Community Development and Prime Minister and National Executive Council. AGO observed that it was common practice by agencies to draw advance payments by using the Paymaster where controls over acquittals have been unsatisfactory.
- Management of the advances was very poor and there was no assurance over the completeness of the recorded balances. AGO identified K746,058 unrecorded advances in two (2) agencies alone.

Conclusion

Properly functioning internal controls are fundamental for entities in meeting their respective strategic, operational and financial responsibilities. The results of the testing of accounts of year 2009 and testing of controls in year 2010 revealed weaknesses of such magnitude that material errors could have been processed or misappropriation and fraud could have occurred.

A broad range of internal control issues were raised as part of this audit. In general, the results of the testing of controls in 2010 at different entities indicated that overall, there were significant weaknesses in the control environment. Control activities, such as delegations, authorisations, reconciliations, data processing, system access, management monitoring, etc. were not sufficiently robust to prevent, detect or correct errors or fraud.

Low managerial capability, understanding of responsibilities and commitment of those responsible within the Government Departments contributed to the decline in service delivery to the community and the public in general. Top management also failed to take action on external and internal recommendations for improvements or follow up actions on irregularities reported (including audit reports).

Although my Office is a key player in reviewing, monitoring and reporting on governance, especially financial governance, I have to stress that we are but one part of the control and monitoring processes and play a limited role in the identification and investigation of fraud or corrupt behavior.

The onus of responsibility in ensuring compliance with legislative, managerial and procedural requirements rests with the Heads of Departments and agencies and their senior management. Audit reports to government departments and agencies contain recommendations for most of the weaknesses identified during the course of audit, and if implemented by management, would address and resolve most of the weakness identified and reported on.

The remainder of the Report informs briefly the results of the audits of 18 agencies. Individual reports were provided to each Department for their management responses and, where provided, have been included in the report.

DEPARTMENT OF PRIME MINISTER AND NATIONAL EXECUTIVE COUNCIL

OVERVIEW

The Department's mission is to ensure that issues and concerns related to people are gathered, addressed and articulated through politically endorsed National Objectives, through which Department Missions and Program Specifications are formulated and implemented; to take the lead in major issues related to national vision, unity and security; and to manage the effective translation of Government policies into actions that meet the people's aspirations.

The *Public Service (Management) Act, 1986 (as amended)* and other relevant legislation and decisions of the National Executive Council; and through its exercise of those functions *Gazetted on 16 October, 1992* the Department undertakes the following activities:

- Provide appropriate advice and information to the Prime Minister on Government Operations;
- Co-ordinate National Executive Council Affairs;
- Direct the operations of the National Security Organization;
- Administer the Government Flying Unit;
- Provide appropriate administrative support to the Head of State and other Ministers and visitors;
- Provide administrative services for the Governor-General;
- Provide services to the Secretary of the National Executive Council, the Office of the Legislative Council and the National Intelligence Organization;
- Provide administrative services to Ministers;
- Provide and maintain security of Government Buildings;
- Provide a Government Information Service;
- Provide a Parliamentary liaison;
- Maintain and control civil fire services
- Provide services to standing and ad hoc organizations relating to the functions of the Department;
- Primarily response for managing all policies relating to the operation of the Government;
- Acts as focal point for consultation with the Private Sector;
- Administer all appropriate legislation pertaining to information;
- Be responsible for policies and research relating to information and communication in Papua New Guinea;
- Control the percentage of improved overseas material for broadcast by electronic media;
- Liaise with statutory authorities responsible for information and with media organizations and agencies; and
- Monitor and review all Government policies on censorship.

FINDINGS

CORPORATE GOVERNANCE

Corporate Governance is the way in which an organization is controlled and governed in order to achieve its objectives. The control environment makes an organization reliable in achieving these objectives within an acceptable degree of risk.

Internal Audit and Audit Committees

Internal Audit plays a vital role in appraising the system of internal controls and reports to management, where appropriate, issues that need to be addressed. Because of similarities in the nature and scope of activities performed by internal and external auditors, there are significant efficiencies to be achieved if external auditors are able to rely on the

work of internal auditors. An effective internal audit program should facilitate external audit to place greater reliance on the work of Internal Audit, thereby making better use of overall audit resources.

AGO noted that there may be merit for a formal review to assess priorities, risks and resources to ensure better internal audit coverage. Internal Audit was focused primarily on investigative auditing rather than compliance and controls testing and evaluation. There was no audit coverage undertaken in 2007 and 2008 as there was no internal audit function operating during those years.

AGO noted, the following expenses being incurred in addition to the payment of salary against an Internal Auditor position, viz;

- The Director, Finance and Administration confirmed that no internal audit reports were produced by the officer;
- According to the expenditure printout the expenses incurred for and on behalf of the Internal Auditor include overtime payment of K10,160 (2007) and an amount of K7,300 paid in 2008 for a course fee at the Institute of Business Studies (IBS);
- It was noted that the course attended by the officer was for a Diploma in Business and most of the subjects taken were not relevant to the job expected to be performed. It would be appropriate if a graduate or officers with auditing experience are recruited directly from the open labor market to perform in the position; and
- AGO also noted that the pro forma invoice issued for the K7,300.00 payment was dated 06th February, 2008 while the payment was made on 22nd May, 2009 - a delay of fifteen (15) months, thus appears questionable. An explanation was not attached to the payment voucher to indicate reason for the prolonged delay in payment.

The total expenditure incurred by the Department was K67,817,824 for the Internal Audit function yet there is no Audit Committee established to justify the expenditure on the performance of Internal Audit.

AGO is of the view that the effective engagement of an Internal Audit function would greatly contribute towards a strong control environment within the Department in revealing deficiencies such as system weaknesses, non compliance issues, losses, errors and frauds or mismanagement of public monies. In addition, it can also provide assurance to the reliability and integrity of the Department's financial information.

STATUTORY REPORTING

Quarterly and Annual Financial Management Reports

As required in *Section 5 of the Financial Manual*, Departmental Heads shall submit a report on financial management quarterly after end of each quarter and an annual report, including overall assessment of the Department at end of each fiscal year to the Secretary, Department of Finance.

AGO observed that the Department has not produced quarterly reports for the year 2008 and 2009 for submission to the Secretary, Department of Finance.

Annual Management Reports

The *Public Service (Management) Act, 1995* Division 4 Section 32 (a) states "Each Departmental Head shall by 31st March in each year, prepare a report on the attainment of the planned objectives of his Department for the year ending 31st December preceding." It is further elaborated in the *Public Service General Order 8.12* that the Departmental Head should forward to Secretary, Department of Personnel Management a report on the work and achievements of his Department in relation to the Corporate and Annual Management Plans.

The Annual Management Report for the financial year ended 2009 was prepared but yet to be approved by NEC. A similar situation was noted in the case of the Annual Management Report for 2008.

It is therefore noted that the Department had failed in meeting its statutory obligations of reporting to relevant authorities as required by the *Public Finances (Management) Act* and the *Public Service Management Act*. The Department should address the non-compliance as a matter of urgency. Submission of these reports to the appropriate authorities would also assist in the review of the Department's performance.

BUDGETARY AND FUNDS CONTROL

A review conducted in respect of the Department's budgetary allocations, commitments and expenditure noted the following matters:

- The Department of Prime Minister and NEC (Division 258) and the Department of Information and Communication (Division 203) total commitments outstanding for the year under review were K11,891,219 and K5,530,906 respectively;
- A total of three hundred and sixteen (316) commitments for the sum of K17,496,058 made in 2008 were subsequently cancelled. In 2009, one hundred and twenty (120) commitments for the sum of K447,058 made up to 25th August, 2009, were also cancelled subsequently. AGO is concerned that commitments of such magnitude are being cancelled without plausible reasons for doing it; and
- In 56 instances, the payments made in 2008 exceeded the original commitments by K388,211. Similarly, forty-one (41) payments made up to 25th August, 2009, exceeded the original commitments by K143,329. Again, most of these commitments were in respect of Department of PM and NEC under Division 203. The Department should ensure that payments are in line with the original commitment unless there are genuine reasons for payments to be in excess of the committed amounts.

AGO is concerned that there is inadequate control being exercised over commitment of funds and incurred expenditure. The Department is incurring expenditure in excess of commitments which may be the result of manipulative costs being incurred without proper approval.

BANK RECONCILIATIONS – Drawing Account

The Department operates a Drawing Account No. 4311-6139' with the Bank of Papua New Guinea.

As at the time of audit in September 2009 the last bank reconciliation statement prepared was for the month of February 2009. The reconciliation contained a high number of unreconciled items that needed to be investigated, cleared and adjusted in the cashbook as follows:

- Schedule 6 disclosed twelve (12) journal entries for the year 2007 aggregating to K80,926 and were described as 'unidentified journal entries'. These were not traced to the source documents and actions taken appropriately;
- Schedule 7 contained 'credits in bank statement not in cash book' aggregating to K16,225,211. These were reimbursements received since July 2008, but were not journalized in the cash book;
- Schedule 11 disclosed an amount of K165,879 as 'other items' which represent cancelled cheques since December 2006;
- Unpresented cheques amounting to K11,164,424 were disclosed which included stale cheques that need to be investigated and segregated with actions taken to write-back (journalise) the stale cheques in the cash book;
- A total of one hundred (100) cheques amounting to K231,836 were stale as of February 2009 but were not written back to the cash book;

- Included in the one hundred (100) stale cheques were thirty-three (33) cheques totaling K91,116 that were drawn in the name of Internal Revenue Commission. These cheques were the employee's tax deductions which were not remitted promptly to Internal Revenue Commission;
- The bank reconciliation statements were not prepared on a timely basis and submitted to Department of Finance as required; and
- The date of preparation of bank reconciliation statements, the signature of the preparing officer and signature of senior officer reviewing and certifying the reconciliation statements were not evident in the statements prepared.

AGO is of the view that Management had failed to see the importance of bank account reconciliations as a key control to monitor its cash position and to provide the basis for making sound financial decisions.

ASSETS MANAGEMENT

The asset register provides the primary record for assets management and should be updated as and when new assets are purchased and disposed.

AGO noted that the Department maintained a centralized asset register with record of all the assets purchased in the years 2008 and 2009. Examination of the asset register and related records to ascertain the accuracy and completeness of the recording of all assets revealed the following shortcomings:

- From a sample of selected assets checked, assets to the value of K184,718 purchased in 2008 were not recorded in the register. It was noted that, the register was not updated regularly with the details of assets purchased during the year;
- A total of one hundred and seventeen (117) household items of various types purchased for Mirigini State House and recorded in the register were incomplete as the price at which these items were purchased was not recorded in the register. AGO requested for the purchase documents to be provided for audit verification, however these were not made available;
- A total of thirty-six (36) mobile telephones costing K30,059 were purchased under the discretion of Senior Divisional Heads in the years 2008 and 2009 and issued to various senior officers of the Department. The Department has no policy guidelines in place for the proper control and use of the mobile phones; and
- Periodic stock-take of assets in order to account for all the assets owned by the Department was not done since 2008.

MOTOR VEHICLES

The Department maintained a separate motor vehicles register for recording and control of its vehicle fleet. It is commendable to note that the register was updated regularly and adequately recorded with all the required information. And also a vehicle service schedule chart for the servicing of vehicles was maintained which tracks mechanical service due dates of all the vehicles.

However, the unsatisfactory matters noted during the audit are detailed below:

- A sample of twenty-one (21) motor vehicles were selected for physical verification and AGO noted that fourteen (14) of these vehicles had their glasses tinted whilst six (6) motor vehicles were registered with private number plates contrary to motor traffic regulations; and

- AGO noted that the Department of Transport Policy (revised in February, 2007 superseding the 2001 policy) and approved by the Chief Secretary stated that the custodian of the Department owned vehicles can only take vehicles home after working hours and during weekends upon approval from the Departmental Head. No such approval was made available for audit verification at the time of audit. This attests to non-compliance of the Department of Transport Policy on the economical usage and management of motor vehicles.

ADVANCE MANAGEMENT

The Department maintained an advance register to record advance payments. A review of the advance register and the tests performed on samples of advance records revealed the following weaknesses:

- A total of twenty-six (26) advances amounting to K211,642 remained outstanding;
- Forty-five (45) advances amounting to K173,115 were paid to certain officers despite the previous advances remained unacquitted;
- Ten (10) acquittals for advances paid totaling K4,050 were not accompanied by relevant supporting documents such as ticket butts/boarding pass and receipts etc;
- An acquittal made for an advance of K22,235 paid on cheque No. 124885 was not supported with authentic receipt documents apart from the acquittal form;
- Twenty (20) cash advances totaling K203,884 paid in 2008 to the Pay Mistress to meet various expenditures were not acquitted despite Reminder Notices to acquit were sent to the officer concerned. Since the issue of notices to the officer failed to stimulate a response, Management had not taken action such as salary deduction to recoup the outstanding advances; and
- The dates of acquittals were not stated on some of the acquittals documents. Further, the Financial Delegate responsible for monitoring the advance register conducts no review to ensure timely acquittal of advances.

Overseas Travel Advances

A trip to Bolivia was made by the interim Executive Director of Climate Change Office in July/August, 2008 to attend 'Coalition for Rainforest Nation Technical meeting'. The expenses incurred on the trip totaling K62,311 and paid on cheque No. 123483 were not acquitted as at the time of audit.

Payments totaling K426,826 made for a proposed trip to France to be taken in August, 2008 were processed and paid despite the trip being cancelled. The cheques drawn for airfares to Air Niugini amounted to K190,161 whilst payment of Travel Allowances to seven (7) persons travelling totaled K235,665.

All the cheques raised for overseas travel advances were cashed except for cheque number #123681 for K23,238 which was cancelled.

AGO noted that the Protocol Officer explained to the Honorable Prime Minister that the monies were not repaid to the respective votes, but together with the air travel tickets were retained and used for subsequent travels made to other destinations. AGO is concerned that such treatment of travel funds is not in accordance with established procedures and that the drawn funds should have been repaid to the consolidated revenue.

DEPARTMENT RESPONSE

AGO findings were reported to the Secretary in the management letter issued. The management has however, failed to respond up to the time of this report.

CONCLUSION

In general, there were no marked improvements in the system and operation of controls within the Department compared to previous years.

The results of my audit indicate that overall there are significant weaknesses in the control framework. At present, the control activities such as authorizations, reconciliations, data processing, segregation of duties, management monitoring, etc. are not sufficiently robust to prevent, detect or correct errors or fraud.

DEPARTMENT OF FINANCE

OVERVIEW

The Department of Finance has two major programs:

- General Administration Program that provides support services, finance and accounting and personnel management.
- Treasury Operations that sets revenue and expenditure targets, coordinates revenue collection, prepares and submits accurate and timely financial statements (Public Accounts) and to promote accountability in the management of public resources at the National, Provincial and District levels.

FINDINGS

CORPORATE GOVERNANCE

Corporate governance is the way in which an organization is controlled and governed in order to achieve its objectives. The control environment makes an organization reliable in achieving these objectives within an acceptable degree of risk.

Corporate Plan and Annual Management Plans

It is through the Corporate Plan and Annual Management Plans that responsibilities are assigned which in turn define accountabilities. In the public sector, Departmental Heads are accountable to the Minister for the performance of departments under their control. Senior Management as accountable officers are responsible to the Head of Department for the efficient, effective and economical performance of the department.

The Department has in place a Corporate Plan for 2008 – 2010. Based upon the Corporate Plan and the budgeting approach to manage the Department's resources, the Annual Management Plans are prepared to meet the requirements of the budgetary cycle. The Department however, does not have in place Annual Management Plans for the years 2008 and 2009. Having in place annual work plans could also help improve the presentation of the quarterly budget review reports with more attention to the work programs versus the output or outcome. This will allow the Department's initiatives and achievements to be measured and assessed objectively.

The lack of annual plans has been reported in the past, however, there is still no action taken to have annual work plans in place for the Department.

Management Response

Agreed with AGO findings. Department of Finance to ensure all Divisions prepare Management Plans for 2010 onwards.

STATUTORY REPORTING

Quarterly and Annual Statement of Receipts and Payments of the Public Account.

The *Public Finances (Management) Act, 1995* (as amended) Part II, Section 3 (2) and Financial Management Manual, Division 4(15.2) outlines the responsibility of the Department of Finance as also responsible "for preparing the National

Government Accounts, publish the summarised account quarterly, and submit the statement of the Public Account to the Auditor-General and the National Parliament at the end of each year. “

Quarterly summarised statements of the receipts and expenditure of the Public Accounts for the years 2007 and 2008 were yet to be published in the National Gazette as required and the Annual Statement for the year 2008 is yet to be finalised at the time of audit in September, 2009.

Quarterly and Annual Financial Management Reports

Part II: Section 5 of the *Public Finances (Management) Act* and Financial Management Manual Part 2, Section 17 stipulates that Departmental Heads shall submit a report on financial management quarterly after the end of each quarter and an annual report, including overall assessment of the Department, at end of each fiscal year to the Secretary, Department of Finance.

Quarterly Budget Review Reports for first, second and third quarters are to be prepared and submitted to Budgets Division, Treasury Department. However, AGO noted that the Annual Financial Management Reports for the year 2008 and prior years were not prepared and submitted as required.

This has been reported in the past, however, no action has been taken to prepare and submit these reports.

Annual Management Reports

As stipulated in Division 4 Section 32 (a) of *Public Service (Management) Act, 1995*, “Each Departmental Head shall by 31st March in each year, prepare a report on the attainment of the planned objectives of his Department for the year ending 31st December preceding.” Public Service General Order 8.12 states that the Departmental Head should forward to Secretary, Department of Personnel Management a report on the work and achievements of his Department in relation to the Corporate and Annual Management Plans.

The Annual Management Report for 2008 was found in draft form at the time of audit in September 2009. This is the first report since the last one prepared for the year 2003.

Management Response

Agreed with AGO findings. The statements for 2008 have been Gazetted already and 2009 is with GPO for printing.

BUDGETARY AND FUNDS CONTROL

Each department is expected to reconcile their records (PGAS) on both the revenue and expenditure with the monthly records produced by the Department of Finance (TMS) ledgers. If there are any differences between the two records, journal entries should be raised by the Department to make the necessary adjustments ensuring accuracy and completeness of both records.

Reconciliation of the records showed that all TMS figures were more than the PGAS figures for the year ending 31st December, 2008 as follows:

Particulars	Exp Vote Sum. (PGAS) K	TMS 90 K	Difference K
Revised Appropriation	30,717,400	64,945,500	34,228,100
Warrant Authority	30,153,800	64,945,500	34,791,700
Actual Expenditure	21,782,571	44,034,027	22,251,456
Expenditure (Over)/Under	8,370,229	20,911,473	12,541,244

The lack of carrying out the monthly reconciliations of the TMS and PGAS records had been an ongoing issue highlighted by AGO in past audit reports.

Management Response

Agreed with AGO findings. Annual Management Reports for 2008 and 2009 to be completed this year 2010. All Management Responses must be completed by the 31st March each year as stipulated under Public Service (Management) Act, 1995.

BANK RECONCILIATIONS – Drawing Account

The Department of Finance operates a Drawing Account with the Bank of Papua New Guinea. The latest bank reconciliation statement prepared for the month ended June, 2009 had the following reconciling items;

- Other items amounting to K2,851,219 included receipts in cash book not showing in the Bank Statement totaling K1,284,795 which were yet to be cleared;
- Un-presented cheques totaling K46,707,532 included stale cheques not presented at the bank dating far back as year 2007; and
- Credits in the bank statement not in the cash book totaling K330,805,750 represented the reimbursements for the months of March to June, 2009 which were yet to be updated in the cash book.

Management Response

No response provided.

ASSETS MANAGEMENT

The Financial Management Manual, Part 32 states that the department should maintain various Asset Registers to record all its assets purchased and a stock-take should be conducted annually to verify their existence and assess their value. The asset register should contain: date of purchase, description of asset, identifying particulars (serial number/model number), cost of asset, location of asset, status of asset; and value of an asset as at current date.

AGO review of assets management and related records noted the following issues:

- The Department does not have a consolidated Asset Register for all assets purchased. Each Division is responsible for their own purchases. A Sample of twenty-seven (27) asset payments totaling K66,584 could not be traced to an Asset Register since the Section responsible did not maintain the required records;
- The Department's available records do not show any evidence of insurance policies being taken over its vehicles. In the absence of such policies, the Departments vehicle fleet are exposed to the risk of damage through accidents and theft; and
- The Department does not maintain log sheets, fuel dockets and mileage charts for all of its vehicles. The Control of vehicles necessary for official government purpose is non-existent.

Management Response

Management agreed to:

- *Procurement Asset Officer should in future record all assets in the register*
- *The State does not have insurance policy*
- *The Department must maintain log sheets, fuel dockets*
- *The Department must do periodic stock-take for all assets.*

PROCUREMENT AND PAYMENTS PROCEDURES – VOTE 206

Financial Management Manual Part 12, 13, 15 and 17 states the guidelines and procedures that government agencies should adhere to in the procurement and payment of goods and services.

An examination of seventy six (76) paid vouchers and related documents selected on a random sample basis, and a review of the procurement and payment procedures in operation noted the following matters:

- Four (4) payment vouchers totaling K283,146 were not sighted although requested. Consequently the authenticity and propriety of the payments made could not be established during the audit;
- A quotations register was not maintained to record all quotations obtained from suppliers where goods and services have been purchased;
- In four (4) instances, payments totaling K152,623, for goods and services were made without obtaining three (3) written quotations as required. In the absence of such quotations, consideration for due regard to economy and value for money could not be ascertained by audit;
- Payments totaling K250,733 in sixteen (16) instances, were processed and paid without sufficient supporting documents to substantiate the payments. Claims should only be passed for payment when all relevant supportive documents are attached in support; and
- In nine (9) instances, payments totaling K138,827 were effected without being examined and certified correct by the designated officers.

PROCUREMENT AND PAYMENTS PROCEDURES – VOTE 207

AGO review covered three (3) expenditure activities that the Department of Finance Administers including responsibility as paying agency. These include Government office rentals, court cases and workers compensation payments. The audit included reviews of existing controls and tests to ascertain whether key provisions of the *Public Finances (Management) Act 1995* and various Finance Instructions, other acts and regulations governing the administration of the various agreed payments have been adhered to as required.

Government Office Rentals

Audit verification of a random sample of sixty three (63) Government office rental payments totaling K43,635,374 revealed the following shortcomings:

- A payment of K23,100 made to a company for scope of work relating to partitioning was not covered in the initial lease agreement and thus is irregular;
- In nine (9) instances, totaling K12,603,052, payments were processed on photocopied invoices instead of the original invoice. Included were four (4) payments totaling K8,365,439 which were also not certified correct by the Certifying Officer;
- A total of K1,747,532 was paid to Nambawan Super Limited for interest charges and outgoings despite instructions from the Office Allocation Committee (DPM) to cease payments of all interest and outgoings;
- Sixteen (16) lease agreements had expired since 2006 of which eight (8) were not signed indicating major weaknesses in the internal controls over the management of lease agreements required to be enforced by the Office Allocation Committee; and

- Payments of over K5 million made to Magellan Properties from 1998 to 2007 for unoccupied office space located in Lae is yet to be recovered. The Inspections Division of Department of Finance was to take legal action against Magellan Properties, however, had not done so up to the time of audit in March, 2009.

Management Response

- *Agreed to your findings, accounts clerks to examine all payments before paying*
- *Agreed, examiners must not allow payment on photocopies*
- *Agreed, but Nambawan Super Ltd demanded that DoF pay*
- *Disagreed, most of the lease agreements have been renewed since your Audit*
- *Agreed, Inspection Division of Department of Treasury conducted investigations and recommend for legal action to be taken.*

Court Case Payments

AGO examined a sample of ninety four (94) payment vouchers totaling K53,196,364 relating to court cases settlements and noted the following irregularities:

- Seventeen (17) payment vouchers totaling K25,269,018 were not made available for audit inspection of which the authenticity and propriety of these payments could not be established;
- Four payments totaling K553,171 were effected without obtaining prior approval from the Assistant Secretary, Expenditure as evidenced in the unsigned pre-audit verification form, indicating weaknesses in the checking and certification process;
- Five (5) payment vouchers totaling K1,778,136 were not certified correct by the Certifying Officer before payment's were effected;
- Twenty-three (23) payments amounting to K6,737,769 were paid based on photo copied documents which were not authenticated by letters of indemnity or statutory declarations;
- Supporting documents relating to three court case payments totaling K526,815 were not sighted although requested. The authenticity and propriety of these payments could not be established; and
- Out of thirty (30) payments aggregating K23,935,394 only nine (9) were registered while twenty one (21) payments totaling K13,496,719 were not registered. It would imply that proper procedures were not followed in executing payments.

Management Response

No responses provided

Workers Compensation Payments

AGO examined a sample of one hundred twenty two (122) paid vouchers totaling K4,011,540 in which verification of these payments revealed the following irregularities:

- Out of the one hundred twenty two (122) samples selected, one hundred and six (106) payments amounting to K3,574,740 were paid based on photocopied documents and were also not registered in the cheques register maintained by Office of Workers Compensation;
- In three (3) instances, payments totaling K123,623, the general expense forms (FF4's) were not examined and certified correct prior to making payments. The authenticity of these payments is uncertain;

- Eight (8) payments totaling K326,723 were made without the death certificates and in five (5) payments aggregating K236,539 the death certificates were not stamped so by hospitals concerned to confirm the death;
- Employment file numbers were not indicated in three (3) payments totaling K135,009 and two (2) payments amounting to K148,182 were made without proper supporting documents relating to their casual employment at the time of death;
- Medical reports were not attached for all injury related cases for the payments amounting to K2,921,872 to substantiate the injuries and the percentages claimed for injury suffered;
- A review of the payment procedures at the Department of Finance revealed that there are no records or register maintained to record all claims that are received from and payments made to the Office of Worker's Compensation; and
- Files maintained at the Office of Workers Compensation relating to the one hundred twenty two (122) samples selected to further verify the validity of the payments made were not made available to AGO when requested. The propriety of these payments remained unconfirmed.

Management Response

- *Agreed, and now improved by attaching original copies for payments since late 2008 to date.*
- *Agreed and now attaching death certificates for Workers Compensation payments*
- *Agreed, supporting documents such as supporting letter by the employer or wages sheet attached since 2009*
- *Agreed, workers compensation officer to register all claims and payments before goes to Office of Workers Compensation*
- *Agreed, now file no. or payslip is attached before payment is done*

HUMAN RESOURCE MANAGEMENT AND PAYROLL

Domestic Market Allowance (DMA) and Special Domestic Market Allowance (SDMA)

It is stipulated in the *Public Service General Orders* that the Departmental Head is delegated the authority to determine which officers occupying the position listed in Schedule 13.4 are entitled to be paid Domestic Market Allowance (DMA), according to the level of their qualifications. For this purpose, the Departmental Head shall obtain advice from the Department of Personal Management. An instruction from DPM also provided the criteria to administer the application for Special DMA payments.

A sample of nine (9) officers personal files were selected for tests on DMA and SDMA payments which noted the following matters:

- There was no evidence of the qualification(s) obtained, and kept in the personnel file of an officer being paid DMA;
- Five (5) officers holding positions of Assistant Secretary/First Assistance Secretary and receiving SDMA did not meet the requirement of possessing a first degree. The claim for the allowance therefore is being irregularly paid; and
- In seven (7) officers' payments, approval from the Head of Department for receipt of SDMA was not evident in their personnel files maintained.

Management Response

- *Management agreed that Human Resource Management Branch must keep qualifications certificates for all employees.*
- *Management also agreed that action must be taken to cease SDMA for officers with no first degree.*
- *Management agreed to Corporate Services Division processing SDMA approved by the Secretary.*

Contract Officers

The Public Service General Orders specifies that the Departmental Head is responsible for administering the contracts of senior officers, acting on the advice of the Department of Personnel Management. The Departmental Head is to ensure that allowances and benefits payable under each contract and a Contract Review Committee to be in place to review all employee contracts in the Department.

- There is no "Contract Review Committee" in place to review all senior officers contracts in the Department. The purpose of this review is to make a recommendation to the Secretary, DPM to renew or not renew the contract. However, it was observed that the immediate managers review the contracts of officers under their control. The absence of this governance process indicates a failure to ensure a proper and transparent process is accorded in this important part of monitoring senior officer performance in the Department;
- Audit noted that nine (9) senior officers' contracts had expired in June, 2009 while one had expired in 2006, all of which are still pending renewal as at the time of audit in September, 2009. The inability of the Department to take timely action undoubtedly effects the efficient and effective performance of these officers; and
- An over payment of K4,238 in gratuity payment to a senior officer for the period 8th June, 2009 to 6th December, 2009, had no evidence of recovery action being taken.

Management Response

- *Management agreed that the Department must establish "Contract Review Committee".*
- *The Management disagreed that all senior officers' contracts had been cleared.*
- *Management agreed that when confirmed, overpayment will be recouped.*

Management of Employee Files

Up to date records of individuals should be kept and properly maintained. It is an important corporate services function that records are properly maintained and that they demonstrate compliance with applicable human resources statutory and regulatory requirements.

A sample of nine (9) employee files were examined and the following lapses were noted:

- History cards relating to the nine (9) employees were not updated including salaries, recreation leave, miscellaneous leave and sick leaves for which some goes far back as 2005;
- Employment Agreement for a contract officer was not evident in his personnel file;
- DMA and allowances authorizations were also not updated in the employees' personal files; and
- Nine (9) officers who went on recreational leave did not pay the ten percent (10%) from their base salary towards the payment of their airfares. In addition, history cards were not updated in line with the recreation leave travel.

The control and management of employee records is inadequate to provide for effective monitoring and payment of staff entitlements.

Management Response

- *Management agreed that Manager –Personnel should update records of employees and properly maintains files.*
- *Management agreed to instruct Manager-Personnel to deduct ten percent from leave fares in future.*

Security of Employee Files

The payroll division should implement and maintain adequate access security over the staff personnel records. The payroll division should also maintain the confidentiality of employee files by keeping them in a secure area, restricted to only authorized personnel.

- It was noted that files were lying on the floor or hanging-off the shelves. All employees from the Payroll including Human Resource division had access to them; and
- It was further noted that employees from other divisions had easy entry from the main door because the security bar code deterring access was out of order, thus employees freely enter the records storage at their convenience.

These matters were reported in the previous audit reports and still remain unresolved.

Management Response

Management agreed that Manager Personnel should ensure all employee files are kept in restricted area.

ADVANCE MANAGEMENT

The Financial Management Manual (FMM) Part 20 paragraph 12.10 states that “*within seven days of return from duty travel, the officer will acquit the advance by submitting an acquittal form (FF16)*” for domestic travels. Whilst for overseas travels, paragraph 11.2 of the FMM states that “*all officers should acquit travelling advances within fourteen (14) days of return to their home station*”. Paragraph 12.11 also states that “*no second advance is to be made when the first advance is outstanding*”.

Advance Payments - Vote 206

AGO randomly selected a total of sixty-seven (67) payment vouchers totaling K167,782 for the period July, 2008 to June, 2009 and subsequent examination of these payments noted the following shortfalls:

- Twenty five (25) advances totaling K66,554 were unacquitted, with no evidence of follow-up action being taken;
- Five (5) advances paid totaling K10,735, were not recorded in the advance register and therefore acquittal action cannot be instituted;
- Second advances were paid on four (4) occasions, contrary to the established procedure;
- Thirty one (31) payments vouchers totaling K60,602 were not sighted although requested. The advances paid would not be followed up for acquittal; and
- Advance details not recorded adequately in the register to ensure follow-up action for timely acquittal of advances paid.

Advance Payments - Vote 207

AGO examination of ninety one (91) samples selected randomly and a review of the records and documents pertaining to the payment and acquittal of advances revealed the following matters of concern:

- A total of twenty five (25) travel advances and seven (7) cash advances totaling K82,036 and K35,500 respectively were not registered in the advance register maintained. Consequently, the control procedure for follow-up action and acquittal of these advances would not be carried out;
- Travel advances totaling K51,475 in fifty three (53) instances and cash advances totaling K13,500 in six (6) instances still remained outstanding up to the time of audit in March, 2009. Evidence of follow-up action taken to acquit these advances were not evident in audit;
- Proper supporting documents were not sighted in most instances. Only travel itineraries were attached in some instances and therefore indicates that proper acquittal procedures were not enforced as required;
- Subsequent advances were given to officers while their previous advances remained un-acquitted contrary to the Financial Instructions;
- The financial delegate did not review the advance register to check and take appropriate action to ensure that all outstanding advances are being acquitted; and
- Action not taken from Audit recommendations made in the 2006 management report, hence the management has not improved, in its control over payment, recording and acquittal of advances.

Management Response

No response was provided.

DEPARTMENT RESPONSE

The Department responded to the management letter issued on reported findings and their comments are stated accordingly. AGO also noted that management responses were not conclusive in their content.

CONCLUSION

In general, there were minimal improvements in the system and operation of controls within the Department compared to previous years.

The results of my audit indicate that overall, there were notable weaknesses in the control framework. At present, the control activities such as delegations, authorizations, reconciliations data processing, management monitoring, segregation of duties, etc. are not sufficiently robust to prevent, detect or correct errors or fraud.

DEPARTMENT OF TREASURY

OVERVIEW

The Department's mission is to plan the economy and manage financial resources in order for the Government policies to be implemented in the people's best interest. Major program areas are:

- Study and analyse macroeconomic variables (fiscal, monetary, foreign exchange and employment) and prepare policy option papers and monitor the implementation of Government's macroeconomic policy directives.
- Provision of services in support of the departments programs, including coordination and preparation of the Government's annual budgets.
- Provide policy analysis and advice on the management of public debt.
- Assist in setting revenue and expenditure targets.

FINDINGS

CORPORATE GOVERNANCE

Corporate governance is the way in which an organization is controlled and governed in order to achieve its objectives. The control environment makes an organization reliable in achieving these objectives within an acceptable degree of risk.

Corporate Plan and Annual Management Plans

It is through the Corporate Plan and Annual Management Plans that responsibilities are assigned which in turn define accountabilities. In the public sector, Departmental Heads are accountable to the Minister for the performance of departments under their control. Senior Management as accountable officers are responsible to the Head of Department for the efficient, effective and economical performance of their respective divisions/branches.

The Corporate Plan 2008 – 2011 has been reviewed and is usable and sets a path for the three years. The setting of the Key Strategies and Performance Indicators of the Department is critical in delivering on its Corporate and Strategic Plan. Establishing corporate plans is a painstaking effort and the staff that have produced this plan are to be commended.

Based upon the Corporate Plan and the budgeting approach to manage the Department's resources, the Annual Management Plans for 2009 have been put in place to meet the requirements of the budgetary cycle.

AGO noted that there was no Annual Work Plan for 2008, however, the Department is commended for having in place an Annual Management Plan for the year 2009.

Quarterly Budget Review Reports for 2009

An analysis of the quarterly reports was done to review the performance of the Department against the outputs outlined in the Annual Work Plan (2009) and the Corporate Plan. Output measures are intended to assist the Department to monitor what is being done and account for what has been achieved and also for improvement purposes.

AGO noted that reports produced in respect of quarterly financial management reports do include reports on work programs, output and outcome. Performance is therefore accounted for in the reporting phase which clearly indicates that the reports were utilized to highlight achievements and more importantly non-achievement of objectives.

STATUTORY REPORTING

Quarterly and Annual Financial Management Reports

As required in Section 5 of the *Public Finances (Management) Act*, Departmental Heads shall submit a report on the financial management quarterly, after end of each quarter and an annual report, including overall assessment of the Department at end of each fiscal year to the Secretary, Department of Finance.

The Department has produced quarterly budget review reports for the year 2008 and 2009, however, these reports were not sent to the Secretary, Department of Finance for accounting purposes.

The annual financial management report for 2008 was in a draft form at the time of audit in September, 2009.

Annual Management Reports

As stipulated in Division 4 Section 32 (a) of *Public Service (Management) Act, 1995*, "Each Departmental Head shall by 31st March in each year, prepare a report on the attainment of the planned objectives of his Department for the year ending 31st December preceding." It is further elaborated in Public Service General Order 8.12 that the Departmental Head should forward to Secretary, Department of Personnel Management a report on the work and achievements of his Department in relation to the Corporate and Annual Management Plans.

Department of Treasury has been preparing annual reports with the current one for the year 2008 in draft form as at 22nd September, 2009. The annual reports on the work and achievements of the Department however were not submitted to Department of Personnel Management as required.

BUDGETARY AND FUNDS CONTROL

The Financial Management Manual division 7 states that there should be internal monthly reviews and those differences should be checked against the General Ledger. Reasons for differences must be identified and either the Departments own records corrected or the General Ledger.

Reconciliation of the records showed that all TMS figures were more than the PGAS figures for the year ending 31st December, 2008 as follows:

Particulars	Exp Vote Sum. (PGAS) (K)	TMS 330 (K)	Difference (K)
Revised Approp.	12,381,400.00	10,256,500	2,124,900
Warrant Authority	7,587,000.00	10,256,500	(2,669,500)
Actual Expenditure	7,302,452.95	7,660,458	(358,005)
Expenditure (Over)/Under	284,547	2,596,042	2,311,495

The lack of carrying out the monthly reconciliations of the TMS and PGAS records had been an ongoing issue which AGO had highlighted in previous audit reports.

BANK RECONCILIATIONS – Drawing Account

The Department operates a Drawing Account with the Bank of Papua New Guinea. At the time of audit in September, 2009 the bank reconciliation statement prepared for the month ended January, 2009 had the following reconciling items:

- Other items total K1,567,894 included cheques yet to be cancelled totaling K636,788 and various other cancelled cheques yet to be adjusted and cleared;
- Credits in bank statement not in cash book totaling K1,383,428 represented the reimbursements for the month of January, 2009 which were not posted to the cash book in-order to clear them;
- Other items per schedule 11, totaling K495,021 consist of cheques in cash book more than the CRL of K442,661 for 2007 and 2008 and cancelled cheques yet to be journalized since 2007 totaling K52,359; and
- Unpresented cheques totaling K46,707,531 included stale cheques dating far back as year 2007 remained outstanding.

The Department does not prepare its bank reconciliation statements on a monthly basis and submit copies to Accounting Frameworks Division, Department of Finance as required by the *Public Finance Management Act*. The latest bank reconciliation statement prepared was for the month of January, 2009 which is seven months in arrears as at the time of audit in September, 2009.

ASSETS MANAGEMENT

The asset register was being updated at the time of audit in September, 2009 including that of inputting data into the new fixed asset management software system recently installed.

The details of total assets worth K2,505,389 were not recorded into the new fixed asset software and an annual- stock take of assets to verify physical existence, condition and ownership of assets was not conducted.

PROCUREMENT AND PAYMENT PROCEDURES

Financial Management Manual Part 12,13,15 and 17 clearly states the guidelines and procedures that a government Department should be following in the procurement and payment of goods and services.

An examination of thirty six (36) paid vouchers and related documents selected on a random sample basis, and a review of the procurement and payment procedures in operation revealed the following matters:

- The general expense form (FF4) was not certified in thirty (30) instances, consequently these payments were processed without adhering to proper checking procedures;
- Five (5) payment vouchers totaling K527,486 were not sighted although requested. The authenticity and propriety of these payments could not be confirmed in audit; and
- The Department has in place an Overseas Travel Committee (OTC). The approval from the committee should be attached as a supporting document before a claim for overseas travel is processed. AGO however, noted that in eight (8) instances totaling K80,202 prior approval of the Overseas Travel Committee were not obtained for payments made.

Overseas travels should be regulated by the Committee as it incurs significant cost which must receive proper approval before travel is undertaken.

HUMAN RESOURCES MANAGEMENT

DMA and SDMA Allowance

It is stipulated in the Public Service General Orders that, the Department Head is delegated the authority to determine which officers occupying the position listed in Schedule 13.4 are entitled to be paid Domestic Market Allowance (DMA) according to the level of their qualifications. For this purpose, the Departmental Head shall obtain advice from the Department of Personal Management.

An instruction from DPM also states the criteria to administer the application for Special Domestic Market Allowance (SDMA) as follows:

- An officer to be paid the SDMA rates must meet the minimum education requirements of their position's Job Description;
- Officers must possess a first degree with wide range of experience in an appropriate discipline in order to access the allowance; and
- The DMA criteria stipulated in General Order 13.43 to 13.46 in relation to eligibility and conditions within which the allowance is payable must fully be complied with, before endorsement to pay the allowance is affected.

Officers checked for payment of DMA noted the following lapses:

- In six (6) instances, there were no qualification certificates kept in the personnel files maintained to verify and ascertain the basis for payment of DMA and SDMA; and
- A senior officer receiving SDMA did not meet the requirement of possessing a first degree.

Contract Officers

The Act specifies that the Departmental Head is responsible for administering the contracts of senior officers, acting on the advice of the Department of Personnel Management. The Departmental Head is to ensure that allowances and benefits (gratuity) is payable under each contract and a Contract Review Committee to be in place to renew all contracts in the Department.

A sample of nine (9) contract officers was selected for testing which revealed the following:

- Employment contract documents were not sighted in the employee's personal file for audit verification; and
- In all instances, reviews were done only on Form 6.1. Form 9.5 should also be completed for contract officers before submitting to the Contract Review Committee.

AGO has also noted that contract officer's performance appraisals were not done immediately before a contract is renewed as stipulated in the General Order 9.48–9.65.

ADVANCE MANAGEMENT

With reference to Part 20 of the Financial Management Manual, all advances paid relating to both overseas and domestic travels are to be recorded in the register of advances to be controlled and managed by the financial delegates. In addition, no second advance is to be made when the first advance is outstanding. Furthermore, the financial delegates should be reviewing the register of advance to make sure that all advances are being acquitted regularly as required.

According to expenditure ledgers, a total of K617,787 advance payments comprising domestic travel (K71,811), overseas travel (K530,064) and cash advance (K15,912) were made from July, 2008 to June, 2009:

- The advance register maintained by the Department was not made available for inspection although requested; as a result audit could not ascertain if all advances payments totaling K617,787 were recorded in the register as required. It should be noted that the follow-up of acquittals' is impeded with the absence of this record; and
- Payments totaling K66,602 in twenty (20) instances were erroneously charged to vote item 136-Training instead of item 121-Travel and subsistence expenses. Such expenditure is a charge of funds to expenditure not budgeted for.

DEPARTMENT RESPONSE

The reported findings were brought to the attention of the Secretary through a management letter delivered on 3rd December, 2009.

At the time of writing this report, the management had not responded to the audit findings reported even after discussing the audit findings with the responsible officers.

CONCLUSION

In general, there were minimal improvements in the system and operation of controls within the Department compared to previous years.

The results of my audit indicate that overall, there are notable weaknesses in the control framework. At present, the control activities, such as delegation, authorization, reconciliations, data processing, segregation of duties, system access, management monitoring, etc. are not sufficiently robust to prevent, detect or correct errors or fraud.

INTERNAL REVENUE COMMISSION

OVERVIEW

The main objective of the Internal Revenue Commission is to:

- Assess and collect income tax, GST, group tax and excise tax;
- To carry out tax education and awareness campaigns and to propose tax administration reform measures; and
- Facilitate trade and manage the movements of goods and people across the borders to protect the PNG community and to ensure PNG's laws are upheld.

FINDINGS

CORPORATE GOVERNANCE

Work Plans and Performance Indicators

Not all Divisions had operational plans or Annual Work Plans that are linked to the Budget and Corporate Plan. Performance therefore cannot be measured in terms of identified targets and whether objectives are being met.

In addition, audit noted that the performance indicators as outlined were not precisely specified and quantified to program objectives in the corporate planning process. Quantitative measures describe outputs in terms of how much, how many and requires a unit of measurement to be identified. Performance indicators on the timing aspect are also not specified as to how often or within what time frame outputs will be produced.

Management Response

Divisional work plans for 2009, based on the 2006-08 IRC Corporate Plan (carried over for 2009) were prepared and copies provided to the Auditor General's representatives at the exit interview.

Work on a new corporate plan for 2009 and subsequent years was halted pending an organisational restructure that was itself delayed on instruction from the Minister.

Following the de-merger of Customs from the IRC, effective from 1st January, 2010, the IRC has a new Corporate Plan 2010-12. This plan is currently with the printer and will be uploaded to the IRC website in the next two (2) weeks.

IRC agrees with this recommendation. For the 2010 year, significant effort has been invested in the introduction of a monthly business performance reporting framework and a quarterly review process for annual work plans. Connections to the new corporate plan are direct. Further effort is being invested in determining better performance indicators. Division Heads and other managers are improving their understanding of the operations and accountabilities of their restructured work areas. This will be seen in the evolution of 2011 plans and monitoring and review processes.

STATUTORY REPORTING

As stipulated in Division 4 Section 32 (a) of the *Public Service (Management) Act, 1995* “Each Departmental Head shall by 31st March in each year, prepare a report on the attainment of the planned objectives of his Department for the coming year ending 31st December preceding.” It is further elaborated in the Public Services General Order 8.12 that the Departmental Head should forward to Secretary, Department of Personnel Management in relation to his/her department Corporate and Annual Management Plans.

The Commission has not prepared and submitted the statutory reports to Secretary, Department of Personnel Management.

Management Response

The IRC agrees with this recommendation and offers some further explanation. Reports were not prepared by the IRC at the time of the audit as they had not previously been called for. The IRC only became aware of this requirement with the issue of a reminder letter to all agencies by the Chief Secretary on behalf of the Central Agencies Coordination Committee (CACC), earlier this year.

Given that the reporting requirements are more immediately relevant to agencies other than the IRC. We decided on a reporting template and a report was submitted in June 2010. The CACC has since acknowledged its receipt and has endorsed the IRC's 2010 work plans.

Work is presently in train to prepare and submit a similar report covering the 2008 year.

REVENUE ASSESSMENT AND COLLECTION

Part 10 of FMM – “Revenue Management” notes that Departmental Heads are required to ensure that Departmental revenues are collected promptly to the fullest extent; and they are also expected to have the rates of fees, charges, and imposts to be reviewed annually. There should be stringent arrangements within Departments to safeguard the collections and custody of public moneys received and for all public moneys to be properly accounted for.

Therefore, it is essential that Departmental Heads allocate adequate human resources for revenue management, and their duties are properly defined which should include the responsibilities for revenue collection, safekeeping, banking, monitoring, review and reporting.

Access to IPA's information

IRC does not maintain and keep an up-to-date listing of all registered companies that are operating in the country. There is no regular updated listing on companies communicated from IPA as and when new companies are registered or deregistered. IPA only submits the listing as and when IRC requests for the information. IRC alone does not know the correct number of registered companies that are operating in the country, due to companies that no longer exist; deregistration of companies; companies that use more than one name; and/or companies that are operating illegally.

Revenue Collection Division's Database System

There is no database system or warehouse for storing of the data and thus no proper back up of records is kept. The process used to check on outstanding debts is either through the internal process system, audit activities or dobbling (someone reporting on a taxpayer).

Number of taxpayers

The actual number of taxpayers in PNG is not certain. AGO was advised that there are about 3,000 taxpayers for individuals whilst for companies is 4,000 which gives a total of about 7,000 taxpayers that need assessing or are been assessed. A complete assessment cannot be made due to limited manpower resources available to IRC.

Delegation for write-off

The IRC-Commissioner-General's delegation to write-off uncollected debt is limited; therefore the Commissioner has to refer such requests to Secretary, Department of Treasury for write-offs.

Management Response

Access to IPA's information

IRC agrees in principle. The IRC should be distinguished from the Investment Promotion Authority, however. The coming into existence of a company does not necessarily mean that it must be registered for income tax purposes. The IRC acknowledges that up to date company registration data is necessary for the proper management of revenue risk.

A memorandum of understanding with the IPA took effect in 2004. The IPA now considers this to have lapsed and the IRC has written to them, most recently on 23rd April, 2010, pointing out that the MOU remains in force subject to formal notice of cessation, which has never been given. The IRC seeks to build on the effectiveness of the MOU by placing an IRC computer terminal in the IPA's office to improve ability to get company records more readily.

The IRC recognises the need to expand this to cover compliance with registration obligations as well and has asked for a full listing of all companies registered with the IPA so that this can be checked against IRC records.

The IRC met with Mr. Ivan Pomaleu, Managing Director, IPA on 24th August to canvass options for improved access to companies' registration data. The IRC has the option of purchasing updates of IPA registrations on a periodic basis. The IPA and IRC have also agreed that they will further explore options for locating a computer terminal and, possibly, an IRC officer in the new IPA premises when it relocates in the next couple of months. The IRC officer would be immediately available to provide information about tax obligations to new registrants.

Revenue Collection's database system

The IRC considers that this recommendation is superfluous. The Revenue Accounting System (RAS) operated by the IRC performs the recommended database functions and there is off site back up of all records.

Delegation of write-off

The IRC agrees with this recommendation, noting that it is the Department of Finance (and not Treasury) that holds the necessary authority.

A number of formal requests have been made to the Department of Finance in this context. Most recently, a letter was forwarded to the Secretary of Finance on 19th February, 2010 requesting delegations be reviewed. A follow up letter dated 10th June, 2010 was addressed to Mr. Stanley Yekep, Senior Accountant, Finance Department. No response has been received to any IRC correspondence.

REVENUE ACCOUNTING

Part 10 of *PFMA Act* – "Revenue Management" notes that Departmental Heads are required to ensure that Departmental revenues are collected promptly to the fullest extent; and they are also expected to have the rates of fees, charges, and imposts to be reviewed annually. There should be stringent arrangements within Departments to

safeguard the collections and custody of public moneys received and for all public moneys to be properly accounted for.

IRC as a requirement submits reports to Department of Finance. However, the Department of Finance's records are more than six (6) months behind when latest TMS report is received; often there are errors such as mis-postings found between figures and or on sub-revenue heads, etc. Consequently, IRC has to trace back to that particular report for updating of the TMS received.

Remedial action or constructive work has to be done to upgrade the reporting system between IRC and Department of Finance whilst at the same time the RAS system has aged and need to be reviewed.

Direct Taxes

The general highlights of the actual collections against the budgetary estimates as per the Department of Finance and Department of Treasury (DoT) Revenue Ledger Statement (TMS 21, for period 13/2008) disclosed a net surplus of K310,662,266.

A detailed comparative analysis of the collections under the 15 Revenue Sub-Heads showed that four (4) Revenue Sources had deficits in collections with a total value amounting to K54,913,800; and nine (9) Revenue Sources had total surplus collections to the value of K365,575,000. Refer to details below:

Table 01: Direct Taxes Revenue Sub-Heads with Shortfalls Collection as per TMS No. 21/2008 Report

Audit No.	Revenue Subhead	Description	Estimate 2008 (K)'000	IRC -2008 (K)'000	D of Finance Actual (K)'000	Variance +(-) (K)'000
1	170-04	Succession Duty	2,011,807	2,392,200	1,961,847	49,960
2	-10	Bookmakers Lic Tax	420	*400	321	97
3	-13	Training Levy	2,200	2,560	1,576	624
4	-14	Gaming Mach T Tax	86,484	91,600	82,254	4,229
Total			2,100,911	2,486,360	1,963,744	54,913

Table

Table 02: Direct Taxes Revenue Sub-Heads with Surplus Collection as per TMS No.21/2008 Report

Audit No.	Revenue Subhead	Description	Estimate 2008 (K)'000	IRC -2008 (K)'000	D of Finance Actual (K)'000	Variance +(-) (K)'000
1	170-01	Inc.-Tax Individual	1,053,740	1,086,200	1,108,837	55,096
2	-02	Income-Tax Company	669,718	778,200	888,058	188,340
3	-03	Dividend with Tax	195,526	196,800	298,899	94,373
4	-06	Stamp Duties	57,880	68,320	74,248	16,368
5	-07	Royalties Tax	8,390	9,010	10,052	1,662
6	-11	Court Fines	20	31	25	5
7	-12	Departure Tax	2,960	3,705	3,108	148
8	-15	Interest Withholding Tax	21,375	*21,100	22,761	1,386
9	-99	Sundry Receipts	1,520	*1,510	9,716	8,196
Total			2,011,129	2,142,266	2,415,704	365,575

Whilst AGO commends the Commission for improved collections in revenue overall as reflected in the Department of Finance records, the disparity with IRC records needs to be resolved or identified in order to report a reliable position and achieving recognition for high level performance.

Revenue Head – 172 Indirect Taxes

A comparison of the Actual Collections against Budgetary Estimates for the seven (7) revenue sub-heads of the Indirect Taxes as per the DoF and DoT Revenue Ledger Statement (TMS 21, for period 13/2008) disclosed a Net Surplus of K58,264,932.

The detailed comparative analysis of the collections under Indirect – Taxes Revenue Sources showed that:

- Three (3) sources had a total deficit amounting to the value of K33,928,000; and

- Four (4) revenue sources had surpluses to the total value of K92,193,000. Refer to details below:

Table 03: Indirect Taxes Revenue Sources with Deficit Collections as per TMS No.21/2008 Report

Audit No	Revenue Subhead	Description	Estimate 2008 (K)'000	IRC -2008 (K)'000	DoF Actual (K)'000	Variance + (-) (K)'000
1	172 -02	Excise Duties	368,300	370,200	365,291	3,009
2	-03	Export Tax	155,200	152,000	127,925	27,275
3	-07	Mining Levy	15,000	12,000	11,356	3,644
Total			538,500	382,200	504,572	33,928

Table 04: Indirect Taxes Revenue Sub-Heads with Surplus Collection as per TMS No.21/2008 Report

Audit No.	Revenue Subhead	Description	Estimate 2008 (K)'000	IRC -2008 (K)'000	DoF Actual (K)'000	Variance + (-) (K)'000
1	172-01	Import Duties	132,700	149,900	157,312	24,612
2	-05	Value Added Tax	600,800	646,100	640,410	39,610
3	-06	Excise Duties/Imports	99,500	123,500	125,927	26,427
4	-99	Sundry Receipts	3,200	3,300	4,744	1,544
Total (Net)			1,374,700	1,457,000	1,432,965	92,193

Management Response

The IRC agrees with these recommendations and offers some clarification in connection with the audit findings. The report correctly states the original and revised estimates of revenue collection for the year 2008.

Direct Taxes

The actual direct taxes collected for 2008 was K4,325,067,042 and not the K4,379,447,854 shown in the two tables on page 11 of your report; refer to details below:

Table 05: Aggregated Actual Direct Taxes Collected for Year 2008

Revenue Subhead	Description	Estimates 2008 (K)'000	Revised Estimates 2008 (K)'000	Actual Collections 2008 (K)'000	Surplus/ (Shortfall) (K)'000
170-01	Income Tax (Personal)	1,053,740	1,086,200	1,098,074	11,874
170-02	Income Tax (Company)	669,718	778,200	839,722	61,522
170-03	Dividend Withholding Tax	195,526	196,800	190,624	(6,176)
170-04	Mining & Petroleum Tax	2,011,807	2,392,200	1,991,427	(400,773)
170-05	Bookmaker Turnover Tax	6,240	6,250	6,316	66
170-06	Stamp Duty	57,880	68,320	74,469	6,149
170-07	Royalty/Management Tax	8,390	9,010	9,694	684
170-08	Bank account debit fees	1,100	1,300	1,293	(7)
170-10	Book maker License fees	420	400	321	(79)
170-11	Court fines	20	32	25	(7)
170-12	Departure Tax	2,960	3,705	3,036	(669)
170-13	Training Levy Tax	2,200	2,560	1,535	(1,025)
170-14	Gaming machine tax	86,490	91,600	84,275	(7,325)
170-15	Interest Withholding tax	21,890	21,100	22,763	1,663
170-99	Sundry Receipts	1,520	1,510	1,492	(18)
TOTAL		4,119,901	4,659,190	4,325,067	(334,120)

The analysis of 2008 above on the final direct taxes revenue collection revealed a shortfall occurred for 9 revenue heads aggregating to a total of K416,078,500 and not the K54,912,834 shortfall shown in your report; refer to details below:

Table 06: Shortfalls in Nine Revenue Heads

Revenue Subheads	Description	Estimate 2008 (K)'000	IRC 2008 (K)'000	2008 Actual Collections (K)'000	Shortfall (K)'000
170-03	Dividend Withholding Tax	195,526	196,800	190,624	6,176
170-04	Mining & Petroleum tax	2,011,807	2,392,200	1,991,427	400,773
170-08	Bank account debit	1,100	1,300	1,293	7
170-10	Bookmaker license fee	420	400	321	79
170-11	Court fines	20	32	25	7

170-12	Departure Tax	2,960	3,705	3,036	669
170-13	Training Levy	2,200	2,560	1,535	1,025
170-14	Gaming machine tax	86,490	91,600	84,275	7,325
170-99	Sundry Receipts	1,520	1,510	1,492	18
TOTAL		2,497,569	2,690,110	2,274,028	416,079

NOTE: The net shortfall of K416 million shown in the table above is largely the result of a drop in commodity prices in the 2008 year, which affected Mining and Petroleum Tax outcomes.

The above analysis reveals a surplus for six (6) revenue heads aggregating to a total of K81.9million - not the K365,575,100 surpluses shown at page 11 in your report; refer to details below:

Table 07: Aggregated Surplus for Six Revenue Heads

Revenue Subhead	Description	Estimate 2008 (K)'000	IRC – 2008 (K)'000	2008 Actual Collection (K)'000	Surplus (K)'000
170-01	Income Tax (Personal)	1,053,740	1,086,200	1,098,074	11,874
170-02	Income Tax (Company)	669,718	778,200	839,722	61,522
170-05	Bookmaker Turnover	6,240	6,250	6,316	66
170-06	Stamp Duty	57,880	68,320	74,469	6,149
170-07	Royalty/Management Tax	8,390	9,010	9,694	684
170-15	Interest Withholding Tax	21,890	21,100	22,763	1,663
TOTAL		1,817,858	1,969,080	2,051,039	81,959

The actual direct taxes collected for 2008 was K4,325,067,042 and not the K4,379,447,854 as shown on page 11 of your report. It should be noted that in view of this information the IRC achieved a net revised revenue collection shortfall of K334,119,740 and not the net surplus of K310,662,266 shown on page 11 of your report.

Indirect Taxes

The actual indirect taxes collected for 2008 was K1,440,443,697 and not the K1,432,964,932 as shown on page 12 of your report. In view of this information IRC achieved a net revised revenue collection shortfall of K16,556,303 in 2008 and not the net surplus of K58,264,932 as shown on page 11 and 12 of your report; refer to details below:

Table 08: Aggregate Actual Indirect Taxes Collected for Year 2008

Revenue Sub Heads	Description	Estimates 2008 (K)'000	IRC – 2008 (K)'000	Actual Collection 2008 (K)'000	(Shortfall)/ Surplus (K)'000
172-01	Import Duty	132,700	149,900	153,296	3,396
172-02	Inland Excise	368,300	370,200	372,124	1,924
172-03	Export Tax	155,200	152,000	129,513	(22,487)
172-04	Import Levy	0	0	4	4
172-05	GST to WPA	600,800	646,100	647,100	1,000
172-06	Import Excise	99,500	123,500	122,292	(1,208)
172-07	Mining Levy	15,000	12,000	11,356	(644)
172-99	Sundry Receipts	3,200	3,300	4,758	1,458
TOTAL		1,374,700	1,457,000	1,440,444	(16,556)

DEBT MANAGEMENT

As at 31st December, 2008 the total value of Direct Tax Arrears was K1,473,609,865 as per the Statement of Overall Debt Summary Report for year ended 31st December, 2008. A comparative detailed analysis for the years 2007 and 2008 was conducted - refer to Table 9 below for details:

Table 09: Comparative Analysis of Direct Tax Arrears for Years 2007 & 2008

Description		Fiscal Year 2007		Fiscal Year 2008		Variances (2007-2008)	
Tax Code	Tax Item	Cases	Amount (K)'000	Cases	Amount (K)'000	Cases	Amount (K)'000
01	Dividend Withholding Tax	31	2,816	38	5,053	7	2,237,074
02	Company	2826	720,179	3007	953,361	181	233,182
03	Individual	1593	128,404	1542	136,466	51-	8,062
04	Group	2966	179,418	2392	177,489	574-	1,929-
05	Book Turnover	1	1,682	2	2	1	205
06	Estate	1	79	1	79	0	0
07	Telex	12	58	2	2	10-	56-
08	Royalty	1	11	0	0	0	0
10	Specific	4	228	4	227	0	0
12	Business Payment Tax	474	23,944	477	25,325	3	1,382
14	Departure	2	4	1	10	1-	2-
15	Training	400	9,592	383	11,050	17-	1,458
16	Management	0		0	0	0	0
17	Legal	972	92	986	91	14	430-
18	Court	2082	2,898	2164	3,291	82	393
19	Tax Agent	17		15		2-	
21	Book Licence	0	0	1	25,370	1	25,370
22	Stamp Duty	897	6,315	1057	7,808	160	1,493
24	Interest Whldg Tax	9	117	10	77	1	40
25	Bet Book	0	0	5	7,228	5	7,228
28	Gaming	0	0	0	0	0	0
29	VAT	1433	141,431	1305	143,621	128-	2,189
30	Mining	5	3,545	3	9,630	2	6,085
31	Bad Debts	2		0	0	0	0
Total		13,728	1,219,133,067	13,395	1,473,609,865		

In the absence of adequate data analysis on debt monitoring the effort and performance of the IRC management in initiating timely recovery action on tax defaulters was not fully ascertained.

Major Tax Defaulters

The major source of Tax Defaulters owing the State millions of Kina as at 31st December, 2008 are detailed below:

Table 10: Heavily Tax Defaulters, noted from Table 09 above

Audit No.	Tax code	Tax Item	Cases	Amount (K)'000
1	01	Dividend Withholding Tax	38	5,053
2	02	Company	3007	953,361
3	03	Individual	1542	136,466
4	04	Group	2392	177,489
5	10	Specific	4	228
6	12	Business Payment Tax	477	25,325
7	15	Training	383	11,050
8	18	Court	2164	3,291
9	22	Stamp Duty	1057	7,808
10	29	VAT	1305	143,621
11	30	Mining	3	9,630
Total				1,473,322

Management Response

The IRC agrees with this recommendation. Debt holdings need to be seen in context, however. In isolation, the fact that total holdings for 2008 were K1.473 billion does not signify much. It is a large amount and every effort should be made to maximise recovery.

The IRC acknowledges that further analysis is necessary and is in the early stages of conducting this work, determining relevant baseline measures and developing new performance indicators. Many revenue agencies recognise common measures of effectiveness of debt recovery performance. An important high level measure is the ratio of collectable debt to overall collections. The IRC is attempting to determine this measure and use it as a basis for comparisons ongoing.

Debt recovery efforts will also be assisted by segmentation of the debt holdings and the development of recovery strategies which recognise the different levels of risk associated with 'Large Business' and 'Small to Medium Business' taxpayers, in particular. The IRC notes that the list of taxpayers identified as 'heavy tax defaulters' in this management letter is simply the full listing of all taxpayers with a debt at the end of 2008 - the challenges for analysis can be seen.

The IRC agrees that further analysis, made possible with the assistance of a range of tailored systems queries still to be designed, will support a better appreciation of the real level of debt that has the potential to be collected.

Looking at the Age of Debt Report (Table Tax Defaulters age analysis for Companies) this total would have been significantly lower than K103 million in 2008 due to the fact that substantial amounts of debt should have been written off (impacted by the delegations issue).

Collection of a component was impeded due to appeals pending – a normal incident of debt recovery processes. As one example, the taxpayer with a debt of K50.086 million is subject to active management, but K36 million remains in dispute before the Courts. As a result of an earlier legal process, the tax monies are held in a trust account pending resolution of the substantive tax issues.

Another of these cases involving phoenix arrangements (deliberate structuring to ensure that the tax monies are never available for collection); worth K8.091 million is waiting write off.

AGEING OF DEBT - INDIVIDUALS

Background

Reports relating to the Age of Debt for Individuals and Partnerships Taxpayers as at 30th December, 2008 were reviewed and a sample of twenty (20) taxpayers were selected for substantive testing. The value of the Debts included in the sample was from K500 and above.

Pending Tax Payers

Seven (7) files out of the twenty files selected for AGO review were from the Pending Category; those files were being reviewed by the Debt Management Team at the time of audit and will be passed on to the next level. Out of the seven (7) files, two (2) were with officers that are currently on recreational leave. No status of work was done on the two (2) files obtained. Refer to details below:

Table 11: Taxation Files under the Pending Category – Tax Arrear

Audit No.	Tax File No.	Remarks	Amounts (K)
1	A 2685	Case In Court, possibility of write-off	133,296
2	C 12472	Amended assessment, copy to designated mgt	685,389
3	E 8878	Amended assessment, then to Issues section	103,267
4	F 7267	Work in progress – assessment	1,542
5	W 2647	Ready to be assessed	3,216
6	B 862	Officer on leave	1,621,707
7	Y 7489	Officer on leave	4,376,302

The arrears were outstanding for over thirty six (36) months as noted in audit.

Completed Tax Payers

The other thirteen (13) files in the sample for AGO reviewed were completed and the respective files for the Taxpayers were filed away when no further actions needed to be done. The files in this category were located in the Registry Section of IRC, implying that they have already been worked on and are filed away for the next lodgment or action after issuing of notices, refer to details below:

Table 12: Taxpayers Annual Returns Files – Actions taken & completed

Audit No.	Tax File No	File Status	File Location	Remarks	Amounts (K)
1	A 13521	Filed away	Registry	Awaiting next lodgment	1,171,526
2	C 1327	-do-	-do-	-do-	383,011
3	D 8157	-do-	-do-	-do-	576,363
4	G 20046	-do-	-do-	-do-	543
5	H 1865	-do-	-do-	-do-	2,114
6	R 1432	-do-	-do-	-do-	945
7	R 14603	Completed	Tax Audit	Filed back to Registry	5,420
8	S 32731	Filed away	-do-	Awaiting next lodgment	584
9	T 27055	-do-	-do-	-do-	4,642
10	T 28095	-do-	-do-	-do-	25,866
11	U 4105	-do-	-do-	-do-	1,500
12	V 5987	-do-	-do-	-do-	10,751
13	W 23198	-do-	-do-	-do-	20,893

Based on the samples testing carried out, AGO noted the following status:

- Completed tax files were given notices on their current status. IRC is awaiting responses from Taxpayers and whilst waiting, their files have been referred to the Registry section to be filed away; and
- As for the seven (7) pending samples, the tax files were treated as normal assessment of lodgment and will be dealt with accordingly.

Management Response

While the IRC agrees with this recommendation in principle, some comment in relation to the findings will assist. The fact that a file is marked to Registry does not mean that debt recovery action is suspended. All taxpayers have a main file containing tax returns, correspondence in connection with assessments, etc. Where there is an unpaid amount the Debt Management area creates its own sub file, separate from the main file. This file contains copies of relevant correspondence, garnishee notices, documentation connected with any legal action, etc. This file remains active during the debt collection process.

AGEING OF DEBT – COMPANIES

Substantive testing was done on a selected sample of twenty (20) companies' files categorized in the following three (3) categories:

1. Objection Files

These are files that the taxpayer is not satisfied with the assessments made by IRC and so they have objected to allow for an independent review or assessment on the balance given. In such cases, IRC is in the position to re-assess the balances and can even reduce the penalty to some reasonable figure that it (IRC) thinks fit and have it imposed on the Taxpayer. In this way the amount assessed previously could be reduced.

2. Completed Files

These are files that are assessed and a notice has been issued to the taxpayer so that he/she must pay up his/her tax liabilities immediately.

3. Pending Files

These are files where IRC issued a notice of assessment in millions of Kina and that the taxpayer is rejecting to pay up and disagrees completely with the assessment. The case is referred to Court for hearing and is/are been adjourned to a later date(s).

According to the Tax auditor, once a file is marked with the term "objection" it refers to a year or two (2) and when it is assessed, the assessing section does not specify actually which years the tax payers have objected to in the assted tax.

In such situations, AGO notes that some of the past years where IRC should have issued notices of assessment were not been taken into consideration, and thus monies in millions of kina are been lost or uncollected and remains in arrears.

Testing

From the twenty (20) files AGO obtained to do substantive testing of ageing in debts, the following were noted:

- Four files were not allocated to an officer according to Revenue Accounting System (RAS) used at IRC. Therefore AGO was not able to verify the status of the files and the necessary action that needed to be taken, refer Table 15 below for details:-

Table 13: Unattended Tax Files

#	Tax File No	Amount (K)	Age of Debt period	Remarks
1	TC 246	1,579,152.00	13-36 months	
2	TC 330	534,505.80	7-12 months	
3	TC 2597	521,388.00	1-6 months	}
-	-do-	793,696.74	7-12 months	}Total= K3,741,597.84
-	-do-	2,426,513.10	13-36 months	}
4	TC 44653	3,278,755.80	Current	

- A **tax File No. 1933** was currently marked to archives as FRNN on the bundle No. 45 as of 9th May, 1998 which meant that this company no longer exists as it has become dormant.
- Another **Tax file No 1480** which was currently in court and due to the confidentiality of the file, the Tax auditor was unable to obtain photo copies of the file for AGO. The file had over K45 Million outstanding in debt to be paid to the State. However, according to the records kept by the Debt Management section, it showed only K20 Million. When checked with the Director - Resource Monitoring Division, AGO was advised that some of the records kept by Debt Management are out dated.

Management Response

The IRC agrees with the recommendation, subject to observations on the findings as offered above.

In the case of an objection against an assessment, on receipt, the Assessing area checks its validity and registers it, issuing an acknowledgement letter to the taxpayer. The Manage Debt Division is advised of the amount of tax in dispute, year of tax and the matter in dispute and to hold their action until the objection is finalised. The file is flagged with the objection number and the year of tax objected against. Upon determination of the objection, the Assessing area advises Manage Debt of the amount of tax to recover or not to be recovered, depending on the decision.

DISHONoured CHEQUES

Part 10: Division 11:36 of the FMM, on “Refund of Revenue Collection” states that amounts collected as revenue are not to be refunded except on the authority of Department of Finance in consultation with Departments responsible for collecting the particular revenue. In respect of Taxation Revenues; refunds are to be made as regulated in the appropriate statutes. Accordingly, as per “Appendix on Cheques: Paragraph: 11; declares the following procedures when in receipt of **Dishonoured Cheques**; such cheques should be:

- Returned to the collecting officer, Sec 11.1;
- Departments will report all outstanding Dishonoured Cheques monthly to the Department of Finance (Expenditure and Cash Management) as follows: Drawer’s Name, Bank and Branch, Amount of Cheque, Date of Cheque, Date of cheque received by Department and Action taken to clear, Sec 11:7.

According to the “IRC Monthly Figures for Dishonoured Cheques in Terms of Votes” Report (received on 14th December, 2009); the total value of dishonoured cheques as per that monthly tax receipts report was **K29,076,250** which the relevant replacement cheques still remained uncollected from the concern tax defaulters as at 31st December, 2008. Refer to details below:

Table 14: Dishonoured Cheques from Tax Defaulters as at 31 December 2008

Audit No.	Month-2008	Amount (K)'000
1	January	855
2	February	1,335
3	March	1,625
4	April	513
5	May	2,026
6	June	330
7	July	329
8	August	215
9	September	917
10	October	374
11	November	169
12	December	20,388
Total		29,076

- There was no up-to-date monthly report made available for the year 2009;
- AGO was not able to ascertain the type of actions taken on the Tax defaulters of the dishonoured cheques and whether they are being reported to Department of Finance every month; and
- Our audit could not ascertain whether IRC has any dishonoured cheques collected in the years prior to 2008 and during 2009 up to the time of audit (in August).

Management Response

The IRC agrees with this recommendation. The process for pursuing dishonoured cheques is as follows:

Once dishonoured cheques are received from banks details of the cheques are recorded in the dishonoured cheque register that is maintained in our Accounts Section. A corresponding debit (symbol 23) is immediately raised by the data entry officers on to the taxpayer's ledger account and simultaneously a letter is issued to the taxpayer seeking replacement of the cheque within twenty-one (21) days. When the taxpayer fails to replace the cheque, the matter is then referred to our Manage Debt Division to allow the normal recovery process to take place.

We will ensure that records are properly maintained. Processes for pursuing dishonoured cheques will be reviewed.

Note that the total amount of 2008 dishonoured cheques of the amount K29.076 million included an amount of K19.999 million paid in by a government department in error for the month of December. The correct amount of K11,020,839 has been recovered and is included. A more accurate reflection of the situation with dishonoured cheques, refer to Table 17 for details:-

Table 15: Total Amount of Dishonoured Cheques for Year 2008

Year	Amount Outstanding (K)	Amount Outstanding (K)	Amount Recovered (K)	% Dishonoured
2008	20,097,088	13,906,361	6,190,727	31%

TRUST ACCOUNTS

Trust funds are established for the purpose of specific operations and are replenished by fees and charges pursuant to legislative requirements.

The Department is also required to compile and submit monthly bank reconciliation to the Department of Finance no later than fourteen (14) days of the close of each month.

AGO noted that currently IRC is managing five (5) Trust Accounts and as at the date of audit on 24th November, 2009; all the relevant Trust Instruments together with copies of quarterly reports for the periods ending 31st December, 2008, and the three (3) quarters of 2009 were all provided; refer to details below:

Table 16: List of Trust Accounts maintained by IRC

Trust Code	Name of Trust Account	Bank Account Held	Bank Account Number	Referenced
248	National GST Trust Account	Bank of PNG	000 4356 6372 000 1	GST Act 2003: 01 Jan 2004
538	National Roads Authority Trust Account	Bank of PNG	000 4356 6567 000 1	Nat'l Roads Authority (Amend) Act 2005: 01 Jan 2004
543	Personal Income Tax Autonomous Bougainville Government Trust Account	Bank South Pacific - Port Moresby	1001203857	-
544	Revenue and Company Tax Autonomous Bougainville Government Trust Account	Bank South Pacific- Port Moresby	1001203865	-
549	Log Export Development Levy Trust Account	Bank South Pacific	1001332935	Forestry Act 2006: 01 Jan 2006

The following issues were identified relating to the management of the trust accounts:

- A Trust Deed was not sighted for the ABG (Autonomous Bougainville Government) except for a tax brief, titled "Bougainville Tax Arrangements dated 21st October, 2003"; and
- All Trust Accounts (including the National GST T/A, National Roads Authority T/A and Log Export Development Levy T/A) are not installed in the PGAS system. All Trust Account transactions, including the production of cheques are required to be processed through the PGAS or its replacement.

Management Response

The IRC agrees with the recommendations in part. All trust accounts should be operated with their respective trust instruments. The IRC has furnished copies of the various trust instruments except for ABG (Autonomous Bougainville Government) which was not made available at the time of the audit. Please refer to attached copies of the ABG trust instrument for your purposes.

All trust accounts managed by IRC comply with the statutory and legal requirements under the PFM Act, including the trust instruments for the individual trust accounts.

The report also recommends that all Trust Accounts should be processed through the PGAS system. The purpose of the trust account is to hold moneys from revenue collections and it is IRC's role to collect moneys and pay into the various trust accounts. Payment is effected by way of a transfer (paper trail only) of the monthly collection. The IRC has no responsibility for drawing cheques therefore there is no requirement to process through the PGAS system.

CUSTOMS OPERATIONS - 2008 and 2009

The Internal Revenue Commission – Customs audit was for the year ended 31st December, 2008 financial year and internal controls for year 2009.

PNG Customs service has a responsibility to facilitate international trade and to provide community protection through its enforcement activities by controlling the movement of people and goods across PNG borders. The Key Customs responsibilities include; revenue collection, community protection, trade facilitation and national security.

The audit of accounts and records of the Customs Office was concentrated on the Revenue Management with specific emphasis on the Port Moresby Customs Office (Sea and Air Cargo). The following areas below were reviewed:

- Review of Internal Affairs Division (Internal Audit);
- Budgetary Control;
- Collection and Banking on a sample basis; and
- The follow up of internal audit recommendations relating to Revenue Management and Import SAD Processing Using ASYCUDA.

Work of Internal Affairs Division

Internal Affairs Division functions have been complementary to AGO review of customs operations in providing effective reports for management information and action.

Revenue Collection

A comparison of the Revenue Summary for year ending 31st December, 2008 generated by the TMS system at the Department of Finance (printout date 23rd November, 2009) against the Cash flow projection Vs Net collections Report produced by IRC (printout date 24th November, 2009) revealed the following variances between the balances highlighted in details below:

Table 17: Material Differences in Revenue Figures between TMS & PGAS

Revenue Head	Descriptions	IRC - Customs	PGAS		Balance	Comment
		Year to Date (K)'000	CFWD (K)'000	Revenue	Variance (K)'000	
172-1	Import Duty	153,235		157,312	4,077	
172-2	Inland Excise	372,634		365,291	-7,343	
172-3	Export Tax	128,295		127,925	-370	
172-4	Import Levy	4			4	open bal.
172-5	GST WPA	647,100		640,410	-6,690	
172-6	Import Excise	123,117		125,927	2,809	
172-7	Mining Levy to WPA	11,356		11,356	0	
172-99	Sundry Excise	4,981		4,744	-237	
TOTAL		1,440,722		1,432,965	7,757	

Management Response

No response was received from Customs as at the time of preparing this report in November, 2010.

COLLECTION AND BANKING

AGO selected Port Moresby (Sea Cargo) and six (6) Mile (Air Cargo) Customs Office and did checks into the collection and banking procedures for the months of June, July, August and September, 2009.

Examination of collector's statements for the selected months totaled eighty-five (85) and eighty-seven (87) respectively for Port Moresby and Six (6) Mile Customs Offices. The following discrepancies were noted:

- Supporting documents such as bank deposit slips and collector's statements were not attached in eight (8) instances for Port Moresby Office and with cash day book not attached in one instance for six (6) Mile Office. Although reported earlier by the internal audits, the Port Moresby Customs Office continues to fail to attach supporting documents to records maintained as evident in the AGO review observation;
- In five (5) and forty-two (42) instances respectively for Port Moresby and six (6) Mile Offices, the collector statements were not properly certified as correct. It is either that the checking officer did not sign or the collector's statements were not stamped;
- For four (4) deposit slips totalling K3,425,137 there was no official teller stamp affixed. Refer to Table 18 below for details:-

Table 18: Deposit Slips sighted had No Official Teller Stamps Affixed

A/C No. 4314-6577			
Date	Deposit slip No.	Deposit Slip Total (K)	Collector's Statements (K)
15/6/2009	011/06	913,867	875,290
17/6/2009	013/06	1,295,996	580,180
22/6/2009	016/06	1,580,502	1,580,382
23/6/2009	017/06	389,676	389,285
Total		4,180,041	3,425,137

- Actual deposit dates were not shown on the Bank Deposit Slips in twenty-three (23) instances at Port Moresby Office and in forty (40) instances at Six (6) Mile Office; and
- In seven (7) instances, collections totalling K20,552,497 could not be verified to the certified bank statements as deposited. Dates of actual deposits were also not shown on the bank deposit slips; refer to Table 19 below for details:-

Table 19: Total Collections Not Collated to Deposited Amounts on Bank Statements

Audit No.	C/S No.	Amount on both Bank Deposit Slips & Collector's Statements (K)
1	004/07	1,029,573
2	014/07	2,931,664
3	018/07	5,514,751
4	019/07	1,701,176
5	011/09	4,464,910
6	014/09	3,963,820
7	018/09	946,603
Total		20,552,497

An explanation was not provided by Customs management on the collections that had not been brought to account.

Delays in banking were noted at the Port Moresby Office that ranged from 1 to 8 days in 60 instances, while at six (6) Mile Office it ranged from one (1) to three (3) days in nineteen (19) instances. Although reported earlier by the internal audit on daily or prompt banking of collections as required, this has not been adhered to as noted in audit.

Management Response

No response was received as at the time of preparing this report in November 2010.

Import SAD Processing Using ASYCUDA

PNG Customs have already implemented the ASYCUDA (Automated System for Customs Data) in their operations. ASYCUDA is a computerized customs management system which speeds up data processing of imports and exports that would bring PNG Customs in line with International best practices.

AGO follow up on the Internal Audit Recommendations into the Import SAD (Single Administrative Document) Processing Using ASYCUDA ++ for the Port Moresby Office (Sea Cargo) and (Air Cargo) noted the audit findings reported below.

PORT MORESBY – SEA CARGO

- Failure to Stamp SAD with the “Received/Date Stamp”

Internal audit recommended for all SAD to be stamped before processing.

A follow up on internal audit findings revealed that to stamp SAD with the “Received/Date stamp” is not applicable any more. When SAD is lodged over the counter it is not stamped, the date is electronically registered on the official receipt.

- Unexplained cancellation of SAD in the ASYCUDA++ system

Internal Audit recommended that every SAD that is cancelled should be properly documented, approved and recorded in the register.

A follow up indicates that the SIEOs confirms with IEOs and ensures that a narration is printed on the cancelled SAD to explain the reasons for the cancellation. No IEO can cancel SAD unnecessarily and there is no manual register at hand at the time of audit to record all cancelled SADs which audit views as a serious weakness in the ASYCUDA++ system.

- Incorrect Customs Duty calculation of Import SADs.

Internal Audit recommended that In-house trainings should be conducted for ASYCUDA entry processing, including regular and quality reviews by Post Compliance Audit.

Training depends on the update on the ASYCUDA ++ system

- Failure to allocate re-routed SAD to IEO

The functional tasks of re-routing and that of assessing responsibilities should be properly segregated between the SIEO and the IEO and properly profiled in the ASYCUDA system.

It was noted, there was limited access given to both the SIEOs and the IEOs. When there are needs for SIEO to override the system permission is to be obtained from ASYCUDA branch to get the option on the screen only for a particular job.

- Failure to Action Hanging SADs in a timely manner

Internal Audit recommended that stringent control procedures should be implemented to control and monitor Outstanding (Hanging) SADs.

A follow up review noted that; all hanging SADs are attended to in a timely manner, such as when an IEO is not available to assess a document, the document is re-routed to another IEO or a SIEO will assess the document with permission from ASYCUDA division.

PORT MORESBY (SIX (6) MILE) – AIR CARGO

- Failure to stamp date and time of receipt on Import Entry Declaration

The only date noted was that of the official receipt. When SAD is lodged over the counter, it is not stamped; the date is electronically registered on the official receipt.

Conclusion for the Import SAD Processing Using ASYCUDA

Since ASYCUDA is in place the controls have been significantly improved. There is however, scope for further improvement mainly through conducting training.

COMMISSION RESPONSE

The Commission had responded to the reported findings in the management letter issued and their responses are stated correspondingly.

CONCLUSION

The results of my audit indicate that overall there were notable weaknesses in the control framework. At present the control activities are not sufficiently robust to prevent, detect or correct errors or fraud

DEPARTMENT OF FOREIGN AFFAIRS AND TRADE

OVERVIEW

The Department's mission is to ensure that Papua New Guinea's interests are protected and promoted across the international community, and that Papua New Guinea is aware of overseas events and international issues that may affect its people.

The Department is expected to fulfill its mission in the context of the *Citizenship Act*, *Migration Act*, and the relevant legislation, in accordance with the International Agreements as follows:

- Administer the operations of official Papua New Guinea overseas posts.
- Administer the provisions of Immigration, Migration and Citizenship Legislation.
- Formulate policy on external publicity.
- Co-ordinate all matters of protocol, arrange programmes and itineraries in consultation with the Department of Prime Minister and National Executive Council.
- Administer Papua New Guinea's international boundaries and co-ordinate the activities of the border administration.
- Liaise with overseas countries for appropriate foreign aid development assistance.
- Manage all Papua New Guinea's treaty.

FINDINGS

CORPORATE GOVERNANCE

Corporate Plan

The Department of Foreign Affairs and Trade still does not have a Corporate Plan nor is a Management Plan established, as outlined in the previous Audit Report (2008). This is a legal and statutory requirement under the *Public Services (Management) Act* /Public Services General Order 8.11 to coordinate and direct the department and to facilitate the formulation of an annual budget. The management therefore is not in a position to monitor the achievement of Departmental programs; effect necessary changes; determine areas where change or improvement is required; and or amend the objectives and strategies formulated.

BUDGETARY AND FUNDS CONTROL

Comparison of TMS vs. PGAS Expenditure Summaries

A comparison of Expenditure Vote Summary printout produced by the Department of Foreign Affairs and Trade with the Expenditure statement produced by the Department of Finance (TMS 330) revealed significant variances between the revised appropriation, warrant authorities and expenditure balances. The net variance between the PGAS and TMs reports by DOF totaled K6,338,000 which remained unexplained.

Summary of over-expenditure on vote items

Item 111 (Salaries & Allowances) had the highest over expenditure amount of K2,380,813 as at 31st December, 2009 and the total over-expenditure incurred by the department during the year 2009 under nineteen (19) vote items amounted to K4,445,227 as per TMS 300 report by Department of Finance as at 31st December, 2009.

BANK RECONCILIATIONS – Drawing Account

The Department operates a Drawing Bank Account with the Bank of Papua New Guinea. As at the date of audit on 24th February, 2010, audit verification of the monthly bank reconciliation statement for 31st December, 2009 and other related accounts and records noted the following matters:

- Unpresented cheques (stale) from year 2007 and 2008 were still carried forward and highlighted on the monthly bank reconciliation;
- Direct transfers from the Waigani Public Accounts (WPA) to the drawing account were not journalized and posted in the cash book prior to the compilation of the monthly bank reconciliation;
- Delays in the preparation of monthly bank reconciliations as well as submission of copies to Department of Finance which is not meeting the timelines required;
- The cash book and bank balances did not reconcile for all the months; and
- There was no segregation of duties and independent person compiling the monthly bank reconciliations from those maintaining & dealing with payments and cash.

ASSETS MANAGEMENT

The Management had not taken heed of all AGO's findings and audit recommendations reported in previous Audit Management Reports. The current audit noted the outstanding issues as follow:

- There was no asset register maintained and regular (annual) stock-takes done on assets even though new assets have been purchased; and
- Disposal of motor vehicles were not properly done in accordance with the statutory requirements such as conducting of a board of survey (BOS), determining a disposal value and disposing the assets through a Public Tender process.

ADVANCE MANAGEMENT

AGO review of advances indicate no improvement at all in the advance administration since the last audit for 2008.

AGO review of the Advance Register revealed a complete breakdown in the internal control system relating to payments, and monitoring of the acquittals of the various advances paid to officers of the Department, as follows:

- The Advance Register was not maintained properly and not kept up to date as required;
- There were second, third and even forth advances issued while the previous advances were still outstanding or not yet acquitted;
- The Department did not exercise prudence in ensuring that all advances were acquitted within the required timeframe or before the end of the fiscal year ended 31st December, 2009;
- Reports were not sighted for officers returning from overseas travels nor supporting documents such as ticket butts, boarding passes, receipts, etc. attached to the acquittal forms; and
- AGO audit recommendations from previous audits (2007) have not been reviewed and implemented by the management.

FOREIGN MISSIONS FINANCIAL RETURNS

The operations performed by Overseas Diplomatic Missions and Consular Posts are outlined or governed by the Manual of Accounting Procedure (Manual of Operation (Volume 2) and Foreign Service Regulations. Where there is silence in both procedures, *Public Finance (Management) Act*, Financial Management Manual, *Public Services (Management) Act* and General Orders are applied as required.

According to the Manual of Accounting Procedures for Overseas Diplomatic Missions and Consular Posts under Section 7 Paragraph 7.1 stipulates that; the Foreign Missions/Posts are required to submit monthly Financial Returns to the Headquarters. It is the responsibility of the Head of Mission/Post to ensure that each set of returns should be submitted with the following information;

- A bank reconciliation statement and supported with commitment ledger balances and copies of the commitment ledgers for the period; Original Bank Statements and paid cheques;
- Paying Officers Cash Book and Collectors Cash Book; and
- All payment vouchers together with order forms, receipts, invoices and other supporting documents.

AGO found in the review of monthly returns that majority of Overseas Mission were not complying with the requirements set out in the overseas diplomatic missions and consular posts Manual of Accounting Procedures.

Further audit review and observation revealed the following salient issues:

- Fifteen (15) overseas missions had not submitted the required monthly financial returns to Headquarters for the financial year ending 31st December, 2009 amongst which three (3) missions, Sydney, New Zealand and New York did not furnish the monthly returns for the whole year;
- There was no attempt made to reconcile the accounts with the corresponding records and as a result sixteen (16) Financial Returns of overseas missions received by headquarters were not reviewed and reported as is required. It was not possible to ascertain the financial position of these missions; and
- Delays (ranging from 1 to 12 months) in forwarding financial returns to headquarters were noted in fifteen (15) out of eighteen (18) overseas missions.

MOBILE PHONES AND PREPAID CARDS

Mobile phones are categorized as attractive items and should be registered in the asset register. The purchase and issue of mobile phones should be restricted to senior management level only with such details as; names of staff, designation, and date issued and contact details should all be registered. Mobile phones are considered assets and so should be placed as a responsibility for the Properties Division to monitor and control.

The following issues were identified:

- A list of recipients (dated February, 2010) for mobile phones included names of six (6) officers who were also receiving telephone allowances according to Pay Period #2 of year 2010. The payment of the allowance is "double dipping" of the entitlement and should be rectified by management; and
- Mobile phone recharges are given on a monthly basis to designated officers, however there is no management policy in existence to provide for use of this facility.

MOTOR VEHICLES

The *Public Finance (Management) Act* Part 31 provides for purchase and replacement of motor vehicles. Also all government vehicles should have “Z” number plates and log books and regular maintenance programmes should be maintained for all vehicles.

Outstanding issues that were reported in the year 2008 audit have not been seriously addressed by the department. The following matters were observed in the administration and control of motor vehicles, thus;

- The Department does not maintain a Fleet Register to control usage and maintenance of vehicles;
- A contractual arrangement was not in place for supply of fuel to the Department vehicles at designed fuel stations; and
- A schedule of planned maintenance was not in place as a reminder of when vehicles are due for service, the type of service and costs involved for each vehicle.

DEPARTMENT RESPONSE

The findings were brought to the attention of the Secretary in the Audit Management Letter issued. The management has however, failed to respond at the time of this report. However, prior to the issue of the management letter, the audit findings were discussed with the responsible officers during the Audit Exit Interview Meeting.

CONCLUSION

In general, there were no marked improvements in the system and operation of controls within the Department compared to the previous years.

The results of my audit indicate that there are notable weaknesses in the control framework. At present the control activities such as delegation, authorizations, reconciliations, data processing, segregation of duties, management monitoring, etc, are not sufficiently robust to prevent, detect or correct error or fraud.

DEPARTMENT OF PERSONNEL MANAGEMENT

OVERVIEW

The Department of Personnel Management's major program areas are as follows:

- To review Public Sector Office Allocation Policy Guidelines and develop a Property Management Arrangement.
- To evaluate, monitor and investigate management practices against established systems for agencies.
- To effectively implement and administer Integrated Human Resource Develop System, Public Service Cadetship Scheme and Bonding System.
- To review Government's IT standards and policies.

FINDINGS

CORPORATE GOVERNANCE

Internal Audit and Audit Committees

Internal Audit is an important component of the system of internal controls. There are greater efforts and efficiencies to be achieved if external auditors could be able to rely on the work of internal auditors. An effective internal audit program should facilitate external audit to place greater reliance on the work of Internal Audit, thereby making better use of overall audit resources.

The internal audit reports for financial year 2009 and current year (2010) were not made available for AGO review to establish the effectiveness of its role in appraising the system of internal controls within the Department. The Department is expected to institute appropriate measures to have an effective internal audit function in operation as soon as possible.

Management Response

Yes, IA unit has only one Senior Internal Auditor. Due to organization structure limitation for additional staff.

- *Planned refinement of structure in early 2011 must include two (2) additional positions:-*
 - *Ensure IA branch is created which will then enable DPM to have IA committee as a legal requirement. (PFM Act, Sect.19);*
 - *Approval of the Audit Plan and support its program development;*
 - *Approval of training program;*
 - *Encourage team work with audit branch (M&C); and*
 - *Encourage close coordination with AGO*
- *No Internal Audit Report*
 - *A copy of the IA report was submitted with response; the report was in progress at the time of audit.*
 - *EMT (Executive Management Team) endorsement on the recommendations for implementation.*

STATUTORY REPORTING

The Department at the time of audit on 1st April, 2010 had not produced the Annual Financial Management Reports for the financial periods ending 31st December, 2008 and 2009 respectively for submission to the Secretary, Department of Finance.

The Department had not fulfilled its reporting responsibility as a lead agency and that management is expected to improve its performance in this area of accountability.

Management Response

Due to constant change in the leadership/departmental heads department priorities were distorted over the years.

The 'Annual Management Report' for 2009 is in print and will be ready to be presented at the Parliament by the Minister.

- *Corporate Planning and Management Unit has a Branch status and equipped with manpower. One of its main tasks is to produce annual management/performance report.*
- *We do submit on a timely basis the quarterly review reports to Secretary for Treasury and end of month reports to Secretary Finance and assumes these reports are sufficient to give the financial aspects of the department.*
- *Management will ensure Annual Financial Management Report is submitted to Secretary for Finance.*

BUDGETARY AND FUNDS CONTROL

Expenditure incurred by the Department is subject to the Annual Appropriations made by Parliament through the Appropriation Act. The authorization to commit and spend is provided by Warrant Authority. The funds from Warrant Authorities are issued through Cash Fund Certificates (CFCs) which are signed by the Department Head and indicate the limits up to which funds may be committed and spent by the Financial Delegates.

Non-availability of Records and Documentation

AGO was not provided accounting records such as PGAS ledgers and the Department of Finance TMS ledgers and other accounting records and documentation.

The Departmental Head is required to ensure that all financial and accounting records and documentation are complete and accurate; and safely kept in secured storage space, and accessible only to authorized personnel. The stated records and documents were however, not made available for AGO review during audit.

Management Responses

We agreed that no physical reconciliations were made against DoF records then. However, DoF records should balance as raw source documents are provided/& supplied by DPM.

To-date still not reconciled and will at one time accord unless same source documents are used. (Accountant is tasked to draft a template for reconciliation).

- *There is inconsistency with TMS and Alesco reports; the ownership is with DoF and not DPM, we do not have access to item 111 inputs and or expenditure.*
- *Label an arch lever folder and file away each TMS report as soon as received from Dept. of Finance.*
- *Budget Officer is directed to ensure filing is done regularly.*

Monthly cash flows are submitted monthly to Secretary for Treasury for issuance of Warrant Authority.

- Budget Officer & Accountant must ensure to keep a file copies of each month cash flow statement*

Budgetary documents 2009

- There was no request received from the field audit officers for such documents to be presented to them for verification during the time of audit.*
- Financial Management Branch is now sealed off with a permanent partition.*

Over Expenditure

An over expenditure on salaries vote amounting to K302,139 was noted as per TMS 90 Period 12 Report, run dated 31st March, 2010. The over expenditure resulted from the appropriation of K5,858,600 being charged by an expenditure of K6,160,739 at year end.

Management Response

There is inconsistency with TMS and Alesco reports; the ownership is with DoF and not DPM, Hence, do not have access or much control over items 111; 112; 141 as most inputs are done by DoF.

- Salaries of 5 staff attached with PS Task Force are charged to DPM vote.*
- Accountant is tasked to start on reconciliation of TMS & Alesco report (vote code summary).*
- AGO can find out how TMS & Alesco can be matched as the raw data and report is produced by Dept. of Finance.*

BANK RECONCILIATIONS - Drawing Bank Account

AGO was not provided monthly bank reconciliations of the drawing account for financial year ended 2009 or the latest completed monthly bank reconciliation for year 2010. It was not possible for AGO to ascertain whether the management during the year had exercised prudent management of its budgetary funding in terms of quarterly cash fund release.

Regular Monthly Bank Reconciliations are expected to be compiled for all the bank accounts operated by the Department to prevent errors, irregularities, etc; that may be occurring and not being detected. Undetected errors or irregularities can and may take place over long periods of time including fraud.

Management Response

Bank Reconciliation Statement 2009

- We agreed that this report was not sighted at the time of audit because our staff with one personnel from DoF was working on these reports.*
- 2009 and 2010 Monthly Bank Reconciliation Statements are now completed.*

Cheque History Listing 2009

- No request was made for this report during the time of audit.*
- Monthly cash flows are submitted monthly to Secretary for Treasury for issuance of Warrant Authority.*

Regular:

- *Bank Rec. Officer learning on the job with the assistance from DoF hence delays in timely report compilation.*
- *Timely compilation of the Bank Reconciliation report is achieved.*

ASSETS MANAGEMENT

A review of the internal control systems relating to the efficient and effective management of State assets owned and used by the department revealed the following concerns:

- Management did not maintain proper and up-to-date Asset Register for the department in the last four (4) years. The Department lacked control over safe custody of state assets;
- Payment vouchers not sighted relating to the purchase of a bus and four laptops with the total value of K72,092. It is unclear whether proper procurement processes were followed, and that documentation and approval were obtained and whether the Department to control over the ownership and custody of the vehicle and the laptops;
- A Loans Register was not maintained, in respect of laptops, mobile phones and flash drives issued to officers; and
- Six (6) motor vehicles bear private number plates which is not an approved arrangement for public motor vehicles under the motor traffic regulation;

Due to the non-existence of an Assets Register, AGO was not able to ascertain the completeness and accuracy of the total physical assets and their value as owned and used by the department.

Management Response

No proper and up-to-date Asset Register.

- *We agreed with the audit findings and that is due to lack of capacity & manpower; and*
- *The management is aware of this weakness and has purchase a new robust Asset Management software.*

Lack of availability of payment vouchers relating to the purchase of a bus & four (4) laptops with the total value of K72,092.

- *This audit finding could not be ascertained as there is no reference made to payments details. However, we admit that due to the openness of Accounts section and lack of proper filling system.*

No Central Loan Register was maintained for laptops, mobile phones & flash drives issued to officers.

- *The functional managers maintained their own loan register for such office equipment; and*
- *The Administration Branch is tasked to create and maintain a Central Loan Register.*

Six (6) Motor Vehicles have private number plates.

- *We agree, however, Dept of Transport did not have the 'Z' plates available when request was submission for 'Z' Plates;*
- *The Administration Branch will ensure all six (6) vehicles identified by this audit finding have 'Z' plates during the first quarter of 2011; and*
- *The Data Entry officer is uploading existing raw data onto the software.*

Six Motor Vehicles have tinted glasses

- *We agree, but this is for security reasons as well as shades from the tropical sun.*

A motor vehicle was stolen in 2005. No Loss Report was furnish to DoF & Auditor-General

- *A part from furnishing Loss Report to the two agencies all legal procedures have been fulfilled/accomplished;*
- *The Administration branch is tasked to create and maintain a Loss Register; and*
- *With the new Asset Management System, in place now, this report can be generated easily.*

PROCUREMENT AND PAYMENTS PROCEDURES

AGO reviewed payments through random sampling of forty-one (41) transactions for 2010 with a total value of K571,550 which represented forty-two percent (42%) of all transactions incurred as at the time of audit.

For year 2009, the total value sampled expenditure reviewed was K4,840,055 which mainly covered expenditure on the Waigani Office Development Project funded through the Development Budget. The sample of payments for WODP covered ninety-seven percent (97%) of all expenses incurred under the WODP activity which was about thirty-six percent (36%) of all expenditure transactions incurred by the Department in year 2009.

Procurement and Payments 2010

The AGO review noted areas of concern where audit recommendations were made to improve on procurement practices engaged by the Department. The examination of selected payment transactions revealed the following weaknesses:

The department does not have a list of approved or prequalified suppliers to obtain three (3) quotations. The officers responsible for the function of procurement of goods and services do not maintain verbal and written quotation registers, in compliance with the statutory requirements. In addition the following were noted:

- Nine (9) payment vouchers with a total value of K114,506 were not sighted during the course of audit. These include five (5) payments made to Air Niugini totaling K74,507. The absence of these documents is a significant control lapse in the use of prescribed records required by financial procedures;
- In a total of eight (8) payments amounting to K86,248, the original invoices were not attached to the claims or payment vouchers to support decision to pay suppliers of goods and services. It was not possible to ascertain the propriety of these payments in the absence of the authenticated supporting documents;
- In seven (7) instances, with a total value of K99,089 documentary evidence was not sighted to validate receipt of goods & services from suppliers. It was not possible to confirm in audit that goods and services were received by the Department;
- In eleven (11) instances, with a total value of K137,141, ILPOCS were not authorized and signed by the Financial Delegates before being issued to purchase goods and services. AGO is unclear as to how goods and services could be provided under these circumstances. Goods and services provided include payment of consultancy fees of K13,000 amongst others;
- In eighteen (18) instances of payments totaling K260,996, payment processes such as examination and certification were not done and completed prior to raising payment cheques. Significant payments include airfares of K67,686 and consultancy of K40,000 amongst others. The lapses in payment process is not only in breach of financial procedures by accountable officers but also creates environment for unauthorized and fraudulent activities;

- In nine (9) instances, with a total value of K141,598, vendors engaged by the Department did not have any Certificate of Registration to confirm their lawful registration of business with the IPA (Investment Promotion Authority) and that they are Bona-fide Company's conducting that nature of business; and
- In eleven (11) instances, payments with a total value of K155,398, the vendors did not have the **Tax Compliance Forms** to justify and validate the GST charges imposed and paid to them. AGO was not able to confirm whether the GST has been remitted to the Internal Revenue Commission as required by these firms. These companies include a consultancy firm charging GST totaling K85,000, and an office equipment company charging K33,593.

Management Response

- *DPM do not have a list of authorized suppliers to obtain three (3) quotations from.*

We agreed with this finding that there are no authorized suppliers on file to obtain quotations from.

- *Administration Branch is tasked to organize this by way of media advertisement calling for tender beginning of 2011 fiscal year;*
- *Tender Notice to go out in the News papers by January, 2011 to engage service providers; and*
- *No verbal & written quotation registers are maintained by DPM.*

This is true; however, DPM does not accept verbal quotations of any amount because it is not subject to audit.

- *Since procurement is a decentralized activity, management will advise all Branch Heads to maintain their own quotation register;*
- *Deputy Secretary Operations will advise all EMT (Executive Management Team) members at its meeting; and*
- *Failure to obtained 3 written Quotations to procure purchases.*

This may be a negligent from our part but this will not be repeated in future.

- *For general regular servicing of vehicles, as per management decision vehicles bought from B/Motors be service by BM hence vehicles are taken there without obtaining other quotes;*
- *Administration Branch ensures quotations are obtained prior to regular servicing of vehicles; Service providers charge fees for quotations; and*
- *Administration Branch is now equipped with manpower & office space to effectively perform.*

Payment vouchers not sighted; nine (9) paid vouchers with a total of K114,505.

- *We will improve in our filing and records keeping as we now have the Accounts section sealed off from the general public within the office;*
- *Financial Management Branch is advised to create & keep a loan register of all paid vouchers; and*
- *Financial Management Branch is now sealed off with a permanent partition wall.*

Unattached Original Invoices; eight (8) paid vouchers with a total value of K86,248 did not have the original invoices attached to them:-

- *The audit working papers are not attached with the management report for us to verify this observation however corrective measures are instituted now to rectify this weaknesses;*
- *Financial Management & Administration personnel ensure goods/services received, certification is done & place on file/record; and*
- *Commitment Officer ensures that all authorization is obtained before a claim is committed & processed.*

No documentary evidence of Goods & Services received; seven (7) instances, with a total value of K99,089; no documentary evidence to validate receipt of goods & services from suppliers:

- Manager Finance to draft a template for goods/services received certification docket;
- In 2011 onwards ILPOCs will be raised to guarantee payment. Cheque payments will be made once goods & services are witnessed &/delivered; and
- Financial Management staff must ensure that FD authorized and sign the ILPOCs before it is issued.

Unauthorized use of ILPOCs; eleven (11) ILPOCs with a total value of K137,141 were not authorized and signed by the Financial Delegates.

- We agreed with the audit findings; due to the urgency of the goods/services the F. Delegate sometimes overlooked to authorized/ signing of these ILPOCs;
- The Corporate Services Division ensures that a file is created and maintain for all service providers' IPA certificates;
- Check with the listed ILPOCs and have them sign by FD; and
- Accounts staff are advised to create these files immediately as per recommendation of the audit report.

Lapses in Reviews & Certification of Payments; eighteen (18) paid vouchers totalling K260,995; no examinations & authorizations were done prior to issuing of payment cheques.

- Administration & Finance Branch are tasked to ensure all these compliance procedures are fulfill before forwarding requisitions for Sect.32 approval for payment.

Unregistered Suppliers of Goods/Services; nine (9) instances, with a total value of K141,598; vendors without authentic registration certificate.

- We always ask for and obtain IPA certificate copies of all new services providers in the first engagement however, we fail in maintaining a file for the certificates or to get copies & attached to the new requests requisition;
- The Accounts personnel ensure that Tax Compliance Forms must be obtained from vendors who are authorized to collect & pay GST to IRC; and
- Outstanding in Corporate Services Division w/plan is to formulate guideline/policy on Procurement & Payment and Budgetary processes.

Invalidated GST Charges; eleven (11) instances, payments made to vendors with no Tax Compliance Forms to validate GST charged.

- We disagree with this finding; for example Merits Enterprises Ltd. Invoiced amount is K16,667 but the payment is less the GST amount;
- We agree that those not registered with IRC to collect GST should not charge hence the vendors should be ethical in their operations;
- Accounts must create a register/file for all our service providers who are GST registered with IRC;
- All in all we accept AGO recommendation to encourage all accountable personnel to revisit/learn the statutory requirements (PFMA/FMM) related to:
 - Procurement;
 - Purchasing;
 - Receiving of goods/services;
 - Registration of claims;
 - Examining of payments; and
 - Certification of claims.
- We aim to improve on this issue during this year 2011.

WAIGANI OFFICE DEVELOPMENT PROJECT (WODP) AND UNRELATED EXPENDITURE

Details of Selected Expenditure

Dates	Chq#	Nature of Expenditure	Amount (K)	Total
15/4/09	22046620	Rearrangement Secretary's Office	283,000	
11/5/09	22046782	Office equipment	7,404	
11/5/09	22046783	Carpets Secretary's Office	2,915	
10/6/09	22047149	Locks Secretary's Office	1,605	294,924
18/12/09	22048541	Recarpeting Ps Ministers Office	25,299	
18/12/09	22048557	Installation of curtains Ps Minister	22,365	47,564
Other unrelated costs				
?	?	DPM X-mas party	19,800	
9/7/09	22047210	Fuel cost – July	5,000	
17/12/09	22048505	Legal cost – Final payments	14,600	
17/12/09	22048510	Legal cost – Final payments	7,500	
18/12/09	22048537	Catering Induction Course	7,102	54,002
Grand Total				404,490

A total of eleven (11) payments amounting to K404,490 were inappropriately charged to WODP during 2009. Expenditure to renovate the Secretary's office amounted to K294,924 of which proper procurement process in calling of quotations and awarding of renovation works were not done. A significant payment to a sole supplier costing K283,000 was paid without complying with the required procurement process. Furthermore, the full cost of the secretary's office renovation expenditure amounts to misappropriation of funds provided for WODP project. In addition irregular costs not related to office expenditure totaling K54,002 were also expended from the WODP funding.

AGO is concerned that the charging of expenditure to inappropriate votes is up surging the process of parliament's approval through the annual appropriation Act.

Storage Area at Marea Haus

Three (3) payments totalling K67,393 were for constructing a storage area under the Marea Haus. AGO observed that payments made included the purchasing of steel materials from Steel Industries Ltd for the purpose of constructing the storage area under Marea Haus. All the materials purchased went missing and according to the Project Officer, part of the missing materials had since been recovered and confirmed in audit. However, there is no Storage Area in existence under Marea Haus after incurring all the expenditure for that purpose.

Furthermore, there were two (2) other payments relating to the construction of another storage area at the Central Government Office (CGO) car park to shelter twelve (12) containers of office materials for Departments of DPM, PM&NEC and Bougainville Affairs. AGO observed that a storage shelter was constructed above only three (3) containers for Bougainville Affairs; and that the materials purchased with Chq. Nos. 22047451 & 22047264 totalling K11,800 to fully shelter the containers were not sighted.

Engagement of Grass Cutting/Cleaning Contractor for CGO & Marea Haus

AGO also found that WODP had engaged a contractor since 2007 to cut grass and general cleaning works around both the CGO & Marea Haus. A total of K111,000 had been paid so far, and the highest amount paid was K60,000 in 2009 for work done. Documentation of any Contractual Agreement being entered into was not surrendered for AGO sighting.

Despite a contractor being engaged to clean around both buildings, five (5) other payments totalling K14,900 were made to various individuals regarding the same work for which the contractor was engaged to carry out. AGO views such action as double dipping and possible fraud perpetrated by irresponsible management decision.

Management Response

Payments not relating to WODP; twenty (20) payments totalling K526,143 were made on various operational vote items for the Department; using funds allocated for WODP.

- Out of the twenty (20) payments, eleven (11) cheques are for purpose of Office space renovation hence management deems fit to utilize funds allocated to WODP;*
- We accept AGO recommendation that funds allocated for Development Projects should not be expensed on other purposes other than what it is appropriated for; and*
- Some materials purchased with the Department Cheques were recouped from the contractor's personal back yard to Central Gov't Office area.*

Storage Area at Marea Haus; four (4) payments totalling K350,393 for construction of storage for DPM files.

- We also agree that WODP funds used on other expenditure items apart from office renovation/improvement is mismanagement;*
- We agree with the anomalies observed by AGO. Payment & awarding of the contract was done by the former Secretary. The contractor as a good citizen failed to honor his paid commitment to deliver the final product which is the file storage;*
- We also understand that Secretary as the chief accounting officer of the department has the discretion to apply funds to where is urgently needed;*
- Management has written to the contractor expressing disappointment, as a result some materials bought for construction of storage facility were returned;*
- We will ensure to screen all interested contractors in future for any work; and*
- Most importantly Development Project funds must not be used for any re-current/department's purpose expenditure.*

Contractor for Grass Cutting/Cleaning at CGO & Marea Haus; five (5) other cleaners of CGO & Marea Haus when a Contractor S. Kandu was engaged since 2007.

- We agree, it was the failure of former WODP manager for no proper management which resulted in duplicate payments.*

[Contract documents between S. Kandu & Associate and the State was submitted to AGO with response, follow-up audit will be done in next audit (2011)]

TRUST ACCOUNTS

According to the Department, there are four (4) Trust Accounts maintained in its operations.

No:	Name of Trust Account	Bank
1	PNG Public Sector Workforce Development Initiative (PSWDI)	ANZ – Waigani
2	Pacific Regional Public Service Commissioner's Conference (PRPSCC)	BSP – POM
3	Institutional Housing Pilot – Subsidiary Account	BPNG
4	Public Service Institutional Housing Rental	BSP

PNG Public Sector Workforce Development Initiative – Trust Account

According to the Trust Instrument, the operation of this Trust account was for the period January, 2007 to June, 2008, unless an extension is requested by the Secretary of the Department. The status of the Trust Account was not ascertained due to non availability of accounts and records. The controls exercised over the management of the trust account and its funding and expenditure could not be ascertained in audit.

Pacific Regional Public Service Commissioner's Conference

As per the Trust Instrument, the purpose of the account was to hold moneys from the donors and PNG Government for financing the conference from 19th to 22nd June, 2006. The status of the Trust Account was not ascertained due to the accounts and records not being made available for audit.

Institutional Housing Pilot Project – Subsidiary Account

The purpose of the account as per the Trust Instrument is to hold monies appropriated in accordance with Section 16(2) of PFM Act 1995 for the Government's intended investment in institutional housing pilot projects.

There were *several significant payments* made during the year 2009 and first quarter of 2010. Refer to details below:

Payments made out of the Trust Account

Nature of Payments	Date	Cheque No:	Amount (K)
	02/02/10	719427	6,080,000
	21/09/09	716395	13,000,000
Direct bank transfer to new TD#. 10011641608	26/11/09	-	12,000,000
Consultancy Services	22/10/09	717340	401,500
Consultancy Services	24/12/09	718651	286,500
Consultancy	24/12/09	718650	149,500

- A total payment of K13,000,000 was made to a company to construct public servants houses. The following deficiencies relating to the transaction were noted:-
 - The Contract of Agreement documentation to build houses were not surrendered for AGO verification;
 - Documentation relating to the business profile of the company engaged for the service were not sighted during audit;
 - Architectural drawings and designs submitted to be approved were not sighted;
 - All specifications of houses to be constructed were not sighted; and
 - All legitimate correspondence and documentation such as bidding documents between the State and potential contractors were not also made available for AGO verification.
- A direct bank transfer of K12,000,000 was made on 26th November, 2009. AGO could not verify the transfer due to the non-availability of bank transfer documentation to ascertain the nature and purpose to whom it was made. The transaction appears to be irregular with lack of documentation to support payment.

Public Service Institutional Housing Rental – Trust Account

The purpose of the account was to hold monies received from tenants occupying institutional houses, units or apartments managed by the project trust. Relevant accounting records were not available for audit review.

Management Response

LAQ Sheet No: DPM-03/MS 2008 & 2009 issued on 15th December, 2009, this Questionnaire on Trust Accounts was not completed and returned as at the completion of audit on 21st May, 2010.

- *This observation could not be ascertained as a copy of the questionnaire is not attached for verification as well as the time period/span involved here is five months. The person whom the questionnaire was issued to may have forgotten; and*
- *We apologize for the negligent which caused inconvenience to your work. A kind reminder would help!*

Four (4) Trust Accounts maintained by DPM

- *The PSWDI office is located at PNGIPA hence auditors could not request for such documentations;*
- *The correspondences related to the extensions of this Trust Account were attached to the response; and*
- *One of the ongoing effective and efficient Project or Secretariat in the Public Service. All expenditures are well documented for audit purposes.*

Pacific Regional Public Service Commissioner's Conference.

Query on the status of the Trust Account

- *Yes, Trust Account was opened in 2006 to finance Pacific Regional PS conference held in that year in PNG. A phone call to the Bank (BSP) revealed that the account is not in operation but still open with zero balance;*
- *The management instructed the Accountant to ensure this account is closed immediately; and*
- *A letter is to be drafted for Secretary's signature to BSP, Paramount Banking authorizing the bank to close the account.*

Institutional Housing Pilot – subsidiary Account, a total of K31,917,500 worth of payments made & also a bank transfer of K12,000,000; non availability of payment vouchers and contract documentation etc.

- *We agree, we do not have all these vital documentations in our file/record;*
- *The management ensures that the fund is used in the intended purpose as specified by the Trust Instrument; and*
- *PSIHR was created to hold rentals collected from Institutional Housing. The rental collection is specifically for minor maintenance and utility bills of the units under this scheme*

ADVANCE MANAGEMENT

AGO found that registers for advances such as travel, cash and other forms of temporary advances paid by the Department were not maintained. It appeared that the Department lacked control over payment, recording and acquittal of Advances due to absence of these records. AGO did not sight acquittals relating to three (3) cash advances totaling K8,050 paid to meet the funeral expenses of former employees of the Department.

Management Response

No Advance Register was maintained;

- *We disagree, we maintained a manual advance register; and*
- *The Financial Delegates must ensure review the advance register regularly (fortnightly).*

Acquittal records were filed and retained;

- *We disagree as to what weaknesses this statement entails. The Department maintained acquittal records and often sends out reminder notes to those who forgot to acquit after the legal period; and*
- *Management will ensure a rep. from IT, DoF to teach and coach the Certifying Officer to enable/activate the PGAS acquittal procedures to be utilized.*

No acquittal sighted for three (3) cash advances totalling K8,050 paid out to meet funeral expenses of former employees.

- *The observation could not be ascertained as no reference of payments details are quoted for confirmation. However, it has been secretary's discretion to approve funeral expense for former employees who passed on.*

Management will ensure a rep. from IT, DoF to teach and coach the Certifying Officer to enable/activate the PGAS acquittal procedures to be utilized.

The Certifying Officer will utilize the option in the PGAS system to monitor and facilitate acquittals.

DEPARTMENT RESPONSE

The Department had responded to the reported findings in the audit management letter issued and their responses are stated correspondingly.

CONCLUSION

In general, there were no marked improvements in the system and operation of controls within the Department compared to previous years.

The results of my audit indicate that overall, there were significant weaknesses in the control framework. At present the control activities such as delegations, authorizations, reconciliations, segregation of duties, data processing and records keeping, management monitoring, etc, are not sufficiently robust to prevent detect or correct errors or fraud.

OFFICE OF PUBLIC SOLICITOR

OVERVIEW

The Office of the Public Solicitor is a constitutional office established by the constitution to provide legal assistance to the general public who cannot afford the high cost of legal services provided by private legal firms. The Office operates a trust account to cater for funds deposited by the clients and to make payments in accordance with the purpose of the trust account. The Solicitor General is required by the trust instrument to prepare the statement of receipts and payments annually and maintain such records as stipulated in the trust instrument and related regulations.

FINDINGS

FINANCIAL STATEMENT

Statement of Receipts and Payments for the year ended 28th February, 2009.

This statement is intended to show the Public Solicitor's Trust Account balances as derived from the records maintained by the Office and bank balance as at year end. The statement showed the trust account balance of K387,825 as summarized below:

Particulars	Amounts (K)
Opening Bank Balance (01/03/08)	426,988
Add: Receipts	504,742
Less: Payments	543,904
Closing Bank Balance(28/02/09)	387,825

- The Public Solicitors Office did not maintain proper accounts and records to prepare the Statements of Receipts and Payments. In the absence of the accounting records, the validity of closing account balance of K387,825 could not be confirmed and verified as correct due to the fact that the ledger balance is not represented by the cash at bank balance and cash on hand, if any. The closing balance of K387,825 is noted as a bank statement balance as at 28th February, 2009 because the information used to prepare the receipts and payment statements were derived only from the monthly bank statements;
- Even though a simple bank reconciliation statement was prepared based on the monthly bank statement figures and submitted for audit, no proper cash book was maintained to reconcile the cash book balance with the bank balance; and
- The Trust Account receipts and payments balance totaling K504,742 and K543,904 respectively could not be confirmed as correct due to the result that balances have not been derived from the individual accounts listed on the statement having independent account ledgers with opening and closing balances. Figures were taken straight from bank statements and do not represent independent cashbook or account ledgers.

Management Response

The management has acknowledged the audit findings and has implemented an electronic recording of cashbook entries to reflect a proper Trust Account Ledger.

BANK RECONCILIATIONS - Cashbook

Finance Management Manual Volume 2 Section 11.4 as well as the *Lawyers (Trust Account) Regulation 1990* Section 9(4)&(5) states the guidelines and procedures that should be followed when maintaining cash book and preparing bank reconciliations statements.

Cashbook

A review of records maintained in-respect of the cash book disclosed the following matters:

- A proper cashbook was not maintained by the organization. It was noted that individual account ledgers were not maintained for the funds received during the year under review. Consequently the cash book balance was not produced on a monthly basis as required;
- Receipts and Payments Journal maintained was deficient in that:
 - Journals were not balanced and amounts carried forward as an opening balance to the commencement of the succeeding month; and.
 - Instances were noted where direct credits and debits were not entered into the receipt and payments journals accordingly.
- A computerized copy of the account ledgers was furnished for audit. However, it was noted that the account ledgers were not maintained individually where ledgers showed the balanced amount and carried forward for the next month. Client trust ledgers were not updated to correctly reflect transactions for an individual client.

Bank Reconciliation Statement

A review of records maintained in relation to monthly bank reconciliation statements revealed the following discrepancies:

- AGO noted that proper monthly bank reconciliation statements were not prepared for the year 2009; and
- The bank reconciliation statement sighted by AGO indicate that monthly bank statements figures (debits/credits) were used to prepare the statements, thus opening and closing balances were bank account balances and not actual cash book balance. It is best practice to prepare the bank reconciliation statements using two (2) separate ledger balances and in this case, the cash book balance should be reconciled with the bank account balance.

Management Response

The management has acknowledged the audit findings and stated that the Office has established a proper cashbook and have started producing monthly bank reconciliations which is certified by a Senior Officer.

PROCUREMENT PAYMENTS PROCEDURES

Financial Management Manual Part 12, 13 15 & 17 and the *Lawyers (Trust Account) Regulation 1990* Part 3 Sec.(4) clearly states the guidelines and procedures that should be followed in the procurement and payment of goods and services.

A review of accounts and records relating to the payments totaling K543,904 for the year 2008 disclosed the following weaknesses in control procedures:

- Out of seventy-seven (77) payments totaling K543,904 made in 2008, thirty-nine (39) paid vouchers totaling K507,987 were not sighted during the review which is more than 93% of the total amount disbursed. Consequently AGO was not able to verify the authenticity and propriety of these payments in line with the purpose of the trust;
- Of the twenty (20) paid vouchers examined, seventeen (17) payments totaling K20,755 were processed and paid without sufficient supporting documents to substantiate their payment. Supporting documents in this case could be a copy of the final proceedings from respective Lawyers stating that the case has been closed and payments can proceed. Claims should only be passed for payment when all relevant supportive documents are attached; and
- In sixteen (16) instances, payments totaling K19,327 were made without being examined and certified correct by the appropriate financial delegates. Furthermore, there was no segregation of duties noted in the performance of financial duties.

Management Response

The management has acknowledged the audit findings and stated that the Requisition for Expenditure Forms (FF3) and the General Expense Forms (FF4) will be completed for Trust Account transactions, Copy of Trust Deed made available with its purpose known and understood and Duties segregated with the certifying officer and the authorizing officer.

REVENUE

Financial Management Manual Part 10 and the *Lawyers (Trust Account) Regulation 1990* Sec.7.1-7.4 clearly states the guidelines and procedures that a government organization should be following in the collection of public monies.

A review of the revenue totaling K504,742 for the year 2008 was carried out and the following irregularities were noted:

- Out of fifty-four (54) receipts that were recorded in 2008, seventeen (17) receipt copies were missing and not accounted for. The collections made, if any, have not been brought to account as required;
- The Office did not maintain a proper cash receipt journal. In some instances direct deposits are not receipted; and
- Deposit slips were not attached to the copy of the receipts.

AGO is concern that proper and complete revenue records were not maintained to adequately control collection, receipt and recording of public monies.

Management Response

The management has acknowledged the audit findings and have taken the following appropriate actions; To maintain a proper cashbook, Bank Statement to be reconciled to Cashbook each month, Client deposit slips to be filed with receipts, Receipt book to identify payment type and cheque and cash details to be recorded.

TRUST ACCOUNT COMPLIANCE

AGO review included tests to ascertain whether key provisions of the *Public Finance (Management) Act 1995*, Trust Instrument and the *Lawyers (Trust Account) Regulation* were adhered to in the operation of the trust account. The following irregularities were noted:

- Thirteen (13) payments totaling K22,128, were in breach of the trust account instrument. For instance, payments of travel allowances, airfares and hotel accommodation;
- A total of K8,245 was yet to be reimbursed from the operating account for payments made outside of the purpose of the trust account;
- Monthly bank reconciliation statements and summaries of accounts were not prepared and copies sent to FAS (Public Accounts) of the Department of Finance within fourteen (14) days of the end of each month as is required. In addition, annual receipts and expenditure estimates were not prepared and submitted to Secretary, Department of Finance as required;
- Trust ledgers maintained in respect of Client Account ledgers were not in accordance with the requirements as specified in the *Lawyers (T/A) Regulation* Section 10(2)(6);
 - AGO noted that the client trust ledgers were not updated to correctly reflect transactions for an individual client; and
 - A computerized copy of the account ledgers was furnished for audit. However, AGO observed that the account ledgers were not maintained individually where ledgers are balanced and carried forward for each succeeding month.
- Financial Management Manual Part 16 Section 14.1 specifically states that expenditure of moneys from Trust Accounts is to be processed on the prescribed Finance Forms such as Requisitions for Expenditure (FF3), ILPOC, and General Expenses (FF4). These prescribed forms were not used in conducting transactions from the trust account; and
- Documents kept in relation to the trust account were not in accordance to Part 4 of the *Lawyers (T/A) Regulation 1990*.

AGO noted that in all eighteen (18) instances, proper general expense forms (FF4), Requisition for Expenditure Forms (FF3) and related finance forms were not used to process payments. The prescribed forms therefore have not been used in processing financial and accounting information to provide proper control over monies of the trust.

Management Response

The management has acknowledged the audit findings and has stated that all Officers who certify and authorize expenditures have copies of Trust Deed and are well informed of its purpose and any restrictions contained within. Finance Branch to establish dialogue with appropriate section of the Department of Finance as and when necessary.

DEPARTMENT RESPONSE

The Office responded to the management letter issued on reported findings and their comments are stated accordingly.

CONCLUSION

The results of my audit indicate that overall, there are serious weaknesses in the control framework. At present, the control activities, such as delegations, segregation of duties, reconciliations, management monitoring, etc, are not sufficiently robust to prevent, detect or correct errors or fraud.

NATIONAL JUDICIAL STAFF SERVICES

OVERVIEW

The Judicial Services encompass the functions of Supreme Court and the National Court. The Supreme Court is the final Court of Appeal and has power to review all Judicial Acts of the National Court. It has such other jurisdiction and powers as conferred by the Constitution. The National Court has an inherent power to review any exercise of judicial authority and has other jurisdiction and powers as are conferred on it by the Constitution or any law except where jurisdiction is with the Supreme Court or the power to review is rescinded or restricted by the Constitutional Law or an Act of Parliament.

Section 3 of the *Judicial Staff Services Act* provides for the functions of the Service as follows:

- legal, secretarial and clerical staff to enable the Courts to operate efficiently;
- research, legal and other services for the Courts;
- an efficient Court reporting service;
- adequate library services for the Courts; and
- attendants, interpreters and other staff to ensure the efficient functioning of the Courts.

FINDINGS

CORPORATE GOVERNANCE

The Corporate Plan 2006 – 2010 has been reviewed and is in a usable and easily read format and sets the path for the four years. The setting of Key Result Areas of the National Judicial Staff Services is critical for delivering services in accordance with its Corporate and Strategic Plan. Establishing the corporate plan is a painstaking effort and the members of staff who have been involved in producing this plan ought to be commented for their effort.

A business planning process is an on-going process. Parts of the business plan need to be assessed and updated frequently- monthly, quarterly or twice yearly, but the entire business plan needs to be re-evaluated annually. AGO suggests that the setting of goals and the processes of implementations should be in parallel with the financial year.

Corporate Plan (2006-2010)

The Corporate Plan outlines the key result areas, strategic goals, activities, and performance measures of various divisions of the Services.

In the review of the Plan, AGO found that the performance indicators as outlined were not precisely specified and quantified to program objectives identified in the corporate planning process. Briefly, quantitative measures describe outputs in terms of how much, or how many and requires a unit of measurement to be identified. Performance measures on the timing aspect were also not specified in order to enable management to determine the time frame to which outputs would be produced /delivered.

Senior Management Meeting Minutes

Senior Management meetings were not recorded in any form of minutes and kept for reference and management follow-up. It would appear that decisions of management do not translate to departmental actions as no proper record is kept of decisions made and actions taken by responsible officers.

The maintaining of meeting records is a good governance practice that will assist management to account for its decisions.

The corporate plan is a guiding tool for the agency and needs to be precise, simple and manageable.

The apparent lack of proper minute records indicates that the management does not monitor its activities and institute appropriate action(s).

Management Response

Corporate Plan

- *The present corporate plan, the guiding direction for the organization for the short to medium term, is a good document as the essentials are there. However we accept that the finer details are in places not there where it matters. We intend to be more specific and in detail in writing the performance indicators and outputs/outcomes as recommended in the audit report when we do the new corporate plan for the next five (5) years which commences in 2011 and in-fact, work has already commenced.*

In practice the annual plan translates the corporate plan and it is at this level that we in the finer details of the performance indicators. We may have been seemingly negligent at the corporate plan level but in reality, nothing has been left to chance. Where and when it mattered, at the annual plan level, the discussion of performance indicators and performance reports have been specific. We will repeat what we have been doing in the annual plan when we revisit the corporate plan for 2011 to 2015.

Senior Management Meetings Minutes

- *We do accept that our recording and documenting of management deliberations in particular meetings and decisions have not been good. What is though certain is that management meetings have been held on regular bases to run the affairs of the organisation. The thing that was missing was consistent recording and documenting of the meetings.*
- *To be coherent and transparent in the manner in which the organization is being run a number of management committees have set up. The committees are:*
 - *Judicial Council. This is the governing body of NJSS. It met five (5) times in 2009 and two (2) times already in this year (2010). Minutes of the meetings are kept.*
 - *Chief Justice, Secretary and Registrar consultative meeting. This is the head of the three (3) arms of the organisation meeting. It meets monthly with pre-determined calendar and standing agenda.*
 - *Judges Committee. There are seven (7) judges committees covering different areas. These committees meet with pre-determined calendar and standing agenda.*
 - *Managers meeting. This is a meeting of managers. It is held monthly with pre-determined calendar and agenda.*

All these committees generate meetings and consultations which only signifies the concerted effort being put into strengthening and consolidating the agreed and approved governance processes and procedures.

Internal Audit and Audit Committees

The Internal Audit unit within a Department independently appraises the Department's activity by reviewing its financial operations and other activities. It serves as a managerial control in the operations of the organization.

AGO requested copies of Internal Audit reports; programs, plans, etc. however, these were not made available for audit verification. It appears that no Internal Audit work was undertaken and reports prepared during the period under review.

Management Response

The Internal Audit has not been functioning that well. The problem is two-folded. One is that it has never been fully staffed at any one time. Effectively it has been one man unit and in any case, it has never been manned consistently. The other is that it has and continues to remain under resourced.

Where is the internal audit now? In recognizing the importance of having a functioning internal audit a judges' Internal Audit Committee with its Charter has been set up to lead. To support the work of the Committee a capacity development exercise has been taken of starting with a recruitment drive to recruit the principal internal audit and his/her assistant and an appropriate training programmed to be delivered once recruited. A work plan for the next twelve (12) months that includes audit programmers, procedures, reporting, monitoring and evaluation is in the final stages.

All in all the NJSS management has accepted the observations made particularly the recommendations and appropriate remedial steps have or are being taken. Some of the corrective actions will be implemented when ready. Where the management response is considered inadequate do feel free to contact me or the Deputy Secretary. We will be too willing to provide further information.

STATUTORY REPORTING

Quarterly and Annual Financial Management Reports

As required in Section 5 of the *Public Finances (Management) Act 1995*, Departmental Heads shall submit a report on financial management quarterly after end of each quarter and an annual report, including overall assessment of the Department at end of each fiscal year to the Secretary, Department of Finance.

NJSS has not produced annual financial management reports for the years 2008 and 2009 for submission to the Secretary, Department of Finance.

Annual Management Reports

As stipulated in Division 4 Section 32 (a) of *Public Service (Management) Act, 1995* "Each Departmental Head shall by 31st March in each year, prepare a report on the attainment of the planned objectives of his Department for the year ending 31st December preceding." It is further elaborated in Public Service General Order 8.12 that the Departmental Head should forward to Secretary, Department of Personnel Management a report on the work and achievements of his Department in relation to the Corporate and Annual Management Plans.

The NJSS has not prepared and submitted the reports for the years, 2007, 2008 and 2009 to Secretary, Department of Personnel Management.

NJSS had failed in meeting its statutory obligations under the *Public Finances (Management) Act* and the *Public Service Management Act* by not producing its annual reports.

Management Response

When it comes to risk management and fraud control plan covering all the businesses of the organisation it is agreed that risk management has not been a strong feature of the organisation. Only IT Division has a risk management plan while other Divisions though have rudimental risk plans are not strong enough to be relied upon to provide the safety net including a secured environment the organisation needs to operate in.

NJSS management though is conscious of the evils of fraud and corruption and as much as endeavors to test and minimize its occurrence at the operational level there exists no control plan (for fraud and corruption) for the management to follow.

We are hopeful that there will be a single concerted risk management plan not far into the distant future covering all the businesses of the organisation. We say this with some confidence knowing that the recently established internal audit committee, one of the committees in the hierarchy, has on its agenda the need for a risk and fraud control plan for NJSS.

BUDGETARY AND FUNDS CONTROL

Expenditure incurred by NJSS is subject to the annual appropriations made by Parliament through the *Appropriation Act*. The authorization to commit or spend is provided by Warrant Authority (W/A) which states the cash ceilings for a month's expenditure. The funds from Warrant Authorities are issued through Cash Fund Certificates (CFCs) which are signed by the Departmental Head and indicate the limits up to which funds may be committed and spent by the CFC Holdings.

AGO was not provided information and supporting records including relevant documents in relation to the budgetary and expenditure control including revenue activities of the NJSS. AGO therefore was not able to ascertain whether:

- Cash flow and budgetary documentation was prepared;
- Revenue estimation was realistic;
- Expenditures incurred followed legislative requirements;
- Any breach of the Finance Management Manual has occurred;
- Expenditure was made in accordance with the Appropriation Act; and
- Management controls over expenditure were sound.

Management Response

We accept the observation that there were disparities in the account records kept by NJSS on one hand and the Department of Finance on the other. Part of the problem was that NJSS system has been operating a stand-alone system and was not aligned with the general ledger operated by the Finance Department and proved difficult to reconcile accounting records. The outstanding discrepancies identified in the audit report are all being addressed as recommended.

BANK RECONCILIATION - (Drawing Account)

Part 3: Division 1: Para 4.7 of the FMM; stipulates that all Heads of Government Departments and Statutory Authorities are to ensure that their bank accounts are reconciled on a monthly basis. Bank balances should be reconciled against the Cashbook balance and the reconciled Cash Book balance should be agreed with the Appropriation Ledger for National Government, Provincial Government and Local-level Government transactions. Copies of Bank Reconciliation Statements should be forwarded to Accounting Frameworks and Standard Division, Department of Finance no later than fourteen (14) days of the close of each month. It is also provided that failure to comply with the above may necessitate withholding further issuance of Warrant Authorities.

AGO was informed by management that the officers from the Department of Finance were recently engaged to assist in the process of clearing all outstanding bank reconciliations from 2005 to-date. As at the time of audit in March, 2009 the bank reconciliations were still in draft form and were kept by officers from the Department of Finance.

Management Response

The outstanding bank reconciliation from 2005 is recognized as major problem. A work plan hence has been developed to address it. The work plan includes working with the Department of Finance officers to up-date the bank reconciliations which has long started and is near completion. To fast track the reconciliation process NJSS has opened a new Drawing Account freeing the old account for the work to proceed freely. In the work plan a register has also been developed to assist with the up keep of an accurate record of daily transactions and these lists:

- *The following claims processed and cheques issued;*
- *Transfers from Business Management Account to Operational Account;*
- *Other transactions listed on the bank statement that are not cheques or transfers; and*
- *A quick funds reconciliation that summaries the listed transactions. An additional manual reconciliation template has been designed for use by the reconciliation officer. The work plan has also targeted for an improved working relationship with the bank so that reconciliation can be done smoothly and in a timely manner. The recommendations in the audit report are being addressed as described above.*

ASSETS MANAGEMENT

The maintenance of an Assets Register by the National Judicial Staff Services is a statutory requirement as per the Finance Management Manual Part 32.

All assets include leased assets and buildings, plant and equipment; motor vehicles, furniture, office equipment and attractive items e.g. calculators and specialized items. The function of effective management and safeguarding fixed assets is made possible by an assets control register.

NJSS has maintained a Central/Master Assets Register for the last six (6) years. As at the date of the audit, NJSS did not present a Central Asset Register which supposed to have recorded all the assets owned, used and held in the custody of NJSS throughout the country.

Assets Registers

NJSS maintains four (4) main assets registers by different sections at Waigani headquarters. The assets registers are not incorporated into a central/master Assets Register for effective monitoring and control.

Central or Master Asset Register

The central/master asset register is currently being updated through an Asset Management System (AMS) project initiated in the year 2006 by the Law and Justice Sector Program (LJSP) and the programme is expected to be up and running before the end of year 2009.

AGO noted that the new AMS would greatly enhance control over the asset management once it is operational.

Verification of New Assets

A sample of assets with a total value of K2,012,446 purchased in year 2009 was extracted from expenditure transaction details. These assets where registered could not be traced to the registers currently maintained due to lack of vital information in the register records.

Management Response

The observations made with regard to asset management have been noted. A central/master Asset Register has been created and details of every asset purchased are being entered as and when it occurs. Likewise asset disposed of is up-dated on the master register.

PROCUREMENT AND PAYMENTS PROCEDURES

AGO reviewed the internal controls on the effectiveness of procurement and payments functions carried out in line with financial procedures.

AGO tested sample of thirty-seven (37) payments totalling K2,025,422 on a random basis with payments ranging from K2,000 and above.

Motor Vehicle Purchase

NJSS purchased a total of nine (9) motor vehicles costing K12,184,414 of which the following anomalies were noted:

- The vehicles purchased were not properly recorded as an assets register was not maintained;
- Seven (7) motor vehicles purchased with a total value of K1,122,841 had only one (1) quotation obtained instead of three (3) quotations;
- Vehicle purchased for the value of K144,593 could not be established as the payment vouchers were missing; and
- Payment vouchers for eight (8) motor vehicles did not have any receiving documents (receipts).

Other Payments

AGO review of other related payments noted anomalies in the following:

- A supplier invoice was not attached to substantiate a payment of K35,000;
- In twelve (12) instances of totalling K1,286,131, receiving documents or acknowledgement of goods or services were not evident;
- In eleven (11) instances of payments totalling K553,540, tax compliance forms were not sighted to justify the GST being charged for the goods supplied;
- An amount of K83,539 was altered to K51,081.80 but was not effected so when details were entered in PGAS indicating an unapproved over payment;
- An amount of K5,791 was paid for various office equipments which was K969 more than the amount in the transaction details. The actual bill which corresponded with the price of goods in the invoice was K4,823 indicating that an over payment had been effected; and
- A payment of K4,300 was made based on a pro-forma invoice which is improper.

Management Response

We accept the findings of the audit report and since that report a number of corrective measures have been put in place:

***Firstly**, a financial procedure manual has been drawn up detailing amongst other things “the dos and don’ts” in procuring and paying for goods and services. This is backed up with tight control over documentation and approval process with the Chief Justice at the helm.*

***Secondly**, proposal to set up an in-house tenders’ board is on foot. Once set up it will assist to further control and manage procurement and purchase of goods and services.*

***Thirdly**, to minimize opportunities for fraud and corruption arising and at the same desirous for cost-effective deals the NJSS management has put in place a policy for procurement of goods and services to come from only agreed and approved service providers. This procurement arrangement has been applied to procurement of office supplies and equipment, IT hardware, software and accessories and vehicle purchase and maintenance. In the near future the policy will be extended to cover hire of vehicles and hotel accommodation as well.*

For the specific incidences of irregularities identified in the audit report the explanations were these:

- No APC approval obtained for a K39,930 worth purchase.

The item purchased was brought in from Australia by the supplier as there was none available in the country. This explains why there was only one quote. There was an oversight as it regards no APC approval.

NJSS accept the recommendation calling for strict adherence to the PFMA and will comply with the procurement and payment processes in the future dealings.

- No minor contract made for a purchase valued at K71,031.

There was only one supplier who had required quality and quantity of wooden furniture at the time of need and hence transaction took place forthwith. The need to enter into a minor contract agreement was unfortunately side-stepped.

As in one (1) above NJSS accept the recommendation calling for strict adherence to the PFMA and has agreed to comply in the future.

- No three (3) quotations obtained for five (5) purchases totalling K94,445.

In most purchases three (3) quotations are obtained wither in writing for large amounts or verbal for small amounts before paying for the good/services. Where this rule of obtaining three (3) quotations before purchase does not apply is where there is only one or two (2) quotations suppliers or no supplier in the country. Purchases of bird of paradise emblem and Cummins generator listed in the Audit Report fall into this category. Other time holder where a quotation is not is not obtained prior to purchase is where a constitutional office holder wishes to use his/her allowance under the SRC Determination t purchase a vehicle. Such was the case for the purchase of a vehicle for Justice cited in the Audit Report. At other times a wanted item may be required immediately and in situations like these items are purchases without a quote and this has happened in four (4) of the cases cited.

The recommendation to strictly follow the Financial Instructions in the PFMA is noted and NJSS will continue to comply.

- No supporting document attached for a vehicle hire for K15,202.

Documentation for hire of vehicles in connection with official travel is usually done at the headquarters in Waigani and when this happens all the necessary documentation is properly done. In this particular instance cited the officer who hired the vehicle travelled without approval sand hence little consideration was given to the need for proper documentation. The officer concern was disciplined.

The recommendation for strict adherence to proper process and procedures is accepted and will comply.

- No supporting payment vouchers attached for K14,674 payments.

There are seven (7) national court locations around the country. For cost effectiveness and ease administration each location has an impress account to purchase the most basic items to run the daily operations of the court whilst for major expenditure items the purchase is centralized at the head-quarter, Waigani, for all centers. Good procurement practices at provincial locations are at times not given recognition it deserves not intentionally but by ignorance. It does not occur to those doing the purchasing that providing supporting payment vouchers and keeping records of payments is important. The cited case was a good example.

The recommendation calling for proper record keeping of paid vouchers is noted and will comply. In the meantime appropriate training has been given to relevant staff and in the future regular refresher courses will be programmed.

- General comment

NJSS has already started to put the 'house in order' when it comes to procurement and payment practices. These are some of the things either in place working or being worked on to come into effect:

- As already mentioned three reputable suppliers for office supplies and equipment have been identified and purchases are now being made thru them, at least for the Port Moresby operation. This may not be possible in the provinces as there may not be that many suppliers to choose from;
- Ran training in basic finance management course for finance clerks based in the provinces covering many aspects of good management practices including training in procurement and payment processes and procedures;
- A proposal to set up an internal tenders board to control and manage financial expenditure has been drawn up waiting to be considered by relevant authorities; and
- A consultant has been engaged to do a gap analysis in the way finance is managed and a report has been done and is awaiting consideration by the relevant authority. The report if adopt will provide the bases for revamping how business is conducted in NJSS.

HUMAN RESOURCES MANAGEMENT AND PAYROLL

Human resource management processes encompass the day to day management and administration of employee entitlements and payroll functions. The costs of salaries and wages represent one of the single largest expenditure items in the GoPNG budget and as such the control framework required over its management is significant.

Salaries and Wages

The total salaries/wages paid to employees at year end 2009 (As per Alesco/Concept Payroll) is shown below:

Salaries/Wages paid as at 31 December 2009

Salaries & Wages	4,176,072
Tax	1,104,321
Overtime	1,333,163
Leave expenses	74,503
Allowances & Benefits	604,917
Superannuation	221,926
Deductions to finance organizations	716,521
Eda Ranu/Sewage & Agriculture bank land	19,036
Total	8,250,459

Overtime

Audit noted that the second biggest expenditure incurred (as shown in the table above) is overtime totalling K1,333,163 or sixteen percent (16%) of all employees emoluments expenditure incurred at year end 2009. The overtime expenditure was found to be claimed by security staff and groundsmen at court houses:

- Officers had overtime claims greater than K50,000 totalling K166,026;
- Officers had overtime claims greater than K40,000 totalling K139,288;
- Nine (9) officers had overtime claims greater than K30,000 totalling K318,579;
- Eight (8) officers had overtime claims greater than K20,000 totalling K200,467; and
- Nineteen (19) officers had overtime claims greater than K10,000 totalling K278,003.

An AGO test of controls surrounding overtime payments procedures revealed that:

- Individuals were claiming overtime in bulk hours, (more than three (3) to four (4) sheets) filled with hours claimed;
- Proper time control or recording mechanism was not used to verify the actual times worked (copy of time cards) by the officers concerned;
- Request forms and/or Authority by management for overtime worked by the concerned officers were not evident to indicate management approval; and

- Management overriding instructions in payouts of overtime claims.

Payroll Reconciliation

The payroll reconciliation was kept up to date as the Alesco system reconciles itself automatically before sending to payroll. The system is providing for adequate control/over payroll deficiencies such as duplicate or unauthorized claims.

Promotions

There was no Selection Committee Panel established in relation to promotions and appointments to vacant positions and no personnel strategy to ensure that only the right people were selected and employed. From the ten (10) sampled employee files inspected the following were noted:

- Five (5) employees did not have tax declarations filed;
- Five (5) employees did not have adequate qualifications fitting for the positions they occupied; and
- Six (6) employees did not have dependants supporting documents (Birth Certificates).

Maintaining Records

One of the important aspects of the human resource function is to maintain proper employment records on salary base, HDAs, recreation leave credits, No. of dependents, etc. that demonstrate compliance with applicable human resource statutory and regulatory requirements, agency policy and agreements with other parties. Up to date records in respect of individual employees' salary history are vital and should be properly maintained.

A sample of eleven (11) senior officers were tested and the following discrepancies were found:

- Personal files for all eleven (11) officers did not have tax declarations filed for purposes of claiming accurate tax rebates;
- A senior officer was employed without a valid employment contract and continues to receive entitlements paid to contract officers;
- A Category "B" contract Officer's DMA was increased from K7,000 to K15,000. Under the new restructure, category "B" contract officers are only entitled to K7,000 DMA and Category "A" at K15,000. The increased allowance appears to be over and above the entitlement due; and
- Birth certificates of dependants for an officer were not attached to substantiate warrant claims for recreational leave.

Management Response

The general comment about the need to have periodical training on record keeping is agreed and we will endeavor to have it included in 2011 training program.

With regard to the specific findings of the audit report only in one instance (of the findings) we accept the ruling that an officer without the appropriate qualification, skill and experience was promoted. Stringent control is now being applied with the Chief Justice himself in charge and the chances of promoting and recruiting staff not on merit happening again is looking bright. As to the finding of tax declaration forms and in fact it would be among the first lot of documents to be filed. We hence suspect that the audit team may have consulted the current files whilst the tax declaration forms were in the closed files.

The statements of earnings were not received from the department of Finance for the years of audit and that was the reason why the audit team could not find the statements on files, as it regards the assertion that statements of earnings were not filed.

AGO comment:

Please be reminded that as at the time of audit, the files reviewed did not have the Tax Declarations in them – A STATEMENT OF FACT.

Tax Declarations need not be filed away in closed employment files. They should always be kept in the current E/files. Note that No. of dependents declared change through deceased; or children's ages change that affect the amount of tax each employee pays each fortnight or yearly.

Employees Statement of Earnings for each calendar year usually comes from IRC, not Department of Finance.

TRUST ACCOUNTS

Sheriff's Trust Account

A new trust account was opened to cater for the current year transactions whilst the existing account was planned to be used to facilitate the previous year's transactions.

The trust deed was not made available although requested for during audit. The bank statement for January was also not made available for audit review. AGO therefore was not in a position to ascertain the validity of transactions processed through this trust account.

Registrar's Trust Account

The trust deed was not made available for audit review although it was requested for. Consequently, AGO was not able to ascertain the legitimacy of transactions conducted through this trust account.

Management Response

There was no response provided as at the time of preparing this report.

ADVANCE MANAGEMENT

With reference to Part 20:1 of the Financial Management Manual (FMM) advances to an officer are allowed only for the following purposes:

- Maintenance and operations of a cash office;
- Travelling expenses;
- Payment of salaries, wages, and allowances;
- Recreation leave or furlough leave due to the officer;
- Payments that cannot conveniently be made at a cash office; and
- Any other matter approved by the Secretary for Finance.

In addition, an officer shall not use an advance for a purpose other than that for which it was made.

Advance Register

NJSS maintains an advance register manually and then transfers the data to the computer. All the various types of advances are recorded in this advance register. A review of the payment, recording and acquittal of advances disclosed the following concerns:

- The advance register lacked completeness in the following vital information on details of an advance, follow-up actions required for acquittal of advances and notice to recover from salary were not provided for in the register;
- There were five hundred and eighty six (586) un-acquitted advances totalling K592,210 as at 31st December, 2009; and
- From a sample of ten (10) advance holders, there were additional advances obtained whilst the prior advance(s) remained un-acquitted. An advance holder did not acquit the prior (first) advance however, was able to get twelve (12) additional advances.

The very high number of un-acquitted advances each year resulting from the lack of monitoring and control of advances paid out to officers indicates a serious control failure by management.

Management Response

We accept that there has not been any systematic approach taken in the past to keep an advance register and maintain a regular follow – up on acquittals. This lack of attention has been recognized and a guideline on advance management has also been included in the newly created Financial Procedures Manual discussed earlier in this NJSS response to the audit report. Not only that a PGAS advance Register has been created and is now functioning.

DEPARTMENT RESPONSE

The NJSS has responded to the audit findings reported in the management letter issued and their comments are stated accordingly.

CONCLUSION

In general, there is minimal improvement in the system and operation of controls within the Services (NJSS) compared to previous years.

The results of my audit indicate that overall, there are notable weaknesses in the control framework. At present, the control activities such as delegations, authorizations, reconciliations, data processing, segregation of duties, management monitoring, etc. are not sufficiently robust to prevent, detect or correct errors or fraud.

DEPARTMENT OF CORRECTIVE INSTITUTIONAL SERVICES

OVERVIEW

The Department's mission is to enhance the protection and well being of society by providing secure, efficient and human containment of inmates in an environment designed to rehabilitate offenders so they can eventually return to the community as law abiding citizens.

The Department is expected to fulfill that mission in the context of the *Correctional Service Act* and through its exercise of the following functions:

- Provide management and control of Correctional Institutions as required by law;
- Formulate policy on Corrective Institutions and the care and rehabilitation of persons entrusted to Corrective Institutions by the judicial system;
- Take custody and control of all persons committed to correctional institutions upon warrant or order of a court or the custody of the Service by any other competent authority under any law in force in the country;
- Provide secure, efficient and humane correctional facilities and to manage and maintain them in accordance with the Act;
- Develop and provide meaningful educational training and rehabilitation programmes for the benefit of detainees; and
- Provide a commitment to the ongoing pursuit of excellence in correctional management.

FINDINGS

CORPORATE GOVERNANCE

Corporate governance is the way in which an organisation is controlled and governed in order to achieve its objectives. The *Public Service General Order No.8.11* states that: *"the Departmental Head shall have in place at all times a Corporate Plan providing the future business strategies and planned objectives of his/her Department over a 3 to 5 year period. Based upon the Corporate Plan, and the budgeting approach to managing his Departmental resources, the Departmental Head shall provide Annual Management Plans to meet requirements of the budgetary cycle."*

Although the Correctional Service had a corporate plan for the period 2006 to 2010, annual managements plan were not prepared and available for the period under review.

Management Response

Management will ensure that performance indicators that are clearly specified, attainable, realistic, quantifiable and precisely defined in future corporate and annual plans. Since 2007 and 2008 Correctional Services had audit visits by your Office and Correctional Service management has undertaken work on annual reports and is now ready for publishing. Copy should be made available for your office by September, 2010 when it becomes available after print.

STATUTORY REPORTING

Quarterly and Annual Financial Management Reports

As required in Section 5 of the Financial Manual, Departmental Heads shall submit a report on financial management quarterly after end of each quarter and an annual report, including overall assessment of the Department at end of each fiscal year to the Secretary, Department of Finance.

The Corrective Services has not produced annual financial management reports for the years 2007 and 2008 for submission to the Secretary, Department of Finance as required.

Annual Management Reports

As stipulated in Division 4 Section 32 (a) of *Public Service (Management) Act, 1995* "Each Departmental Head shall by 31st March in each year, prepare a report on the attainment of the planned objectives of his Department for the year ending 31st December preceding."

The *Correctional Services Act, Part III Section 15(1) 1995* also requires that "the Commissioner shall before 31st March in each year, prepare and give to the Minister for presentation to the National Parliament a report on the work of the Service for the year ending on the preceding 31st December with such recommendations for implementation as to the Commissioner seem proper".

The Corrective Services has not prepared and submitted the reports for the years, 2007 and 2008 to Secretary, Departments of Personnel Management and the Minister for presentation to the National Parliament.

The Department had failed in meeting its statutory obligations and breached the requirements of the *Public Finances (Management) Act* and the *Public Service Management Act*.

Management Response

Reporting on a quarterly basis is a government requirement set by the Department of Treasury which Correctional Service management has been complying with. Quarterly reports 2008-2009 have been submitted to the Treasury office. The Commissioner's office has copies of all quarterly reports and contact can't be made with Treasury to confirm these reporting and quarterly budget reviews.

Annual reports – there is no format for annual financial reporting and it is suggested that a meeting should take place between your office and Treasury to determine the annual financial reporting format to ensure we cover what is required by the Auditor-General's Office and Department of Treasury.

Correctional Services quarterly reports to Treasury and Finance address all major programs, outcomes and outputs.

On a regular basis the Minister for Correctional Services has meetings with Correctional Services management for an update on the development programs or projects and the general management of the Agency. Correctional Services will report to the Minister as required by the Correctional Services Act.

ASSETS MANAGEMENT

In accordance with the Financial Management Manual (FFM) Part 32 Paragraph 1, the purpose of Asset Management is to ensure that accountability in relation to Departmental assets is observed and complied with.

Asset Register

FMM Part 32 states that all assets purchased and used by the department's various personnel should be recorded and controlled through an Assets Register.

AGO observed that assets acquired by the Department have yet to be properly recorded in Asset Register(s) especially furniture and office equipment. The Department has engaged a consultant draw up a policy on Assets Management and the action taken is commended.

Separate asset register should be kept for each asset categories with all the required information recorded. The Corrective Services however, does not maintain a comprehensive asset register for all its assets.

Vehicle Management

Vehicle fleet records were not maintained to provide control over the use and safe custody of vehicles. An Audit review of other related records revealed the following concerns;

- Two (2) vehicles (ZGB 991 and ZGY 733) were currently being put through the process of disposal by the Central Supply and Tenders Board. Their existing condition was not confirmed in audit;
- Ten (10) motor vehicles bear private number plates; contrary to government policy. Management action is required to remedy this situation;
- Vehicle ZGC 349 was placed for repairs due to an accident. However, no accident report was available for audit verification;
- Fourteen (14) new vehicles were purchased in 2009 at a total cost of K1,247,319 without prior approval from the Tenders Board. The process of procurement is unclear and needed to be checked by over sight authorities; and
- Vehicle maintenance was K1,558,756 for the period from October, 2008 to August, 2009; which is a significant cost in operational funds.

Management's Response

Vehicle ZGC 349 is a 25 seater bus for commuting HQ staff to and from work. This vehicle was involved in an accident with a taxi. The Correctional Services Officer involved in the accident was unable to produce an accident report and was disciplined by being surcharged and the cost of the repairs will be deducted from his salaries.

As per the recommendations, management of Correctional Services has introduced an asset register and is currently populating this database with the Agency's assets. Management has also undertaken to have a vehicle register installed in 2010.

PROCUREMENT AND PAYMENTS PROCEDURES

Fundamental Principles of Procurement

The basic principles of the government procurement system require that procurement must be based on:

- Value for money;
- Transparency;
- Effective competition;
- Fair and ethical dealing; and
- Efficiency and effectiveness.

All payments made by the organisation should adhere to these five (5) principles.

Minor and Major Procurements

The definition and requirements for minor and major procurement are outlined in Part 12 and Part 13 of the Financial Management Manual. Showed below are the summarised limits, viz;

Summary of procurement processes

VALUE	PROCESS
Less than K5, 000	Three verbal quotations
More than K5, 001 – K300, 000	Three written quotations
Between K50, 000 – K300, 000	A minor contract agreement
More than K300, 000	APC or Section 61 approval and Tenders

All quotations, whether it is verbal or written, should be registered in a Quotation Register. Authorization for payment must be done by the Section 32 officer before funds are committed by the financial delegate.

There were eleven procurement officers for each section in Correctional Services headquarters. A sample of cheque payments were selected from the detail transaction report from October, 2008 to August, 2009. The following anomalies were noted from the samples selected:

- Thirty-four (34) payments totalling K886,607 were made based on quotations and pro-forma invoices from supplies or payees;
- Less than three (3) quotations were obtained for twenty (20) payments totalling K410,817. The value for money considerations cannot be ascertain in the absence of comparable quotes;
- Two (2) payments totalling K90,491 were not initialed after alterations were made to increase the cheque amounts. This increased amounts have not been validated by an approving officer;
- Five (5) payments totalling K35,026 were made without being examined and certified before effecting payment. The checking process have therefore not been carried out as required;
- Payment voucher for Cheque No. 313150 with a value of K29,997 could not be located, for which the authenticity of payment could not be ascertained;
- A payment of K74,198 was not committed by the commitment clerk, and yet payment was processed indicating a failure in funds control process;
- A payment of K33,601 had no FF3 requisition form attached to the payment vouchers to indicate approval of expenditure incurred. It is possible the payment was processed without management approval;
- An amount of K7,998 was made to the wrong supplier for goods supplied indicating a failure in enforcing proper checking and certification process; and
- Ten (10) payment cheques totalling K163,002 were for outstanding payments relating to the previous year, 2007 indicating lack of control in proper screening process to validate genuine claims.

In addition, the Accounts Section has not maintained a quotation register nor have in place a procurement and payment policy.

Management's Response

Correctional Services has an internal procurement process that facilitates payments from each institution which emphasis the use of ILPOCs. Commanders and divisional heads were not allowed to commit Correctional Services for any transaction until an approval is obtained from the respective Assistant Commissioner. Following previous audit visits of 2007-2008, management has undertaken many steps to improve the procurement process and has now developed an internal procurement manual for its use.

Correctional Services tries to be compliant with the PFMA by obtaining three quotes on every purchase, however, with locations where there are only sole suppliers to provide the goods or service sole suppliers are engaged. As per the recommendation Correctional Services undertakes to:

- Obtain three quotes on every purchase provided there is more than one supplier available in that jail.
- Payments to be made on original invoices
- Quotations should be recorded in the quotation register.

As per the recommendations, Correctional Services undertakes to ensure future cheque cancellations are initialed and authorized. As per the recommendations, Correctional Services undertakes to ensure future payments are examined, verified and certified before processing.

Correctional Services has a filing system for all its payments in which payments are filed numerically and are kept away in the strong room. Only authorized finance staff and the internal auditor have access to the room. Vouchers removed are replaced by forms indicating the reason for removal of the payment vouchers. Management undertakes to implement the recommendation.

Correctional Services has always ensured that thorough checks by examiners and certifying officers are done before processing payments to prevent incorrect payment. As per the recommendations, Correctional Services undertakes to ensure future payments continue to be examined, verified and certified before processing.

Overall on procurement, Correctional Services management noted all the recommendations and the management has undertaken these following necessary actions:

- *Registration of every requisition is undertaken by each activity manager. The registration process validates that funds are available within the approved cash certificates issued monthly by Treasury.*
- *A procurement/finance manual for internal use has been produced for use and is before management for approval.*
- *Correctional Services has recruited a qualified budget officer which will fill the vacant position of budget officer and help in managing procurement and funds.*

ADVANCE MANAGEMENT

The FMM Part 20, paragraph 1 and 3 state that an officer can only be issued advance(s) for the following purposes:

- Maintenance and operation of a cash office
- Travelling expense
- Payment of salaries, wages and allowances
- Recreation leave or furlough leave due to the officer
- Payments that cannot conveniently be made at a cash office
- Any other matter approved by the Secretary for Finance

In addition, paragraph 12.2 and 14.2 state that the authorizing officer or financial delegate will maintain a register of advances to provide for the requirements set out in the financial management manual.

Advance Register

The manual advance register was poorly maintained in that the following matters of concern were noted:

- The register had no information for FF4 reference number and date, designation of officer receiving the advance, and date of acquittal;
- Not all advances issued from October, 2008 to August, 2009 were recorded in the advance register;
- All types of advances were recorded in one advance register without separating advances of travelling, cash advances, etc.; and
- The purpose of the advance was not clearly stated. For instance, under the description of cash advances there were three (3) instances; where names of officers were written as the reason for getting the advances.

Acquittal of Advances

The total value of advances issued from October, 2008 to August, 2009 was K173,974 as at the time of audit on 19th August, 2009; out of this payment, advances totalling K98,498 remained outstanding. In addition the following matters of concern were noted:

- Advances labeled as complete were incomplete. For instance, nine (9) cash advances paid to the Paymaster were not fully acquitted. Cheque butts were the only documents filed in the acquittal folder. No other supporting documents were attached;
- Two (2) acquittal forms FF16 and FF108 were not signed and completed by the advance holders. In addition, an acquittal did not have the ticket butt attached to confirm that the trip was taken by the officer concerned;
- In two (2) instances, the first notice for acquittal was issued three (3) months after the duty travel was taken. The prolonged delay in follow-up is a concern;
- The Minister was issued two (2) travel advances totaling K8,175 for two (2) different trips which were taken at the same time. One trip was to Hong Kong from the 17th to 24th August, 2009 and the other trip was to Mt Hagen from 19th to the 21st August, 2009. The travel allowance received is not consistent with the travel itinerary; and
- AGO observed that second advances were issued to officers who had outstanding advances to acquit. The Paymaster is also responsible for the management of advances which is not being effectively carried out due to the officer performing other payroll duties as well.

Management's Response

Advance register is maintained through the PGAS system. The agency does not keep manual register for this purpose. As and when an advance is paid, it is being registered in the PGAS systems and as they acquit the register is cleared. Correctional Services is very proactive in taking action in clearing outstanding advances and an ongoing effort is being sought through the CEO to support the effort of improving the advance register.

As per the recommendations, Correctional Services management undertakes to take proactive actions in maintaining the advance register on a monthly basis and the CEO to sign off on acquittals letters sent out to staff with outstanding acquittals.

DEPARTMENT RESPONSE

The department responded to the management letter issued on reported findings and their comments are stated accordingly.

CONCLUSION

In general, there is no significant improvement in the system and operation of controls within the Corrective Services compared to previous years. The results of my audit indicate that overall, there are notable weaknesses in the control framework. At present the control activities such as delegations, authorizations, reconciliation, data processing, segregation of duties, management monitoring, etc, are not sufficiently robust to prevent, detect or correct errors or fraud.

DEPARTMENT OF NATIONAL PLANNING AND MONITORING

OVERVIEW

The mission of the Department of National Planning and Monitoring is to co-ordinate the development of national development policies and strategies and monitor their implementation, co-ordinate the process of strategic planning for effective utilization and management of resources, and to translate politically endorsed national objectives and strategies into development programs and projects, to achieve sustainable development which will meet the aspirations of the people. In this process, the Department carries out five broad functions:

- Broad community consultation and policy development and analysis.
- Determination of a Medium Term Development Strategy and preparation of medium term and annual plans.
- Resource sourcing and annual capital budgeting.
- Monitoring and evaluation of implementation of policies and programs as well as post implementation impacts of projects.
- Provision of technical support to the provinces in implementing the Provincial Government reform.

FINDINGS

CORPORATE GOVERNANCE

Corporate Plan

The Corporate Plan outlines the core activities, major strategies, outputs, and performance indicators of various divisions of the Department.

According to the divisional head responsible, the Department had a revised Corporate Plan which was reflected in the 2010 Budget. AGO was not able to ascertain the existence of the revised corporate plan.

In addition, Annual Work Plans were not sighted for the whole department, except for the newly established Division of Project Audit and Evaluation.

Internal Audit

The Internal Audit function is responsible for checking the controls over the processing of information through the general ledger and hence to the periodic reports relied upon by management. Through providing quality reports on the system of controls in operation management would be able to implement corrective measures on addressing weakness noted. AGO noted the Department has yet to establish an Internal Audit function with the required staff and resources.

Management Response

Corporate Plan

Department has revised CP 2009-2011 lodged in 2009 and has commence implementation process early 2010 of AWP.

Department through its revised CP 2009-2011 has strongly focused on and emphasis incentive-oriented and skills-enhancing HR tools including Training Plan, SPA and Man Power Audit.

Internal Audit

- *Approved structure has not made provision for an internal audit function.*
- *Management will create Internal Audit function within the Department through close liaison and consultations with relevant agencies including Department of Treasury and Department of Finance.*
- *Had an initial meeting with Internal Audit Branch of DoF last year on the issue and will pursue the matter including **Audit Committee** this year through further collaborative efforts with sister agencies.*

STATUTORY REPORTING

Quarterly and Annual Financial Management Reports.

As required in Section 5 of the Public Finance Manual, Departmental Heads shall submit a quarterly report on financial management after end of each quarter to Departmental Head of Treasury and an annual report, including overall assessment of the Department's work performance at the end of each fiscal year to the Secretary, Department of Finance.

AGO had not sighted an Annual Report for year 2008 as at the time of audit on September, 2009.

Annual Management Reports

As stipulated in Division 4 Section 32 (a) of the *Public Service (Management) Act, 1995* "Each Departmental Head shall by 31st March in each year, prepare a report on the attainment of the planned objectives of his Department for the coming year ending 31st December preceding." It is further elaborated in the Public Services General Order 8.12 that the Departmental Head should forward to Secretary, Department of Personnel Management in relation to Corporate and Annual Management Plans.

There was no improvement in the area of reporting to the Secretary's for the Department of Finance and Personnel Management since the 2007 audit and therefore the Department had breached its statutory reporting obligations.

Management Response

Department's 2008 APP was in draft form at the time of audit. At the completion of audit, the Department completed, published and submitted its annual Management Report to DPM following its lodgment with revised CP 2009-2011 & Workplace Ethics on 26th November, 2009.

Management is in the process of producing 2009 Annual Management Report and will ensure that the statutory reports are submitted on time to the DPM as a matter of legal and statutory compliance. No clear response by DNPM on 2008 Annual Financial Report.

Management in the process of producing the 2009 Annual Financial Status Report and will furnish to DoF and Do Treasury.

BUDGETARY AND FUNDS CONTROL

Finance Manual Part 7 - Budget and Expenditure Control Division 2 – Warrant Authorities clearly states that irrespective of the agency to which Warrants are issued or which makes the payment, the Departments in whose budget the votes are included are responsible to ensure that commitments and expenditure are within authorized limits.

Variances in Expenditure Balances

A comparison of the 2008 Expenditure Vote Summary printout (run-date 4th August, 2009) produced by the Department against the Expenditure Statement generated by the Department of Finance (per TMS 100 report for Period 13, run-date 15th March, 2009) showed a net variance in actual expenditure of K5,496,457 between the Department's PGAS record and the Department of Finance. The Department did not provide a reconciliation to explain the differences between the comparative records.

Recurrent Budget

According to the Expenditure Statement for Recurrent Budget period ending 31st December, 2008 as generated by the Department of Finance per TMS 100 report, for Period 13 (run-date 15th March, 2009), an aggregated amount of K52,879 was over expended in twelve (12) items of the vote.

Development Budget

Similarly, a comparison of the 2008 (PGAS) Expenditure Vote Summary printout as against the Expenditure Statement generated by the Department of Finance (per TMS 100 report for Period 13, run-date, 15th March, 2009) showed a net variance in actual expenditure of negative K33,192,356 between the Departments PGAS record and the Finance TMS ledger. The Department has failed to explain or provide a reconciliation for the noted difference.

Also, under the Development Budget, two (2) items of the votes were over-expended by K4,284,751 during 2008.

Lapse in transactions for January to March, 2008.

AGO observed that there were no Expenditure Transaction Details (ETD) printout under the Recurrent Budget covering period from January to March, 2008. However, a Periodic Commitment and Expenditure Summary Printout dated same (11th August, 2009) for periods from 1st January, 2008 to 30th March, 2008 indicate that expenditures were incurred during the mentioned period. AGO was advised that the accounting function for the Department was carried out by the Department of Finance during that period and was transferred back to the Department of NPM in late April, 2008 to continue its operations. It was not possible to establish that the interim change was approved by proper authority.

Management Response

Current Accounts officers recently joined the Department in 2009 are currently conducting investigation on the issues with DoF. Based on the outcome, the Department will be in a position to take appropriate actions.

Meanwhile, the Department is contemplating recruiting Reconciliation Accountant and PGAS/PBS reconciliation against the backdrop of manpower ceiling restriction imposed by Department of Treasury as a possible way forward to improve on the audit findings.

BANK RECONCILIATIONS – Drawing Bank Account

As required in the PFM Manual Part 3 Division 1 Section 4.7 "Bank Reconciliation" all Heads of Government Departments and Statutory Authorities are to ensure that their bank accounts are reconciled on a monthly basis. Bank balances should be reconciled against the Cashbook balance and the reconciled Cashbook balance should be agreed with the Appropriation Ledger for National Government, Provincial Government and Local-Level Government Transactions. Copies of bank reconciliation statements should be forwarded to Accounting Frameworks and Standard Division, Department of Finance no later than fourteen (14) days of the close of each month. Such failure to comply with the above may necessitate withholding further issuance of Warrant Authorities.

The department maintains a drawing bank account with the Bank of PNG. The latest bank reconciliation completed was for the month of May, 2009.

Unpresented Cheques – K36,278,404

The total unpresented cheques of K36,278,404 included fourteen (14) stale cheques aggregating to K12,630. The actual unpresented cheques for the year ended 30th May, 2009 was K23,648,404. The movement of these cheques needs to be strictly monitored in order to ensure their quick presentation at the bank.

Other Items (Debit) – K286,897

Schedule 6 should contain details of payments per bank statement in excess of cash book records (overpayments) and debits in cash book not in bank statements. The amount of K286,897 represented mostly cancelled cheques or wrong cheques presented of which journal entries were raised, however shown as “unidentified or status not changed”. AGO is of the view that most of the reconciling items stated herein are not proper and that appropriate action should be taken to clear them from the reconciliation.

Other Items (Credits) – K29,366,209

This also represented cancelled cheques, without any journal entries being raised of which some cancelled cheques were backdated to year 2003. Schedule 11 should contain details of payments per bank statement against cash book records and credit in cash book not in bank statements.

The observations of unidentified Journal Entries raised the issue of proper delegation and authority over passing of Journal Entries.

Management Response

- *Management has taken note of audit findings, implications and recommendations in relation to bank reconciliation in particular and cash management as a whole.*
- *Accounts officers are currently compiling outstanding bank reconciliation for 2009 and upon completion single journals will be raised and passed to clear credits in bank statements for the entire year 2009.*
- *Management has made necessary changes to signatories.*
- *FAS-Corporate Service Division and AS-Finance who are not directly involved in processing transactions and raising payments in the system have been designated as only signing officers while accountant and Assistant Accountant will be counter signing officers under the new cheque signing arrangement.*

ASSETS MANAGEMENT

The Public Finance Management Manual and Financial Instructions Part 32 requires the Department to maintain a separate Assets Register to record all its asset purchases, including attractive items such as mobile phones, cameras, etc and a stock-take should be conducted annually to verify their existence and assess their value.

AGO observed that the control over assets was inadequate in the following instances:

- The Asset Register maintained by the department in 2008 was not updated as at the date of audit on 6th August, 2009;
- A stock-take had not been carried out on the assets (property, furniture and equipments) to establish their existence, condition and whether they are held in the custody of the Department; and
- According to the 2008 Expenditure Transaction Details printout dated, 11th August, 2009 assets totalling K132,183 were purchased during the year. AGO noted that these **assets were not recorded in a register**

of Assets and were purchased from vote items 121, 123, 124, 128, 135 other than the appropriate item 221 (Furniture and Office Equipments).

Management Response

- *Management has taken note of audit observations, implications noted and recommendation made in relation to Asset Management.*
- *Management believes that **HARDCAT**, the **Asset Management Software** will address most of the current issues relating to asset management practices including asset registry maintenance, and keeping effective track and monitoring of acquisition, use, custody and disposal of assets amongst others.*
- *Asset Management had over the years had not been given sufficient attention by the management over the years, resulting in assets owned prone to greater risks of misuse, theft ,etc and asset management practices not in sound compliance with PFMA and its regulations as observed and noted by the audit.*
- *Further measures for improving asset management going forward, management has directed CSD to establish Procurement Committee comprising of officers from various divisions within the Department to monitor and approve acquisition and disposal of assets. Currently, CSD is working on the Committee establishments along with other committees for other similar tasks.*
- *Department will exercise close and tight monitoring of expenditure to ensure expenditure occur within the appropriations and that proper transfers and adjustments are initiated and actions to allow funds movements within expenditure line items to cater for shortfalls.*

PROCUREMENT AND PAYMENTS PROCEDURES

With reference to Part 12 and Part 13 of the Financial Management Manual, the organization should have established preferred and authorised suppliers of goods and services for the year by tendering, if the total amount is under K300,000 and if over; through the Central Supplies and Tenders Board (CSTB) Tenders by obtaining an Authority to-Pre Commit (APC) approval from the Department of Finance. This should only be accepted from suppliers that are:

- Currently registered with the Investment Promotion Authority (IPA);
- Capable of meeting the demands and nature of the organization;
- Legally qualified vendors and in conformity with applicable laws, regulations and contracts; and
- A Quotations Register is maintained for verbal and written quotations.

Payments should only be made in respect of goods and services received when Management had ensured that the items procured met the appropriate requirements or specifications that appropriate prices are invoiced and that the actual goods or services procured are delivered and **certified** by receiving officer.

AGO in the course of audit found the following shortfalls in regards to the procurement function, viz:

- Quotations register was not maintained by the Department. In addition, three written quotations were not always obtained;
- Specimen signatures of accountable officers were not available on file. In addition, vouchers processed and paid were not stamped as being paid. Furthermore, filing of payment vouchers was poor as paid vouchers were missing or those vouchers located were not in sequential order;
- Payment claims had been processed and paid without the Certifying Officer's signature indicating advance payment of goods and services. In addition, payments were also made without supporting documents or without invoices being attached to substantiate payments made; and

- Lack of knowledge by departmental staff on procurement procedures including management overriding procedures and controls for their own benefit.

AGO review of a random sample of payment transactions noted the following lapses;

- Nine (9) paid vouchers totalling K94,223 were missing from the files. In addition, eight (8) paid vouchers amounting to K39,514 were paid without obtaining all three quotations;
- Twenty-nine (29) paid vouchers totalling K285,430, FF3 and FF4 Forms attached were not fully signed by designated officers. Also, two (2) paid vouchers totalling K21,976 were paid without the Section 32 officer and Authorised Requisitioning Officer's signatures; and
- Four (4) paid vouchers amounting to K14,878 had, no FF3 or FF4 Forms were attached, however had only the cheque photocopies attached when paid. In addition, twenty-five (25) paid vouchers amounting to K257,806 were not certified by the Certifying Officer as to the correctness of payments.

Management Response

Management takes note of the internal control issues and recommendation for improvement with regard to procurement and payment process relating to goods and services from external sources.

Management will give due attention to missing vouchers and other payment uncovered to ensure necessary corrective actions are taken as soon as practically possible.

*The Department as part of addressing the general outstanding internal control issues including those relating to procurement and payment processes has selected and engaged an IT dealer to install an Asset Management Computer Software called "**Hardcat**".*

Software mobilization and installation are well underway with the engagement team from the dealer already on site making necessary groundwork.

HUMAN RESOURCE MANAGEMENT AND PAYROLL

Procedures should be designed to ensure that personnel operating a system are competent and motivated to carry out the tasks assigned to them. Measures include appropriate remuneration and promotion and career development prospects, selection of people with appropriate personnel characteristics and training, and assigning to tasks of the right level.

Actions by all levels of staff should be supervised and that the responsibility for supervision should be clearly laid down and communicated to the person being supervised

Restructure

The Department through a restructure carried out a recruitment exercise on two hundred and ninety-seven (297) positions. AGO observed that the Department of Personnel Management only approved an actual ceiling of one hundred and eighty-one (181) positions. The Department however, through a written instruction by the Department of Treasury, had to recall all the incorrect advertisements and job descriptions which were to be renumbered and re-issued. The Department was still finalizing the job descriptions as at the date of audit on 12th August, 2009.

Staff Establishment Register

According to the Staff Establishment Register for the month of July, 2009, the Department had thirty (30) branches/sections within the eleven (11) divisions including the Executive Branch. Among the eleven (11) divisions

was a new Division titled "Project Audit and Evaluation Unit". AGO observed that the staff on strength exceeded the Departments ceiling of 181 by thirteen (13) positions and are not budgeted for in the Department's approved ceiling. In addition the Department also had six (6) casual employees where one (1) was paid at Grade 18 level.

Management Response

- *Management has taken note of findings and commendation relating to HRM. It should be noted that the HRM function in the Department has emerged and become fully operational following devolution of power from the DPM in 2008.*
- *At the time of audit, most of the necessary tools including Training Plan and Quarterly Man Power Review were in draft form. These HRM tools have now been fully developed and ready for implementation in 2010.*
- *The Department advertised two hundred and ninety-seven (297) positions; the positions were withdrawn as noted in the audit report. Job descriptions for the approved funded positions have been completed for the respective positions, including staff on strength and vacant positions.*
- *Management has taken note of the variances on total funded positions over approved funded positions and the budgetary implication. Twenty (21) officers among occupants of forty-five (45) unattached positions have been identified for retrenchment along with more than seven (7) unattached officers voluntarily resigned since 2009.*
- *Management hopes variance of thirteen (13) representing extra personnel numbers on the payroll will be resolved through adjustment of the variance against the retrenchment and resigned personnel numbers, thus keeping the Department consistent with its manpower ceiling.*

PAYROLL - SALARIES/ALLOWANCES and WAGES

With reference to Part18 and 19 of the FMM under Payroll Management partly quotes that: the Public Service payroll constitutes a major share of overall government expenditure and is relative to the number of Public Service positions in the National, Provincial and Local Level Government approved by Department of Personnel Management and the overall staff ceiling laid down for each year.

It is the responsibility of the Departmental Head to ensure that the total staff on strength does not exceed the approved staff ceiling; that the payment of salaries is not to persons who have resigned from the Public Service or are absent from work without approval or not eligible for salary payment for other reasons; and that payroll expenditure is reconciled monthly with individual payments made to the staff engaged by them.

Payroll

- Payroll reconciliations were not done as well as payrolls not certified by two (2) senior officers during 2008;
- As per the TMS 100, (run dated 15th March, 2009) for period 13/2008 under the Recurrent Budget, the approved budget for fiscal year 2008 was K10,517,800. Of this amount, forty-one percent (41%) or K4,357,200 was for Item 111 (Salaries and Allowances);
- An analysis of the 2008 Alesco Payroll revealed that six (6) payrolls were missing, while one (1) payroll had its end pages, including the summaries missing which were queried but no response was received. AGO could not ascertain the payroll total for the 2008 year end due to missing payrolls; and
- AGO observed that improvement has not been made in the handling, storage, access of payroll documentation and security of the salary and personnel records.

Contract Officers

A total of 26 contract officers personal files were examined to establish whether sufficient controls were exercised over administration of terms and conditions of respective officers. AGO observed the following matters:

Suspended Officers

- Four (4) contract officers, who had signed three (3) years contracts in January and February, 2007 were later suspended in the same year, after the appointment of the new Secretary of the Department.

AGO noted that the officers were still on the payroll receiving full salaries and other contract benefits as at the date of audit on 2nd September, 2009 with no action taken to review their conditions of employment.

It is unclear whether these suspensions were of a temporary or permanent nature as the register showing details of suspended or terminated officers was not maintained by the Department. However, according to their personal files, these officers had referred their suspension cases to the Public Services Commission for action.

Payment of Settling-In-Allowance

The payment of Settling-In-Allowance is a "one-off payment" at the commencement of signing the initial contract. Five Contract Officers who had their contract documents renewed were paid gratuities totalling K34,326 from the PGAS system and at the same time, each were paid their Settling-In-Allowances totalling K3,500 during the financial period of 2009.

According to the Superintendent (Personnel), the Department had been making settling-in-allowance payment over the years whenever an officer renews his/her contract. AGO noted that there is lack of controls and compliance with Payroll procedures and the relevant General Orders. The officers concerned are at the senior management level who should be aware of the legality of such payments received. Thus, the overpayment of K3,500 in Settling-In-Allowances is unbudgeted for and should be recovered from the concerned officers through salary deductions.

Non-Contract Officers

Gratuity payments totalling K43,561 were paid to five (5) officers in 2008 and 2009 through PGAS and were not budgeted expenditures. These officers were not on contracted positions but were acting on contract positions and without signing valid contracts and therefore were not entitled to receive or being paid gratuities. A signed contract of employment is the only pre-requisite for an officer to receive gratuity.

Audit noted that one of the officer's designated as acting Deputy Secretary (PIP) was still been paid from Wages (Item 112) as at the date of audit on 2nd September, 2009 and whose salaries was been paid out from vote Item's 112 and 141 in 2008. The payment of wages from Item 141 is unbudgeted for and should be reserved for purposes intended for under that vote item.

As per the Staff Establishment Register for the month of July, 2009, the officer is employed as a casual without any job specification and attached to Grade 18 salary level who was also paid gratuities which AGO views this as an overpayment and a breach of the General Orders. The officer's engagement with the Department could not be confirmed due to his personal file not been made available, although requested for during audit.

In addition the same officer had proceeded on a two (2) years MBA program at the Divine Word University, Madang in 2009, costing the Department K42,000 which was paid for by Cheque No. 38185, dated 17th March, 2009. There was no Departmental Training Plan sighted to confirm that this casual and an unattached officer was due to post graduate study.

Similarly, audit noted that a consultant's salaries were also paid from Items 112 (Wages) and 126 (Administrative Consultancy Fees) in 2008 for which Item 112 is unbudgeted for such payments.

Overtime Payments

Overtime payments totalling K12,788 were paid in July, 2009 to various officers of the Department which was paid from Wages - Vote No: 229-12040-1101-112 instead of Item 113 (overtimes) of which, such expenditure was unbudgeted for.

Management Response

- *Officers in Personnel Section, most of them appointed in 2009, are currently working on the concerns raised under payrolls.*
- *Results will be made available for future audit review and verification.*
- *It should be noted that these officers were suspended with pay and their employment contracts remained valid in all material respects at the time of the audit hence were kept on payroll with full remuneration. Their suspensions remain in force up to date. The underlying employment contracts for all the concerned officers will lapse early this year and the management has the option not to renew their contracts and proceed further to remove them from payroll.*
- *Payment of Setting-In-Allowance to officers renewing their contracts has been a tradition in this Department.*
- *Management has taken a bold step not to pay Settling-In-Allowance to officers on renewal of contracts thus reversing the trend, going forward.*
- *It should be noted that the concerned officers were acting on respective vacant substantive positions for more than a year hence eligible for contract gratuity payments.*
- *Management has taken bold steps not to facilitate contract gratuity payments through PGAS going forward as the payment should be sourced through concept payroll.*
- *Management takes note of various irregularities involved in remunerations and other benefits accrued to and availed over by Jon Ndramei and acknowledge its oversight on the issue. Mr. Ndramei is attached to as AusAID project and is still paid under item 112 through PGAS.*
- *Management will take appropriate actions upon consultation with technical officers and advisers with a view to rectify the situations with Jon Ndramei.*
- *Management will exercise strict control over unplanned expenditure by way of strict budgetary control to avoid further abuse of public funds consistent with the audit recommendations.*

TRUST ACCOUNTS

Trust funds are established for the purpose of specific operations and are replenished by fees and charges pursuant to legislative requirements.

The Department is also required to compile and submit monthly bank reconciliations to the Department of Finance no later than fourteen (14) days of the close of each month in relation to each trust account maintained. The number of trust accounts controlled by the Department and their status of operations could not be established. The Department failed to provide AGO information and documents requested.

Management Response

- *Management takes notes of the audit observations and will proceed this year 2010.*
- *To take stock of all Trust Accounts the Department administers with the view to update and verify status of each one of the Trust Account.*
- *Management also takes note of issues with regard to non-maintenance of Trust Ledger or records in PGAS and segregation of duties.*
- *Appropriate procedures will be put in place whenever the Department establishes and operates Trust Account(s) in the future as no Trust Accounts are currently being administered by DNPM.*
- *Management has replaced the previous officer responsible for Trust Accounts with a new competent officer.*
- *Management is quite certain new officer will fully cooperate with the Auditors in the future audits.*

ADVANCE MANAGEMENT

With reference to Part 20 of the Financial Management Manual, all advances paid relating to travelling for both overseas and domestic travels are to be recorded in the register of advances to be controlled and managed by the financial delegates.

In addition, no second advance is to be made when the first advance is outstanding. Furthermore, the financial delegates should be reviewing the register of advance to ensure that all advances are being acquitted regularly as required.

AGO review of the payment recording and acquittal of advances taken by the Department noted the following shortfalls:

- An Advance Register was not maintained for the year 2008 by the Department;
- AGO could not ascertain the total amount of advances paid during 2008, as well as the total amount unacquitted and outstanding as at 31st December, 2009 due to no records being maintained. No proper control and monitoring were done on advances although large sums of advances were paid out for both domestic and overseas travels in 2008;
- The manual Advance Register for 2009 was incomplete and not updated as at the date of audit on 4th August, 2009. AGO noted that the officer responsible concentrated more on the soft copy (Advance register) rather than the manual register which is a permanent record for advances paid; and
- Travel reports were not submitted or attached upon the acquittal of advances. In addition acquittals were not filed away properly as audit observed that acquittals were been dumped in a box that could easily have lead to records been misplaced or lost.

Management Response

- *Management has taken note of the audit observations, implications and recommendation made in relation to the management of advances.*
- *Concerns raised will definitely be parameters for improvement in management of advances, going forward.*
- *There has never been strict enforcement of legal and statutory requirements relating to Advance Management over the years, thus allowing internal relating to advance management to lose its potency.*

MOTOR VEHICLES

According to the motor vehicle listing, the Department operates a fleet of thirty-five (35) vehicles as at date of audit on 12th August, 2009. AGO observed that thirty-one (31) of the vehicles were using private number plates without the approval from the Secretary, Department of Transport with only four (4) motor vehicles having "Z" number plates.

The vehicle listing also indicated that sixteen (16) vehicles were noted to be on tender, twelve (12) vehicles were for trade-in, four (4) vehicles currently used by department, two (2) used by projects while one (1) vehicle noted as being written-off and beyond economic repair.

AGO was not provided corresponding records such as Board of Survey reports and Accident and Police reports for examination. In addition, documentation on allocation of vehicles and officers responsible were not provided to enable physical verification of the vehicle fleet held by the Department. Further, there is no internal policy or control mechanism in place for the allocation and maintenance of vehicles.

According to the Department of Finance TMS ledger 330, (run date 15th March, 2009) for Period 13/2008, purchase of vehicles under Vote number 229-1204-1101-222 had an expenditure of K366,095 on motor vehicle purchase. However, AGO could not ascertain the actual vehicles purchased due to absence of required records. The Department also did not have a permanent transport officer in charge at the time of audit.

Refueling

An approved arrangement such as a written contract agreement between the Department and a designated supplier (i.e. service station) for supplying of fuel to Departmental vehicles was not sighted or available for review.

As per the Payee History report dated 5th August, 2009, a total of K358,700 was expended on fuel and lubricants in 2008 by the three (3) agencies, Department of National Planning and Monitoring, National Statistical Office and National Economic and Fiscal Commission. The records showed that the month of December had the highest fuel cost of K101,000 followed by October, August and July with total amounts of K61,000, K52,000 and K51,700 respectively. A reasonable explanation for the high costs was not provided.

Advance payments of K15,000 in 6 instances were made in the month of December, 2008 which amounted to K90,000 (i.e. K15,000x6) by the Department. However, AGO could not establish the actual amount expended on fuel alone by the Department during the year due to relevant records not being provided in fuel request forms, and daily charges, etc. It appears that the Departments use of fuel is not controlled properly by putting in place appropriate measures to ensure vehicles access to fuel is through established controls.

Repair and Maintenance

Vehicle maintenance programmes were not properly recorded to indicate the nature of repair work done and the cost involved. A schedule or timing plan for vehicles that will be due for service was not put in place.

According to the Payee History report dated 5th August, 2009, the total cost of vehicle repair and maintenance services received from different suppliers amounted to K599,866 in 2008 which were paid from both the Recurrent and Development Budgets funding. It appears that there is no monitoring and control system in place by the Department to validate the cost of vehicle repair/maintenance works done whilst the vehicles are left in the workshop for repairs.

Management Response

- *Management takes note of legal and administrative implications noted and recommendation made in relation to the operation of the motor vehicles under the custody of the Department.*

- *Management is taking necessary steps to rectify irregularities noted including direction issued to Administration Section of the Corporate Services Division to obtain "Z" number plate from the Department of Transport for all Department's motor vehicle.*
- *Management will look into the issue of Transport Operation Policy.*
- *Re-fueling is by way of fuel voucher based on reducing balance method against monthly upfront payment. Arrangement has been in force since 2005 and Lifu Holding Ltd has been the departments designated fuel supplier.*
- *Repair and maintenance activities has been carried out on ad hoc basis because of aging nature of Department's most of the motor vehicle fleet requiring frequent serving to maintain operational.*
- *Frequent servicing along with carried forward balances of services bills from prior years under previous managements have led to excessive service bill which were settled from both recurrent and development budgets. Audit still on-going.*
- *Management believes that management of logbook will be effectively addressed by the **HARD CAT**.*

DEVELOPMENT BUDGET

An analysis of Development Budget - Expenditure Transaction Details printout dated 8th September, 2009, covered various development expenditure. In particular, eight (8) payments totaling K27,075,187 were examined and the following were observed;

- A payment totalling K546,233.82 per cheque number #37101, dated 28th October, 2008 paid to Ela Motors being for funding of Samarai Murua Marine Engine noted that:
 - The payment was for a long outstanding commitment made in 2006, of which the Invoice No P48893 attached was dated 10th September, 2007 and the outstanding account was finally settled in 2008; and
 - AGO is unclear as to why it took a long delay to settle the account after two (2) years. Also, the appropriation for year 2006 had already lapsed and the payment remains unbudgeted.
- AGO observations, revealed that there were no set policy guidelines in use for the Finance/Accounts Section to follow when processing payment claims. Also, there were no improvements in the internal control system and lack of monitoring system in place by management, resulting in payments been charged and paid for by using funds from incorrect vote items; and
- Furthermore, four (4) payments were being split to avoid compliance with Tender procedures. AGO did not ascertain whether the vote items charged warrant the nature of payments made due to inconsistency.

Management Response

- *Management takes note of the concern raised under item a), which was the making of the same officer responsible for the Department's Trust Funds and Accounts.*
- *As highlighted under response to the concern raised under topic 5, the responsible officer has been lately replaced following reports of similar performance related problems.*
- *Management takes note of the issue in connection with the outstanding payment raised under item b) (i). The payment was only executed to honor outstanding government commitment despite the fact the payment was outstanding for up to two (2) years.*

- *Department has establish policies and guidelines governing disbursement of funds allocated through Development Budget, which will continue to guide the Department in its role as the country's custodian of development grants.*
- *Management has taken note of the audit findings, implications and recommendations made in relations to Journal Entries and TMS/PGAS ledger reconciliations.*
- *Journal Entries, proper and up to date, journal file was maintained for 2009. All journals raised were sequence numbered using journal book, registered, posted and signed off by the accounts officer raising the journal.*
- *Although, proper procedures and process relating to raising and posting of JEs have been observed, accounts section will improve on the segregation of duties involved in the process to ensure effective check and balance exist.*
- *We are of the view that bank reconciliation should be the basis for TMS/PGAS reconciliation.*
- *Bank reconciliation for the Department were outstanding hence no TMS/PGAS reconciliations were done as observed. Accounts officers are giving due attentions on the issue and the results will available for subsequent audits review and confirmation.*
- *Management recognizes the important role of TMS/PGAS Reconciliation can play in the way the Public Funds are being used.*
- *Accounts officers have been instructed to compile bank reconciliation on monthly basis, thus paving way for smooth and prompt TMS/PGAS reconciliation to keep the Department abreast with the expenditure.*

DEPARTMENT RESPONSE

The Department responded to the management letter issued on reported findings and their comments are stated accordingly.

CONCLUSION

In general, no significant improvement in the system and operation of controls within the Department compared to previous years.

The results of my audit indicate that overall there were significant weaknesses noted in the control framework. At present, the control activities such as delegations, authorizations, reconciliations, data processing, segregation of duties, management monitoring, etc, are not sufficiently robust to prevent, detect or correct errors or fraud.

DEPARTEMENT OF PROVINCIAL AND LOCAL GOVERNMENT AFFAIRS

OVERVIEW

The Department's mission is to optimize Government instrumentalities to promote and foster National Identity, Self Reliance, Popular Participation, Provision of Equal Opportunities and Basic Minimum needs through the authority conferred by the *Organic Law on Provincial Governments and Local Level Governments*.

The Department is expected to fulfill that mission in the context of various Acts and other relevant legislation as follows:

- Maintain general liaison between National and Provincial Level Governments in to identify problems and identify assistance.
- Provide legal and corporate advice to Provincial and Local Level Governments in line with the National Government policy.
- Co-ordinate and administer the Government's policy and programs for village services.
- Provide periodical inspection on financial matters relating to Provincial and Local Level Governments, including urban and city councils as required under the Organic Law.
- Oversee and administer border development programmes and provide Refugee assistance.
- Liaise with National and Provincial Departments as effective administration of agency funds.
- Oversee and administer the administration of Urban Councils and the National Capital District Commission.
- Review periodically National Government policies as they relate to Provincial and Local Level Governments and village development services except for Bougainville Province.
- Co-ordinate and advice on improvement training programmes for provincial finance and audit staff, extension officers and training input into community and village based activities.
- Provide effective administration where provincial governments are suspended.
- Administer policy and functions relating to the Electoral Development.

FINDINGS

CORPORATE GOVERNANCE

Corporate Plan

The Department has in place a Corporate Plan for 2008-2012 which was launched in June, 2008. The Corporate Plan identified six (6) Strategic Result Areas. However, there were no Management Plans or Divisional Work Plans to link up with the budget and Corporate Plan. This link will identify targets and indicators to enable management to determine whether objectives can or are being met.

The management therefore is not in a position to:

- Monitor the achievements of the Department's objectives or programs;
- Effect necessary changes;
- Determine areas where change is required; and
- Amend the objectives and strategies.

Mid-Year Achievement based on Review of Corporate Plan (2008-2012)

One of the key objectives/achievement for Standards & Inspection Division (SID) was submission to Head Quarters of Section 119 Reports on the affairs of Provincial and Local-level Governments. It was stated that the Annual Performance Reports of eighteen (18) Provinces for 2007 were completed and ready to go before NEC and Parliament. However, for 2008, Standards and Inspection Division (SID) only received eleven (11) Reports.

Finance and Administration

A special unit was set up to develop internal control mechanism to establish good governance procedures and practices. The unit has in place the following policies: draft Procurement Policy, draft Advance Payment Policy, draft Asset Management Policy, draft Human Resource Policy and IT Policy.

These policies are yet to be endorsed by the management, however the AGO commends the Department for initiating these policies which will provide for proper administration of these functional areas.

Internal Audit Unit

The Internal Audit function is manned by only one (1) officer which is inadequate. It is not properly funded and lacked capacity to perform its functions as required. In addition, an Audit Committee has not been established in the Department to oversee the activities of the Internal Audit Unit and it would be advisable to consider establishing the governance process as soon as possible.

Minutes of Meetings

The Minutes of Meetings obtained from the Secretary's office were observed to be deficient in the following in that the minutes did not clearly state if there was a quorum to proceed with the meeting and the agenda of the meetings were not disclosed in the Minutes of Meetings. Also the meeting minutes did not register the deliberations and discussions held in the previous meetings.

Management Response

DPLGA Corporate Plan covers the period 2008-2012 however, the plan was revised this year due to completion of most of the key result areas. We continue to provide support to the Minister for Inter Government Relations implement national policies such as the SDMM, Vision 2050, Autonomy, Hela/Jiwaka New Provinces and other important legislations.

STATUTORY REPORTING

The Annual Reports for the fiscal year ended 2008 and 2009 covering the overall assessments on the work and achievements of the Department of Provincial and Local Government Affairs were prepared and submitted to the Central Agencies Coordinating Committee (CACC).

It should be noted, however, that the Department fulfils its obligation in producing a Quarterly Budget Review Report to the Department of Treasury. AGO reviewed the report and found it to be of an excellent quality. However, there was no annual report prepared and forwarded to the Department of Finance as required.

Management Response

DPLGA undertakes two reviews of its performance, mid-year review and the annual review at the end of the calendar year. The 2009 annual report was submitted to CACC before the required date and CACC has considered the DPLGA Report. A copy has been provided to the Audit Team.

BUDGETARY AND FUNDS CONTROL

Variances in Budget and Expenditure Balances

A comparison of the 2009 Expenditure Summary printout produced by the Department of Provincial and Local Government Affairs against the Expenditure Statement generated by the Department of Finance (per TMS 330 report for Period 12) revealed the following variances between expenditure balances. Refer to details as follows:

Variances in Budget & Actual Expenditure as per TMS & PGAS Reports

Particulars	(PGAS) (K)	TMS 90 (K)	Variances (K)	Comments
Original Appropriation	66,377,000	66,944,200	(567,200)	TMS greater than PGAS
Revised Appropriation	71,500,600	72,572,400	(1,071,800)	TMS greater than PGAS
Warrant Authority	61,486,300	14,844,800	46,641,500	TMS less than PGAS
Actual Expenditure	29,084,147	14,784,238	14,299,909	TMS less than PGAS
Expenditure (Over)/Under	32,402,153	60,562	32,341,591	TMS less than PGAS

The Department has not provided a reconciliation to explain the reasons for the differences in reported balances.

A comparison of Vote Items Fund Allocation as per the Warrant Authorities on the PGAS and TMS Ledgers revealed significant variances in eight (8) vote items totaling K46,893,300 between TMS (K58,561,500) and PGAS (K11,924,000) balances.

The expenditure and commitment of funds at the Departmental level has not been based on reliable funding allocations. A comparison of Vote Items Actual Expenditure as per the PGAS and TMS Ledgers revealed significant variances in five (5) vote items as follows:

Comparison of Expenditure Items against TMS & PGAS

Item #	Description	Expenditure		Difference	Comments
		TMS	PGAS		
111	Salaries & Allowances	3,744,178	0	3,744,178	TMS greater than PGAS
121	Travel & Subsistence Expenses	399,683	599,683	-200,000	TMS less than PGAS
135	Other Operational Expenses	10,783,812	11,082,013	-298,201	TMS less than PGAS
141	Retirement Benefits, Pensions, Gratuities	10,774,903	0	10,774,903	TMS greater than PGAS
142	Membership fees & Contribution	333,468	54,439	279,029	TMS greater than PGAS

The variances between the two records are a direct result of the management of the Department not reconciling the TMS and PGAS ledgers on a monthly basis as is required.

Management Response

Basically, the variance in Personal Emolument resulted from retirement exercise been paid through Concept and the same was also given a warrant. Since it was paid from Concept, the TMS and PGAS do not correspond with its other thus the variance. In addition, the Department's technical officers received Special Domestic Market Allowance (SDMA) the same year. This has definitely caused increase in personal emolument thus; increase in TMS.

For the goods and services, there was additional funding for National Disaster Centre and much of the appropriation for one hundred and forty-one (141) which was released for retirement exercise was transfers to cater for other additional operational incurred during the year.

I note your recommendation and have directed the Deputy Secretary Support Services to meet with Director Finance & Administration and director, Human Resource to put strategies in place to avoid a repeat of such in the future.

BANK RECONCILIATIONS – Drawing Account

The Department of Provincial and Local Government Affairs operates a Drawing Bank Account No. 4311-6141 with the Bank of Papua New Guinea. Audit verification of the monthly bank reconciliation statement prepared for 31st December, 2009 with the related records and documents revealed the following shortcomings:

- Although the bank reconciliation statements purported to reconcile the bank account balance to the cash book balance, differences were noted between the bank account and the cash book balances for the months from April to December, 2009. The differences in the cash book and bank balance were not reconciled for each of the nine (9) months.
- The bank reconciliation statement for the month of December, 2009 disclosed reconciling items, some of which relate to year 2005 as detailed below:

Items not cleared prior to compiling the monthly reconciliation

Description	Amount (K)	Remarks
Cheques on bank statements not on in cash book	94,235	Schedule 5
Other Items(debits)	274,810	Schedule 6
Credits in bank statements not in cash book	7,407,141	Schedule 7
Unpresented cheques	2,053,527	Schedule 8
Mismatches	400	Schedule 9
Other items(credits)	30,722	Schedule 11

An analysis of these adjustments noted the following:

- Cheques presented at bank account not posted in cash book totalling K94,234 represents opening balances for year 2005 and manual cheques raised in November, 2008;
- “The Other Items” (debits and credits) of K274,810 and K30,722 being adjustments appearing in the monthly bank reconciliation could not be ascertained;
- Credits in the bank account not in cash book totaling K7,407,141 represents cash reimbursements from the Main Public Account for the period December, 2009 not cleared;
- The unpresented cheques totalling K2,053,526 as reflected on the monthly bank reconciliation statement included seventy-one (71) stale cheques totalling K172,030.75 which were issued from years 2003, 2007 and 2008;
- The December, 2009 monthly bank reconciliation statement was not attested to by a senior officer for correctness and completeness;
- The drawing account was reconciled by an officer who also performed the duties of data entry in the PGAS ledgers; and
- Delays in the preparation of monthly bank reconciliations as well as late submission of copies to Department of Finance.

Management Response

The bank reconciliation for all the months for the year 2009 has been successfully completed however, there are differences in the first table (page 11 of the Audit Report) which officers need to consult the responsible officer from Finance Department. Basically, these differences are result of recurring items which are in the process of being written off.

For second table, schedule 5, most of these are recurring items up to 2005 hence we have requested for write-off which is still pending with Department of Finance due to officer in charge for DPLLGA is sick. For schedule 6 and 11

in the second table for the amounts of K274,810 and K30,722 respectively are mostly items which are for write off which are pending. The remaining items will be cleared with the help of the officer in charged. For the schedule 7 (K7,407,141) it is a reimbursement from Waigani Public Account which was cleared the next month when journalised. This has been cleared.

I note your recommendation and have directed the Deputy Secretary Support Services (same) to provide leadership and guide Finance & Administration Division undertake due diligence in managing the reconciliation processes.

ASSETS MANAGEMENT

Part 32 of the FMM on **Asset Management** stipulates that all assets purchased are to be secured and Management is required to do the following accountability processes:

- Maintain separate asset registers with all relevant particulars of the item recorded (including attractive items such as mobile phones, cameras, etc.);
- Any purchase/disposal of an asset should be recorded and a comprehensive report on details of assets on hand made at end of each quarter; and
- Stock take should be carried out at required intervals – (annually at headquarters and at provincial offices).

Assets were not recorded according to their classifications or categories as required. There was no separate asset register maintained for each category of asset (all assets were recorded under an officer's name and in no particular order). Assets recorded did not have information such as: dates of purchase, unit cost and total cost, estimate of economic life and preventative maintenance requirement.

Annual Stock-Take

Inspection or annual stock-take has not been carried out on assets for the department since the date of the audit. The only stock-take done was for the Minister's office. An audit review and verification of an Updated Asset Report based on a stock-take carried out in October, 2009 disclosed that the Department had total assets worth K1,379,007 as at 31st December, 2009. AGO could not rely on the value stated, due to the fact that the opening balance was based on the Assistant Director's judgment and not from reliable records.

Asset Policy

At the time of audit in February, 2010, the Department had a draft asset policy in place which was yet to be approved by the management. The management is commended for devising such a policy for the Department.

Asset Committee

The Department had an Asset Committee called "Equipment Committee". The Committee comprised of Secretary as the Chairman and eight (8) Directors. AGO noted that that the Committee was dysfunctional with no Terms of Reference, minutes of meetings and updates on Management reports.

Unrecorded Assets

AGO could not trace the assets purchased in 2009 totaling K746,954 abstracted from the Expenditure Transaction Details to the Asset Register maintained by the Assistant Director General Administration. The condition and custody of these assets could not be established in audit.

Management Response

In response to outstanding issues from previous audit DPLGA recruited a university graduate to train in managing DPLGA assets and other function of Finance & Admin division. Prior to 2009, management of assets was poor;

however, there is now a system in place to manage DPLGA assets. Therefore, it is recommended that AGO Report to disregard those Assets of 2005.

DPLGA focus is improving management of assets includes stock-take of all Assets of the Department will be carried out in the month of June, 2010 by Assistant Director-General, Administration. This stock-take will become an annual exercise for the Department.

Monthly Asset Report is currently working on to establish a vehicle register (fleet register) of the Department. The fleet register should have been completed and maintained however, some divisions of the Department were unreliable to provide to the Assistant Director the necessary information of their vehicles for registering. Hopefully, this should be resolved soon. For detail response to other issues, please refer to the attached, document.

PROCUREMENT AND PAYMENTS PROCEDURES

A sample of twenty (20) Payment Vouchers selected on a random sample basis with a total value of K1,502,079 were examined to ensure that the procedures were adhered to in the process of procuring, purchase and payment for goods and services. The examination of the payment vouchers with other related accounts noted the following observations:

- Two (2) payment vouchers purposely for the purchase of motor vehicles; cheque nos. 43256 and 44094 totalling K175,068 were not furnished for audit sighting and verification;
- In ten (10) instances, three written quotations were not obtained from the vendors for payments totalling K824,283. The consideration given for economy, avoidance of waste and extravagance could not be ascertained in place of quotations being obtained and kept on file or recorded in a register of quotation;
- Two (2) payments totalling K94,178 were executed based on pro-forma invoices instead of the original. The authenticity of these payments could not be ascertained in the absence of a letter of indemnity being obtained in support of payment;
- A payment of K102,300 was certified by the same officer who also signed as commitment clerk on the Requisition for Expenditure (FF3) and the countersigning officer for cheques drawn; and
- Another payment of K54,615 was approved by the Systems Administrator who also signed as the Financial Delegate and Commitment Clerk on the Requisition for Expenditure. The process under taken indicates a significant weakness in segregation of duties.

An examination of the purchase records of four (4) vehicles and related documents noted the following discrepancies:

- The two vehicles that were purportedly purchased in 2009 from the PIP funding of providing K200,000 for the purchase of an Ambulance-Toyota 10 seater vehicle. However, the funds were diverted through a minute to the Secretary dated 10th September, 2009 from Director, Border and Special Projects seeking approval to purchase a vehicle for Border Administration office in Daru. Audit noted that the Secretary approved the minute as well as the Equipment Committee members. However, *audit did not sight the approval of Technical Advisory Group of the Department of Works to proceed with the purchase;*
- It was noted that according to records, the Department went ahead and purchased a Nissan single cab two wheel drive costing K54,615 instead of vehicle Toyota Land cruiser. *Audit did not sight any records or decisions made effecting the changes; and*
- A vehicle Registration Plate No. ZGC 750 (Mazda Bravo) with a valued @ K13,000 was traded-in for a Ford Ranger 4x4 super Cab 2.5ltr turbo diesel engine with a total cost of K56,990 from Niu Ford for

Administration use at headquarters. The purchase of the divisional vehicle was inappropriately made out of the PIP funds.

Management Response

In relation to issue (a) the two (2) paid vouchers were not returned to the Accounts Section and assumed to be kept by the Director responsible for Border and Special Project who is currently on Recreational Leave. The Director procured these vehicles for his respective border offices in Wutung (West Sepik) and Kiunga (Western) Provinces.

In relation to the specific issues mentioned in the report, I have directed the relevant directors to provide statements and relevant documents, invoices and receipts as required by the auditors, which will be forwarded to your office.

In 2009, DPLGA implemented NEC decision 238/2008 without funding from NEC or Treasury Department. This resulted in DPLGA using its Public Investment Programme (PIP) and recurrent budget on Hire Cars and lodging fees for DPLGA officers who were the team leaders and lead department in the implementation of NEC decision. Reports and documents have been forwarded to the CACC

HUMAN RESOURCE MANAGEMENT

Human Resources Management is responsible for recruitment, training and the welfare of staff. The division also maintains the payroll and keeps staff personal files and other related records for all employees of the Department. A general assessment of the human resources management function revealed the following matters for mention:

- The selection processes for promotion and appointment to vacant positions were sound except that there was no provision for members of the selection panel to include one or two representative(s) from Department of Personnel Management (DPM) to be included on the panel. Also selection criteria did not always form part of the job description and therefore an important factor in the selection process;
- There were two (2) fulltime casual employees with no measures in place to grant them permanent status of employment. They were initially employed for specific period of time however, have continued working without a review decision made to either terminate their employment or to appoint them as permanent officers;
- There was a number of senior staff whose contracts have not been renewed, however, in the absence of valid contract agreements the officers were paid gratuity which were not in order as provided for under General Orders; and
- Other matters observed in the performance appraisal system which needed to be addressed include the following:
 - Job descriptions were not sufficiently defined in terms of reporting lines;
 - Staff performance appraisals were only reviewed from January to June, 2009;
 - Appropriate criteria were not used against which performance was to be appraised;
 - The appraisal process did not allow information feedback to individual staff members and for their comments on how they had been appraised;
 - Information gathered from performance appraisal had no linkage to remuneration and promotion;
 - No reports were submitted to the management informing them of overall standard of performance and highlighting problems; and

- There was no policy from management in support of performance appraisal procedures.

Management Response

DPLGA proposed HRM policy will be considered by the management and there is plan to engage an advisor funded by EU to support tighten internal controls in regard to human resource functions.

Contract Officers

Twenty-one (21) senior officers had signed employment contract documents with the Department that ranged from categories A to D.

- Audit noted that contracts of employment for seven (7) senior officers had expired and the concerned officer have been acting on those positions for over twelve (12) months as at the time of audit in March, 2010, refer to details below:

Officers whose contract of employment had expired for over 12 months

Designation	Category	Term	Period
Director (SI)	B	3	22.11.06-20.11.09
Director (LP&IT)	B	3	12.7.05-11.07.08
Asst. Director (HR)	C	3	02.12.05-01.12.08
Assist. Director (SI)	C	3	30.12.05-29.12.08
Director (BSP)	D	3	30.12.05-29.12.08
Assist. Director (RC)	C	3	30.12.05-29.12.08
Assist. Director (Legal)	C	3	03.01.06-02.01.09

Evidence was not provided to audit to indicate that appropriate action has been taken to address the renewal or non renewal of the officers holding these employment contracts.

Payment of Gratuity

Proper procedures were not observed in payment of gratuity to ten (10) officers totalling K70,355. Payments were inappropriately paid through PGAS and furthermore, six (6) of the officers paid were not entitled for payment in view of expired Contracts of employment.

Management Response

DPLGA has just recently established in-house concept payroll system. I note that officers contracts and other issues which I have directed my deputy secretary to address and put strategies to avoid repetition in future. On the same note, I have directed the director Human Resource Division to formulate a circular instruction ceasing payment of advance to officers returning from leave due to delay in getting on the payroll. No payments of gratuity until all contract officers renew their contracts.

TRUST ACCOUNT - NATIONAL DISASTER

The Trust Account was reported on in the 2009 by AGO. A management letter detailing audit findings was issued to ORO's Provincial Administrator and a copy was forwarded to Department of the Secretary of Provincial and Local Government Affairs on 2nd May, 2010. The management of the Trust Account has not provided a response as at the time of writing this report.

AGO noted that a total of K41,467,878 was channeled through the National Disaster trust bank account as detailed below:

Receipts as per Bank Account

Receipt Date	Cheque Number	Amount (K)
19/12/08	-	20,000,000
31/12/09	046697	5,000,000
2009	-	16,467,878
TOTAL		41,467,878

A sample of sixty two (62) payments selected on a random sample basis from amounts over K100,000 totalling K30,862,923 were verified to ensure that the procedures were adhered to in the process of procuring goods and services and also were in line with the requirements of the Trust Instrument.

An examination of the payment vouchers including other related records and documents revealed the following matters of concern:

- Three (3) payments were made as Relief Assistance to foreign countries, as follows:

International Donations for disaster Paid from NDTA

Date	Cheque No.	Payee	K
28.01.09	86399	Fijian Flood Disaster	1,566,967
13.01.09	38416	Solomon Island Government	100,000
13.02.09	38417	Australian Government Victoria Fire Disaster	3,784,415
Total			5, 451,382

- The authority to make these payments were not evident or documented;
- AGO noted that the payment arrangements and decisions were made entirely by the Prime Minister. The Disaster Management Act of 1984 does not have any such provision for International Disasters to be paid out directly from the National Disaster Trust Account. AGO viewed such action as a significant non-compliance and a breach of the legislation;
- Where funds are being paid to respective Provincial and District Treasury or Provincial Disasters, assessment reports and acquittals were not sighted as evidence of monies being spent on the intended purposes. Similarly, funds that were paid to the Companies for supply of materials and to Consultant firms, the Supply and Tender Board approvals were also not sighted. Further, pro-forma invoices or photocopies were used for making payments and no evidence was sighted of distribution of materials to communities or groups (for example mosquito nets);
- Cheque No. 38532 dated 8th September, 2009 for an amount of K200,000 was paid as assistance to the Governor General's HIV trust account. AGO noted that the reason for paying such monies to the Governor General's trust account could not be clearly understood. Therefore, this payment appears to be irregular;
- The Disaster Funds were also inappropriately used for paying school fees, advance contract payments or salary advances, consultancy services, repatriation expenses, and financial assistance;
- An officer was engaged on full time basis in monitoring the trust account records. However, there was no segregation of duties in raising vouchers, manual cheques, making payments and preparing monthly bank reconciliation statements. Furthermore, there was no oversight authority over the Bookkeeping responsibilities;
- There was no evidence of monthly statements being prepared and provided to Department of Finance in compliance with the statutory requirements as per the Finance Management Manual; and
- The monthly bank reconciliation statements for the trust account were not checked by an independent officer to attest for accuracy.

Management Response

The National Disaster Management Office is another government organization housed under DPLLGA in terms of finance and accounting. Secretary DPLLGA is the chairman of National Disaster Committee.

Interim of the issues identified in the field audit report, a detail response is provided by the Director General in the attached DPLLGA response.

ADVANCE MANAGEMENT

Prior Year Issues

AGO follow up audit for 2009 noted that all prior years 2005-2008 outstanding advances remained un-acquitted as at the time of audit in March, 2010.

Advance Registers

The examiner maintains both the travelling allowances and cash advances registers while the commitment clerk maintains the salary advance register. A review of the advance registers and acquittal documents revealed the following concerns:

- A total of one hundred and twenty-seven (127) advances amounting to K209,239 remained outstanding as at 31st December, 2009 up to the time of audit in February, 2010;
- Audit noted that the Department continues to issue additional advances to officers who failed to acquit their previous advances. In this instance a total of eighty-three (83) advances totaling K165,585 were observed paid to officers whose previous advances have not been acquitted;
- Eight (8) travel advances totalling K2,430 were not recorded in the register of advances for which acquittal action has not been taken;
- Not all officers furnished supporting documents to substantiate their acquittal. There were instances where only acquittal forms were submitted to the Examiner without the required documents;
- Advance issued were not given advance numbers to properly control and monitor the advances issued and for ease of reference to acquittal forms; and
- A sample of eight (8) advances totalling K7,889 recorded as acquitted in the advance register were not supported by any acquittal forms and supporting travel documents and hence could not be confirmed as acquitted.

Salary Advances

Eleven (11) officers owed the Department salary advances totalling K40,330 which were yet to be recovered. These comprise of salary advance of K34,780 paid in 2009 and K2,050 paid in February, 2010.

The commitment clerk has not been consistently updating the salary advance register and is not taking timely action to advise Payroll Section for recovery action.

Eleven (11) unrecorded salary advances were noted for both 2009 and up to February, 2010 totalling K5,550 which have not attracted any follow-up action for recovery. These advances should be immediately recorded as unacquitted.

An officer was paid K500 as salary advance (cheque no: 46070) dated 8th October, 2009 as confirmed by Payroll Section. A payment voucher to support this payment was requested for but was not made available for audit verification. This payment is considered to be irregular and needs to be investigated.

Management Response

I note that the report pointed out prior year audit issues relating to acquittals. Detail response is provided in the response document attached and have directed my deputy responsible to attend to issues raised in the audit report. A specific memo from me was sent to the acting director finance to ensure acquittals for 2009 are accounted for.

Due to staff shortage in the finance and administration division, management of advances is still a challenge, however, the management will issue strong instruction to all officers to comply with due process and ensure appropriate staff are recruited.

JOURNAL ENTRIES

The use of journal entries within an accounting system is a means for correcting or adjusting entries in ledger accounts and the cash books. Journal entries are a means for correcting and ensuring that there is better reflection of accounting transactions.

A total of three hundred fifty-nine (359) journal entries were passed during 2009. Journal entries were raised to serve the following purposes:

- Write back of cancelled cheques transactions into the cash books and ledgers;
- Adjustments to correct errors that were made in the passing of the original entries;
- Monthly Receipts from the Main Public Accounts into the cash books; and
- Write-off outstanding items dating back to year 1995.

The follow observations were made when examining the Journal Entries:

- Journal entries were raised without the requisite approval of the authorized senior officer in charge of accounts, and were not certified nor verified by a competent officer;
- Journal entries raised debiting and crediting same vote resulting in having no effect when posted; and reflects on the low competency level of accounting staff;
- Journal entries raised for cancellation of cheques that were raised in prior years, intending to bring back into the cash book and ledgers were correctly debited to the cashbook but the credits were posted to current year's expenditure votes instead of prior year's appropriation revenue vote. Thus has inflated the current year's expenditure vote allocations to that extent;
- The journal entries raised neither provided clear narrations of the adjustments nor bore any evidence of internal checks being made prior to postings; and
- Journal entries were raised by the same officer who is also involved in posting the journal entries into the computer.

Management Response

Many of the journal entries raised were to clear the outstanding unpresented cheques identified after massive bank reconciliation with the help of Department of Finance officers which dated back as far as 2005. These journals entries were raised without physical cheques hence no clear narrations were given in Journal entries.

I have also noted that for accuracy and completeness purposes, auditors recommend that JE must be raised by two different officers. A senior officer for physical cancellation of cheque and raising journal entries and the other to post journal entries in the PGAS which in this case is PGAS administrator. For this, DPLGA will be shortly formulating a policy on procedures and processes of JE for consideration and approval from the management.

I note the recommendation(s) given by auditors particularly the controls, proper authorization and independent verification before and after posting Journal entries. I have directed the Deputy Secretary responsible to ensure compliance with proper procedures.

DEPARTMENT RESPONSE

The Department responded to the Audit Management Letter issued on reported findings and their comments are stated accordingly.

CONCLUSION

In general, there is minimal improvement in the system and operation of controls within the Department compared to previous years. Management need to take affirmative action on audit recommendations.

The results of my audit indicate that overall there were notable weakness in the control framework. At present, the control activities such as delegations, authorizations, reconciliations, segregation of duties, management monitoring, etc, are not sufficiently robust to prevent, detect or correct errors or fraud.

DEPARTMENT OF DEFENCE

OVERVIEW

The Mission of the Department of Defence is to ensure that it is ready and able to defend the Nation and protect the People.

The Department is expected to fulfill that Mission in the context of the *Defence Act* and other relevant legislations and through exercise of those functions as follows:

- Assist in the development of Defence Policy and its implementation in planning Defence Force development and the use of the Defence Force.
- Provide investigation, research, executive, administrative, financial management and other services to the Defence Force in the discharge of its functions under Constitutional Laws and Acts of the Parliament.
- Provide services to standing or ad hoc organizations in relation to the functions of the Department.

FINDINGS

CORPORATE GOVERNANCE

Corporate and Annual Plans

It was reported in the 2008 Report that, although the Department had a Corporate Plan for the period 2008 to 2010, there was no Annual Plan available for 2006 and subsequent years to support the implementation of its corporate plan on an annual basis.

The lack of Annual Operational Plans could lead to inability to set targets and performance indicators to monitor the Department's achievements and corrective action taken to achieve objectives.

Internal Audit and Audit Committees

The performance of the Internal Audit Unit was lacking due to inactions in the following areas:

- The Internal Audit Unit had not acted on findings reported in the previous year audit Management Letter, especially on the bank and Trust Accounts listing;
- An Officer of the Department misappropriated a part of the sale proceeds from the disposal of the Departments vehicle fleet. An investigation into the matter was requested to be conducted by the Deputy Secretary through letter dated 26th June, 2009. Despite a reminder letter issued on 8th December, 2009 the Department had not taken any recovery action against the concerned Officer; and
- AGO request for copies of the internal audit plan for 2009 along with copies of internal audit reports were not provided. Consequently, it was not possible to appraise the effective performance of the internal audit function.

It is appropriate that the attendance and performance of each Officer in the Internal Audit Division is closely monitored to ensure that assigned duties are carried out. Also Annual audit plans should be prepared and approved well before the beginning of the relevant year and implemented on commencement of the year.

BUDGETARY AND FUNDS CONTROL

A total of fifty-five (55) payments made in 2009 had exceeded the original commitments by K110,392. This indicates that Management had not exercise due care to ensure that payments are within the commitment values unless increases are justified.

The Department had not sought the approval from the Secretary of the Department of Treasury as required to reallocate funds between votes/budget line items. In accordance with the Finance Manual, a Section 32 Officer from Department of Defence could request/apply to Department of Treasury on Form 35 with a copy to the Auditor-General for approval to reallocate funds between vote items through release of Warrant Authority.

The Department's action was also in breach of Section 24 of the *Public Finances (Management) Act 1995* relating to funds control and the annual Appropriation Acts passed by Parliament.

As reported in previous years, the Department had transferred funds between the votes since 2002. This practice had continued up to 20th March, 2009 as noted through the transfer made on Journal entry no. 8/2009.

In addition, funds were inappropriately accumulated at year end through various cancelled commitments as follows:

Transaction Description	Year	Instances	Amount (K)
Cancelled commitments	2008	916	16,285.9
Cancelled commitments	2009	469	10,546.9

The practice of transferring unused funds at year end to accounts such as 'Paymaster Imprest Account' for use in the subsequent year is a direct breach of Section 27 of the *Public Finances (Management) Act 1995* and is a serious control weakness that defeats the budgetary process in funds appropriation and control.

AGO notes that there is prevalent abuse and lack of applying proper procedures in the reallocation or transfer of funds between Vote items. Such unauthorized action also distorts the accuracy of the balances reported in the Public Accounts Financial Statement of the Government of PNG.

BANK RECONCILIATIONS – Drawing Account

The last bank reconciliation statement prepared was for the month of August 2009 and submitted to the Department of Finance. However, this bank reconciliation contained various unreconciled adjusting items that needed to be investigated, cleared and adjusted in the cash book to ensure the reporting of reliable cash book balance. These adjustments are as follows:

- The bank reconciliation statement contained the following reconciling items which attest to the conduct of fraudulent transactions:

Types of Transactions	Ref:	Amount (K)
Debit in bank statement not in cashbook	– Sch 3 -	8,868
Cheques in bank statement not in cashbook	– Sch 5 -	2,850
Cheques in cheques listing not in cashbook	– Sch 6 -	68,410

- The reimbursements amounting to K44,658,169 received since January, 2009 were not journalised into the cashbook and appeared as a reconciling item;
- The bank reconciliation statements were not certified by a Senior Officer to attest for accuracy and completeness of records. Also the bank reconciliation statements were not prepared on a timely basis and submitted to the Department of Finance;

- There was no segregation of duties as the bank reconciliation was prepared by the person who is also a signatory to the account; and
- The unrepresented cheques listing included seven cheques amounting to K26,112 drawn in 2001 and 2002, described as “cancelled but presented and cleared at the bank”. This appears to be an act of fraud for which no action has been taken to investigate the presented cheques. Details of these cheques are as follows:

Date	Chq #	Description of Goods/Services	Amount (K)
12/04/02	9150936	Confined allow 01.1-28.02.2002	147
26/04/02	9151109	P/Ment Of Hire Of PMV Bus	900
04/06/02	9151405	Inv * 396365//66 White Goods & Hsehd item	19,668
19/07/02	9152253	See attached quotation # 68 ZDC 092	4,941
12/08/02	9152425	Ops Allow 09 -22/04/02	350
22/10/02	9153127	Ops mutiny 08 - 14.07.02	105
		Total	26,112

AGO reported these observations to the Management but no action appears to have been taken.

AGO is of the view that, Management had failed to see the importance of bank account reconciliations as a key control in ensuring that anomalies or errors sighted in the bank statements are followed up and/or reconciled with the cashbook.

ASSETS MANAGEMENT

The asset register provides the primary record for assets management. There were two sets of assets registers maintained, one by the Supply Company Section for the Defence Force Military Personnel and the other by the Office Support Section for the non Military or Civilian Personnel. A review of the purchase, recording and control over assets on both registers revealed the following concerns;

- The asset register for the Military Personnel was maintained in reasonable order except for monetary values and date of purchase not being disclosed. However, the civilian asset register was incomplete and inadequately recorded with details of the assets;
- A stock-take of assets were not carried out periodically to take account of all assets held in the custody and use of the Department; and
- A Centralized Loan Register was not maintained as required under Financial Management Manual of instructions in respect of portable assets such as laptops, mobile phones and flash drives issued to officers.

Due to inadequate and incomplete maintenance of Assets Registers to record all capital purchase and the complete breakdown in controls, AGO could not establish the completeness and accuracy of the assets held and in the custody of the Department.

The inadequate and incomplete maintenance of Assets Register attest to the non compliance to Part 32 of the Public Finance Management Manual.

MOTOR VEHICLES

A review of the motor vehicles fleet register maintained for the non Military Section resulted in the following observations;

- The register was incomplete and not updated with the recording of vital information such as cost, date of purchase and vehicle model, etc;

- Vehicle with registration No. ZGR- 189 had its glass panels tinted whilst vehicles BCF-683 and BCA-345 were registered with private number plates. These actions are contrary to the motor traffic regulation governing the registration of Government owned vehicles which are registered government number plate and vehicles not to be tinted;
- Apart from the two (2) Office Support Buses bearing registration Nos ZGR-189 and ZGR-876 all other vehicles were not parked at the Official car park after business hours and during weekends thus, exposing government vehicles to higher risk of theft and abuse;
- Organized service maintenance schedule/chart was not maintained for vehicles operated leading to vehicles being serviced on an ad hoc basis. Also no separate files for each vehicle is maintained to record the details of servicing, repairs & maintenance of motor vehicles;
- Though the Department had complied with provisions of the Public Finance Management Act during the purchase and disposal of vehicles it has no internal Transport Policy to set procedural guidelines on the economical usage of motor vehicles; and
- Stock-take were not conducted on motor vehicles in 2008. Even the Office Support Service Section has no Annual stock-take program/plans in place for the Department to undertake stock take of vehicles annually.

On the whole a comprehensive motor vehicles fleet register was not maintain for the PNGDF fleet of vehicles. AGO is concerned on the prevailing internal control weaknesses over the administration of Departmental vehicle fleet.

PROCUREMENT AND PAYMENTS PROCEDURES

The conduct of audit way to assess whether the procurement and payment of goods and services were made in accordance with relevant legislation, Government policies and sound purchasing principles and practices.

The procurement function of the Department is carried out by establishments as follows:

- Supply Company (as Procurement Finance Section);
- Quarter Master Store (as Retailer); and
- PNGDF Units/Service men (as Consumer).

Supply Company

The Supply Company is the major Procurement Finance Section of the PNGDF Military and it is headed by Director Supply. The Supply Company Section is responsible in liaising with the external suppliers and facilitates bulk procurements and distribution of goods and services needed by the Military. The role of Supply Company also includes stock management, quality assurance, inspection & acceptance, disposal, ammunition inspection & control, and documentation, etc.

Quarter Master Store (QMS)

The Quarter Master Store performs the role of a Retailer store for the PNGDF Military. The QMS receive goods & services from the Supply Company and issue them to PNGDF Military Units/individual Officers that request the goods and services. There is a Loan Register Book maintained manually to record the receiving and supplying of goods and services to Military Units/Officers that requested the goods/services.

PNGDF Units/Service Men

The PNGDF Units/Service Men are various Sections and individual Officers within the Military of the PNGDF who request the supply of goods and services for their use.

Current Procurement Practice in PNGDF

The PNGDF had not adhered to the established centralised procurement directives, systems processes and procedures when dealing with procurement of goods and services that are required by the Military. The procurement systems and process had not been thoroughly followed as so many short cuts were taken in the procuring of goods and services.

Also the procurement process had been decentralised during the adoption of Programme Budgeting many years back, where each Sections/Units were allocated funds to do their own procurement of goods and services.

Further, the current procurement systems and process that are practiced in the PNGDF lacks control measures and contributes to non accountability of stores and assets. There is no control and monitoring of the use of assets and stores which can go missing or subject to abuse as proper records were not maintained to control their use.

HUMAN RESOURCE MANAGEMENT – TRAINING

Training Costs

A Staff member has been allowed to undergo nine (9) different training/study program both within and abroad on a continuous basis and sponsored fully by the Department since his commencement of employment in 1989. He joined the Department with a Certificate in Accounting obtained at the Institute of Public Administration. According to the response from the Department's Training Branch, this Officer is yet to provide to HR & Training Division the copies of all his Certificates which will attest to the qualifications gained in all the courses attended.

Furthermore, the same Officer at the time of audit in June, 2010 was undergoing an MBA study program in a University abroad. The HR & Training Division which is responsible for the training program has no training plans/program in place for that Officer to undergo such study overseas except that his training was sanction by the top Management of the Department.

The money spent by the Department on a single Officer enabling him to attend nine (9) trainings both locally and abroad on a continuous basis, is clear indication of the practice of nepotism by the management in the Department. Currently the Officer is in overseas studying to obtain an MBA.

TRUST ACCOUNTS

The Department operates nineteen (19) Trusts with separate bank accounts as identified by the Internal Audit Division which are listed below;

No	Account Name	Account No.	Remarks
1	Directorate of Air Operations	12110771	
2	Defence Force Commercial Support TrustAcc	1000587747	in PGAS since Dec 2004
3	Defence Force Civic Action T/A	1000385667	
4	PNGDF Lombrum Rental Fees	1000964808	
5	PNGDF Commanders Officers mess	1000490542	
6	PNGDF Commanders Officers mess	1000022012	
7	PNGDF Training DepoRegimentalTrust Acc	1000490545	
8	PNGDF Paymasters Imprest a/c	1000386703	
9	PNGDF Training centre RegimentalTrust Acc	1000386333	
10	PNGDF Paymasters Imprest Acc	1000588113	Maintained at HQ
11	Defence Lombrum Regimental TrustAcc	1000963492	
12	PNGDF Central Amenities Fund	1000586681	
13	PNGDF Supply Company	1000051411	
14	PNGDF Signal Squadron	1000459030	
15	Defence Force rebuilding Trust Acc	1000587734	Controlled by Delloite

16	Defence Force Retirement Benefit Fund	1000964131	
17	Defence Force Retirement Benefit Fund	1000964136	
18	Defence Force Retirement Benefit Fund	1000964139	
19	Defence Soccer Club	1000773984	

Except for the Defense Force Commercial Trust Account, all other trust accounts were operated outside the PGAS system.

The Internal Audit Unit has identified four (4) accounts previously being operated by the Department which AGO captured and reported to the Management in 2008. These are as follows:

Name of Trust Account	Bank Account #
Murray Barracks Regimental Trust Account	1000489364
Taurama Barracks Regimental Trust Account	1000489469
Lancron Naval Base Ship's Fund	12382173
Lancron Naval Base Ship's Fund	6000321804

The reason for the above four (4) listed Trust Accounts not being included in the nineteen (19) listed above is not known to AGO. Even there was no evidence of any audit appraisal work done by the Internal Audit Unit on all the above four (4) Trust Accounts.

AGO is concerned that the Department did not exercise due diligence to ensure that the trust accounts managed by responsible officers comply with all legislative requirements. The Accountable Officers responsible for these trust accounts should be subjected to disciplinary measures for failure to comply with legislative requirements. In addition, all trust accounts have not been operated on PGAS system as required and that accountability requirements in monthly bank reconciliations were not furnished to the Department of Finance as is required.

PAYMASTER IMPREST ACCOUNT – MURRAY BARRACKS

The Department operates a 'Paymaster Imprest Account' at Murray Barracks with a separate bank account. As the name denotes, the account should be operated as an imprest and monies expended from that account should be reimbursed upon checking the correctness of expenditures as per vouchers/document. And monies deposited should have the necessary official receipts supporting the source from which they were received. However that was not the case as the Paymaster was not even a signatory to the account and the cheque book and the bank statements are not in his custody.

The operation of the Paymaster Imprest bank account is of concern to the Military Officers thus the Support Commander requested the Internal Auditors in January, 2009 to carry out an investigation.

The Acting FAS Financial Services confirmed to AGO that neither a cashbook nor receipt books were maintained since 2000.

The problems in the operation of this account were highlighted in a draft report of the Internal Audit Unit dated 23rd September, 2002, and also reported by AGO as follows:

- The account was incorrectly used to process transfers of unused funds in the recurrent votes at year end which violates Section 27 of the *Public Finance (Management) Act 1995*; and
- The account was also used to process expenditure refunds received from organisations such as Air Niugini, etc.

Since the account was not operated and used as an imprest account, a proper cashbook should be maintained to record all transactions including brought forward and closing balances.

A summary on the operation of this account in the years 2008 and up to 18th August, 2009 are as follows:

	2008 (K)	Up to 18/08/09 (K)
Opening balance 01 January	57,106	600,053
Receipts during the year	1,963,037	259,229
Payments during the year	1,420,090	859,279
Closing balance	600,053	3

The comparative balances indicate a significant level of activity being conducted through this account and the control issued prevalent as identified in audit indicate a serious concern for fraudulent activity to pass without being detected. AGO is concerned that the account has continued to be operated in 2009 with no effective action taken to regulate its operations and to establish proper record keeping.

ADVANCE MANAGEMENT

A review of advance payments, recording and acquittal procedures revealed that an Advance Register was not maintained and no one was in employment as an advance clerk at the time of audit. The same were noted and reported in the 2008 Report.

The non maintenance of advance register is a serious non compliance which exposes the Department to the risk that:

- Follow up on advances not acquitted will not be done;
- Second advances will be made despite the first advance not being acquitted; and
- Control will not be exercised over the management of advances in accordance with advance management requirements and control procedures.

The non maintenance of the advance register is a serious non compliance breach on the requirements of the Finance Management Manual Part 20. Also the management has neglected the responsibility to appoint a responsible officer to oversee and managed the advance payments and acquittal process.

DEPARTMENT RESPONSE

The findings were brought to the attention of the Secretary in the audit management letter dated 21st June, 2010. At the time of writing this report the management had not responded to the reported findings.

However, prior to the issue of the management letter, the audit findings were discussed with the responsible offices during the Audit Exit Interview meeting.

CONCLUSION

In general, there were no significant improvements in the system and operation of controls within the Department compared to the previous years. The shortcomings noted in the past audits continue to exist which indicates that the management had not taken any action to correct the deficiencies reported.

The results of my audit indicate that overall, there are significant and serious weaknesses in the control framework. At present the control activities, such as delegations, authorizations, reconciliations, data processing, segregation of duties, management monitoring, etc, are not sufficiently robust to prevent, detect, or correct error or fraud.

DEPARTMENT OF COMMUNITY DEVELOPMENT

OVERVIEW

The Department of Community Development was established to prepare and implement long term goals for the welfare of community at large. Amongst other responsibilities the Department takes charge of issues on social concerns of the community as especially advocating the equal rights in life for less disadvantaged citizens of the country such as women and children.

FINDINGS

CORPORATE GOVERNANCE

A Corporate Plan for the Department outlines the core business activities, major strategies, outputs, and performance indicators of various divisions within the Department. The Corporate Plan 2009 – 2011 has commenced operation in January, 2009 and it is in a usable and easily read format that sets a path for the three years.

Audit noted that the Department has produced an annual operational plan for year 2009 to show the Department's annual activities that were derived from the Corporate Plan.

AGO review of the corporate plan indicate that the Department did not regularly monitor and evaluate its annual operational plan during its implementation to assess the level of achievement of its Corporate Plan objectives. In addition, there was no proper analysis done by the Policy and Regulatory Division through its quarterly review on the status or progress on developments in regard to implementation of the Corporate Plan against the actual time frame and moneys expended.

Management Response

Department of Community Development (DFCD) established a three year Corporate Plan (2009-2011) in January, 2009. The Corporate Plan sets out the vision, mission and development objectives of the Department. The corporate plan is systematically linked to desired output and the outcomes and is operationalised through the Annual Operational Plan (AOP). The AOP is further localized into sectional work plans and individual work plans. The AOP is monitored regularly by each Division and the results:

- tabled at Monthly Senior Management Team (SMT) meetings for review and corrective action where necessary;*
- form the basis of Quarterly Reviews and performance reports to the Departments of Treasury and Finance (DTF) and Department of National Planning and Monitoring (DNPM); and*
- form the basis for Annual Report which is presented to NEC and Parliament by the Minister for Community Development.*

In recent months the Department has developed and established a comprehensive Monitoring and Evaluation (M&E) framework which is currently being used to monitor and evaluate the implementation of the department's AOP, the integrated Community Development Policy and other relevant policies and programs.

Internal Audit and Audit Committees

The internal audit is an important component of the system of internal controls. Because of similarities in the nature and scope of activities performed by internal and external auditors, especially in the public sector, there are significant efficiencies to be achieved if external auditors are able to rely on the work of internal auditors.

An effective internal audit program should facilitate external audit to place greater reliance on the work of Internal Audit, thereby making better use of overall audit resources.

AGO noted the following issues:

- There was no proper office accommodation space allocated for the internal auditor to occupy and perform his duties;
- The internal audit unit is ineffective with only one officer performing the responsibilities of the internal audit. This reflects the lack of support by the management to ensure adequate capacity in its function; and
- The Department has not established a Departmental Audit Committee as required to complement the governance responsibility within the Department.

AGO is concerned that the Department is not supporting the function of internal audit unit which is regarded as the management tool for review and improving internal control systems thereby minimizing risks on irregular activities.

Management Response

Agreed

In 2009, the Department undertook functional and manpower audit and two positions for the IAU were created. The Senior Internal Auditor (SIA) has been recruited and started work in August, 2010. The subordinate officer will be recruited in 2011. The IAU will have its own office space, budget line and support vehicle. An Annual Audit Plan and an appropriate internal audit program are being prepared and this will be incorporated in the Department's 2011 AOP. One of the core activities of the IAU will be to undertake performance reviews quarterly, in the context of Department's AOP and report to the Senior Management Team (SMT).

We have already commenced liaison with the Department of Finance to establish an Audit Committee and we expect it to be in place and functional in early 2011.

BUDGETARY AND FUNDS CONTROL

Variances in Expenditure Balances

National Government Departments and Statutory Authorities using the Standardised Government Computerised Accounting System (PGAS) must ensure direct interface takes place in the General Ledger.

A comparison of the Expenditure Summary generated by the TMS system against the Expenditure Vote Summary printout through the PGAS system revealed the following variance between expenditure balances:

Particulars	Exp as per Dept. (PGAS) (K)	Exp as per TMS 330	Difference
Revised appropriation	35,683,400	34,691,300	992,100
Warrant	31,287,600	34,691,300	(3,403,700)
Actual Expenditure	30,531,841	35,668,474	(5,136,633)
Expenditure (Over)/Under	755,759	22,826	732,933

The Audit noted that the expenditure summary generated by the Department of Finance (TMS report) and PGAS revealed a total variance of K1,888,809. The information transferred between the PGAS and the TMS records is incorrect and incomplete and a reconciliation was not performed to identify the variances between the two (2) ledgers.

Management Response

The over commitment was K977,174 and not K1,888,809.

We have reconciled the PGAS account with the TMS for the year ended 2009 and the figures are as follows:

	PGAS	TMS	Variance
<i>Revised Appropriation</i>	35,683,400	34,691,300	992,100
<i>Warrant Authorities</i>	34,808,400	34,691,300	117,100
<i>Actual Expenditure</i>	35,493,404	22,666,774	12,826,630

The difference on the revised appropriation and warrant authorities relate to adjustments made by Treasury and we were not aware of these before the close of the 2009 accounts in PGAS.

The difference in the expenditure figures largely relates to the donor related funds of K13,001,700 – a cheque for this amount was cancelled and adjustment made to the TMS accounts 2009 accounts after PGAS close. We accept that the real difference in expenditure figure is K175,070 and may well relate to timing and or processing errors at both ends.

The reconciliation of PGAS with TMS is on the monthly task list for our Assistant Secretary Finance & Administration.

Expenditure in Excess of the Authorisation

The Public Finance Manual Part 7 - Budget and Expenditure Control Division 2 – Warrant Authorities states that irrespective of the agency to which Warrants are issued or, which makes the payment, the Departments in whose budget the votes are included are responsible to ensure that commitments and expenditure are within authorised limits.

AGO review of TMS 90 report noted that in fifteen (15) instances commitment of funds totaling K977,174 were made in excess of warrant authorities issued. Such action give rise to expenditure that may not be budgeted for when incurred.

The budgetary controls within the PGAS were not operating, allowing system funds to be spent in excess of the authorization which is non-compliance to established controls and a serious breach of the Appropriation Act.

Management Response

The expenditure in excess of authorization of K977,174 largely relates to salaries and allowances and is a result of inadequate budgets. The budget for this item in 2009 was K3,520,800 as compared to the budget in 2010 of K4,586,800. We have operated overall within the staff ceilings provided by the Treasury.

By implementing our Payroll Policy and Procedures, we have now brought about optimum controls for payroll expenditure and for 2010 we are tracking to be within the allocated budget.

BANK RECONCILIATIONS – Drawing Account

To prevent errors, fraudulent practices and to allow for timely and informed management decisions the Department should prepare both Cash Flow Statement and Bank Reconciliations for its Drawing Account and Trust Accounts. They should be prepared on a monthly basis, checked and certified by an independent officer and forwarded to Department of Finance and copied to Auditor-General's Office by the 14th day of the succeeding month.

AGO in the 2007 report stated that the Department had not compiled its bank reconciliations for the Drawing Account since April, 2007.

AGO commends the Department for the progress made in updating its bank reconciliations for the Drawing Account up to 31st December, 2009. However, the reconciliation process need to be improved; as the following weaknesses were noted:

- The Drawing Account bank reconciliation statements were not signed as having been checked by an independent senior officer to attest to its accuracy and completeness.
- The bank reconciliation statement for month ended 31st December, 2009, showed that the following reconciling items were not identified and cleared:
 - The opening bank balance as at 1st December is zero whilst the bank reconciliation statement figure was (K118,015).
 - During the month the cash book payments amounts to K17,687,885 whilst the bank reconciliation amount on payments totaled to K717,672.
 - The transfers from Waigani Public Accounts not taken up in the cash book amounted to K3,442,727.
 - Cancelled cheques as at 31st December, 2009, aggregated to K113,578 and were not journalised and written back to the cashbook.

AGO acknowledges the very good progress made by the Department in addressing the bank reconciliation issue. However, it is best practice to ensure that the monthly bank reconciliations are prepared on a timely basis and reconciling items are cleared to reflect a reliable cash position.

Management Response

The bank reconciliation format has been designed to be signed by the preparer and review, approval and sign off by a senior person. In our case, the reconciliation is prepared by the Assistant Secretary, Finance & Administration and reviewed and signed off by the First Assistant Secretary, Corporate Services or by Deputy Secretary, Corporate & Regulatory Services.

The 31st December, 2009 correctly reflects:

- *The opening bank balance at BPNG is correctly stated as K22,501;*
- *The payment of K717,671.11 relates to the total payments by Bank of PNG in November. The December payment was K4,686,184.96 correctly reflected in the cash book and the bank reconciliation (please note that there was an adjustment made in the 2009 TMS for K13,001,700 relating to a cancelled cheque);*
- *The substantiation for the transfer for the Waigani Public Accounts of the amount of K442,727.16 was the Bank of PNG statements (November K813,185.44 and December K2,629,541.72); and*
- *Cancelled cheques could only be adjusted in January, 2010, following the bank reconciliation.*

Our cheque and Bank Management Policy covers the recommendations and is being consistently applied.

ASSETS MANAGEMENT

The Department should maintain an Assets Register to record all its asset purchases and a stock take should be conducted annually to verify their existence and assessed value.

The register of assets maintained had incomplete or inadequate information in the following:

- There were no reference numbers or labels given for asset identification;
- Custodianship and responsibility over the use of the asset was not stated;
- No received stock take was done;
- Location of the asset could not be ascertained; and

- State or condition of the asset was not stated.

Although some progress was made in terms of stock taking of assets, there was no corrective action being taken to improve information recording in the register.

A brief stock-take was done on the printers, computers and other computer consumables in 2009. According to the stock take summary, were updated information about asset number, serial number, type of asset, make, model year purchased, which division it is located and the custodian of the asset. However, there were no full stock takes conducted of the complete assets owned by the Department.

The vehicles fleet had no proper record maintained up to the end of January, 2010.

AGO acknowledged that the Information Technology Configuration (ITC) Section is currently working on the new Asset Register for the Department to implement.

Management Response

Agreed

We will be developing an Asset Management Policy and follow up with stock-take of all assets and enter them in the asset register in accordance with the policy. We will also keep the asset register updated for additions and disposals.

PROCUREMENT AND PAYMENTS PROCEDURES

Procurement Planning

Procurement Planning ensures that the right goods and services are acquired at the right time and at the right price. It entails, linking the procurement process into the operational plans including the assets management plan of an agency. These plans should be linked to the budgetary process to ensure that funds are available when required.

AGO reported in the 2007 audit that the Department did not have a Procurement Plan or Strategy in place.

The Department has made a good progress in this area in 2009. A review was done on the Purchasing and Accounts Payable-Planning, on the recommendation made in the last Audit (2007). The Department has already worked on the procurement policy to ensure that the right goods and services are acquired at the right time and at the right price.

Budget funds are spent according to the Public Finance Management Manual and the Goods Procurement Manual (GPM) to achieve “value for money”. The Department has embarked on a new procurement policy to centralise the procurement at the ITC section in conjunction with the administration section. It is anticipated to come into operation in 2011.

The Department is commended for taking the initiative in improving on procurement and maintenance of assets. AGO acknowledges the initiative and progress made by the Department, so far in addressing the Procurement concerns.

Management Response

Agreed

The recommendation will be implemented as part of the planned operationalisation of the 2011 budget.

Quotations Register(s)

Part 12 of the Financial Management Manual, Paragraph 6 and 7 states that, “*three (3) verbal quotations will be obtained for purchases valued at less than K5,000*”. Quotations are to be recorded in a Quotations Register, whilst Paragraph 14 – 16 clearly defines that three (3) written quotations are required for procurements between K5,000 and K300,000.

Further, Part 20 of the Financial Management Manual, Paragraph 9.2 (b) states that, “a voucher will be required to support the issue of the advance - Finance Form 4”.

AGO noted during the course of the audit that a quotations register was not maintained by the Department since reported in the 2007 Audit.

It is best business practice to ensure that the three (3) written quotations be obtained from the suppliers to achieve the best value for money in the procurement of goods and services.

Management Response

Agreed

This is covered under the cheque (payment) and bank management policy and the Assistant Secretary Finance & Administration will ensure that this policy is consistently applied.

HUMAN RESOURCE and PAYROLL

Certification of the Payroll

Although the Information Technology Division of the Department of Finance processes the payroll centrally for public servants, it is the responsibility of the Departmental Head to ensure that the total staff on strength does not exceed the approved staff ceiling, the payment of salaries is not made to persons who have resigned from the Public Service, or are absent from duty without approval and that payroll expenditure is reconciled monthly with individual payments made to the staff engaged by them.

Payroll was not certified until the end of the audit (December, 2009). The Assistant Secretary-Human Resource Management provided AGO with a Memorandum dated 19th November, 2009, from the Office of the Secretary to all Senior Managers and Divisional Heads, which has addressed the issue raised in AGO audit findings of 2007 audit.

Management Response

Noted: The process to certify payroll have been put in place in accordance with the Payroll Management Policy.

Additionally, we will be having the fortnightly pay information on the intranet for review and validation by the managers in accordance with the policy.

Management of Employee Records

One of the important functions of the Human Resource management is to maintain records that demonstrate compliance with applicable human resource statutory and regulatory requirements, agency policy and agreements with other parties. Up to date records in respect of individual employees are vital and should be properly maintained.

AGO reviewed sample of personnel files tested in the 2007 audit noted poor record keeping in the following instances:

- Employee records were not properly maintained and regularly up-dated such as the salary history cards, recreational leave cards, and HDA and sick leave records;
- A large number of personal files had no history cards attached, no folioing done to the contents as well as actions taken by relevant action officers;
- Majority of personal files were without tax declaration forms and therefore, were taxed incorrectly; and
- There was no logbook or checklist maintained to control the movement of personal files.

AGO identified some progress in 2009 where work was started on updating of the history cards however; the progress is at a slow rate with folioing of Personal files yet to commence.

Management Response

Agreed

This task is progressing and the Assistant Secretary, HRM has been assigned the task as part of the implementation of the payroll management policy.

Contract Employees

As stated in the General Order 9.48 and 9.49 “No later than three months prior to termination date of a contract, a Departmental Head will arrange to complete a review of each contract officer's performance over the period of the officer's contract.” The purpose of this review is to make a recommendation to the Secretary, Department of Personnel Management to renew or not renew the contract.

A “Contract Review Committee”, comprising Deputy Departmental Head, including divisional heads, within each Department, shall scrutinise all contract reviews for consistency and compliance with the principles and procedures and shall advise the Departmental Head of the appropriateness of each renewal/non-renewal of contract.”

AGO in the 2007 audit noted that the Department did not have in place a Contract Review Committee to review the contracts of employees. A sample of contracts reviewed showed that some officers continued to receive remunerations as per their contracts of holding expired contracts.

However, the issue has not been satisfactorily addressed in that officers were continued to be paid remuneration even though their contracts of employment have expired.

Management Response

Agreed

This task is progressing and the Assistant Secretary, HRM has been assigned the task as part of the implementation of the payroll management policy.

Filing of Tax Declaration Form

The *Income Tax Act, 1959* stipulates that any person, who earns or derives a salary or wages income in PNG, is liable to pay tax on that income at the fortnightly rates declared by the Act. The rates of deductions for fortnightly salary or wages tax are set out in the Tax Table A, B and C. These Tables, however, do not apply to salary or wages received in the form of certain lump sum payments upon termination of employment.

Each employee must lodge, in duplicate, a Salary or Wages Tax Declaration with his or her Principal Employer. A new declaration must be lodged within fourteen (14) days if the circumstances change (i.e. where dependants, allowances or benefits increases or decreases).

From a sample of files for 2007 obtained for AGO verification, audit found that some officers of the Department have been under-taxed and some were over-taxed. There was no internal control system in place for certifying the completeness and accuracy of the payroll calculation such as salary and wages tax calculations, etc.

A follow-up made on the recommendation in the previous report indicate that action has not been taken by management to address the issue.

Management Response

Agreed

This task is progressing and the Assistant Secretary, HRM has been assigned the task as part of the implementation of the payroll management policy.

Employment of Casual Staff

It was noted in audit that a total of 63 casual staff were engaged by the Department. A review of records maintained in-respect of casual employees by the Department disclosed the following deficiencies:

- Twelve (12) Casuals files were either missing or were not available;
- Eleven (11) Casuals name came with their commencement date and there was no memo or notice served to justify if they have been made permanent; and
- Fifty-two (52) casuals had no commencement date or proper records to justify their employment status with the department.

General Order 7.3: states all casual and part time employees shall be held against position numbers obtained from the Secretary of DPM by application prior to engagement. In addition, GO7.4 states that all casuals and part time employees shall be paid through the Government payroll against appropriate votes, and shall be issued with staff payroll numbers by the Secretary of DPM.

Furthermore, General Order 7.5: provides that no casual or part time employee shall be paid off by cash or cheque payment.

The Department had failed to observe the General Order requirements when recruiting the casuals. A total of thirty-eight (38) casual staff out of fifty-two (52) are paid under PGAS and do not have staff payroll numbers. In addition, for a Department of relatively small size (averaging one hundred and twenty (120) employees) the fifty-two (52) casual staff is an excessive number to be employed.

The officers who have been casuals for the past five (5) to ten (10) years of service should now be given consideration to be made permanent or be discharged from the service.

Management Response

Agreed

This task is progressing and the Assistant Secretary, HRM has been assigned the task as part of the implementation of the payroll management policy.

Please note that arrangements are being made to pay all casual staff through the Alesco Payroll Systems and the casuals are covered by specific budgets under item 112.

TRUST ACCOUNTS

The Department operates twenty one (21) trust accounts for specific projects or activities. Of the twenty one (21) trust accounts, eight (8) trust accounts operate bank accounts and were easily identified with the account numbers.

The following trust accounts were established by the Department:

No	Name of Trust Account	Trust Account #	Bank/Branch
1	Department of Community Development	13326575	ANZ/WGI
2	DFCD CEDAW Project Account	13026901	ANZ/POM
3	Human Rights Desk	137593	ANZ/BKO
4	Erima Youth Participatory Project	13147020	ANZ/WGI
5	ICDP General Operations	12870120	ANZ/WGI
6	Targeted Community Development Project II	1000 - 584143	BSP/WGI
7	Integrated Community Development Program	13309763	ANZ/POM
8	ICDP Construction A/C	12870175	ANZ/BKO
9	Community Mobilisation HIV/Aids Project		
10	Community Development Donor Funded Project		
11	Literacy & Training Project.		
12	Depart of Comm Dev. (DFCD) Donor		
13	Simbai Community Agriculture Project		
14	Houndo Co-operative Society		
15	New Guinea Mainland (St. Charles Lwanga Church)		
16	Simbai Project Team		
17	Erima Youth Carpentry Project Account		
18	Dept Facility Account		
19	Human Management Acc		
20	JICA – KDP Account		
21	Civil Registry Account		

There were no bank reconciliations statements available for audit purposes. The trust instruments of these trust accounts were also not available for audit verification.

Non preparation of monthly bank reconciliation statements not only breaches the requirements in the Trust Instrument but may allow fraudulent transactions to pass through the accounts without being detected and timely action taken by management.

Management Response

Agreed

Subject to my comments below, I will speed up steps to reconcile the relevant accounts that are under the control of DFCD. We will also critically review and formalize requirements for trust deeds, where necessary.

The AGO in the audit report revealed that Department for Community Development (DFCD) operate twenty-one (21) trust accounts. The Department however only operates three (3) Trust Accounts. These are the Targeted Community Development Project, Employment Oriented Skills Development Project and the National Urbanization Program.

The other accounts are Project Operating Accounts (POA) established as part of Donor Program Agreement with Development Partners. The Development Partners require that funds provided by them for development projects are separately managed outside DFCD systems.

There are also 6 project accounts that are operated by community groups for which the DFCD provides one off seed funding.

The New Guinea Mainland (St Charles Luanga Church) account is operated by the Momase circuit of the St Charles Luanga Catholic Church at Gerehu for mobilizing money for the construction of a new church building.

ADVANCE MANAGEMENT

With reference to Part 20 of the Financial Management Manual, all advances paid relating to travelling for both overseas and domestic travels as well as temporary cash advance are to be recorded in the register of advances to be controlled and managed by the financial delegates. In addition, no second advance is to be made when the first advance is outstanding. Furthermore, the financial delegates should be reviewing the register of advance to make sure that all advances are being acquitted regularly as required.

AGO made significant observations in the 2007 report to the Parliament. Although some improvements were noted, in terms of reduced number of advances and the amounts un-acquitted, the controls were still not operating effectively.

In the 2009 audit, AGO was only given copy of Overseas and Domestic Travelling Advances register, even though the request was made for all registers maintained to be provided. In addition petty cash expenses were made however, a register record for expenditure incurred were not available.

AGO review of Advances paid to the officers for the period of 2009 and per the advances register and related records revealed the following weaknesses:

- In one hundred eighty-nine (189) instances, advances totaling K242,321 remained un-acquitted as at the date of the audit. Of concern were cash advances totaling K49,553 and petty cash advances seven hundred and eleven (711) totalling K24,729 which acquittal and process requires accountability documents, for acquittals to be completed. These continued absence of acquittal action requires punitive measures to be taken by management;
- In twenty-four (24) instances, second advances totaling K98,565 were paid to officers, despite their first advances not being acquitted. The payments of these advances have been made contrary to procedures required to be observed;
- There were no proper record of the Cash and Petty Cash Advances given to the officers of Department adding to the control lapse in monitoring of acquittals; and
- Test checks of advances acquitted indicate that in sixteen (16) instances, there was no witness to attest to the amount of monies paid to the recipient. In addition in eleven (11) instances, financial delegates or OIC did not certify the accuracy and completeness of these acquittals submitted. It was also noted that, statutory declarations were attached in place of original documents to substantiate acquittal claims.

AGO is concerned that the financial delegate has fail to review the advance registers on a regular basis and take appropriate action to manage payment, recording and acquittal of advances.

Management Response

Agreed

We are not sure whether the schedule you provided relates to the 2007/2008 audit or the 2009/10 audit.

There is a marked improvement in the management of travel advances. All our travel advance acquittals are up to date although in the area of other advances such as contingencies, there is room for improvement.

The Travel Acquittal Policy, covers your recommendations and is being strictly enforced.

GRANT PAYMENTS

Grants and Subsidies aggregating to K421,570 as at end of December 2009 were paid to various recipients. The Department should be requesting all recipients to furnish Disbursement Statements or a designed format of accountability statement detailing how the Department's funds have been spent. There has been no improvement from the previous year audit report by AGO on payments of Grants and Subsidies. The following issues were identified in the course of audit:

- In four (4) instances, payments totaling K281,605 were made to UPNG Social Work Strand. AGO did not sight any approval or request from the Office of Higher Education to facilitate these payments as this was their functional responsibility;
- In sixteen (16) instances, payment of allowances for meetings totaling K25,040 was paid through the Paymaster instead of the Payees. The rates used appear to be excessive. AGO noted that the rates applied were not that approved by the Department of Personnel Management or Department of Finance;
- In eighteen (18) instances, payments as Financial Assistance to individuals and others totaling K115,300 were made where disbursement statements were not received from the recipients. Such payments are not defined as advances the Public Finance Management Act; and
- In nine (9) instances, payments totaling K1,093,777 were made to National Council of Women where accountability statements were not received. The disbursement of the monies for the intended purpose is not possible to confirm in the absence of accountability statements.

The Department should write to all recipients of various grants, subsidies, financial assistance and others receiving grants to account for their expenditure. The absence of accountability is a serious concern expressed by AGO over payments made by the Department

Management Response

Agreed

Some of the issues identified above are also discussed and they are being appropriately addressed there. Some of the matters should be discussed under grants. We suggest that you delete or amend this paragraph.

An appropriate Grants Policy is being developed by the Department and we will incorporate your recommendations into the Policy.

YEAR END TRANSACTIONS

The Department's efficient Fund Management depends on accurate information on availability and funds requirement, as well as a reliable procedure for controlling expenditure spread over the entire period to avoid over and under expenditure. It is important to establish clear and accurate forecasts in order to ensure that sufficient cash is available to meet the day to day needs of the Department as well as for long term needs. The Secretary should be regularly advised of the Department's cash position by a budget officer and responsible finance officers.

AGO review of last quarter payments to ascertain whether there were accelerated or unbudgeted expenditures in the last quarter, noted the following concerns:

- In six (6) instances, payments vouchers were not available for audit or were missing. In this regard it was not possible to confirm the authenticity of the payments made totalling K13,727,867;
- Six (6) payments totaling K13,983,996 were transferred to recurrent budget from PIP Development Budget votes, contrary to the 2008 Appropriation Act for 2009. This procedure also constitutes a breach of the *PFM Act*;
- Payments aggregating K381,120 were made for purchase of computers and motor vehicles. The two (2) vehicles were not registered in the motor vehicle register which could not be identified;
- In two (2) instances, payments totaling K125,322 were not supported by at least three (3) quotes to indicate that the Department has obtain the best value for money;
- Payments aggregating K192,453 for PBX system were accelerated and paid from five (5) different votes. This is an indication of funds not being properly budgeted to upgrade the system. AGO is of the view that the amount was paid to avoid the lapsing of funds appropriated at year end;
- Eleven (11) payments for motor vehicles aggregating K429,970 were paid from ten (10) different votes meaning that funds were not properly budgeted to accommodate the purchase. AGO is of the view that the amount was paid to avoid the funds lapse at year end;
- An amount of K8,564 was paid to the Internal Auditor for hire of vehicle from Mendi to Kagua and return. This payment is considered to be excessive, as a PMV allowance would have been more adequate as the officer did not perform the expected responsibilities during his engagement;
- Thirty-four (34) payments were made for catering services aggregating to K77,690 as at end of December, 2009. Such expenditure appears to be excessive. Similarly, an amount of K10,100 was encashed through the Paymaster for refreshments. A sense of accountability needs to be enforced in Departmental expenditure;
- In four (4) instances, payments made for updating Convention on Elimination and Discrimination Against Women data aggregating K60,000 were made for the same job. The payments were divided between Community Development Officer and the Pay Master. It was noted that duplication of payment was made on the same day 9th July, 2009 under cheque Numbers 110369 and 110364. A recovery action by the Department has not been confirmed;
- In three (3) instances, payments totaling K42,200 were made for massive vehicle repairs where accident reports were not sighted. AGO could not establish the Department's action to place responsibility for recovery of monies due to no formal accident/damage report being completed;
- In eleven (11) instances, payments as special allowances aggregating K109,200 were encashed through the Paymaster instead of paying direct to the participants of the meeting. Travel advances must be paid to the recipients for purpose of acquittal action;
- Ten (10) payments aggregating K3,634 on cheque No.11359 were made through the Paymaster for encashment to purchase stationeries. Payments were not made direct to the stationary suppliers for the Department's Stationary requirements. The cheque was registered and paid on the same day indicating unwarranted urgency for encashing of the cheque;
- Risk allowances of K16,500 were noted paid through the Paymaster as well as directly to officers during the 2009 year. It is unclear as to why this type of allowance was paid to officers in Port

Moresby. There is no provision for payment of such allowance either in the Finance Manual or the General Orders. The payment is considered irregular;

- In nine (9) instances, payments totaling K1,093,777 were made to the National Council of Women for the organisation's operation and erection of the women's convention centre a few meters away from the Department's offices. Upon inspection of the site, AGO noted that there has not been any construction or building works (except fencing) undertaken. Records reveal that almost K4 million was paid to the National Council of Women and to-date there has been no disbursement statements showing how these public funds were applied;
- In seven (7) instances, payments totaling K288,157 were made to University of Papua New Guinea for tuition fees, graduation gown and for the Social Work Strand. It is not known why these payments were made by the Department; and
- In sixty two (62) instances, payments totaling K1,244,310 were made for procurement of Office equipment and computers where the purchase order was split between different suppliers. AGO is of the view that a single deal with a bigger IT service provider would have been better value for money spent.

The numerous irregularities noted indicates a lack of prudent cash management by the Department which is in direct violation of the requirements of the *Public Finance Management Act* and financial procedures.

Management Response

- *The overall responsibility for cash management is assigned to the AS Finance & Administration*
- *In the absence of long term budgets, in my opinion, preparation of long term cash flows do not serve any useful purpose.*
- *Short term cash flow requirements are prepared by the Budget Officer, reviewed and submitted by the AS Finance & Administration to Treasury and form the basis of warrant authorities*
- *Regular review of cash position is undertaken by AS Finance & Administration based on PGAS reports.*
- *The Management Information System has been scoped, designed and developed – currently it is in testing phase. Management Information will be delivered via the Department's intranet*

DEVELOPMENT BUDGET

The Departmental Annual Development Expenditure Budget was properly drawn for each individual project with bench marks to be achieved within specific time frame. This was based on each individual Cash Flow projections and was regularly monitored and reported to Department of National Planning & Monitoring.

AGO requested OIC Finance to furnish individual project work programme, work plans, Cash flow projection, Progress reports and Completion Certificates for projects completed for individual project.

- In a sample of twenty-five (25) payments totaling K15,332,097 it appeared that majority payments were not related to Developmental projects, but merely to meet the Departmental administrative expenses. For example, payments for vehicles, utility bills, stationary, etc; were incurred contrary to the 2008 Appropriation Act for 2009. These payments should be charged to the recurrent budget votes and not from the project vote;
- A bank account maintained at ANZ called "Standby Facility Account No.0013326575 was not kept within the Government accounting system (PGAS). This means that the transactions of the account were not included in the Public Accounts of Papua New Guinea. Accounting records such as bank reconciliation statements, cashbook etc, was not made available for review. AGO noted some of the

development funds were transacted through this account by way of reimbursements which amounts to misappropriation;

- In twelve (12) instances, payments totaling K13,653,524 representing twenty-eight percent (28%) of the population sampled payment vouchers were not made available for audit perusal. In the absence of those payment vouchers, AGO is not able to establish the authenticity and propriety of these payments;
- In seven (7) instances, payments totaling K621,357 representing twenty-eight percent (28%) of the sample size were not supported by quotations contrary to procurement procedures under Financial Management Manual. The consideration given on value for money purchase could not be ascertained;
- In eleven (11) instances, payments totaling K1,331,829 representing forty-four percent (44%) of the sample size were not evidenced as being approved by a Section 32 officer contrary to section 32(1) of the *Public Finance Management Act 1995*. The decision to incur expenditure could not be verified;
- In twelve (12) instances, payments totaling K1,629,064 were not supported by any Project proposal documents such as Individual Project Plans, Cash flow projections or budget estimate of receipts and expenditure for each individual project. The authenticity of the purported project expenditure could not be confirmed;
- Statutory Reports such as monthly bank reconciliation statements, quarterly reports on the effective and efficient implementation of the projects were not made available for all projects funded under the Development budget. It could not be established whether these reports have been prepared and available for perusal;
- Progress reports, completion certificates for projects completed (if any) were not furnished to audit for identified projects, except one hardcopy report of the Lukautim Pikinini Act was furnished by the team Leader which only showed volume of funds used to date but did not specify milestones achieved.
- The Departmental staff have not visited and interacted with field staff to progress the project, resulting in non attainment of milestones. The Project Manager for the two projects Melanesian Entrepreneurship Lifestyle Authority (MELA) and Community Learning Development Centre (CLDC) was not clear in accounting for resources entrusted under his direct control. MELA lacked the Department's full commitment in implementation due to high turnover of Project Managers;
- Due to the very slow release of development budget by the Department of National Planning & Monitoring for projects such as Censorship Database, Integrated Community Development Project, Violence Against Women, Women Policy Review and National Disability Projects, milestones could not be reached;
- Targeted Community Development Programme (TCDP): This programme was given K1,000,000 in 2009 and was not funded in 2010 at all. It was reported that funds for this project was borrowed by other projects (names not disclosed) as the Department did not have the necessary skilled and competent technical staff to efficiently and effectively implement the project programmes. This was coupled with poor senior management leadership support. The Headquarter staff have not interacted with Provincial staff to coordinate the projects at Provincial and District level; and
- AGO noted some of the common issues encountered across the projects implemented by the Department as follows:
 - The Department did not have the staff capacity to efficiently and effectively implement the projects annual development plans;

- The Department did not have the technical knowledge on proper planning, implementation and evaluation of project outcomes;
- Cultural factors also affected implementation of programmes as no provisions were made initially during the planning stages of the projects;
- Excess travel by staff not associated with the project(s);
- Distractions through non project tasks/events by Donors, NGO's and others;
- Poor information and experiences sharing between the Department and project evaluation and monitoring teams;
- The Department not using Provincial officers to implement training on Project Management;
- Some of the provinces were not represented in the project meetings to ascertain their performance in the project implementation; and
- Lack of proper supervision, monitoring and reporting guidelines on implementation of projects.

The Development Budget for the Public Investment Programme is a means whereby the expenditure of funds should show tangible outcomes to improve lives of the targeted population. It is equally important to ensure that the funds expended are properly accounted for and laid down financial procedures and rules are complied with by implementing agency or Department tasked to implement the project.

Management Response

Agreed

Strict budget policies and procedures with emphasis on outcomes are being progressively implemented.

JOURNAL ENTRIES

The Department has to ensure that all journals raised are properly narrated and certified by a competent official before posting them to the ledgers. This is done to authenticate the use of journal entries raised and to prevent unauthorised adjustments to the ledgers. AGO found in the course of audit that:

- A warrant authority of K13,001,700 was issued in December, 2009 and subsequently a cheque No.111180 was raised for K13,053,554 including the above amount for deposit into a trust account No.13326575 ANZ Waigani. However, the cheque was cancelled and diverted to various donor funded project trust accounts without narrative explanation for the reversed action;
- A total amount of K1,888,809 was journalized for the year 2009. The details or narrations shown refer mostly to cancel cheques. AGO noted that cheques were cancelled because of the reasons of change of payee code, officer did not travel, change to paymaster, error in spelling, not accepted in the bank, etc with many similar reasons. Cheques as was observed were not properly checked before printing which resulted in two hundred and forty-six (246) journal entries made to adjust their issue from the cashbook during the year; and
- It would appear that due diligence is not accorded to the processing of the accountable document and is posing a significant risk for the improper or unauthorized use of cheque forms.

The purpose of raising journal entries in book keeping is to correct errors and make adjustments to the books of accounts. The use of JE's for other purposes should be discouraged.

Management Response

Agreed

The cheque for K13,053,554 was cancelled and adjustment made to the TMS accounts for 2009. Funds were not diverted to project trust accounts. Final TMS report for 2009 attached.

The recommendation re-proper narration of journal entries is in the Cheque and Bank Management Policy and this will be consistently applied by the AS Finance & Administration.

DEPARTMENT REPONSE

The Department has responded to the audit findings reported in the management letter and their comments are stated accordingly.

CONCLUSION

In general, some improvements have been made in the system and operation of controls within the Department compared to previous years.

The results of my audit and a number of control weaknesses identified indicate that overall, there are significant weaknesses in the control framework. At present, the control activities such as delegations, authorizations, reconciliations, management monitoring and data processing are not sufficiently robust to prevent, detect or correct errors or fraud.

DEPARTMENT OF PETROLEUM AND ENERGY

OVERVIEW

One of the major objectives of the Department of Petroleum and Energy is to advise and assist the Minister in the development of relevant policies in accordance with legislative requirements and to support the Government's efforts to develop the Nation's petroleum industry by promoting, monitoring and regulating all activities directly related to exploration and developing of petroleum resources in Papua New Guinea.

Another major program/objective of the Department is to formulate and implement appropriate action plans for energy management suitably integrated with development planning in other economic sector activities. This includes liaising with other government agencies involved in rural infrastructure development by adopting an integrated approach to energy planning and rural development.

FINDINGS

CORPORATE GOVERNANCE

Corporate and Annual Plans

The Corporate/Strategic Planning function is the high level function of developing and implementing an effective plan based on the vision and mission statements identified by the senior management and head of the Department.

Corporate governance is the way in which an organization is controlled and governed in order to achieve its objectives within an acceptable degree of risk.

Audit examination of records maintained in-relation to corporate governance revealed the following matters:

- The Department's Corporate Plan (2009-2014) remains outstanding despite assurance that the Document will be finalized and officially launched in year 2010; and
- The executive management did not convene appropriate meetings to deliberate on issues affecting the operations of the department. This issue has been noted in the 2007 audit and has not been appropriately dealt with by management. AGO received only three (3) copies of the minutes of meetings for 2008.

Internal Audit and Audit Committees

Audit Plans for the Internal Audit Unit for the years 2007-2009 remains outstanding. In addition the audit programs and plans were not made available to ascertain scope of work intended to be carried out by the unit. Furthermore, an audit committee function has not been established to assist the department's internal audit operation.

STATUTORY REPORTING

Annual Management and Financial Reports

As stipulated in Division 4 Section 32 (a) of *Public Service (Management) Act, 1995* "Each Departmental Head shall by 31st March in each year, prepare a report on the attainment of the planned objectives of his Department for the year ending 31st December preceding." It is further elaborated in Public Service General Order 8.12 that the Departmental Head should forward to Secretary, Department of Personnel Management a report on the work and achievements of his Department in relation to the Corporate and Annual Management Plans.

AGO noted that the Department's Annual Management Report and Annual Financial Report for years 2007-2009 were not prepared and furnished to the Department of Personal Management and Department of Treasury, respectively, as required. The Department therefore has failed to meet its reporting obligations.

BUDGETARY AND FUNDS CONTROL

Variances in Expenditure

National Government Departments and Statutory Authorities using the Standardised Government Computerised Accounting System (PGAS) must ensure direct interface takes place in the General Ledger. The Department's efficient Cash Management depends on accurate information on availability and funds requirement, as well as a reliable procedure for tracking variances from its records against the Department of Finance's records, in order to ensure that:

- Funds Transferred by way of Warrant Authorities agreed with Funds recorded at the Department's PGAS ledger;
- Monthly reconciliations of Departmental expenditures and Department of Finance are carried out to eliminate any differences to agree with Public Accounts;
- That differences noted are communicated with Department of Finance and are sorted out as soon as possible; and
- That funds are spent within the budgetary allocation.

A comparison of the Expenditure Summary generated by the TMS system (period 12 run date 24th February, 2009) against the Expenditure Vote Summary printout through the PGAS system (run date 21st August, 2009) reveal the following variance between expenditure balances, viz:

Particulars	Exp. as per Dept (PGAS)	Exp. as per TMS 90	Difference
Revised appropriation	138,314,400	136,297,400	(2,017,000)
Warrant	131,972,300	136,284,700	4,325,100
Actual Expenditure	131,990,171	136,308,844	4,318,678
Expenditure (Over)/Under	(17,871)	(24,144)	6,273

Expenditures in excess of Authorization

Finance Manual Part 7 – Budget and Expenditure Control division 2 – Warrant Authorities clearly states that irrespective of the agency to which Warrants are issued or which makes the payment, the Departments in whose budget the votes are included are responsible to ensure that commitments and expenditure are within authorized limits.

A review of TMS 90 showed that in four (4) instances, expenditures were incurred in excess of warrant authorities totaling K27,196. The Management has also noted these discrepancies through their reconciliation process and is currently liaising with Department of Finance through the General Ledger Branch to rectify this problem.

BANK RECONCILIATIONS – Drawing Bank Account

The drawing bank account is a vital part of Cash Management only when it is reconciled regularly at monthly intervals. There is a legislative requirement that monthly bank reconciliation are compiled and submitted to the Department of Finance no later than fourteen (14) days after the close of each month.

AGO review of the monthly bank reconciliation being done revealed the following matters:

- The September, 2010 Bank reconciliation contained reconciling items which were not cleared in order to reflect the correct cashbook balance as at 30st September, 2010;
- Fraudulent Cheques on the bank statement not in the cashbook aggregated to K204,570;
- Un-presented cheques as at 30th September, 2010, equaled K1,510,368;
- Other reconciling items not cleared aggregated to K40,724;
- The cashbook revealed an overdrawn balance of K11,501,885 as at 30st September, 2010;
- The bank reconciliation statements were not evidenced as having been checked and reviewed by an independent senior officer to attest accuracy of the reconciliation statement; and
- There is no proper segregation of duties as the sub accountant who prepares the bank reconciliation also does other duties in the accounting area such as countersigning of Departmental cheques.

PROCUREMENT AND PAYMENTS PROCEDURES

Quotations

Pursuant to Part 12 of the Financial Management Manual, Paragraph 6 and 7 state that “*three verbal quotations will be obtained for purchases valued at less than K5,000*”. Quotations are to be recorded in a Quotations Register, whilst Paragraph 14 – 16 clearly defines that three written quotations are required for procurements between K5,000 and K300,000.

AGO noted during course of audit that quotations register was not maintained by the Department to record quotations sought. In addition three written quotations were not always obtained.

These issues were reported in the 2007 report and the Department has failed to address them.

HUMAN RESOURCE MANAGEMENT AND PAYROLL

Certification of Payroll

Audit issues regarding certification of payroll by relevant Divisional Branch Heads as well as compilation of prescribed Finance Form 10 for payment of salaries and wages as per requirements of the Finance Management Manual paragraph 23 to 27 remained outstanding since 2006.

Recreation Leave Entitlements

In 2005, AGO raised findings in relation to improper payments of recreation leave entitlements and leave repatriation airfares. These findings remain unresolved and there has been no improvement in the processes in making payments. It was noted in audit that an officer availed himself improper recreation leave entitlements and recreation leave airfares amounting to K46,025 for years 2005 to 2007. This officer is still employed at the Human Resource Section of the Department.

Employment of Casual Staff

According to the requirements of the Public Service General Orders (GO.7.3-7.5)

'All casual and part time employees shall be held against position numbers obtained from the Secretary of DPM by application prior to engagement. In addition all casuals and part time employees shall be paid through the Government payroll against appropriate votes, and shall be issued with staff payroll numbers by the Secretary, of Department of Personnel Management. And that no casual or part time employee shall be paid off by cash or cheque payment.'

AGO observed that fifty two (52) casuals engaged in 2008 continue to be paid under PGAS and not Concept Payroll as required. Furthermore, additional seventy-nine (79) casual officers were employed in 2009 and hence a total of one hundred and thirty-one (131) casuals are now employed by the Department and are paid out of the PGAS, contrary to the requirements of Public Service General Orders.

TRUST ACCOUNTS

- The Department opened five (5) trust accounts since May, 2007. The bank reconciliations for these accounts have not been prepared since they were established and up to the time of audit in September, 2009.

Name of Account	Bank	Branch	Opening Balance As at 31/05/2007 (Kina)	Closing Balance As at 11/08/09 (Kina)
Kutubu Petroleum Royalty T/A	ANZ	Waigani	11,413,456	31,384,516
Gobe Landowners Benefits T/A	ANZ	Waigani	3,798,237	13,758,576
Moran Petroleum Royalty T/A	ANZ	Waigani	2,092,794	4,363,203
Central Moran Petroleum Development Levi T/A	ANZ	Waigani	22,097,797	40,040,468
Hides Petroleum Royalty T/A	ANZ	Waigani	2,860,291	3,140,473

- The Konebada Petroleum Park Authority Working Group Trust Account No. 12434650 was operated at ANZ bank at Waigani Branch where the following matters were noted:
 - The account was operated outside the Government Accounting System – PGAS. The Department failed to administer the Trust account by drawing down the whole of 2006 PIP budget allocation. This was contrary to the Trust Instrument which requires the Department to pay only specific claims. By paying a lump-sum to the Project Manager, the Department had diluted its control over the disbursements made and failed to ensure accountability requirements are met; and
 - Bank reconciliation statement for 2007, 2008 and 2009 were not made available for AGO examination. In the absence of any records submitted, the AGO concludes that the reconciliations were not done.

Bank account reconciliations are a key control in identifying anomalies or errors in the payment and receipting processes and assist the Department to discharge its accountability requirements. In the absence of a reliable and timely prepared bank reconciliation statement, fraud and errors may pass through the bank account without being detected.

ADVANCES MANAGEMENT

There was a serious break down of internal controls over the payment, recording and acquittal of advances paid to officers of the Department. AGO review of the records maintained relating to the advances indicates the following shortcomings:

- Significant un-acquitted advances amounted to K1,772,709 in-respect of years 2008 and 2009. Management continues to issue advances, without due regard to the *Public Finances Management Act* requirements on proper management of advances;
- Advances totaling K605,155 were issued to officers in one hundred and ten (110) instances in 2007 and 2008 where their previous advances remained unacquitted;
- The Advance Register was not properly maintained and up-dated in that important information on the paid such as cheque numbers, collection dates, and signatures of the advance holder were not always indicated in the register;
- All required acquittals with support documents were not attached to acquittal forms; and
- Salary advances totaling K280,729 were paid to officers without evidence of written authority by the Secretary. There were no written correspondence to the Secretary, nor approval sighted for payment of salary advances. Refer details below:

Years	Instances	Amounts (K)
2005	13	20,186
2006	34	67,723
2007	14	19,524
2008	78	93,276
2009	31	80,020
TOTAL	88	280,729

In compliance with laid down financial procedures and controls the management should take appropriate recovery action from the officers concerned. The increased level of unrecovered advance indicates laxity on the part of management to take effective action in recovery from concerned officers.

DEPARTMENT RESPONSE

AGO findings were reported to the Secretary in the management letter issued. The management has however, failed to respond up to the time of this report.

CONCLUSION

In general, there were no marked improvements in the system and operation of controls within the Department operations compared to previous years.

The results of my audit indicate that overall, there are significant weaknesses in the control framework. At present the control activities, such as delegations, authorizations, segregation of duties, reconciliations, data processing, management monitoring, etc, are not sufficiently robust to prevent, detect or correct error or fraud.

DEPARTMENT OF LABOUR AND INDUSTRIAL RELATIONS

OVERVIEW

The Department's mission is to create a climate of industrial harmony between employees and employers in both government and non-government sectors, promote job opportunities for nationals and set and regulate terms and conditions of employment.

The Department is expected to fulfill that mission in the context of the eighteen (18) Legislations it administers – viz: the Employment Act, the Industrial Relations Act, the Employment of Non-Citizens Act, the Workers Compensation Act, the Public Services Conciliation and Arbitration Act, the Teaching Service Conciliation and Arbitration Act, Industrial organization Act, Industrial Safety Health and Welfare Act, Explosive Act, Explosive (Adopted) Act, Inflammable Liquid Act, Trade Licencing Act, Local Government Act, Apprenticeship and Trade Testing Act, National Training Council Act, Employment Placement Services Act and Employment Statistics Regulation and other relevant Legislations taking into account the recommendations of the International Labour Organization; and through its exercise of these functions as follows:

- Responsible for industrial relations including conciliations and arbitration services;
- Control registration of employee and employer industrial organizations and provision of registry facilities;
- Research on labour and employment matters;
- Advice on industrial and commercial training;
- Administer a work permit system of employment of non-citizens and monitor training and localization programmes;
- Undertake labour inspections;
- Provide industrial safety, health, and welfare inspections and advisory services;
- Determine licencing of petroleum storage and explosives;
- Administer workers' compensation services; and
- Provide services to the Apprenticeship Board, Trade Licensing Board, Minimum Wages Board, and standing or ad hoc organizations relating to the functions of the Department.

FINDINGS

CORPORATE GOVERNANCE

The Corporate/Strategic Planning function is the high level function of developing and implementing an effective plan based on the vision and mission statements identified by the senior executive management.

Corporate Plan

The Department of Labour and Industrial Relations have in place a Corporate Plan as required under Public Services General Order 8.11 for the periods from 2007-2011 which was launched in October, 2007. However, there were no Management Plans to link to the budget and Corporate Plan in order to identify targets and indicators and to enable the management to determine whether objectives can or are being met. According to Annual Work Plans, audit noted that the performance indicators, as outlined were not precisely specified and quantified to program objectives identified in the corporate planning process.

Minutes of Meetings

AGO review of the Minutes of Meetings of the Top Management Team obtained from the Office of the Departmental Head noted the following issues;

- The Minutes did not clearly state if there was a quorum to proceed with each meeting. The question of whether the meeting was convened with proper membership could not be ascertained;
- The Agenda of the Meetings were not disclosed in the Minutes of meetings; and
- The Minutes of meetings did not highlight the deliberations and discussions had in the previous meetings. There is no record of management resolutions passed during meetings;

Independence Fellowship Scheme Trust Account

- In the minutes of meetings for the first quarter of 2008; the Director In-Charge reported that K100,000 noted as IBD or (Investment) in the Trust Account went missing. The officer concern was directed to produce a report on the missing money. As at the time of audit in October, 2009, no report was produced as yet. The department is also expected to fill out the Loss Report relating to the K100,000 and a copy sent to the Auditor-General's Office together with a copy of the incident.

Annual Reports

- In the minutes of meetings for the second quarter of 2008, and as per the Decision No 18th February, 2008, the Deputy Secretary requested for all Annual Reports from Program Managers, Divisions and Statutory Arms to be submitted to the Policy and Research Division by 15th August, 2008. Again in the first and second quarter Minutes of meetings for 2009, the Secretary also requested for the same reports. There seems to be no serious efforts exercised by the Divisional Heads to produce the required reports required by their positions of responsibility.
- The production of the Annual Reports to be submitted to the Departments of Finance, Personnel Management, and to the National Parliament are Statutory Requirements. Managers needed to be aware of their statutory obligations in order to perform their managerial responsibility.

Internal Audit

- The Department of Labour & Industrial Relations has an Internal Audit Function that is manned by only one officer and is inadequate to properly carry out its responsibility;
- The internal auditor was involved in conducting certain investigations into alleged misuse and misappropriation of funds by the "Office of Workers' Compensation" in September, 2008. However, the outcome of the report was still unknown. Management has yet to follow-up on the outcome of this report; and
- The Department does not have yet an "Audit Committee" established to oversee the activities of the Internal Audit Unit and to assist management in its Governance responsibility.

STATUTORY REPORTING

Quarterly and Annual Financial Management Reports.

As required in Part 5 of the Financial Management Manual, Departmental Heads shall submit a report on financial management at the end of each quarter and an annual report at the end of each fiscal year, including overall assessment of the Department's financial performance to the Secretary, Department of Finance.

Annual Management Reports

As stipulated in Part V Section 32 (a) of the Public Service (Management) Act, 1995 “*Each Departmental Head shall by 31st March in each year, prepare a report on the attainment of the planned objectives of the Department for the year ending 31st December preceding.*”

The Annual Financial and Management Reports for the financial year ended 2008 covering the financial performance and the overall assessment on the work and achievements of the Department of Labour and Industrial Relations were not prepared and forwarded to the appropriate authorities up to the time of audit in October, 2009. The Department had failed to meet its statutory obligations as required by relevant legislations.

BUDGETARY AND FUNDS CONTROL

Part 7 Division 2 Paragraph 10.3 of the Financial Management Manual on - Budget and Expenditure Control – Procedures for Issue of Warrant Authorities; clearly states that; “*Irrespective of the agency to which Warrants are issued or which makes the payment, the Departments in whose budget the votes are included are responsible to ensure that commitments and expenditure are made within the authorized limits.*”

Variances in Budget Allocations & Expenditure Balances

A comparison of the funds released through the Warrant Authorities and funds expended in 2008 as per the Expenditure Summary printout (run-date 19th October, 2009) produced by Department against the Expenditure Statement generated by the Public Accounts; Department of Finance (per TMS 330 report for Period twelve (12), (run-date 16th February, 2009) revealed that the Department had understated its warrant authority and expenditure by K3.4 million and K3.5 million respectively compared to the Public Accounts reported figures.

Over Expenditure

The Department incurred in a total of nine (9) vote items, expenditure in excess of the funds allocated through the Warrant Authorities by K68,183. Furthermore, four (4) of nine (9) votes totaling K48,689 were incurred on item 111 – personal emoluments.

Cash Fund Certificates (CFCs)

Cash Fund Certificates (CFCs) were not raised when funds allocation through the Warrant Authorities were distributed to the various Fund Holders or Financial Delegates both at Head Office and/or at Provincial Offices.

BANK RECONCILIATIONS – Drawing Account

As required in the FMM Part 3 Division 1: Paragraph 4.7 - **Bank Reconciliation:** “All Heads of Government Departments and Statutory Authorities are required to ensure that their Bank Accounts are reconciled on a monthly basis. Bank balances should be reconciled against the Cashbook balance and the reconciled Cashbook balance should be agreed with the Appropriation Ledger for National Government Transactions.

Copies of bank reconciliation statements should be forwarded to the Accounting Frameworks and Standard Division, Department of Finance no later than fourteen (14) days of the close of each month.

Failure to comply with the above may necessitate withholding further issuance of Warrant Authorities.

Bank Reconciliation

The Department operates a Drawing Account No. 4311-6130 with Bank of Papua New Guinea.

As at the time of audit in October, 2009, AGO noted that the monthly bank reconciliation statements were compiled only up to the end of year 2006.

Monthly bank reconciliation statements for the years from 2007 to 2009 were not compiled. It was noted that no attempt was made by Management to prepare the monthly bank reconciliation statements. The Management of the Department had failed to reconcile the monthly cashbooks/bank statements for the Drawing Account on a timely basis and forward copies to the Department of Finance within fourteen (14) days of the preceding month(s). Monthly bank reconciliation statements have not been done and in arrears since January, 2007, up to and including October, 2009.

The lax attitude towards the preparation of monthly bank reconciliation statements as well as the non submission of copies to Department of Finance is a very serious breach of the *Public Finances (Management) Act* and its implications warrant surcharge under the same Act.

Specimen Signatures

Four (4) officers were appointed as signatories to the Department's Drawing Account, (i.e. two are signing officers and the other two are countersigning officers). Three (3) of those signing officers were attached to the Finance Section.

The management risk being exposed to is that of employee collusion taking place for which payment cheques may be inappropriately authorized under these standing arrangements.

The whole monitoring process of finding from Budget Allocation, to decision to incur, Expenditure Signing of Payment Cheques; and the compiling of the Monthly Bank Reconciliations had not been performed effectively. The financial manager and the subordinates responsible for such important function are required their respective duties at the expected levels but are still being paid on the positions they occupy.

ASSETS MANAGEMENT

Part 32 of the FMM on: **Asset Management**; clearly stipulates that all assets purchased are to be secured and Management is required to do the following accountability processes:-

- Maintain separate asset registers for each category of asset types with all relevant particulars of the item recorded (including attractive items such as mobile phones, cameras, etc);
- Any purchase/disposal of assets should be recorded and comprehensive reports on details of assets on hand should be compiled at the end of each quarter; and
- Stock-take should be carried out at required intervals (at Headquarters and at Provincial offices).

Assets Register

A review of the Asset Registers maintained to record and control assets by the management revealed the following weaknesses:-

- There is no Central Assets Register maintained and kept by the Department;
- Assets were not recorded and grouped together according to their classifications or categories as required under the Financial Management Manual;
- Assets recorded did not have information like date of purchase, unit cost and total cost, estimated economic life and preventative maintenance requirement responsibility for custody; and

- Stock-cards were not maintained to record purchases or disposal of assets with information of opening balance, receipt, disposal and value by quantity and cost as required under FMM Part 32.4.

Annual Stock-Take

Inspection or annual stock-take was not carried out in 2007. AGO noted that a comprehensive annual stock-take on the department's assets was carried out in April 2008. The outcome of that stock-take of the assets was not established during the audit.

Assets Purchased During the Period Under Review

The total cost of all the assets purchased during the period under review (in 2008 to October, 2009) was to the value of K357,230 as per the PGAS Ledger.

Due to the non-existence of proper Assets Registers (either a Centralised Asset Register or by the Branches) all assets purchased and used by the department totaling K221,390 in 2008 and K135,840 in 2009, could not be physically checked by AGO to verify their existence and ownership by the Department.

Motor Vehicle Fleet

- The Motor Vehicle Fleet Register was not properly maintained and not kept up-to-date with vital information such as date of purchase, cost of the vehicle, Estimated Economical Life, Maintenance History for each vehicle, and Preventative Maintenance Requirement, etc., were not recorded in the Register; and
- Five motor vehicles were purchased in year 2008.
 - A brand new Ford Ranger purchased from Niu Ford Motors in April, 2008 at a total value of K69,025 (as per PGAS Ledger) was not recorded in any form; and
 - Another four (4) vehicles purchased with a total cost of K300,000 and paid for, with funds from the Work Permit Trust Account. The amounts were fully reimbursed back to the Trust Account in November, 2008. These vehicles have not also been properly recorded in a fleet register.

PROCUREMENT AND PAYMENTS PROCEDURES

Procurement Process

The procurement function was decentralized whereby each Division/Section to be responsible for its procurement and maintaining of records. Consequently, the Department did not have an approved prequalified list of suppliers to obtain three (3) written quotations from and when procurement to be undertaken.

A sample of forty-seven (47) payments or transactions was selected randomly with a total value of K891,471 for the period from January to October, 2009. AGO perusal of these payment vouchers and related documents revealed the following weaknesses:-

- Twenty one (21) payments with a total value of K439,278 were made on the basis of photocopied invoices instead of the originals. The authenticity of these payments is doubtful;
- Seventeen (17) payments with a total value of K303,150 were made without the Management obtaining the required three (3) written quotations from the suppliers as required. The most economical decision made for the supply of these goods and services could not be ascertained;
- Seven (7) payment vouchers with a total value of K114,024 were not made available to AGO although requested. The propriety of these payment remains doubtful;

- A payment voucher with a total value of K12,441 was cancelled. The original cancelled cheque was not sighted nor attached as supporting document;
- Two (2) payments totalling K31,000 in PGAS were incorrectly represented in the cheque copy and Finance Form 4 (FF4) resulting in an over payment by K6,820. This over payment was not recovered;

Cancelled Cheques

Eighteen (18) payment vouchers with a total value of K51,245 were noted as “cancelled” however, the original cancelled cheques were not sighted in support of these cancelled payments. In addition, a register record of cancelled cheques was not maintained to record such cheques.

Purchase of Flex cards and Pre-paid cards

The Department had purchased flex and pre-paid cards totalling K209,196, (2008 K116,762) and (2009 K92,434) for members of the Top Management. Confirmation obtained revealed that personnel in the Top Management also receive fortnightly telephone allowances and therefore receipt of prepaid phone cards is “double dipping” of such a telephone allowance entitlement.

HUMAN RESOURCES MANAGEMENT

According to the Manager, Payroll & Personnel, the current casuals were occupying DPM approved positions and their acting capacities that have exceeded the required six (6) months period. At present, casuals were paid through PGAS and ALESCO respectively.

Contract Officers - Gratuity

As stated in the General Order 9.48 and 9.49 that; *“No later than three months prior to termination date of a contract, a Departmental Head will arrange to complete a review of each contract officers’ performance over the period of the officers’ contract. The purpose of this review is to make recommendations to the Secretary, Department of Personnel Management to renew or not renew the contract.”*

“A Contract Review Committee, comprising Deputy Departmental Head, plus Divisional Heads, within each department, shall scrutinize all contract reviews for consistency and compliance with the principles and procedures and shall advise the Departmental Head of the appropriateness of each renewal or non-renewal of contract.”

An audit perusal of ten (10) senior officers’ personnel files revealed following weaknesses:-

- Four (4) personnel files were not provided although requested. The employment status of these officers could not be ascertained;
- Three (3) officers had their contracts renewed with no attachment of Form 9.1/9.5 which is used to review performance of senior managers on contracts of employment. The process of validating contractual status of the concerned employees is doubtful; and
- Two (2) officers are still receiving contract benefits despite their employment contracts having expired and were still awaiting renewal of which the continued receipt of contractual entitlements is not regulated.

TRUST ACCOUNT - Work Permit

The following issues were noted during the review of the Work Permit Trust Account, accounting records and related documents;

- The Trust Instrument pertaining to the Trust Account was not made available for audit verification in order to establish the nature of its funding and disbursement of funds during the year 2008/2009; and
- The bank reconciliations for year 2008 were prepared up to December, whilst for year 2009 were compiled up to the month of September and up to date.

December 2008 Trust Account Bank Reconciliation

The Trust Account closing balance as at 31st December, 2008 showed a credit balance of K15,185,021 as per the PGAS Cash Book and Bank Account as follows:

Cash Book Balance

Particulars	Amount (PGK)
Opening Balance as at 01/12/08	13,324,977
Add : Total Debits (Receipts)	1,892,294
	15,217,271
Less : Total Credits (Payments)	32,250
Closing Balance as at 31/12/08	15,185,021

Bank Statement Balance

Particulars	Amount (PGK)
Opening Balance as at 01/12/08	15,203,176
Add : Total Credits (Receipts)	208,370
	15,411,546
Less : Total Debits (Payments)	226,525
Closing Balance as at 31/12/08	15,185,021

September, 2009 Trust Account Bank Reconciliation

The Trust Account closing balance as at 30th September, 2009 disclosed also a credit balance of K17,898,197 as per the cash book of PGAS Cash Book and Bank Account as follows:

Cash Book Balance

Particulars	Amount (PGK)
Opening Balance as at 01/9/09	11,643,220
Add : Total Debits (Receipts)	6,277,346
	17,920,566
Less : Total Credits (Payments)	22,369
Closing Balance as at 30/9/09	<u>17,898,197</u>

Bank Statement Balance

Particulars	Amount (PGK)
Opening Balance as at 01/9/09	18,227,600
Add : Total Credits (Receipts)	208,370
	18,435,970
Less : Total Debits (Payments)	537,775
Closing Balance as at 30/9/09	<u>17,898,195</u>

The bank reconciliation for the month ended September, 2009 revealed other items that needed to be adjusted and cleared prior to compiling the bank reconciliation:-

- **Schedule: 4-** Outstanding deposits of K165,310 related to prior years not brought to account in the bank statement.
- **Schedule: 5-** Under-banking of K43,060 noted from collections related to years 2005-2008.
- **Schedule: 6-** Unpresented cheques with a total value of K537,776 included stale cheques totalling K118,671 relating to cheques issued during the years 2005 - 2007.

Payments

The purpose of the Trust Account as understood is to hold fifty percent (50%) of receipts collected from payment of non-citizen work permits fees. A sample of cheques payments made could not be verified to officers authorized to discharge these funds as approved signatories to the account were not provided to AGO.

AGO noted that the expenses were processed and paid out of the Expenditure Votes and Work Permit Trust Account. Without the Trust Instrument detailing the purpose of expenditure, AGO was not able to determine of allowed expenses as against other expenditure. The summarized details of payments are shown below:

Summary of Expenses Paid for by the Work Permit Trust Account Funds

Particulars	No. of Payments	Total (K)
Secretary's Operational Allowance	34	170,796
Private hire of motor vehicles	26	274,268
Others - Funeral Costs	5	54,395
- Financial Assistance	3	16,500
Assets - Office equipment & Furniture	15	627,673
- Motor Vehicle	3	354,532
Overseas Travel	22	367,148
Professional Fees	18	624,763
Total	126	2,490,075

- In addition to the K170,796 Secretary's Operational Allowance, according to the departmental payment vouchers, the Secretary was being paid an amount of K5,000 as Operational Allowance for every duty travel taken on Domestic or International Travel. The Secretary has been double dipping on this allowance;
- Also the funeral cost of K54,395 included a payment of K24,000 made to the Secretary as Medical/Health referral to Cairns - Australia paid on cheque No. 1659 dated 8th January, 2009;
- A referral letter from a recognized Medical Practitioner or Public Health Services was not sighted nor attached to the payment documents. The payment is also considered as irregular in nature as it has not been sanctioned by an approved authority such as the Secretary for Finance; and
- The nature of payments from the Trust Account as highlighted appears unlawful and amounts to a total misuse, extravagance and complete wastage of public monies required to be applied for a specific purpose.

REVENUE COLLECTIONS AND BANKING

"According to Section 7 of the Public Finances (Management) Act, it stipulates clearly that:- the public office-holder responsible for the collection of revenue to ensure that such revenue is collected promptly and to the fullest extent and paid into the public account forthwith."

All accounts relating to the collections, receipting, custody and deposits of public moneys must be reasonably kept.

All reasonable precautions must be taken to safeguard the collection and custody of public moneys, and that all applicable laws, directions and instructions must also be duly observed and provide an effective check of the assessment and collection of revenue.

Revenue Collection at Headquarters

- A review of the Revenue Sub-Head Receipts Statement (TMS 20) produced by the Department of Finance for the year ended 31st December, 2008 (run-date 16th February, 2009) disclosed that the Department had collected a net excess revenue of K1,286,511 from five (5) out of seven (7) Revenue Sources which is highly commendable;
- Total revenue collection of K9,165,547 differs to the Department of Finance K9,664,928 by K499,381 which have not been reconciled to establish reasons for such differences;

- Delays in banking range from amounts lowest as at K3,020 in 4 days to K52,910 in six (6) days indicating a lapse in control over safe custody of public monies;
- The book fast copies of official receipt books upon completion were not forwarded to Department of Finance for acquittal purposes in which issued receipts could be brought to account. AGO also did not sighted the official approval from the Department of Finance of the current collector of Public Monies; and
- The Departments DoF and DLIR have not established a management monitoring and reporting system to achieve collection targets.

ADVANCE MANAGEMENT

AGO reviews of existing controls over payment, recording and acquittal of temporary advances disclosed the following matters;

Travel Advance

One hundred and seventy (170) advances totalling K140,424 were paid in 2008 and up to October, 2009. Out of the total, ninety-eight (98) advances amounting K52,232 were acquitted with a balance of seventy-two (72) amounting to K88,192 outstanding as at the time of audit in October, 2009.

Other Advances

The PGAS download information revealed that other advances issued totalling K153,093 from year 2008 to October, 2009 were not recorded in the Advance Register. These advances been and could remained outstanding should be recorded for appropriate acquittal action to be taken, if not yet being done.

Cancelled Advance Cheques

Two (2) "cancelled" cheques with a total value of K2,120, self paid to the Secretary were not sighted and were not properly recorded and brought to account in a cancelled cheques register.

Advance Register vs. PGAS Ledger

The advance register and PGAS Ledger were not correctly represented to show an accurate and reconciled record of all advances paid. An unexplained difference of one hundred and fourteen (114) advances with a value of K145,917 was noted between the Register and the Ledger.

DEPARTMENT RESPONSE

The findings were brought to the attention of the Secretary in the management letter issued. The management however has failed to respond up to the time of this report.

CONCLUSION

The results of my audit, the number and magnitude of control weaknesses identified in the course of audit indicate that overall, there are significant and serious weaknesses in the control framework. At present the control activities such as delegations, authorizations, reconciliations, segregation of duties, system access, management monitoring, etc, are not sufficiently robust to prevent, detect or correct error or fraud.

DEPARTMENT OF WORKS AND IMPLEMENTATION

OVERVIEW

Main programs of the Department of Works and Implementation are:

- Construction Coordination – deals with provision of services in support of the department's programs; construction, supervision, quality control and revitalization of existing machinery to cut costs.
- Regional and Provincial Works Officers to carry out minor work relating to development projects in the provinces.
- Mechanical Engineering Branch (PTB) – Carry out replacement, maintenance and fully operate about 3,000 units of government owned vehicles and plants nationwide. This program was formerly funded through the PTB Trust Account.

FINDINGS

CORPORATE GOVERNANCE

Corporate governance is the way in which an organisation is controlled and governed in order to achieve its objectives. The control environment makes an organisation reliable in achieving these objectives within an acceptable degree of risk.

The following lapses were observed;

Corporate Plans

- Evidence of the annual work plan and Development budget proposal has not been sighted;
- There was no evidence of proper analysis being done by the Policy and Regulatory Division through its monthly review on the status or progress in regard to implementation of the Corporate Plan. Monthly reports for each branch and Division of the Department were requested, however, no reports were furnished; and
- It appears that the Policy and Regulatory Division is not monitoring the effective and efficient implementation of the Corporate Plan.

Executive Committee Meetings

- The frequency and the number of Senior Executive Committee Meetings held if any were not evident. Whilst these meetings are supposed to be held on a monthly basis, there were no Meeting Minutes furnished to AGO although requested;

Internal Audit

- The annual audit programme was not effectively implemented during the period under review due to shortage of staff on strength.
- A series of long outstanding (investigative) audit reports compiled by internal audit has not been addressed accordingly by the Department's management. The issues in these reports remain unresolved and were not satisfactorily handled by the management.

Management Response

Corporate Plan

- *The Department is in compliance with the Public Service General Order No.8.11 as referenced by the AGO and that Annual Plans for the period are in place.*
- *The Department has a Corporate Plan 2006-2008 which was viewed by AGO audit team as being in a usable and easily read format that sets out a path for the three years. We agree that the implementation of the corporate plan goals was not effectively monitored and evaluated. We also note monthly performance reports submitted by activity heads was received however a process was not put into place to evaluate these reports and monitor performance from these reports against the work plans and corporate plan.*
- *One of the major tasks in 2009 and 2010 was to review our Corporate Plans and Work Plans. In 2010, this task was completed with the creation of a new work plan template with links to the Corporate Plan and the budget. So we are making efforts to improve performance in Corporate Planning against work plans with clearly defined performance indicators.*

Internal Audit

- *Internal Audit did draw up Annual Audit programmes for the years 2008 and 2009 but did not submit them to the Secretary for approval mainly due to lack of Internal Auditors as highlighted in AGO report. There was at that time only one man auditor and the plan though not approved would have been unachievable and therefore there was no point in giving a copy to AGO.*

STATUTORY REPORTING

Quarterly and Annual Financial Management Reports

Part II: Section 5 of the Public Finances (Management) Act and Financial Management Manual Part 2, Section 17 stipulates that Departmental Heads shall submit a report on financial management quarterly after end of each quarter and an annual report, including overall assessment of the Department at end of each fiscal year to the Secretary, Department of Finance.

The Department is yet to produce such reports as required and submit copies to the Department of Finance. There is no evidence to suggest that the Department has produced the report.

Annual Management Reports

As stipulated in Division 4 Section 32 (a) of *Public Service (Management) Act, 1995*, "Each Departmental Head shall by 31st March in each year, prepare a report on the attainment of the planned objectives of his Department for the year ending 31st December preceding." Public Service General Order 8.12 states that the Departmental Head should forward to Secretary, Department of Personnel Management a report on the work and achievements of the Department in relation to the Corporate and Annual Management Plans.

The Annual Management Report for 2007 and 2008 were still in draft form and 2009 was yet to be prepared at the time of writing this report in September, 2009.

Management Response

We agree with AGOs comments on the 2007 and 2008 Annual Management Reports not being finalized. Some of the problems that would have contributed to this was the fact that there was a change in management around August, 2007 with a new Secretary and some changes to Activity Heads. Subsequently the reports were not pursued as they should have been due to reshuffle of officers.

There were problems also in obtaining reports from our provincial offices and these were not coordinated efficiently in time to collect reports for compilation.

We are aware of the issues now in relation to our Corporate Plan and Annual Plans and have reviewed our reporting process to improve it. The Policy & Planning Branch have taken this task seriously and have now made improvements to our work plan formats to make it easier to extract quarterly and annual reports.

BUDGETARY AND FUNDS CONTROL

Reconciliation of Records

National Government Departments and Statutory Authorities using the Standardised Government Computerised Accounting System (PGAS) must ensure direct interface takes place in the General Ledger.

Unlike the rest of the National Government Departments that use PGAS system for accounting and financial management purposes, the Department of Works and Implementation has its own accounting and financial management system called "ORACLE". All the nineteen (19) Provincial Offices are linked to Boroko Works Headquarter (WHQ) and integrated to the Information Systems operated by the Department.

A comparison of the Expenditure Summary generated by the TMS system against the Corporate Ledger printout through the ORACLE system revealed the following:

- Expenditure information from ORACLE could not be compared to TMS reports from Finance;
- Monthly reconciliation was not done between ORACLE Reports against TMS expenditure summary produced by the Department of Finance; and
- In eight (8) items of the vote aggregating K76,544, commitments made were outstanding as at 31st December, 2008. This will have an adverse effect on the succeeding year's allocation by the same amount.

Expenditure in Excess of Warrant Authorities

Finance Manual Part 7 - Budget and Expenditure Control Division 2 – Warrant Authorities states that irrespective of the agency to which Warrants are issued or, which makes the payment, the Department in whose budget the votes are included are responsible to ensure that commitments and expenditure are within authorised limits.

Due to the absence of proper expenditure reconciliation between the Department's ledgers and the Department of Finance TMS records, over expenditures were noted in both records. In this regard, over expenditure was noted in thirty (30) items of Departmental record aggregating K12,023,064 compared to TMS records totaling K49,330,136 in ninety two (92) instances for period twelve (12), resulting in an unreconciled difference of K37,307,000 as at 31st December, 2009.

The budgetary controls were not operating effectively allowing money to be spent in excess of the authorization. There was non-compliance incurring expenditure within the limit of funds available thus showing a potential breach of the Appropriation Act and the *Public Finances (Management) Act 1995*. In addition, the inadequate budgetary controls and inefficiencies in accounting procedures could lead to misappropriation of funds.

Management Response

We agree that there has been a problem with Department of Works (DOW) Oracle system and TMS. However this is no difference to any other department where PGAS does not agree to TMS.

Disagree that there is no monthly reconciliation and balancing. There has been and is still on-going, a specific exercise between DoW and Department of Finance (DoF) to reconcile and balance oracle and TMS (as part of DoF larger project of reconciling and balancing PGAS to TMS). DoW and DoF meet regularly (minimum monthly from 2010) to reconcile and identify problem areas.

In 2009 major progress was made in determining the reasons and rectifying this. As a result in September, 2009 DoW and DoF managed to get Oracle to agree in total to TMS. Work continues to now get individual lines to agree, and includes establishing the monthly reconciliations, review and clearing of difference. Minutes of these meetings are available.

Also DoF Trust section regularly report on progress made to the Audit Committee and the Audit Committee acknowledges the progress made.

We agree that there may be a difference to TMS.

We disagree that there is expenditure in excess of warrant authorities. DoW has been authorised to use Oracle as a replacement to PGAS. Controls for appropriations, warrants and expenditure are in Oracle. There was a problem identified in Funds Control module in Oracle and this has been corrected in December, 2009. Differences in TMS are due to data in TMS being incorrect.

BANK RECONCILIATIONS – Head Quarter's and Provinces

The Department operates a Main Drawing Account – FCB Drawing Account No. 4311-6145 with the Bank of Papua New Guinea also referred to as DoW- SAL Reimbursement Account (Ledger account code 320-65). The Department has twenty-one (21) Drawing Bank Accounts. The drawing accounts comprised of a Reimbursement Account and twenty (20) operating accounts including its Boroko Head-Quarter. Provincial Offices operate separate bank accounts. The Main Drawing Account acts as a channel in which budgeted funds for the Department flow in the way of statement of expenditure and flow out by way of reimbursements of expenditure to the twenty (20) operating accounts.

The lapses in bank reconciliation were noted as follows;

- The Bank Reconciliations were in arrears ranging from one (1) month to twenty (20) months from January to December, 2008 and up to the time of audit on 14th September, 2009. The Boroko Drawing Account was not reconciled since 2003;
- The Main Drawing Account and majority of the Provincial Offices of the Department have not been carrying out timely bank reconciliations in respect of their drawing accounts;
- The Department's Headquarters failed to oversee and act promptly on the non submission of bank reconciliations, resulting in significant backlog of un-reconciled accounts; and
- There is no mechanism by which the Headquarters could monitor the expenditure and have access to Provincial Officers' bank statements.

Management Response

We agree with AGOs comments. DoW has put in a monitoring mechanism to track status of bank reconciliations, improvements and identify priority areas.

Effort has been made and additional resources applied. Major progress has been made. This is reported on in Audit Committee meetings and Audit Committee acknowledges the good progress. We all agree there is still improvements required to get to acceptable level.

Action plans have been made and are being implemented. We should continue to see improvements in subsequent years.

ASSETS MANAGEMENT

As per Public Finance Management Manual Financial Instructions Part 32, the Department should maintain an Assets Register to record all its asset purchases and conduct of a stock-take annually to verify their existence and assess their value.

The Department does not maintain a consolidated register to be updated periodically where required. All divisions are expected to maintain their own register.

No physical stock take of assets for the head quarters and the provinces has been carried out since 2001 after an independent committee was set up to address the Asset management issue.

These matters have been reported in the last audit and still remain unresolved.

Management Response

Disagree that there is no asset register maintained by PTD. Also since DoWs IT Division upgraded PTDs Asset Register, it is now performing its role and vehicles are being properly recorded in the register. PTD also maintains manual records/register of its vehicle assets together with its computerized.

Asset Register for office equipment for PTD HQ exists and is regularly updated. Copies of the register are available.

Agree that there is no asset register for Headquarter (non PTD) assets. In fact there was an asset register for Headquarters that was maintained by the Assets Officer. With the changes to management in 2008, the Assets Officer was relocated and the register was not updated.

This issue is noted and steps are being taken to update and maintain the office asset register.

PURCHASING AND PAYMENTS - Prior Year Recommendations

AGO noted that the Department has not followed up on prior year audit findings/recommendations as follows:

- The Department to establish procurement plan in conjunction with its planning processes. Such plan should assess any risks associated with procurement and detail actions to mitigate those risks;
- The Department to decide on a list of approved suppliers for purchase of goods and services to avoid the risk of fraud. This list should be monitored and periodically updated; and
- Under-take a review of its current policies and procedures and to install management information systems for:
 - real time and accurate data on goods and services ordered, and actually received; and
 - tracking variances from actual receipts and those that were not appropriately ordered, (exception reporting).
- Assign responsibility of procurement to an appropriate section with the necessary capacity and skills; and
- The Department to ensure proper recordkeeping practices. This could include signing-off by a senior officer of a list of all payment vouchers for filing away to ensure that all vouchers are valid and are stored safely.

The review of these matters received no response from Management.

Management Response

AGOs comments are noted. A procurement plan has been drawn up by the Contract Management Division of which procurement comes under. This plan is in draft and is forming the basis of future plans. The format of the plan has been taken from the CSTBs Good Procurement Manual and slightly adjusted to take on additional information as requested for in AGOs recommendation.

PURCHASING & PAYMENTS – Boroko Drawing Account

The reported instances constitute breaches of the *Public Finances Management Act 1995* and the *Income Tax Act*. Procurement procedures if not adhered to would increase the risk of fraudulent payments occurring.

AGO tested year end transactions in the last quarter of 2008 of the Boroko Drawing Account held at BSP, Port Moresby. Examination of payments disclosed the following matters;

Filing of Payment Vouchers

The audit noted that payment vouchers were placed in a disorderly manner and were not properly filed in a chronological order such as in cheque sequence. Furthermore, the filing or records room was noted to be accessible to the public and poses a great risk of loss or removal of documents without proper authority. The Department operates and maintains numerous trust accounts and therefore it is important to ensure that adequate security is provided over their safe custody and filing.

Also it was noted that Finance Form 4 (FF4) were hardly attached in all the payment vouchers which is a direct violation of the *PFM Act*. These finance forms are prescribed under the *PFM Act* and provide important controls over the expenditure process.

Authority to Pre-commit (APC)

An Authority to Pre- Commit (APC) Form is issued when contract payments for provision of goods and services exceeds the value of K300,000. This request is made to the Department of Finance to approve and confirm that funds will be made available to pay the supplier once a contract has been finalized and approved. The documents are then forwarded to Central Supply and Tenders Board who will call for tenders.

It was noted that the Department of Works did not fully maintain and update its APC register regularly in 2008. The register was maintained for only ten (10) projects. An inspection of the APC register revealed that entries of APC were made in the Register during 2008 but only four projects were given the approval.

Written Quotations

According to Finance Instructions from Department of Finance, cost of goods and services valued more than K5,001 and less than K300,000, a minimum of three (3) quotations should be obtained from suppliers before a particular supplier is selected.

AGO noted that in sixteen (16) instances, with amounts totaling K153,120, three (3) written quotations were not obtained from contractors prior to engaging the services of the best possible supplier.

Certificate of Completion

The Completion of construction works must be evidenced by the issue of a certificate of completion from a competent authority prior to payment.

In fifteen (15) instances, totaling K268,804, Certificate of Completion or progress reports were not sighted to substantiate the payments made.

Certificate of Company Incorporation/Registration (COR)

A Certificate of Registration must be attached to all contractual and procurement payments and proper inspection be done to verify if the contractor is a properly registered vendor with IPA to carry out such business venture.

In nineteen (19) instances, payments totaling K303,915, Certificate of company registration or incorporation was not sighted to substantiate the payments. Whether payments were made to qualified contractors could not be ascertained.

Goods & Services Tax (GST)

Goods and Services Tax (GST) can only be charged by the vendor if they have a tax file number. In seven (7) instances, of payments totaling K62,434 vendors were charging 10% GST when their invoices did not bear a GST tax invoice number. It therefore appears that the tax was paid without being remitted to the tax office.

Repairs & Maintenance

Department of works operates a Plant and Transport Branch (PTB) where all PTB vehicles are maintained including vehicles of the department. In five (5) instances, totaling K32,070 payments were made to private companies for repairs and maintenances to department vehicles.

The Department has a carpentry and building section where minor works, maintenance and repairs of buildings are done. However, in five (5) instances, totaling K104,500 payments were made to private companies for repair work on the Department's buildings.

Encashment of Leave Fares

There are very strict guidelines set by the Public Service General Orders on the encashment of leave fares for employees. Leave fare entitlement must be made directly to a travel agent or the transport company that will transport the employee and the family. Leave fares are not paid in retrospect and are paid as and when they fall due. If the leave fares are not claimed during the year it falls due, then such have is forfeited to the State.

In twenty five (25) instances, payments totaling K144,617 back dated from 2008-2006, were claimed by staff in cash for leave fares not taken instead of being paid to a travel agent for travel purposes.

Payments from Boroko Drawing Account to Projects

The Boroko Drawing account is an account for payment of expenditure of recurrent nature. An examination of the Payment Distribution report for year ending 2008 revealed that:

- In nine (9) instances, payments totaling K74,190,921, funds from the DoW Drawing Account component were transferred to the Works Suspense Outside Operation Trust Account (WSOOTTA). Funding for this Trust Account comes from outside sources only i.e. private contributions, AusAID, Provincial Governments, etc, for minor capital works. It is unclear why a transfer of funding was made from the GOPNG component to the trust account; and
- Furthermore, in eleven (11) instances, payments or transfers totaling K84,458,462 were made from the drawing account to the GoPNG Counterpart Trust Account that deals with development funds for government of PNG counterpart funding. It is unclear why the money has been transferred from this drawing account, when the funds are for expenditure of capital nature. The money should have been transferred directly to the trust accounts concerned by the department of Finance.

Management Response

We agree with AGO comments. Steps will be taken to address all these issues.

HUMAN RESOURCES MANAGEMENT

Prior Year Recommendations-General payroll Controls

The Department had not established procedures to ensure that the payroll function keeps an independent record of its payroll expenditure. Such records include but are not limited to a payroll listing, register of special pays, advance payments of salaries, etc. In addition, there should be regular reconciliation of payroll records of the Department against records of the Department of Finance.

The Departmental Secretary should delegate the authority to each of the Divisional Heads to check and certify the payroll of their respective divisions. In addition, management should ensure that all procedures as stated in the Financial Management Manual are adhered to when preparing wages. In particular that, its fortnightly payroll expenses are reconciled to the standard payroll expenses to vouch for correctness of its payroll.

Also, qualification details of officers should be properly checked at recruitment or every subsequent promotion or acting appointment.

The above issues remains unresolved.

However, other specific recommendations on issue of idle labor regarding the PTB branch are currently being addressed through a current restructure of the Department's workforce as well as a retrenchment exercise being undertaken in close consultation with Department of Personnel Management.

Management Response

We agree with AGOs observations and comments. These issues are now being addressed to take into account AGOs recommendations.

Prior Year Recommendation-Maintenance of Employee Records

AGO recommended in the last Audit that the Department should ensure adequate training of its personnel with regard to record keeping requirement so that responsible officers can effectively discharge their responsibilities and for the personnel files to be kept in proper and secure place.

These issues still remain unresolved.

Management Response

We agree with AGOs observations and comments. Action has commenced with sorting out of all personal files, leave administration issues and issues highlighted by AGO are being addressed.

Work has commenced with a review of the work area in order to tidy up the filing system and put in proper file controls.

Prior Year Recommendation-Higher Duty Allowance (H DA)

AGO recommended that the overpayment be recouped from officers who continue to receive higher duty allowance (HDA) despite the lapsing of the approved HDA period and to cease payment henceforth.

In addition, sixteen (16) personnel files of officers on payroll were not submitted for confirmation. The existence of these officers on the Departments payroll could not be verified.

Management Response

AGOs findings are noted. We would request AGOs detailed list of employees who have received HDA in excess of the period entitled to so that these can be verified and recovery action taken as necessary.

We do note that there is a need for training of HRM staff in the interpretation of the General Orders. Training sessions have been initiated this year (2010) with all HRM staff on the General Orders to properly educate them to understand and interpret the GO correctly. Training is continuing this year.

Prior Year Recommendations-Tax Declaration Forms

AGO recommended that regular review be done on the accuracy of tax calculation as stipulated in the Salaries and Wages Tax Act and to recoup all underpayment of tax.

This issue remains unresolved at the time of audit in September, 2009.

Management Response

AGOs findings are noted. Apart from training in the GO, other areas in HRM that are not being properly managed are being looked into and where necessary, appropriate training will be conducted.

We agree that tax declaration issues need to be checked and that proper tax deductions are made with proper checking against current tax tables. This issue will be addressed with the HRM management.

Prior Year Recommendations-Recruitment and Payment of Casual Staff

AGO recommended that the Department establish a working group to investigate the forty-nine (49) casual staff that are on the ABLE payroll, without payroll numbers whether they are bona fide employees or not and to terminate those whose services are no longer required. Payment of wages out of ABLE Payroll to cease before end of 2008.

Management Response

The issues raised by AGO are noted. AGOs information captured in appendix IV has not been forwarded together with the management letter. We would request that appendix IV be forwarded to us to enable us to check and provide further response and take appropriate action.

However, we do agree with AGO in that we do have a problem with our casual staff. Most casuals employed by the Department were either admin staff such as cleaners, drivers, etc. or new professional graduates employed and were awaiting file numbers from DPM. Since the restructure of the Department in 2008/2009, many of the office casuals have been recruited to Public Service positions. Hence, there is a reduction in casuals in the office admin area. There are also other necessary areas for staffing such as security. There are no positions on the structure for these positions. Management will be reviewing all casual positions and where necessary terminations will be made. The Department also has project casuals who are paid out of the ABLE payroll system. These casuals are paid out of the projects they are engaged on. These casuals would be terminated after a project is completed. We note that tighter controls need to be enforced in this area. We will be addressing this issue to make improvements through a working team.

TRUST ACCOUNTS - Bank Reconciliation Statements

All Government Departments and Statutory Authorities, as stipulated by the Public Finance Management Act (Part 16, Para 8.1&2) that it is the responsibility of each Departmental Head to ensure that all Trust Accounts under their control are reconciled on a monthly basis with copies sent to Accounting Frameworks and Standard Division,

Department of Finance no later than fourteen (14) days of the close of each month. Failure to comply with the provisions of the Act and the conditions of the Trust Instrument may result in the Secretary for Finance at his discretion under Section 19(5) of the Act may; suspend the operation of a Trust Account where the provisions of the Act are not complied with, or take over the responsibility for the operation of that Account, or Close the operation of the Account where there has been no attempt made to reconcile the Account. Also, non compliance may necessitate withholding further issuance of Warrant Authorities.

AGO tests carried out on the preparation of the bank reconciliations for the Works Suspense Outside Operations Trust (WSOOTA) as at 30th September, 2009 disclosed the following issues:

- The Works Suspense Outside Operations Trust Account (WSOOTA) and its Provincial Offices have not been carrying out timely bank reconciliations in respect of these accounts. As at 30th September, 2008, the AGO noted that six (6) out of the twenty (20) established WSOOTA trust accounts had no single bank reconciliations prepared since their inception in 2000;
- Department's Head-quarters bank reconciliation co-ordination section failed to monitor and follow up promptly on the outstanding bank reconciliations, resulting in significant backlog of un-reconciled trust accounts; and
- There is a significant control lapse at the Headquarters on monitoring and follow up on the bank reconciliation exercise throughout the provinces. There is no evidence on record to show that regular follow up action was taken on the outstanding bank reconciliations in the provincial offices.

Management Response

We agree with AGOs comments. Considerable progress has been made in 2009 to improve the status of the bank reconciliations, but there is still a lot more work to go. Steps are being taken to address this issue, and this reported on regularly at the Audit Committee Meetings, refer to these reports for further responses.

ADVANCE MANAGEMENT

An examination of the advance register, acquittal forms, expenditure transaction details and related records used in the disbursement of the advances revealed the following anomalies.

- Prior year advances were not fully acquitted indicating lack of proper checking procedures;
- In 2009, forty-one (41) subsequent advances totaling K90,917 were given while the first and second advances remained un-acquitted contrary to Financial Management Manual; and
- The Financial Delegate(s) have not been reviewing the advance register regularly to ensure that all advances recorded are being acquitted regularly as required.

These matters still remain unresolved.

Management Response

We agree with AGOs comments. Steps will be taken to address this issue.

DEPARTMENTAL RESPONSE

The Department has responded to the audit findings reported in the management letter issued and their comments are stated accordingly.

CONCLUSION

In general, there is no marked improvement in the system and operation of controls within the Department compared to previous years.

The results of the audit indicate that overall, there are significant weaknesses in the control framework. At present the control activities such as delegations, authorizations, reconciliations, data and payroll processing, management monitoring, etc, are not sufficiently robust to prevent, detect, or correct error or fraud.

OFFICE OF RURAL DEVELOPMENT

OVERVIEW

The Office of Rural Development is expected to play a lead role in the formulation, co-ordination and implementation of the Government's Rural Development Policies and Programs that contribute to improving delivery of government services, raising the quality of life and attaining sustainable development.

Major objective of the Office of Rural Development (ORD) is to facilitate administration of members' electoral development funds for rural infrastructure development.

FINDINGS

CORPORATE GOVERNANCE

Corporate Plan

The *Public Service General Order No.8.11* clearly states that the Departmental Head shall have in place at all times a Corporate Plan providing the future business strategies and planned objectives of his/her Department over a three to five year period. Based upon the Corporate Plan, and the budgeting approach to managing his Departmental resources, the Departmental Head shall provide Annual Management Plans to meet requirements of the budgetary cycle.

The Office of Rural Development has in place a five (5) year Corporate and Strategic Plan from 2008 to 2012.

Our audit analysis on the Corporate Plan and its effect on work performance measurement was not done due to some misunderstandings between the Deputy Director and the auditor on 31st March, 2010, which resulted in the Director-Office of Rural Development writing to the Auditor-General.

As such, the Annual Work Plan for the Office and its respective Divisions were not made available for our audit review due to above incident.

Internal Audit and Audit Committees

An internal audit function has not been established in the ORD. The important function of ORD in monitoring of millions of kina in DSIP funds expenditure require a robust system of internal control to be operating effectively and thus an internal audit function, is necessary to provide management some assurance in the effectiveness of the system and problem required to be in place.

Management Response

The audit findings are noted. While we endorse the finding that the Corporate Plan was not fully implemented during the period lapse and current, the reason (of not having qualified staff at management level) is not entirely correct as the lack of implementation was also largely to do with funding limitations. For your information, our current Corporate Plan has been reviewed in early 2010 to align it to the improve implementation prospect under the revised CP (2011-2015) by building up capacity through a major recruitment drive that is currently underway.

The recruitment of an internal auditor is part of this exercise.

Minutes of Management Meetings

According to a senior officer, there were no Minutes of Meetings kept by the Management. It is important that a management oversight responsibility be put in place to ensure the ORD functions are carried out effectively.

STATUTORY REPORTING

Quarterly and Annual Financial Management Reports

As required in Section 5 of the Financial Manual, Departmental Heads shall submit a report on financial management quarterly after end of each quarter and an annual report, including overall assessment of the Department at end of each fiscal year to the Secretary, Department of Finance.

Financial management quarterly reports were submitted to Department of Finance in 2009. The first quarter financial report for 2010 was also submitted to Department of Finance. However, no evidence was sighted to indicate that the Annual Financial Management Report has been prepared and submitted to Department of Finance in 2009.

Annual Management Reports

As stipulated in Division 4 Section 32 (a) of Public Service (Management) Act, 1995, "Each Departmental Head shall by 31st March in each year, prepare a report on the attainment of the planned objectives of his Department for the year ending 31st December preceding." It is further elaborated in Public Service General Order 8.12 that the Departmental Head should forward to Secretary, Department of Personnel Management a report on the work and achievements of his Department in relation to the Corporate and Annual Management Plans.

An Annual Financial Report for ORD for year ended 31st December, 2009 was prepared in draft form for the Director's final approval when checked with the Accountant in March, 2010.

Attempts made to check and confirm whether any Annual Management Report had been prepared were not responded to by the Deputy Director.

Although partial reports were compiled, AGO noted that the full responsibility of reporting and submitting to Secretaries, Department of Finance and Personnel Management were not carried out in 2009.

Management Response

Management agreed with the audit findings however, reported that; the 2009 Annual Report was actually under preparation during the time of the audit. This has now been finalized and submitted to Department of Finance 7th July, 2010. Though there may have been lapses in quarterly reporting to DoF as part of the budget implementation and review process, management is taking action to ensure ORD fully complies with these mandatory requirements. As for the AMR finding the Department will work towards full compliance.

BUDGETARY AND FUNDS CONTROL

Recurrent Budget 2009

A comparison of the 2009 (PGAS) Expenditure Vote Summary printout maintained by ORD with the Expenditure Statement on TMS 330 produced by Department of Finance for Period 12 revealed significant variances between expenditure statement balances in respect of revised appropriation (K354,200), warrant Authority (K4,457,800) and actual expenditure (K4,333,102).

Figures on the Warrant Authorities were also not posted in the PGAS leaving huge variances on the Expenditure Vote Summary printout and the Department of Finance TMS report.

In addition, the Expenditure Statement (TMS 330) produced by Department of Finance for year ended 31st December, 2009, (run date 25th February, 2010), revealed expenditures in excess of fund allocations in the warrant authorities issued under six (6) vote items totaling K1,135,695 in the Recurrent Budget. The significant over expenditure of K162,300 was that relating to item 141 – (Retirement Benefits) which had an expenditure of K462,043 against an allocation of K299,700.

Management Response

Disagree: The audit finding here is not entirely accurate as far as our accounts section records is concerned as all warrants were posted. Warrants are posted as soon as these are received from DoF. This is the only way we can commit make expenditure commitments. We are, in addressing the audit finding through, stepping up our reconciliation to minimize any discrepancies between DoF and ORD financial records.

ORD Management responded by stating that: the query concerning the huge variances in expenditure balances cannot be taken as breach of appropriation act as mentioned in AGO report. And further reiterated that: adjustments were made as soon as warrants were received from Treasury Dep't. We do reconcile the TMS reports against our expenditure report but in most cases does not correspond due to the adjustments made on the warrants issued by Treasury Department.

BANK RECONCILIATION – Drawing Account

All Heads of Government Departments and Statutory Authorities are to ensure that their bank accounts are reconciled on a monthly basis. Bank balances should be reconciled against the cashbook balance and the reconciled cash book balance and they should agree. Copies of the bank reconciliation statements should be forwarded to the Accounting Frameworks and Standard Division, Department of Finance no later than 14 days of the close of each month. Failure to comply with the above may necessitate withholding further issuance of Warrant Authorities.

Bank Reconciliation - 2009

The office maintains a drawing bank account No. 4311-6164 with BPNG. Audit verification of accounts and records and related schedules for the December 2009 bank reconciliation revealed the following anomalies:-

- Reimbursements for November and December, 2009 from the Waigani Public Account (Credits in bank statements) totalling K4,422,553 had not been actioned and posted in the cash book for the months, of November, 2009;

Unpresented Cheques

- A total of one hundred and fifteen (115) cheques amounting to K7,119,852 were still outstanding as unpresented cheques for the period ended 31st December, 2009 as per the Cheque Reconciliation Listing dated 13th January, 2010 as at 10th March, 2010;
- One hundred and forty-one (141) stale cheques from year 2000 to 2008 totalling K4,159,958 were captured on Schedule 11. No journal entry was raised for the stale cheques; and
- An age analysis of the stale cheques revealed that a considerable backlog needs to be cleared, adjusted or written-off. According to the December, 2009 reconciliation a total of K4,159,958 representing eight (8) years of stale cheques were carried forward on the reconciliation statement.

The current year's unpresented cheques for the period ending 31st January, 2010 were K4,241,201 as per the Cheque Reconciliation Listing dated 13th February, 2010. This amount did not agree with the total unpresented cheques captured in Schedule 8 of the bank reconciliation statements as part of it represents stale cheques.

Other Items (Debit) – K1,638,178

Schedule 6 should contain details of payments per bank statement not in the cash book and payments in cash book not in bank statements. The amount of K1,638,178 represents mostly cancelled cheques or wrong cheque presented which were backdated to year 2000 which journal entries were raised, however, narrations stated was “unidentified or cancelled”. The reconciling items stated herein are not proper and correct.

Other Items (Credits) – K3,890,709

These are cancelled cheques, with no journal entries raised to clear them from the cash book. There were cancelled cheques that dated back from year 2001. Schedule 11 should contain details of payments (debits) per bank statement not in cash book, and credits (payments) in cash book not in bank statements.

Action was not taken on schedules 6 and 11 to clear those anomalies and the reported details had been carried forward to the current month of January 2010. AGO observed that management had failed in its responsibility to maintain proper records and update of its cash book records as required.

Cheque Signatories

Five (5) officers were appointed as signatories to the ORD Drawing Account. Authorised specimen signatures for the bank account was requested for confirmation, however, due to the file not being sighted and reportedly missing, audit was unable to confirm the specimen signatures of each officer. Consequently the authority for issue of cheques could not be confirmed.

There is no control and segregation of duties maintained at the Finance and Accounts Section. All signatories to the payment cheques were from the same section staff who also have access to the PGAS system which pose a high risk in the security of payment cheques and the authority to pay claims

Management Response

We have cleared a large number (90%) of “un-reconciled” items and this will be ongoing. On the stale cheques, we are working through this to have them written off after clearance from DoF. The arrangement on cheque signatories from the Finance/Accounts section only – is an arrangement that Management has determined to be working well and do not see any need to change this.

Management further stressed that: Due to certain procedures to be followed before any reconciliation items from previous years were to be cleared, the OIC of bank reconciliation could not clear all those outstanding reconciled items at the end of December, 2009. The ORD at that time did not have a skilled bank reconciliation officer who could have cleared all those outstanding items from the previous years. Therefore, the outstanding items were carried forward to the current year. The current bank reconciliation officer was recruited in 2008 and since then the officer has been trying her best to clear these outstanding items. Hence, most of these have been cleared in 2010 Bank Reconciliation and the remaining ones that need to be cleared and written off are listed according to the following schedules:-

- Agreed: one hundred and forty-one (141) stale cheques recorded from 2000 – 2008 totalling K4,159,957. These particular cheques are still showing on the cheque reconciliation listing of the current bank reconciliation as the management needs to give approval before the cheques can be stalled without physical cheques in order to adjust the unrepresented;*
- Agreed: Schedule 6 – K1,638,178 Other Items (debits): Most of the items have now been cleared but only August, 2001 to November, 2006 will be written off as original cheques cannot be located. The others are in the process to be cleared. The previous overall total of K1,638,178 at the end of December, 2009 has reduce to K1,412,910 in 2010 Bank Reconciliation;*
- Agreed: Schedule 11- K3,890,709 Other Items (Credits): Almost all cancelled cheques with no journal entry done in the previous years have now been cleared bringing the overall total of K 3,890,709 at end of*

December, 2009 to K1,412,910 in 2010 Bank Reconciliation. These cheques could have been lost or never deposited in the banks, therefore, ORD does not have the physical cheques that will allow the bank reconciliation officer to go ahead and stale in the PGAS; and

- *Disagreed: **Signatories to the Drawing Account:** the legitimacy of the signatories has to rest with the objectives and functions which should be in line with day to day management of ORD Finance. It is difficult or time consuming to have cheques signed by other officers from other division as this may attract problems. Furthermore the appointment is valid and proper in accordance with division 1 section 7.3 of the financial Instruction.*

ASSETS MANAGEMENT

A review of the internal controls surrounding the purchases, recording and control of assets, including the maintenance of the stock-cards for each asset item revealed the following issues:-

- There was no improvement in the recording and accounting control over assets as previously reported;
- An Asset Register was maintained in 2007 and another Register was created in 2009. Both Registers were not kept-up-to-date and were incomplete due to lack of relevant information such as unit cost, total cost, serial/model numbers, date of purchase, responsibility for custody, etc;
- Five assets totalling K73,409 were not recorded in the Assets Register of which the highest being the Attendance Time-machine costing K42,264, purchased from a company in Australia. Furthermore, three (3) quotations were not obtained for the purchase of this machine to ensure economy and best value for money; and
- There were no reports on file to confirm the physical status of assets listed under Board of Survey.

Management Response

The office has continued to maintain an asset register which is updated regularly. Your finding on the asset register not been updated is therefore not entirely true.

MOTOR VEHICLES

The PFMA Part 31 for Purchase and Replacement of Motor Vehicles states that all government vehicles should have "Z" number plates and log books and that regular maintenance program should be maintained for all vehicles.

ORD had a fleet of twelve (12) vehicles as at the time of audit in March, 2010. This fleet included the purchase of two (2) new vehicles in 2009 at the total cost of K151,000 from Boroko Motors Ltd at separate purchase cost of K89,000 and K62,000 respectively.

AGO review of management control of vehicle purchase, use and maintenance, noted the following matters:

- Seven vehicles were tendered in 2009 and bought-off by ORD staff. The disposed vehicles had no purchase price marked per the list provided and it is not clear what value each vehicle was sold to the buyer. It was observed that there was no approval for disposal by the management, also board of survey report was not completed and available. In addition there was no documentary evidence on the sales made (Names of buyers and costs, etc.) and no official receipts were issued and how the proceeds from the sale was accounted for;
- AGO reported in the last audit management report that a senior officer had in the custody of two (2) vehicles (i.e. BBN-230 & ZRD-019) which an explanation was not provided for having the two (2) vehicles. It was found that the state vehicle was registered with a private number plate without a valid reason;

- This vehicle (BBN-230) had an accident and reported after two (2) months. There was neither an Accident/damage nor Police report was surrendered for AGO review. Audit could not ascertain the total cost of damage; however, the senior officer reported that he would meet the cost of damage recouped through salary deduction. AGO was not able to confirm the recovery of the cost; and
- Another Accident Report was also noted from yet a senior officer as per letter dated 5th January, 2010 for vehicle registration number ZRD-017. This accident happened during the 2009 X-Mas and 2010 New Year holiday period along the Magi Highway in the Central Province and the cost of damage to the vehicle is unknown. Furthermore, there was no report furnished on the damage sustained to the management.

Payments totalling K44,000 were expended on fuel charges in 2009. Fuel was also charged to various other Vote Items not appropriated for the purpose. It was noted that significant costs were charged to items 125 (K25,000) and item 141 (K10,000)

Management Response

The tendering and disposal off seven ORD vehicles were, in management view, in line with government procedures. Staff made payments in DoF for the vehicles and produced receipts to claim their purchases. On the issue of Deputy Director having access to two (2) vehicles, this is responded to in the matrix. Additionally, accident reports are attached for your information and management is looking into these and will, where appropriate, take corrective actions.

ADMINISTRATION OF DSG AND PSG

In accordance with the administrative guidelines issued in line with section 117 of the *Public Finance (Management) Act 1995*, all members are to comply with such provisions to facilitate the proper administration of the District Support Grants (DSG) and Provincial Support Grants (PSG). This is to ensure proper accounting and management reporting on the expenditure of the grants is maintained by the District and the Provincial Treasuries in close consultation with respective Open and Regional Members of Parliament for the electorates.

- Point eleven (11) of the guideline states that, “*Funds Appropriated for Rural Action Program*” will be administered by Office of Rural Development, who at the beginning of each quarter should prepare and submit cash flow estimates to the Department of Treasury and Finance. Thus Department of Treasury in return, will issue Warrant Authorities to ORD;
- Non-discretionary (K250,000) shall be made to the Joint District Planning & budget Priority Committee (JDP&BPC) to be used based on the Resolutions of the formally constituted JDP&BPC meetings, for the purpose of funding the rural action program and the urban rehabilitation program; and
- Discretionary funds of (K250,000), shall be made available to the members representing the open electorates to be used in accordance with the NEC approved guidelines.

According to the “Expenditure Transaction Detail” (printout dated 27th April, 2010); the total value of all DSG/PSG payment cheques for the one hundred and nine (109) members of Parliament in 2009 was K27,250,000. All payment cheques were raised in advance upon the receipt of the warrant authorities and payments made in two (2) slots with K250,000 effected on 17th March, 2009 and K27,000,000 in 23rd March, 2009.

Actual payment cheques were released after receipt of the last acquittals from the member concerned and approval from the ORD, Review and Evaluation committee.

Four separate PSG/DSG Cheque Payment Registers for the respective regions (Islands, Highlands, Momase and Papua Regions) were created for years 2009/2010.

AGO review of the registers revealed inconsistencies in the set up of these registers with headings such as, “name of issuing officer, his/her signature/date; and remarks column” being information inappropriate to confirm receipt of payment.

According to the statutory requirements, fresh project funds will be released upon the satisfactory completion of previous fund acquittals by the member(s) concerned.

AGO observed that in 2009 twelve (12) PSG/DSG payments totalling K3,000,000 were paid out to members’ concerned without any acquittals being received from them. The twelve (12) members were each paid an amount of K250,000 which have not been acquitted at the time of report.

According to the PGAS expenditure printout; one payment made to the member of “Anglip South Wagi” with a total value of K250,000 was not registered in the cheque register book.

Non-Discretionary Funds

The “non-discretionary” component of allocation for DSG/PSG was transferred to Department of Finance in 2007. AGO requested (if any) NEC Decision effecting the current arrangement for disbursement of the grants were in place but was not made available for review.

The Fund administered by Department of Finance is channeled through the respective Provincial Treasury/District Offices’ Operating Accounts. Thus, the monitoring of actual expenditure, coordination and assessment of project expenditure is purposely done at the District.

AGO could not verify the actual accounting records to ascertain whether funds had been utilized for their intended purposes as the ORD does not maintain any subsidiary ledgers in respect of those payments and the concerned projects.

Screening of Acquittals

The ORD management carry out on site physical inspection at the District level only when a need arises which also depended on the funds availability. In the acquittal review processes ORD is tasked to screen acquittals submitted by respective members through Grants Review & Evaluation Committee (GREC). The member is advised only when there is a short-fall in the acquittal documentations which the member concern would be required to explain.

As a general requirement, all PSG/DSG cheques are supposed to be paid directly into the respective District or Provincial Treasury Offices’ Operating Accounts. AGO noted however, that the process was not followed in the case for the Prime Minister of PNG as the payment cheque for his electorate project funds was deposited into an ANZ bank account number 11008225 - Waigani Branch.

Management Response

Management is looking into the findings to institute corrective actions.

DSIP MONITORING - TRAVEL AND SUBSISTENCE ACQUITTALS

DSIP Funds were dispatched directly to District/Provincial Treasury Offices under the Department of Treasury and Finance, District Rollout Programme. ORD has no substantial role in the management of the funds but were advised to facilitate the projects only.

The DSIP funds should be used purposely for inspection, monitoring and assessing of projects, in accordance with the administrative guidelines and other enabling legislations and relevant *Finance Instructions* in line with the *Public Finances (Management) Act, 1995*. An allocation of K1,588,000 was provide for under the Development budget for this purpose (vote 267-3909-1101-121).

DSIP Acquittals

Proper reconciliation or analysis was not made by the five (5) regions on their travel acquittals to establish the actual expenditure incurred by each region as at 31st December, 2009 as such the details of travel did not reflect the details in the PGAS system.

According to the TMS report for Period 12 of 2009, the total expenditure of K1,285,793 was incurred under this vote. A summary of the DSIP expenditures for the 5 Regions was also gathered based on available records. Refer, to details below:

Summary of the DSIP expenditures for the 5 Regions

Description	Highlands 1	Highlands 2	Momase	Islands	Papua	Total
Airfares	16,440	17,331	91,357	60,800	76,498	262,426
Accommodation	47,126	107,692	174,377	88,972	202,235	620,402
Travel Allows	26,280	37,200	52,960	38,360	42,640	197,440
Vehicle hire	16,232	51,130	63,615	17,725	-	148,702
Venue hire	-	-	51,790	14,410	39,171	105,371
Cash Advance	7,800	68,300	50,000	7,367	10,000	143,467
Other Increment	-	20,000	-	-	-	20,000
Closing function	10,000	-	-	-	-	10,000
Total	123,878	301,653	484,099	227,634	370,544	1,507,808

In fifty-four (54) instances, the total expenditures of K71,222 did not relate to DSIP monitoring expenses; funds were used for other purposes, such as staff leave fares, vehicle services, funeral expenses, casual staff IDs, PMV fares, etc. These expenses should have been settled from the recurrent budget rather than DSIP monitoring expense.

The variance of K506,869 remains unacquitted for each expenditure item such as Airfares, accommodations, cash advances, vehicle hires and Travel Allowances as at 31st December, 2009.

Management Response

Findings are noted for management follow up action. As earlier stated, most of the backlog on outstanding acquittals have been cleared.

PROCUREMENT AND PAYMENTS PROCEDURES

With reference to Parts 11, 12 and Part 13 of the Financial Management Manual, the Organization should have established preferred and authorised suppliers of goods and services for the year, if the total amount is under K300,000 and/or if over; through the Central Supplies & Tenders Board (CSTB) Tenders by obtaining an Authority to Pre Commit (APC) approval from the Department of Finance.

AGO found in the review of procurement and payment of goods and services that quotations register were not maintained by the Department. Three written quotations were not always obtained for goods and services purchased. Also, claims had been processed and paid without being certified correctly for payment by the Certifying Officer.

Claims had been paid without any supporting documentation to substantiate the supply of goods and services. There were no invoices on goods and services received, and evidence of receipt of goods on the payment voucher or accompanying documents were rarely provided.

Unbudgeted Expenditures

Payments totalling K610,926 in 103 instances were erroneously charged to incorrect vote items in 2009. The charge to Items of expenditure not budgeted for amounts to misappropriation of funds. The notable expenditures were item 121 being charged a total of 20 transactions amounting to K48,888; item 126 a total of 18 transactions totalling to

K165,137; item 141 a total of 24 transactions amounting to K176,665, and item 222 with a total of 6 transaction aggregating K46,396.

Contractual Services Agreements

AGO noted that contractual service agreements were not entered into with companies engaged for various services such as security, vehicle repairs and vehicle refueling.

Rental of Property for HR Consultant

Rental payments to three (3) different companies totaling K162,770 was paid for HR consultant during 2009. However the lease agreements for the rented property were not available or sighted in audit. It was not possible for AGO to ascertain whether the purposed lease accommodation was actually occupied by the Consultant.

AGO also noted that there was no control or consistency in the change of accommodation by the officer concerned as this was done at his own interest.

Previous Audit Query -Prepaid Card Payment to Director

The ORD continued to purchase prepaid cards for the Top Management which was reported in the previous audit. The prepaid cards purchased for management staff including the Deputy Director and the Finance Manager amounted to K7,454. There is no policy provision to provide for this benefit to the management staff.

Payments to Contractors and Individuals

ORD had no legal contractual agreements or minor contracts with service providers for repairs, maintenance, electrical and cleaning services. Amount totalling K103,213 were paid to contractors for various works carried out in 2009. Weaknesses noted in relation to the settlement of contract claims include the following:

- The details of contract agreement (if any) entered into between ORD and the contractors were not sighted;
- Payments made were based on quotations provided by the service providers which were made in advance of the services being provided; and
- Work completion certificates were not sighted for all works done to suggest a satisfactory completion of the works. The total cost of K103,231 therefore could not be confirmed with the actual value of the properties constructed.

Management Response

ORD has an active procurement committee that is responsible for administering procurement process, ensuring that we comply with standard government procurement policies and procedures.

On property rentals for HR consultant, management is the position that this was justified, given security considerations and the rental prices in the current market.

Management is looking into other issues raised to take corrective actions where necessary.

HUMAN RESOURCE MANAGEMENT & PAYROLL

The *Public Service General Order* in compliance with the Public Service Management Act and other regulatory policies and procedures has been established as guidelines to provide for the general administration of human resources.

Payroll

Although the Information Technology Division of the Department of Finance processes the payroll centrally for public servants, it is the responsibility of the Departmental Head to ensure that the total staff on strength does not exceed the approved staff ceiling, the payment of salaries is not made to persons who have resigned from the Public Service, or are absent from duty without approval and that payroll expenditure is reconciled monthly with individual payments made to the staff engaged by them.

Significant amount of the ORD's budget is allocated to Salaries and Allowances. Out of the total recurrent budget for 2009 of K5,370,500; Salaries represented 41% or K2,213,600.

Fortnightly payroll reconciliation was not done. However, Monthly Expenditure Summary reports on Personal Emoluments (i.e. Items 111,112,113,114 & 141) produced by Department of Finance are received and reconciled with the internal reports from the Accountant. AGO noted that these reports do not show individual payments of staff per fortnight but only accumulated totals incurred during the month. These reports are received by the Personnel Officer and forwarded to the HR Manager, who further reports to Management when a shortfall is realized for appropriate action.

Five (5) payrolls were missing at the time of audit in March 2010. Thus AGO could not ascertain the correct totals under Item 111 for 2009. In addition, the Payroll was not certified by two senior officers to attest to the fortnightly payment made to staff.

Training Plan

The Office of Rural Development has a Staff Development & Training Committee which makes decisions for all training needs of the office.

According to the acting HR Manageress, ORD does not have a 5 year Training Plan except an Annual Training Plan (for 2009) for internal and overseas long/short term trainings.

Documentation was not provided for AGO review to substantiate the existence of such plan and to ensure compliance with statutory requirements and on the types of training and development needs for members of staff.

AGO also noted that a Training Policy for the office was finalized and endorsed by the Staff Development & Training Committee which was reported in the 2009 HR Management Report. Similarly, this could not be confirmed, due to copy of policy not being provided.

Quarterly Manpower Review

Quarterly Manpower Review reports for year 2009 were not provided for AGO review, although related comments indicate that Quarterly reviews were prepared and submitted to Departments of Finance & Treasury through ORD Accounts Section.

Restructure

ORD's approved structure of fifty-eight (58) positions as per the Establishment Comparison Table by Department of Personnel Management dated 20th April, 2006 came into effect after becoming a separate entity from the Department of National Planning. Job Descriptions collected to confirm contract officers positions also contained DPM's approval which dated back to 20th April, 2006.

According to DPM's Devolution Exercise in 2009, ORD had created its own Functional Structure which was approved by the Director and as Chief Executive Officer (CEO) on 09th September, 2009. Three (3) new positions were created as Assistant Director (Corporate Services); Manager (Information Technology); and Advisor (Project and Audit Evaluation).

Although the approval on the functional structure was made, audit could not verify the actual ceiling of restructured positions, due to lack of evidence. These positions were not included on the Staff Establishment Register sighted dated 31st December, 2009. It therefore appears that the positions have been checked without proper funding support

A consultant was hired to carry out consultancy service on ORD's Organisational Change Process whom was paid a total fee of K16,610 in 2009. A consultancy report was not sighted to confirm the completion of the consultancy work. Furthermore, there was no evidence of certificate of compliance and tax number from IRC being attached to his claims. A contract agreement between the office and the consultant for the required service and the total cost of the consultancy could not be ascertained in the absence of a signed Contract Agreement

Casual Employees

Fifteen casuals were engaged on short term contract basis between 6-12 months at different salary levels. According to the 2010 Budget Book, the approved casual listing for ORD was only three persons. AGO observed that there is an excess number of casual staff by twelve (12) persons which appears to have not been budgeted for.

Contract Officers- Nationals

Eleven (11) national contract officer's personal files were checked and the following were noted:-

- Only one officer has a bachelor's degree and a Master's degree obtained from Queensland University;
- The HR Manageress acquired a Diploma in HR at PNGIPA in 2009, but is yet to graduate; and
- Qualifications or certificates were not found in the personal files for the nine (9) officers; although the respective Duty Statements for all positions states clearly that the minimum qualification requirements would be bachelor's degrees or appropriate Master's degree.

AGO also noted that the salary history cards for National Contract Officers were not updated. This was also reported in the previous audit report.

Management Response

ORD has a staff development and training policy that guides training and HR development of the organization. Based on the policy, we develop annual plans and in the process of developing a five-year plan. Issues on the structure are noted. Your finding on inadequate educational qualification of staff on contract is not entirely accurate. As a matter of policy, we have set a minimum standard to ensure that incumbents of contract positions have the right qualifications, combined with experience.

ENGAGEMENT OF A NON-CITIZEN CONSULTANT SERVICES

A Departmental Head will normally have made budgetary provision for the engagement of consultants under Item 141, in succeeding years, in many cases, supported by aid donors as part of Government's reform or efficiency programmes. The engagement of consultants is governed by the provisions of the Public Finances (Management) Act, and the Consultancy Steering Committee established under the Regulations of that Act. Engagements of consultants by National Departments and Provincial Governments must be approved by the Consultancy Steering Committee (CSC) chaired by the Secretary, Department of Personnel Management or his delegate.

According to the personal file maintained the following irregularities were noted in the engagement of the Consultant, viz;

- The person was an employee of PNGIPA and engaged as a Consultant on Human Resources and Training by ORD during the period of his recreational leave from August to October, 2008 with the understanding that all entitlements relating to recreational /leave pay and return airfares from point of origin were paid in full by PNGIPA. An approval for such release to provide consultancy service to either ORD or secondment to work with any government organization was not made by the Director, PNGIPA;

- The officer was recalled from his leave to resume duties on Monday 13th October, 2008 by PNGIPA and upon his return, requested ORD to secure a letter from DPM Secretary informing PNGIPA that the transfer process to ORD was underway;
- This was acted upon by ORD which led to the signing of a two (2) year “Non-Citizen Employment Agreement/Contract” from 12th February, 2009 – 11th February, 2011 as Human Resource Consultant (HRC) - Grade 16, by the Secretary DPM dated 07th April, 2009 and officer concerned on 18th June, 2009 without been witnessed by another officer; and
- The officer was parked against the then, Legal Officer’s position # RDEX 1-7 Grade 16 and re-designated to a HR Consultant’s position of the same grade (Gr.16); with a basic salary of K35,809 and an International Market Allowance (IMA) of K38,250 per annum totaling K74,089.

AGO through examination of available records found that the consultancy agreement and proper approvals for engagement of the consultant was not in place with matters such as terms and conditions of engagement, the nature of consultancy service and scope of work to be under taken.

- This clearly indicates that ORD has bypassed all statutory and legal requirements and procedures relating to the officer’s engagement as a HR Consultant, with the interpretation that all expenditures incurred against him are unbudgeted for as per the 2009 Budget Estimates for Office of Rural Development;
- ORD should have sought additional funding from Department of Finance to finance the officer’s engagement due to the urgent need by the office; however, Management did not make any attempt to request for additional funds but continued paying him from other vote items; and
- Various expenditures totaling K331,648 were incurred by the officer as HR Consultant in 2009. Significant expenditure incurred were for consultancy fees (K59,169), school subsidies (K30,702), accommodation rental (K162,770) and recreational leave fares (K27,841). The payment for the consultant was without proper budgetary allocation in approved funding from Treasury.

Management Response

Issues raised in relation in his matter noted by management. We however maintained that, overall the process was in order as this was done in consultation and approval from DPM. We will be liaising with DPM however to seek clarification and where necessary, correct any anomalies that may have been over-looked. Matters relating to payments have been responded to.

ADVANCE MANAGEMENT

Follow-up on 2007-2008

There was no proper control and management of advances noted in previous year’s audit (2007 and 2008) which has continued to the current year. As a result, the following weaknesses were noted:

- A manual advance register was not maintained for 2009 and also for 2010. The office relied on the softcopy maintained by the Accounts Section;
- Advances totalling K53,781 paid in 2009 remained unacquitted as at 31st December, 2009 which still remained outstanding as at the time of audit in March, 2010; and
- Second advances were issued to eight (8) officers totalling K49,111. Paying second advances to officers who have not acquitted their previous advances is a breach of the PFM Act.

The Advances Register (i.e. softcopy) was still incomplete. It was noted that the acquittal dates were not recorded to identify acquittals done.

There was no evidence sighted of "Reminder Notices" being given for outstanding advances. Furthermore, not all Acquittal forms were signed by financial delegate and supported by sufficient documentation.

It is advisable to recover advances only through salary deduction and not accept statutory declarations after prolonged and unexplained delays are experienced on acquittal of advances.

DSIP Funds Acquittal –Mt Hagen

An acquittal of an advance totaling K68,300 per cheque number 11777 dated 22nd October, 2009 under the Paymaster's name for two days (28th – 29th October, 2009) for DSIP Review Workshop in Mt Hagen, noted that K43,023 was expended and the total unused cash was K25,277.

The K25,277 was returned by the DSIP Review Workshop coordinator, to a personal assistant, who handed over the cash to the Accountant, without any handover/takeover certification.

The following weaknesses were noted in the examination of the acquittal forms and counting of the cash on hand as at the time of audit in April, 2010:-

- The cash (K25,277) returned was not receipted but kept in the safe at the Accountant's office;
- The cash was part of the former years (2009) appropriation and the unused cash should have been paid into the CRF before 31st December, 2009. As at the time of audit on 29th April, 2010 it was already 6 months overdue from November 2009 and the accountant was still keeping the cash in the office;
- AGO queried why the money was not paid to the CRF which management informed that unused cash would be used later in the next coming workshop which had no planned date set by management; and
- A cash count conducted on the same date (28th April, 2010) noted that the actual cash balance on hand was only K17,220 and the shortfall of K8,057 was missing. No documentary evidence was sighted in the safe with the actual cash on hand to validate how the K8,057 was used.

Funds Acquittal Kokopo – East New Britain Province

A cash advance of K20,000 per cheque number 11641 dated 4th September, 2009 under the Paymaster's name was for two days DSIP Workshop in Kokopo from 10th – 11th September, 2009; the following deficiencies were noted;

- The total amount of advance expended during the workshop was K12,633 with a cash balance of K7,365 being left with the Program Manager (Islands Region). Prior to her departure to Port Moresby on the 12th September, 2009, the officer had handed over the cash balance of K7,365 to the Program Manager at Kokopo at the time. No certification of handover/takeover of monies was completed;
- The acquittal of the cash balance of K7,365 was not made by the Program Manager since October, 2009 and up to the date of audit on 28th April, 2010 which had been seven (7) months over-due;
- AGO was informed that the officer was no longer employed by ORD since February of 2010 and acquittal action was not possible; and
- The reasons as to why the coordinator of the workshop left such a substantial amount of cash in Kokopo, indicates a total lack of responsibility on the part of the officer concerned who failed to bring back the unused cash personally and to properly acquit the advance issued.

DSIP Funds Acquittal – Vanimo, Wes Sepik Province

Travel Allowances totalling K27,400 per cheque number 11680 dated 18/09/2009, also under the Paymaster's name for two days DSIP Review Workshop in Vanimo from 24th – 25th September, 2009 and coordinated by an Accounts officer. AGO noted that an unused cash balance of K3,320 was handed over to another officer, for another DSIP workshop which was convened in Madang from 28th – 29th September, 2009 and the unused cash was to have been used as additional advance. The following deficiencies were noted:-

- Both acquittals for Vanimo and Madang trips have not been done and the cash advance balance of K3,320 was still outstanding as at the date of audit on April, 2010, which is seven (7) months overdue;
- Audit was advised that the officer who took the cash balance of K3,320 is on study leave in 2010 and that acquittal action could not be pursued; and

2050 Vision Acquittal

- Audit revealed that a cash balance of K509 from a cash advance of K20,000 used for the 2050 Vision launching in November, 2009 was not receipted and deposited to the CRF, however, the money was kept in the office safe with the Accountant up to the time of audit in April, 2010. The monies kept pose a risk for theft and abuse and should be banked without further delay.

Overseas Travel Allowances

AGO noted that overseas allowances totalling K180,203 was paid in October, 2009 to a group named "ORD Study Tour Team 1"; as listed below;

Various Overseas Travel Allowances for Team 1 to Philippines - 2009

Date	Payee	Cheque #	Amount K	Description
12/10/09	Paymaster	11745	93,008	Incid/accom/meals/transpt
13/10/09	Paymaster	11754	37,639	Additional funds
21/09/09	Paymaster	11702	400	Passport fees
06/10/09	Travel Planners	11743	25,956	Airfares for 7 officers
09/10/09	Paymaster	11744	23,200	Clothing Allows & A/port Tax
Total			180,203	

Further examination revealed deficiencies in the following matters;

- The practice of using the general name "Paymaster" was used in 4 instances for payments totaling K154,247 except for the Travel agency. For prudent business conduct and acquittal purposes of public monies paid as cash advances, all the advances should have been paid to the individual officer's concern and not paid in a whole sum to the Paymaster;
- A Project Officer from the Southern Region was a casual employee who also went on the overseas trip whose purpose of the trip is unclear;
- Out of the seven (7) officers, only one (1) officer's name was registered on the Advance Register while all other officers' names were not recorded on the Advance Register. Thus, acquittals were not sighted for 6 officers whose cash advances remained outstanding up to the time of Audit in April, 2010;
- A senior manager was supposed to have led the group tour, however, was replaced by another officer. Airfares paid for the officer, totalling K2,275 was refunded back to ORD by Travel Planners which was sighted, however, no official receipt was issued for the money received;
- Other travel allowances totalling K4,000 paid to the senior officer, above (from the total paid cheque #11744, shown above) was not acquitted in full back to the office by the officer concerned since no travel was taken. The travel allowances were still outstanding as at the date of audit on 20th April, 2010;

- According to the Travel report provided, unused Cash on Hand of K18,563 was reported. No official receipt was sighted for the unused monies nor any further reports provided on the custody of the K18,563 cash on hand; and
- Audit noted that another Team of eight (8) officers known as “Team 2” is currently being organized for a similar trip in 2010 at an estimated budget of K180,504.

Management Response

The findings are noted and management is taking corrective actions to ensure all matters relating to advances are cleared. Commenting on some specifics, contrary to the finding, we have in fact been keeping an Advance Register to track advances and acquittals. This is an integral part of the management of advances. A copy of the receipt for the refund of ticket for Deputy Director (from the travel agent) was submitted to AGO. Other responses to the audit findings in this area had been attended to and noted below:

- *Agreed: Advance Register- Action has been taken to establish manual advance register;*
- *Agreed: Outstanding advances of K53,781 at 2009 have been acquitted after the establishment of the advance register, except for the Philippines trips (K180,203); and*
- *Agreed: The total cash advance of K25,277 was retained as the unused funds mainly for the outstanding Wabag DSIP review workshop; therefore the cash was not receipted. Inclusive of this cash amount was the Travel Allowance for the workshop participant in Wabag. However, K3,000 was expended to subsidize recurrent expenditure for officers on DAIP Monitoring in other districts. The unused cash was kept in the safe purposely for the outstanding DSIP Review which is supposed to be held in Wabag. Cash in the envelopes K7,540; Cash Advance K9,680. The missing cash of K8,057 as stated missing is incorrect, as this cash relates to unpaid TA for unattended Wabag workshop which is still intact and not missing.*

[It is unethical for auditors to carry out a cash count in an organisation during the audit process without a witness(es) being present; an officer of ORD was present during the cash count.]

DEPARTMENT RESPONSE

The Department responded to the management letter issued on reported findings and their comments are stated correspondingly.

CONCLUSION

The results of my audit indicate that overall there are significant and serious weaknesses in the control framework. At present, the control activities such as delegations, authorizations, reconciliations, data processing, segregation of duties, management monitoring, etc, are not sufficiently robust to prevent, detect or correct error or fraud.

OFFICE OF WORKERS COMPENSATION

OVERVIEW

The *Workers' Compensation Act 1978* is administered by the Office of Workers' Compensation. The Office consists of the Chief Commissioner, the Commissioners, the Registrar, a Deputy Registrar and other staff necessary for the proper administration of the Act.

The Office of Workers Compensation operates under the Department of Labour and Industrial Relations. The Chief Commissioner administers the *Workers Compensation Act of 1998*. The Act requires the Chief Commissioner to access and pay workers compensation payments to the workers both in the Public and Private Sector based on injuries sustained or death of an employee whilst in formal employment.

The Department of Finance allocates the funds under the Miscellaneous Vote 207 to cater for the workers compensation payments. The compensation payment cheques are raised by the Department of Finance whilst the Office of Works compensation is responsible for preparing required documents to support the payments. The cheques are collected from the Department of Finance by staff of OWC on behalf of the claimant and subsequently, paid to them.

FINDINGS

REGISTER OF CLAIMS AND CONSENT AWARD

The function of the Registrar (as per Section 12 of the Act) is to keep a Register in a prescribed form (as per *Workers' Compensation Regulation 1983*, Form 2). This Register should have particulars of all claims received by the Office as well as all determinations, awards and orders of a tribunal that arise out of those claims.

AGO noted the following lapses in the maintenance of the Register and other related records:

- The review of the Register revealed that not all particulars were recorded such as dependents, name of the deceased, name of the lawyer or agent representing, date of hearing, and orders made. These are important information that are being left out and is a breach of Section 12 of the *Workers' Compensation Act 1978*;
- The one hundred and twenty-four (124) files submitted to audit for examination revealed that they were not properly handled and with due care resulting in ninety-nine percent (99%) of the documents in the files being dilapidated;
- A file movement register was not maintained to trace the movement of client files between the Office of Workers Compensation, Department of Attorney General and Department of Finance, resulting in seven hundred and seventy-four (774) files being unaccounted for;
- A register of losses was not maintained to account for the loss of files including related documents not brought to account by the Office;
- Files were not kept in a secure location for safety purpose; and
- The Register kept by the Office for all the years ranging from 2007-2009 was checked and noted to have both the Private and Public Sector cases recorded in the same Register. Although there is no specific requirement in the Act providing for separate registers to be maintained, the AGO views that separate

registers should be kept to demarcate the claims received from the Public Sector to that of the Private Sector for ease of reference and reconciliation with the records of Department of Finance;

Register of Claims

- There is no separate Register maintained for claims made by employees of the Public Sector from that of Private Sector. For convenience, separate registers should be maintained to ensure that claims are easily identified and payments properly controlled and promptly settled;
- Also no separate register is maintained for the Consent Awards for State claims and that of Private Sector claims;
- Similarly, the Office of Workers' Compensation maintains only one cheque register to record cheques for both State and Private Sector payments; and
- AGO noted that relevant supporting documents were not filed to substantiate the compensation payments. There is no evidence to indicate that the documents submitted were properly assessed to establish the nature of injury sustained to enable an accurate assessment of the percentage to be claimed.

The absence of proper reconciliation of records between the Office of Worker's Compensation and Department of Finance exposes the former to the risk of unauthorized or irregular payments being made and not detected. These payments could include fraudulent payments made to persons not suffering from injury.

Management Response

State Claims Payments revised Procedures

As monitoring of claims flow, a team of four officers, two from OWC and the other two from Department of Finance have been appointed to verify every claims awarded by tribunals, before payments are made. Documents such as a signed copy of the Record of Proceedings concluded and the award stamped as original copy for payment only and not on photocopies.

Further requirement being considered is that no payment is to be made on photocopy of the award or from the other three copies of the awards; unless an indemnity agreement is entered into with the claimant.

An officer from OWC has been authorized as the only one officer to pick up paid cheques from Department of Finance, rather than cheques been delivered to the Office by Department of Finance officers as had been previously or any accounts officer from OWC to pick up cheques.

A cheque register specifically opened to register all state claims cheques picked up from Department of Finance.

Paid settlement cheques with amounts in excess of K1,000 will all be banked into verified bank accounts of the injured worker or a beneficiary or a nominated dependent.

Cheques will not be paid to Lawyers/Law Firms representing the injured client in tribunal hearings, but to the nominated dependent.

As you will note that claims payments made by Department of Finance on State claims, even up to early 2009, of which the OWC had no record of, nor knowledge of, which may have included legal fees paid for by State, which had gone well beyond the capital benefits allowed under the workers compensation Act, thus had costed the State dearly.

For private insurers, a stop payment was put in place in 2008, to legal firms for representations at tribunal hearings.

AWARDS DELIVERED BY DEPARTMENT OF FINANCE

The *Workers' Compensation Act 1978* (the Act) and the Regulation issued under this Act describes the process of applying, assessing and awarding workers' compensations. Under the Act (Section 23), a Tribunal has the exclusive (and only) jurisdiction to examine, hear, and determine the amount of the compensation payment. The Workers' Compensation Tribunal consists of the Chief Commissioner and one or more Commissioners. The Tribunal determines, whether the injury has arisen in the course of an employment, the degree of disability based on medical reports, the existence of dependency and making an award of compensation within the limits of the Act.

Note that the current monetary limit imposed by the Act is K25,000. All proceedings should be placed on a list for hearing and the cases should be heard and determined expeditiously. It is a requirement that all the documents such as medical reports, death certificates, statutory declarations, etc., must be stamped. The tribunal sits twice quarterly every year and when a decision is reached, it results in 'Consent Award'. Minutes should be recorded of every Tribunal meeting.

Section 18 of the Act stipulates that all compensation payable under an order of tribunal will be paid out of the Worker's Compensation Fund. In case if there is insufficient credit in the Fund, the payments would be made from the Consolidated Revenue Fund (CRF). Currently, all workers' compensation payments are made out of the CRF through Department of Finance. Moneys are being appropriated under the Appropriation Act – Recurrent Expenditure-Miscellaneous Vote 207.

The current practice is for the Consent Awards to be delivered to the Department of Finance by the Tribunal Clerk for processing of a cheque. The Accounts Officer at Finance confirms the employment number with the employer before raising a cheque. The cheques should be brought back to the Office of Workers Compensation for payment.

AGO has conducted testing at both OWC and the Department of Finance with the following issues identified:

- For the year 2007, only one hundred and fifty-three (153) cases of compensation claims were registered as State employees' claims, and the others were Private Sector employees' claims. In the following year (2008) the State claims increased to three hundred and thirty-nine (339). The claims lodged from January to May, 2009, were eighty-one (81) claims against the State. The grand total of the registration of State claimed cases for 2007-2009 was five hundred and seventy-three (573). There was no monetary value attached to these recorded State claimed cases as no assessment has been carried out.

Cheques Payments made by Department of Finance

- Although OWC should be making the payments, majority of the cheques for the claims were collected by individuals at the Department of Finance. In particular, these are cheques issued in the names of the injured workers, for the State to pay as compensation payments as well as investment cheques drawn in the name of nominated dependants of deceased workers who turn eighteen (18) years of age;
- When such practice occurs, and information is not being sent to the Office of Workers' Compensation to update the file(s) concerned, the case files at the Department of Finance are closed off, whilst the same cases remain opened at the OWC end;
- There is no control over proper identification of the rightful recipient to collect the cheque at Department of Finance, thus the process is prone to fraud;
- AGO noted that responsibility was not fixed on a single officer from the Accounts Section to be responsible for picking up the payment cheques from the Department of Finance. Instead any officer from the OWC can pick up workers compensation cheques at the Department of Finance. This also increases the opportunity for fraud to be committed; and
- When performing review at the Department of Finance, AGO noted that the Department of Finance made compensation payment from two different accounts. The first is from the Miscellaneous Expenditure Vote

207 whilst the other was from the investment trust account. Instances were noted of which both accounts were used depending on the nature of the transactions.

Compensation Payments made in 2007

- AGO review of the Consent Award Register maintained by OWC to record Awards sent to Department of Finance for payments showed that, a total of one hundred and forty-three (143) Consent Awards for 2007 that were assessed by the Tribunal at OWC were delivered to Department of Finance for payments. Of these, only one hundred and five (105) claims valued at K1,071,839 were paid. The reason for not processing the balance of thirty-eight (38) Awards and were outstanding for two years after being lodged with the Department of Finance is unclear;
- In addition to lack of the processing of claims and according to the report on the Miscellaneous Vote 207 received from Department of Finance, a total of three hundred and fifty-two (352) Consent Award claims for the sum of K6,738,107 were paid out by Department of Finance in 2007. While only one hundred and five (105) Consent Awards corresponds with the information registered at the OWC, there was no evidence at the OWC for the balance of two hundred and forty-seven (247) payments for the sum of K5,666,269 processed by Department of Finance to attest that, they were approved and authorized by the Office of Workers Compensation. The authenticity and propriety of these payments could not be established during the audit;
- AGO requested the Records Manager to furnish all 2007 payment files for audit verification of which only four (4) out of the total of one hundred and five (105) assessed cases were submitted. As there was no other documentary evidence retained to be furnished, it attests of the poor state of record keeping at the OWC; and
- AGO reviewed the documentation of these four (4) claims payment and noted that in one (1) case, the payment made on cheque number 868067, was neither supported with a Post Mortem report of the death case nor a Police report of the cause of the accident. In another instance, the payment made on cheque number 866187, the Medical report purporting to support the payment was not authenticated with a valid stamp of the Hospital or Doctor who attended the death of the deceased.

Compensation Payments made in 2008

- Similarly in 2008, AGO noted that, two hundred and five (205) Consent Awards that were assessed by the Tribunal at OWC were delivered to Department of Finance for the processing of payments. However, only one hundred and fifty-one (151) Consent Awards totaling K1,910,205 were paid. The reason for not processing the balance of fifty-four (54) Awards after a year's delay from the lodgment with the Department of Finance is unclear;
- In addition to the lack of the processing of claims and according to the Miscellaneous Vote 207 report from Department of Finance, a total of four hundred and fifty (450) payments amounting to K8,321,440 were made by the Department in 2008. Of these, only one hundred and fifty-one (151) Consent Awards recorded on the Register at OWC corresponded with the payments made at Department of Finance. There was no evidence at the OWC that the balance of two hundred and ninety-nine (299) payments totaling K6,411,234 processed by Department of Finance were approved and authorized by the Office of Workers Compensation. The authenticity and propriety of these payments could not be established during the audit;
- AGO requested the Records Manager to make available all the 2008 payments files for audit examination, however only ninety-six (96) files out of one hundred and fifty-one (151) were submitted. These represents only sixty-three percent (63%) of the total claims for the sum of K1,295,107 lodged with the OWC;
- AGO noted discrepancies in all the ninety-six (96) files made available for audit review. It was noted that six (6) payments made were not supported by medical certificates whilst eight (8) payments supported with

medical certificates, were not stamped by the attending doctor to attest the validity of the certificate. This represents a breach of Section 46 of the *Workers' Compensation Act 1978*;

- AGO noted three (3) instances of payments totaling K57,375 made to individuals which were not supported by Forms 3, 4, 11 & 12 as required by the Act under Section 42, and by the Regulation 7 (2) (a), to substantiate the injury sustained by the insured individual;
- In thirty-three (33) instances of payments totaling K538,080, the payments were made without the completion of the required Form 18. The Form serves as an Agreement for the settlement of claims for workers compensation stipulated under Section 74 of the Act thus, all such claims settlement have to be accompanied by that form. And also the Form is important as it is signed by the injured person(s) to avoid any further claims lodged for the same injury in future. It was evident that Section 74 of the *Workers' Compensation Act 1978* was not adhered to by OWC and creates opportunity for a claim to be resubmitted after settlement and that such duplicated claim could be processed for payment without being detected;
- In five (5) instances, payments totaling K129,833 made to nominated dependents of injured and or deceased workers were not registered in the Cheque Register maintained by the OWC to reflect its settlement of payment and the matter closed. This is a breach of Section 12 of the Act and creates opportunity for misleading information to be taken advantage of by dependants or other persons;
- A payment of K32,101 made on cheque no. 888363 was not supported by a Tribunal Decision. Also no Consent Award was attached to substantiate that the Award was decided by the Tribunal. In the absence of the 'award' to substantiate this payment, the authenticity and propriety of this payment could not be established in audit. It is possible that the payment is fraudulent and is in breach of Section 30 of the Act as well as Regulation 13(1)(a); and
- For an injury that occurred in Kimbe to a Teacher travelling in transit, the medical report was done in Lae and another report done in Port Moresby. There was no X-ray report attached to substantiate the level of injury sustained apart from being supported by certain reports and a photograph. This claim was lodged after two (2) years which is a breach of Section 41 (2) (b) of the *Workers Compensation Act*, which calls for claims to be submitted within the 12 months period.

Compensation Payments made in 2009

- AGO tested payments made in the period January to May, 2009, and have ascertained that, only fifty-three (53) Consent Awards claims totaling K576,319 were sent to Department of Finance by the OWC for payments to be processed. However, the Miscellaneous Vote 207 report (run dated 22nd May, 2009) showed a total of ninety-six (96) payments totaling K2,270,501 were made by the Department of Finance. There was no evidence at the OWC that the additional forty-three (43) claims processed and paid by Department of Finance were approved and authorized by the Office of Workers Compensation, thus the authenticity and propriety of these payments could not be established during the audit. This indicates that the Department of Finance was making payment of claims not approved by the OWC;
- AGO requested the Records Manager to furnish all 2009 payments files for audit examination, however the Office of Worker's Compensation has made available only twenty-four (24) files out of fifty-three (53) assessments. These represents only forty-five (45%) of the total claims. The files should have been readily made available as they were all recent payments. It therefore indicates the lack of proper security maintained over claimant files;
- Examination of the twenty-four (24) files made available revealed that, in ten (10) instances the details of payments were not recorded in the Register of Claims apart from being recorded in the Cheque Register. These instances represent a breach of Section 13 of the Act;

- In four (4) instances, compensation payments totaling K73,619, were not supported by Form 18 as required under Section 74 of the Act. The Form is a requirement to ensure that the same claim is not submitted again for payment in future;
- In three (3) instances, payments made totaling K54,600, the files maintained had two different file numbers instead of one. This indicates the lack of control in the processing system and increases the risk of making double payments;
- The Cheque Register was poorly maintained and was unreliable. For instance, a payment of K15,050 made on cheque No. 891741 to a claimant was not recorded in the Cheque Register. This indicates the prevalence of control weaknesses that can lead to not having all cheques recorded in the Register;
- A medical certificate was not stamped by a competent medical Doctor before being passed for payment such was noted from the payment of K8,750 made to an individual on cheque No. 89209 dated 23rd April, 2009. It indicates lapses in the due process of passing the claim before payment and is a breach of Section 46 of the Act. The passing of such claim for payment to the claimant is doubtful.; and
- In three (3) instances, payments totaling K132,197, were made as one-off payments to dependents of the deceased employees without considering the legislative requirements for the weekly benefits to be paid to nominated children under the age of sixteen (16) years. The entitlements for nominated children under the age of sixteen (16) years are required to be invested in the investment account at Office of Workers' Compensation, or paid into either Department of Finance or the Public Curator to be managed until they reach the age of sixteen (16) years. Therefore, the three (3) one-off payments made as ascertained during audit, indicates the non compliance on the part of OWC. Thus the relevant Section of the *Workers Compensation Act* was breached in the payments made.

DOUBLE PAYMENTS

AGO noted three (3) instances where payments for the claims were made twice. Two (2) of these claims were ascertained from the files made available by the Office of Workers' Compensation whilst the other was from the Miscellaneous Vote 207 ledger and these are detailed below:

- Examination of a deceased worker's file revealed that a female spouse was awarded compensation payments twice. The first payment of K25,000 in total was paid through installments with the balance of K18,000 paid through cheque No. 866187 on 22nd March, 2006. Surprisingly another payment of K26,004.28 was paid by cheque No. 889055 on 31st August, 2008, for the same matter. The cheque for the second payment was deposited into the deceased son's account with ANZ Port Moresby Branch upon consent from the deceased wife;
- A claimant was paid K5,300 on 11th July, 2008, through cheque No. 881175 and described as the final compensation payment. Despite this, a second payment of K17,050 was made on 13th May, 2008, through cheque No. 878397 for the same claim and described as full and final payment. In view of the descriptions made for the two (2) payments, it is possible that the same claim was settled twice; and
- Finally, a payment of K22,000 was made on 31st December, 2007, through cheque No. 872527 to a claimant for loss of the use of his left shoulder. Three (3) weeks later an amount of K22,000 was paid through cheque No. 872996 to the same claimant and described as settlement for ninety percent (90%) loss on the use of his left shoulder. Also the descriptions of the two (2) payments in this case indicate that the same claim was settled twice.

The double payments would be avoided if periodic reconciliation of OWC's records of claims, awards, and cheque register were done against the Department of Finance Miscellaneous Vote 207 compensation payments ledgers.

PAYMENTS MADE TO THIRD PARTIES

In the case of authorisation of a person to act as Agent for a party to any proceedings before a Tribunal, it should be in a prescribed form and the same authorized form should be lodged with the Registrar.

Therefore in the cases where payments are to be made to the Lawyers, Receiver of Public Monies and the Chief Commissioner (OWC), the cheques should not be drawn in their names but in the name of the Office of Workers' Compensation, with a remittance advice detailing the names of the recipients.

The management of the estate of the deceased workers should be clearly defined identify as the authorized Attorney that will manage the funds of the deceased children under the age of 16. Following that, the Office of Workers Compensation should ensure that payments are made to the nominated dependent of the deceased employee and not someone else.

Payments Made to Lawyers

The Office of Workers Compensation (OWC) management responded to concerns raised in audit regarding the register of claims and concerns awards that in 2008 that is made stop payments to legal firms representing workers compensation claim clients at Tribunal hearings in respect of private insurer's claims. Despite this, there were payments made to different Law Firms for representing the injured employees to pursue the claims. The files for these categories of claims were not furnished for audit examination. As no records were provided, AGO was not able to confirm that the legal representation concerns were addressed to comply with the established procedures.

The majority of the payments made to legal firms for representing workers compensation claims, were in excess of the ceiling of K25,000 set by the Act thus, breaching the limit imposed by the Act. The payments made during the three (3) years as ascertained during the audit are as follows:

- In 2007, a total of fifty (50) payments totaling K3,110,084 were made to legal firms during the year and charged to Miscellaneous Vote 207;
- And in 2008, thirty-four (34) payments for the sum of K2,525,239 were made to legal firms out of Miscellaneous Vote 207; and
- Further in 2009, a total of fifteen (15) payments totaling K1,093,884 were made to law firms.

Payments Made to Receiver of Public Money

AGO noted that, a sum of K82,250 was paid to the "Receiver of Public Moneys" in the years 2007 to May, 2009. These funds were intended to be administered by the State through the Investments Trust Fund Account and paid to the nominated dependent children of the deceased workers when they reach the age of sixteen (16) years.

Similarly the investments of dependents' entitlements are also handled by the Office of Workers' Compensation as well as the Public Curator's Office. The Management of OWC, as the State Agent responsible for workers compensation payments, should establish a clear position on the State Agency vested with the powers of Attorney to administer the estate of the deceased employees. This will fix the responsibility over facilitation of all workers compensation related payments to minimize the opportunity for fraud.

Payments made to Chief Commissioner

There were several workers compensation claim cheques raised in the name 'Chief Commissioner' and paid out of the Miscellaneous Vote 207 (run dated 20th May, 2009) during the years 2007 to May, 2009, for which are summarized below:

- A total of eight (8) cheques totaling K66,065 were raised in the name 'Chief Commissioner' in the year 2007 and paid;

- In 2008, seven (7) cheques for the sum of K43,569 were drawn in the same name and paid; and
- As at end of May, 2009, three (3) cheques aggregating K23,176 were also raised in the same name and paid.

AGO is unclear how these payments have been brought to account in payment to the actual compensation claimants/recipient.

DEPARTMENT RESPONSE

The Office of the Workers Compensation have responded to the reported findings in the management letter issued and their comments are stated correspondingly.

CONCLUSION

In general, there is a significant failure and breakdown in the system and operation of controls within the Office of Workers Compensation, in the administration of workers compensation claims.

The results of my audit indicate that overall, there are serious weaknesses and breakdown in the control framework. At present, the control activities such as delegations, authorizations, reconciliations, segregation of duties, records keeping and data processing, management monitoring, etc, are not sufficiently robust to prevent, detect, or correct error or fraud.

ACKNOWLEDGEMENT

I would like to acknowledge the professionalism and commitment of my staff in undertaking the audit work that is reflected in this report. Their combined efforts have ensured the audit work program is on track and have enabled preparation of this report in a short period of time.

The co-operation and the assistance rendered by all Heads of Departments and their staff is also acknowledged.

Finally, I would also like to thank the Chairman and the members of the Public Accounts Committee for their continued interest and support for my office.

SIGNED AT WAIGANI THIS EIGHTEENTH DAY OF APRIL YEAR TWO THOUSAND AND TWELVE.

PHILIP NAUGA
Auditor-General