



REPORT OF THE AUDITOR-GENERAL

PART II

2012 and 2013

National Government Departments and Agencies

**On the Controls and on Transactions with or concerning
the Public Monies and Properties of Papua New Guinea.**

10 November, 2014

The Honourable Theo Zurenuoc, 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*, and the *Audit Act, 1989 (as amended)*, I have the honour to transmit to the National Parliament the Part II of my Reports for the years ended 31 December, 2012 and 2013.

The combined Report deals with National Government Departments and Agencies on the control environment and on transactions with or concerning the public monies and properties of the State of Papua New Guinea in 2012 and 2013.

After the tabling of this Report in Parliament, I will put a copy of it on my website at <http://www.ago.gov.pg/publications>

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
DoF	Department of Finance
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
IFMS	Integrated Financial Management System
ILPOC	Integrated Local Purchase Order and Claim Form
IPA	Investment Promotion Authority
ITC	Information Technology Configuration
JE	Journal Entry
KRA	Key Result Areas
MOU	Memorandum of Understanding
NEC	National Executive Council
NEP	National Education Plan
OIC	Officer-In-Charge
PFM Act	<i>Public Finances (Management) Act, 1995</i>
PGAS	PNG Government Accounting System
PIP	Public Investment Program
PTB	Plant Transport Branch
RAC	Revenue Accounting System
SDMA	Special Domestic Market Allowance
SRC	Salaries and Remuneration Commission
SSG	Special Support Grant
TMS	Treasury Management System
WA	Warrant Authority

FOREWORD

My Report to the National Parliament for the year ended 31 December, 2013 and 2012 is presented in four parts:

Part I of my Report deals with the Public Accounts of Papua New Guinea;

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; and.

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

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

- **Summary results of audits of 2012 and 2013 accounts** are used to support the audit of the Public Accounts for the years ended 31 December, 2012 and 2013. In order to assess the reliability and accuracy of the reported expenditure and revenue of the 2012 and 2013 Public Accounts, 29 and 14 Departments respectively with significant budgetary appropriation were selected and their results evaluated; and
- **The control and transaction audits in 2012 and 2013 of each Department's** examined controls surrounding procurement and payments, asset management, human resource management, management of advances, bank accounts and budgetary controls. Management letters were sent to Departmental Heads to improve on the control weaknesses. 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 (as amended)*.

Section 3, Sub-section (4) of the Audit Act, 1989 (as amended), 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 2012 and 2013 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 2012 and 2013, 29 and 14 Departments respectively have been selected on the basis of significant funding in the 2012 and 2013 budgeted recurrent and development expenditure.
- **The control environment in 2012 and 2013** - to examine, 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 improve on the processes of the 2012 and 2013 control weaknesses. 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 authorised and applied to the purposes for which it was appropriated, and all expenditure was 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, 1989 (as amended)* 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 authorised 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 (IFAC)*. 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 standards to ensure that my audits are conducted with appropriate rigor and professionalism.

Other than in relation to my own staff and administrative control of my own Office, neither the Constitution nor any other legislation provides me any executive or directive powers over the organisations subject to my audit. Although the evaluations and investigations performed under my direction 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 me 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 my independence and objectivity requirements in the performance of my primary functions.

However, it has been the policy of my 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 my previous audit reports. I am concerned about the lack of progress in improving financial management practices within Government Departments and agencies. In recent PAC hearings the PAC Chairman spoke of the need for Departments to take positive action to rectify these recurring issues. He also stated that, my Office 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 organisation 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 – Sets the tone for an organisation. Provides discipline and structure and strongly influences the control consciousness. Key factors: integrity, ethical values and competence of personnel, and reflected in a Code of Ethics.

Risk Assessment – 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, organisational structure, staffing levels and attitudes within the entity.

Control Framework – consists of policies and procedures established to ensure 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.

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 – 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 Audit of Internal Controls

The audits of 2012 and 2013 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 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 organisation.

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.

Corporate Plan and Annual Plan

As stipulated in the *National Public Service General Orders 8.11* “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 programmed budgeting approach to managing his/her Departmental resources, the Department Head shall provide Annual Management Plans to meet requirements of the Budgetary cycle”.

However, the result of the audits identified:

1. Out of the 43 Departments that I reviewed in 2012 and 2013, only sixteen and eleven respectively had Corporate 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.
2. 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.
3. There was no evidence to suggest that findings or recommendations in audit reports were considered at the executive management meetings for agencies reviewed.

Internal Audit Committee

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 management.

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.

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. Ten out of 14 Departments and 17 out of 29 Departments covered in 2013 and 2012 respectively, had established Audit Committee functions.

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.

Eight out of 14 Departments and 14 out of 29 Departments respectively in 2013 and 2012 financial years that were audited, did not comply.

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.

Of the 14 Departments, only three have submitted these reports for 2013 to the Department of Personnel Management and in 2012, only four out of 29 Departments checked did not submit this report as required. Moreover, DPM had not acted on this non-compliance or had 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 Fund 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 and reconciling variances from its records against Department of Finance's records, in order to ensure that:

- Funds transferred by way of Warrant Authorities agree with funds recorded in the Department's PGAS ledger or TMS 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.

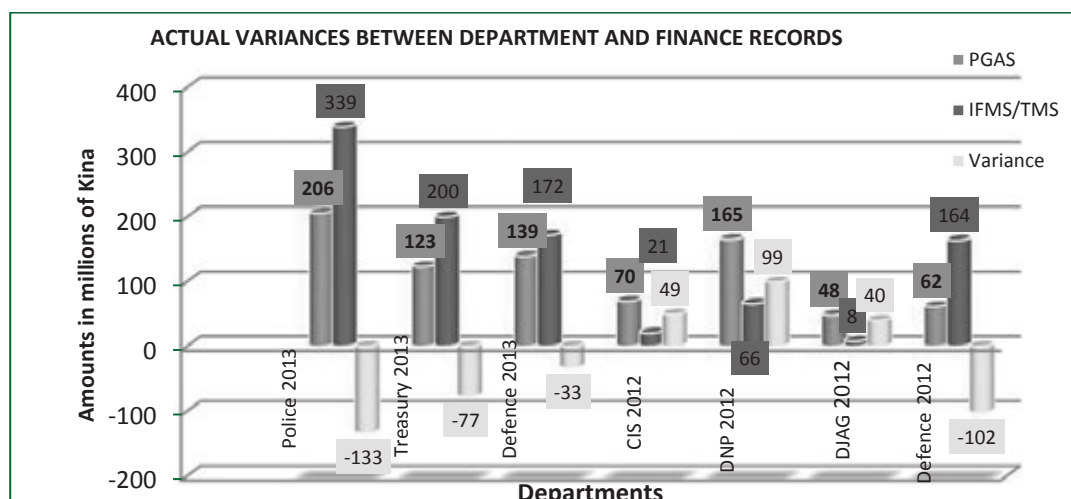
My audits indicated that controls in agencies relating to the funds management and budgetary controls were generally inadequate. Weaknesses noted related to:-

- A lack of monitoring of expenditure in all 14 Departments in 2013 and 29 in 2012. Departments did not prepare cash flows statements on a regular basis to report on significant anticipated shortfalls or surpluses and to enable the Head of Department to make informed financial decisions. All Departments that were checked indicated non-reconciliation of their monthly PGAS report against the TMS/IFMS General Ledger maintained by Department of Finance. Massive variances were noted at year end for 2013 and 2012 in the revised budget, WA and actual expenditure as noted in the table below.

AGGREGATE VARIANCES FROM DEPARTMENTS AND FINANCE (DOF) RECORDS		
Particulars	31 December 2013 (14 Agencies)	31 December 2012 (29 Agencies)
Revised Appropriation	K107,158,962,	K498,986,869
Warrant Authority	K60,291,138	K637,291,553
Actual Expenditure	K57,860,881	K108,422,455

The lack of monitoring exposes the Public Accounts to the risk that monies could be spent in excess of the appropriation limit, resulting in breaches of the *PFM Act* and the *Appropriation Act* approved for the budget year;

- Incorrectly expenditures were charged to vote items for which funds were not appropriated, either through use of incorrect expenditure codes or through journal entries. There were also instances of funds being transferred between divisions and functions as at 31 December, 2013 and 2012, contrary to the *2012 and 2011 Appropriation Act for the 2013 and 2012 budget year*;
- A lack of reconciliation between the PGAS and the TMS/IFMS 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.
- Material variances in actual expenditures were noted in several agencies. Variances in three Departments in 2013 and four Departments in 2012 are shown in the graphs below:



- The non-performance of this very important control mechanism, 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

Bank reconciliation represents an independent verification by management to ensure that Cash Book transactions reconcile to the bank statements. Performing bank reconciliations periodically (monthly) ensures that receipts and payments are accurately processed, Cash Book 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 assist 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 Cash Book 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 Standards 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 are as follows:-

- Bank reconciliations were current in only 10 out of 14 Departments in 2013 and 17 out of 29 Departments in 2012. However, even in those entities, significant un-reconciled items were carried over for long period of time. In both years, two Departments had not performed any bank reconciliation for the year under review.
- In a number of Departments, the officers responsible for preparation of the bank reconciliations were not qualified and sufficiently trained.
- In two and eight agencies in 2013 and 2012 respectively, the reconciliations were not reviewed and certified as correct by a senior accountable officer.
- Not all Departments were submitting their bank reconciliation statements to Department of Finance within 14 days after the close of each month as stated in the *PFM Act*.

Asset 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 Heads to account for and safeguard the State's assets within their respective jurisdictions.

The maintenance of a reliable asset register that includes adequate information about assets acquired and disposed and asset reconciliations with periodical stocktakes 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 the 14 (2013) and 29 (2012) Departments audited, it was evident that:

- Asset registers were either non-existent or they were not maintained properly in all agencies. The lack of register exposes the entity to the risk that assets may not be utilized effectively, protected from physical deterioration or maintained properly;
- Periodic stocktakes were not conducted to determine the accuracy of assets on hand in all agencies. In most cases the physical condition and durability of assets held was not properly ascertained. The risk of assets being removed without authority or through theft was high in agencies that did not conduct periodic stocktakes;
- From the samples of vouchers selected for testing, in excess of K40.2 million in 2013 and K42.6 million in 2012, I identified that payment details of unrecorded assets could not be traced to asset recordings, both resulting from lack of a register or simply not being recorded by any means; and
- 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 existed.

Procurement and Payment Procedures

Strong controls over purchases and payments will help ensure that the quantity and 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 fraud.

During my audits, I 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 for payment. These were noted in eight entities aggregating K25.7 million in 2013 and four agencies in 2012 amounting to K2.5 million;
- In 2013 and 2012 where detail testings were undertaken, missing vouchers were in excess of K98.7 million in 14 Departments and K105.1 million in 29 Departments respectively;
- Payments to suppliers were often made on pro-forma invoices and without required quotations. A number of agencies were making payments through this process; and
- In 2013 and 2012, payments made without approval from the gazetted *Section 32 Officers* amounted to K8.5 million in five Departments and K1.5 million in nine Departments respectively.

The lack of controls over procurement and payments had significantly exposed the State to the risk of:

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

Human Resource 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 weaknesses identified across the agencies were:-

- Although 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. I observed that there were no payroll reconciliations performed by HR throughout 2013 in six Departments and nine Departments in 2012 that were checked. Previous audits indicate also that not many agencies perform such reconciliations. The agencies did not maintain their own PGAS or Alesco 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 could not be easily detected in the absence of independent records and reconciliation;
- 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 of individual employees are vital and should be properly maintained. Testing of a sample of employee files in all Departments in 2013 and 2012 indicated that salary history cards were not updated on a regular basis with recreational leave, higher duties allowance, sick leave or tax declaration forms on dependents claimed;
- In some Departments, 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 was a risk of loss of payroll, personal information or documents, damage to the files and also unauthorised access to payroll and personal information;
- Audit noted that in some agencies it was a practice where rental accommodation for contract officers were paid to real estate agencies in excess of the respective contractual entitlements; and

- Audit also noted that in some agencies where mobile phones and prepaid cards were purchased for contract officer's use, however, these officers were also receiving telephone allowances.

Trust Account Management

Government agencies (or the Heads of Departments) are responsible for the maintenance of trust accounts. To ensure proper accountability of trust moneys, *Part 3* of the *PFM Act* requires the maintenance of adequate records, that collection of receipts and payments from trust accounts is done 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 Departments 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:-

- The existence of eight and nine trust accounts in 2013 and 2012 respectively that were not operating under the Department's PGAS accounting system. As records are not properly maintained, monitoring of expenditure and compliance are not effectively performed;
- In most of the Departments with trust accounts, payments were made contrary to the Trust Instruments. These agencies have also not submitted monthly reconciliations and statements of receipts and payment to the Department of Finance in respect of the Trust; and
- Surplus funds available in the trust accounts were not invested in line with the *PFM Act*. This was evident for most of the trust accounts administered by agencies.

Advance Management

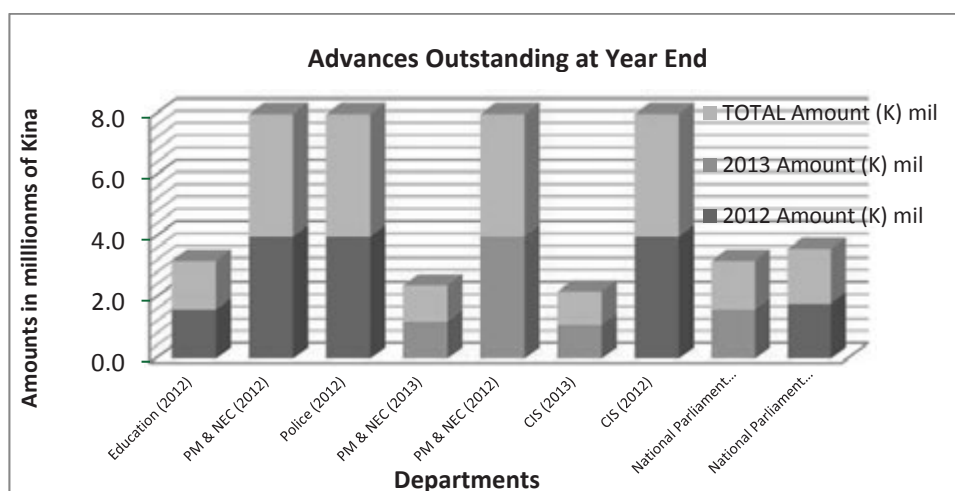
Part 20 of the *Financial Management Manual* requires all advances paid relating to traveling for both overseas and domestic travel, including cash advances, to be recorded in the Register of Advances and to be controlled and managed by the Financial Delegates.

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 purposes intended.

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

- Unacquitted advances as at 31 December, 2013 and 2012 were in excess of K20.3 million in 2013 for 14 Departments and K34.1 million in 2012 for 29 Departments respectively. It was observed that most of these agencies issued further advances to officers whilst their previous advances remained outstanding;
- I observed the practice of agencies paying significant amounts of cash to the Paymaster as cash advances was highly irregular. The cheques were cashed by the Paymaster/Paymistress and paid to officers of the Departments for various purposes. Such practice may have led to fraud as there was lack of documentation for an audit trail. These payments were noted in seven Departments totaling K9.3 million in 2013 and K11.4 million in 2012 for seven Departments as

well. Material advances were noted in several Departments. Examples are shown in the graph below for 2013 and 2012:



- Management of advances was very poor and there was no assurance over the completeness of the recorded balances. I identified K12.9 million unrecorded advances in 13 Departments and K41.2 million in 15 Departments in 2013 and 2012 respectively.

Conclusion

Internal controls are processes (including elements such as policies, procedures and systems) that are established, operated and monitored by officers responsible for governance and management of public sector agencies, to provide assurance regarding the achievement of the organisational objectives.

Management must be able to demonstrate that controls are operating as intended, and that the levels of risk (after the application of controls) are appropriate and acceptable to the organisation. Internal controls are designed to provide reasonable assurance to the responsible Secretary/Agency Head in relation to the:

- effectiveness and efficiency of operations;
- reliability of management, financial and taxation reporting;
- appropriate management and control of risk; and
- compliance with applicable legislation and other financial management policies of PNG.

Properly functioning internal controls are fundamental for agencies to meet their respective strategic, operational and financial responsibilities. Additionally, effective controls greatly reduce the risk of unintentional errors and play an important role in preventing and detecting fraud and protecting an agency's resources.

Unfortunately the results of the testing of accounts and controls in 2013 and 2012 revealed weaknesses of such magnitude and that material error could have been processed or misappropriation and fraud could have occurred. The results of my audits indicate that the systems of internal control within agencies were ineffective, contributing to further decline in the level and quality of services provided. The senior management of most agencies reported in this report had failed to exercise their financial management responsibilities well.

A broad range of internal control issues were raised with agencies as part of this audit. In general, the results of the testing of controls in 2013 and 2012 were reflective of my report for previous years and conclude that, overall, there continued to be significant weaknesses in agencies' control environments.

While a few agencies have taken appropriate action to address reported audit issues, most agencies have not made any attempts to address issues that have been outstanding for many years. Fundamental control activities, such as delegations, authorisation, reconciliations, management oversight and monitoring, were not sufficiently robust to prevent, detect or correct errors or fraud. Consequently, there is significant uncertainty over the reliability, accuracy and legitimacy of the reported financial information for most agencies.

Strong financial management is an essential part of any public sector agency, however, weakness in financial management practices and processes help legitimize bad governance and divert funding and energy from development plans and achievement of national goals and priorities. The onus of responsibility in ensuring compliance with legislative, managerial and procedural requirements rests with the Heads of agencies and their senior management. My audit reports and management letters to agencies contain recommendations for the key issues identified during the course of my audits, and if implemented by management, would address and resolve most of the internal control weaknesses reported on.

The content of this Report expound in summary the results of the audits of the 14 Departments in 2013 and 29 Departments in 2012 respectively. Audit observations were provided to each Department and each Agency for their management responses and corrective actions where necessary and, where provided, have been included in this Report (*Part 2*).

1. OFFICE OF THE GOVERNOR GENERAL 2013

OVERVIEW

The Office of the Governor-General is a constitutional body, established under *Section 88* of the *National Constitution*. It performs ceremonial services such as investiture ceremonies, swearing-in, presenting credentials and medals.

The Governor-General exercises the privileges, powers, functions, duties and responsibilities of the Head of State under *Section 82 (2)* of the *Constitution*.

FINDING

CORPORATE GOVERNANCE

The Office of the Governor General did not prepare a Corporate Plan and Annual Management Plan for the Office as required. This had contributed to roles and responsibilities of officers not clearly developed and the delegations were not identified in the general administration of the Governor General's Office.

Management Response

The management responded *"It is agreed that the Corporate Plan and Annual Management Plan were not available at the time of the audit in March 2014 as required by the General Order"*.

REPORTING REQUIREMENTS

Quarterly and Annual Financial Management Reports

The Official Secretary of the Office of the Governor General did not prepare and submit Annual Financial Management Reports on the overall assessment of the Governor General's Office as required in *Section 5* of the *PFM Act*. Quarterly reports were, however, prepared and submitted for budget purposes to Secretary, Department of Treasury.

Annual Management Report

The Official Secretary of the Governor General's Office did not prepare and submit an Annual Management Report on the work and achievements of the Office of the Governor General in relation to Annual Management Plan to Secretary, Department of Personnel Management as stipulated in *Division 4, Section 32(a)* of *Public Service (Management) Act, 1995*.

Management Response

I was advised by management that it was up to date with its reporting requirements and at the time of this Report, it was awaiting the DOF for a standard guideline.

BUDGETARY CONTROL

Variance in Expenditure Balances from IFMS and PGAS records

A comparison of the expenditure summary report generated by the IFMS 2222 maintained by Department of Finance against the expenditure vote summary report through the PGAS by the Office revealed the following variances between expenditure balances for period 12, year 2013.

Particulars	OGG records (PGAS) (K)	DoF records(IFMS 2222) (K)	Variance (K)
Revised Appropriation	8,878,300	6,888,000	1,990,300
Warrant Authority	7,434,400	6,489,000	945,400
Actual Expenditure	7,434,002	5,188,000	2,246,000

The differences in the two records derived mainly as a result of the non-reconciliations of the two records.

Management Response

I was advised by management that the variances were not updated at the DoF.

BANK RECONCILIATION

Audit verification of accounts and records and related schedules for the December, 2013 bank reconciliation revealed that it contained a number of un-reconciled adjusting items that need to be investigated, cleared and adjusted in the cash book (to ensure reliable cash book balance) as follows:-

- Other items (debit) amounting to K14,580 included unidentified journals in 2011, cancelled cheques presented in 2012 and missing batch in 2013;
- Reimbursements totalling K26,125,224 had not been posted in the cash book since November 2010 and up to and including the month of December, 2013;
- Stale cheques totalling K7,739,364 from years' 2000 to 2012 were noted as at 31 December, 2013; and
- Other items (debit) totalling K3,123,002 consisted of cancelled cheques and reconciling amounts dating back to 2010.

Management Response

I was advised by management that due to incompetence and inefficiency of the bank reconciliation staff, the reconciliations were not up to date.

ASSET MANAGEMENT

A review of the asset register and related records revealed the following irregularities:-

- The asset registers maintained were noted to be deficient in several aspects as follows;
 - The register was not maintained in accordance with *Part 32* of the *FMM requirements*; and
 - Household Items and office equipment did not have their cost price listed.

- The asset registers were not updated resulting in 37 assets totalling K547,553 not recorded;
- The motor vehicle fleet register was not updated as indicated with non-record of a vehicle purchased in 2013 at a cost of K442,511;
- Service or maintenance schedules were not maintained to determine when the vehicles were due for service and to account for the high cost involved;
- Vehicle log books were not maintained to control the use of each vehicle for official purposes to substantiate the high cost of fuel involved; and
- There was no renovation or maintenance schedule for the institutional houses.

Management Response

The management concurred with my observations and advised that it would uphold the dignity of the Office and promised that it will keep track of record of Assets.

PROCUREMENT AND PAYMENT PROCEDURES

An examination of 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.

Payments charged to Incorrect Vote Items

- 201 payments totalling K1,458,643 were erroneously charged to expenditure vote items not appropriated for the purpose. Most of the payments were made in order to conceal unfunded expenditure incurred by the Office which was contrary to the *Financial Instruction*.

Of the 201 payments, a sample of 62 payments totalling K542,500 were selected for testing and the following irregularities were noted:-

- Three payment vouchers totalling K34,997 were not sighted although requested therefore, the authenticity and propriety of the payments made was not ascertained;
- Three written quotations were not obtained for 20 paid vouchers totalling K427,842 prior to purchasing goods and services;
- The requisition for expenditure forms (FF3) were not attached in 17 instances totalling K47,077;
- Instances where payments were not approved by Section 32 Officer including authorised requisition officer and the financial delegate prior to making payments were noted in 13 instances totalling K96,180;
- In 12 instances amounting to K50,073, payments were not certified correct by the certifying officer. Included were five payments not authorised by the requisition officer totalling K10,070;
- In 24 instances payments were not examined and certified correct prior to purchases summed up to K298,855. Included were seven payments not certified correct by the financial delegate;

- In 16 instances totalling K101,102 ,payments were made on pro-forma invoices and quotations;
- A total of 12 paid vouchers had no proper supporting documents to verify the purchases made;
- A total amount of K777,310 was paid to a contractor for rubbish removal and maintenance of the Governor-General premises. In this regard the following irregularities were noted:-
 - Contract Agreement was not provided for audit verification although requested; and
 - Of the two quotations that were received from the other companies, one was from the same person who owns the company that was awarded the contract, while the other was not registered with PNGIPA. Audit further noted that the layouts of the quotation were the same for the two companies.

This clearly indicates serious internal control weaknesses in adhering to procurement processes.

- The Office of the Governor General engaged a consultant in October, 2013 to compile its bank reconciliation from February, 2011 to September, 2013 at a cost of K30,000. In this regard, the following were noted.
 - The Office engaged the consultant in October, 2013 when they already had a qualified bank reconciliation officer recruited in March 2013; and
 - The engagement of the consultant was done by an officer who was the Section 32 officer that approved the payment for the consultant.

Major Procurement

A contract was awarded to a construction company for the construction of the main administration office at a cost of K10.3 million. The documents pertaining to the signed contract and the awarding of the contract was not provided for audit. Therefore, I was not able to confirm and verify that correct procedures were complied with in the award of the contract.

Management Response

The management concurred with my observation and promised to comply with *PFM Act* as required.

HUMAN RESOURCE MANAGEMENT AND PAYROLL

Training Plan

- An annual training plan and report was not submitted to Secretary, Department of Personnel Management as required under *GO 5*.

Payroll Reconciliation

The Office did not maintain its own ledger records but relied on Department of Finance records. There was no reconciliation of the payroll performed by the Office. The lack of this key control may facilitate fraudulent payroll activities where payments processed outside the system could not be easily detected in the absence of independent records and reconciliation.

Maintenance of Personal Files

A total of ten officers personal files were extracted and reviewed. Of the ten, three were contract officers. However, the following discrepancies were noted.

- One contract officer's contract was not renewed;
- Six officers had no salary history cards attached in their personal files;
- Four officers had salary history cards not updated or had no records written at all;
- All ten officers had no salary and wages tax declaration forms attached; and
- All ten officer's files were not folioed and filed properly.

Management Response

The management concurred with my observation and recommendations and it had taken remedial corrective measures.

TRUST ACCOUNT

Governor General HIV/AIDS Trust Account

- No record of receipts and payments pertaining to the trust account was maintained by the Office. Consequently, the Office did not prepare and submit bank reconciliations and a list of transactions each month and an annual estimates of receipts and payments to the Department of Finance as required.
- In addition, the books of account and records were not maintained on the PGAS as required by the *PFM, Act*.

Management Response

The management concurred with my observations

ADVANCE MANAGEMENT

Examination of the advance register and related records revealed the following irregularities:-

- The advance register maintained by the Office was deficient in that the register did not accommodate for the FF4 reference, date and the designation of the officer receiving the advance contrary to *Part 20* of the FMM;
- Advances paid out in 2013 totalling K92,051 remained outstanding as at 31 December, 2013; and
- Six officers were issued second and third advances totalling K22,311 when their first advances were not acquitted.

Management Response

The management advised that it had taken appropriate corrective measures to ensure that it complied with *Part 20* of the *PFM, Act*.

DEPARTMENTAL RESPONSE

The findings were brought to the attention of the Governor General in the management letter issued and the responses were incorporated under respective audit issues.

CONCLUSION

The results of my audit indicate significant control weaknesses in the control framework. The control activities, such as delegations, authorisations, reconciliations, data processing, segregation of duties and system access were not sufficiently robust to prevent, detect or correct error or fraud.

Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

2. OFFICE OF THE ELECTORAL COMMISSION 2013 - 2012

OVERVIEW

The Electoral Commission is a Constitutional Office whose structure, functions and applicable procedures are stipulated in the Organic Law on National and Local Level Government Elections. According to this Organic Law, the main function of the Commission is to organise and conduct all elections to the Parliament, including both the National and Local Level Government Elections.

The Organic Law on Provincial Governments and Local Level Governments expands the role of the Electoral Commission to administer all provincial elections. In addition, the *Local Level Governments Administration Act, 1997* empowers the Electoral Commissioner to prescribe the manner in which each Local Level Government election is to be conducted and specifies the Commission's supervisory role.

The Electoral Commissioner is also responsible under the *Industrial Organisations Act, 1962* for the conduct of ballots for those organisations in accordance with the rules of the individuals' industrial organisations.

FINDINGS

CORPORATE GOVERNANCE

Corporate Plan

The Commission had a corporate plan for four years (2008 to 2012) as required in the *Public Service GO 8.11*.

Internal Audit

Internal Audit in any organisation serves as a management tool to enable management to ascertain how effective the organisation had been managed during the year and how the corporate plan had been implemented, monitored, reviewed and amendments made to the Annual Activity Plans for year.

Internal Audit is one component of corporate governance and plays a significant role as far as improving systems and controls are concerned.

However, the internal audit unit furnished four reports in 2013 and I noted that no annual audit plan was prepared for the year 2013.

Annual Management Plan

The *GO No. 8.11* states that agencies should have a Corporate Plan in place and based on that, Annual Management Plans are worked out to meet requirements of the budgetary cycle.

- The Commission's Annual Activity Plan (AAP) for 2013 was not made available for my audit review.

Annual Reports

- The Commission's Annual Management Report for 2012 was prepared as stipulated in GO 8.12 and 2013 was in draft form at the time of audit.
- The Annual Financial Management Report was not made available for my audit review; and
- I noted that the Commissioner had prepared a Report on the 2013 Local-Level Government Elections for Tabling in Parliament by its Minister.

Quarterly Budget Review Report

- I observed that the quarterly budget reports for 2013 were prepared and submitted to Department of Treasury as required, however reports were submitted in March 2014; which was a delay and a case of non-compliance.
- The quarterly report on work programs contain only one program and did not cover other programs of the Commission as stated in the annual work plan (if any). Without the inclusion of other reports on their work programs, output and outcome, performance was therefore unaccounted for in the reporting phase which indicated that the reports were not utilized to highlight achievements and more importantly non-achievement of objectives.
- I noted that the Senior Management Team Meeting minutes revealed that Quarterly Budget review reports were not deliberated during those meetings.

BUDGETARY AND FUNDS CONTROL

Expenditure Variances

AGO comparison of the Expenditure Vote Summary report maintained by PNGEC with the IFMS Expenditure Report produced by Department of Finance for year ended 31 December, 2013 and 2012 revealed significant variances between the statements' balances; *refer to Table below for details:-*

Variances in Statements' Balances

Particulars	Variance PNGEC/DOF	
	2013	2012
Revised Appropriation	4,311,000	8,277,363
Warrant Authority	0	250,162
Actual Expenditure	8792,103	94,392,596

The inconsistencies of data on both the PGAS and IFMS records was a clear indication that what was captured on the Main Public Account was not a true and fair reflection of what has transpired during the financial year at the Electoral Commission.

The Commission should liaise with the Department of Finance and reconcile the two records regularly. Regular reconciliations (monthly) of the two records are very essential for monitoring and controlling the funding inflow and outflow.

Over Expenditures (IFMS Record)

The Expenditure Statement maintained by Department of Finance for year ended 31 December, 2013 revealed expenditures in excess of warrant authorities issued under two Vote Items totalling K383,029 in the Recurrent Budget and under five votes items totalling K3,277,363 in 2012.

Management Response

I was advised by management that it took note of my findings.

BANK RECONCILIATION

The Commission has a Drawing Account and did prepare and submitted all the monthly Bank Reconciliations for fiscal year 2013 to the Department of Finance, Accounting Frameworks and Standard Division.

The audit review of the December, 2013 bank reconciliation revealed the following reconciliation items;

- Unpresented cheques totalling K8,310,570 included stale cheques valued at K106,497 which were not written back to the cash book;
- No segregation of duties, for the officer compiling the monthly bank reconciliations who was also performing duties in the account sections, this issue had been highlighted in my previous reports.

A review of the bank reconciliation statement for December 2012, and related accounts and records, revealed the following discrepancies:-

- Unpresented cheques totalling K3,982,836 was stated at 31 December, 2012;
- Other items totalling K29,021 were adjustment debits by bank and a stopped cheque which was not investigated and cleared in the cash book; and

Management Response

The management concurred and I quote *“The Audit recommendation for segregation of duties in Accounts is noted”*.

ASSET MANAGEMENT

The review of the assets registers, related accounts and records, and review of systems and procedure relating to the management of assets; I noted the following weaknesses:-

- No Assets Register was maintained during the year 2013;
- The Commission had a motor vehicle fleet register which was an improvement from my previous audit report;
- Log books were not maintained to control the use of each vehicle for official purposes; and
- There was no stocktake done in 2013 and 2012.

Management Response

The management took note of my findings and recommendations.

PROCUREMENT AND PAYMENT PROCEDURES

Examination of 72 and 145 selected paid vouchers totalling K4,981,756 and K21,212,226 in 2013 and 2012 respectively revealed the following internal control weaknesses;

- No Quotation Register was maintained during the 2013 and 2012 financial year (as required by the *FMM*). This issue was highlighted in my previous audit reports and remained unresolved in 2013.
- Nine payment vouchers totalling K923,241 were not made available for audit verifications. I was unable to ascertain whether prior approvals were obtained to procure goods/services and to verify the accuracy of those payments.
- The Financial Delegate did not authorise two payments totalling K61,056 as required by *PFM Act, Part 5 Section 32 (4)*.
- Nine payments vouchers totalling K227,789 were not certified by the Certifying Officer prior to effecting the payments.
- The required three quotations were not obtained from suppliers for seven payments totalling K904,056 prior to effecting purchases (as required by *FMM Part 12 Division 3*).
- Goods and services were acquired from suppliers without the prior approval from the procurement committee within the Commission in seven payments totalling K457,818 as a requirement for internal control purposes.
- No job completion reports were sighted to validate the jobs performed or services for two payments totalling K62,268 were provided prior to making the payments.
- No consultancy agreements was sighted during my audit to validate the job or services in four payments totalling K146,000;
- FF3 was not sighted and verified for five payments totalling K882,961;
- Five payments totalling K371,061 were affected based on proforma invoice, rather than original company tax invoices;
- Wages sheet (FF10) were not used to process payments of wages for casuals in five payments amounting K810,975. Payments were effected base on listings provided to accounts. Such lapses in the internal controls could promote misuse of funds and encourage fraudulent payments;
- Six payments totalling K118,823 were effected without the Authorised Requisition Officer and Section 32 Officers' authorisation prior to procuring goods and services; and

- A payment of K250,000 was an out of court settlement to the owner of a hire car company for vehicle hire, loss of business and loss of vehicle. No supporting documents were attached to substantiate the claim, but only on a letter from a law firm.

Management Response

The management took note of my recommendations and advised that it had ensured that policies and procedures were established for procurement.

HUMAN RESOURCES MANAGEMENT AND PAYROLL

Salaries and Allowances

- No monthly payroll reconciliation was sighted for 2013 financial year. Even though Item 111 was maintained at the Department of Finance. Reconciliation of the commission's eligible staff on payroll and the actual payroll produced by Department of Finance has to be done to validate and attest the accuracy of balances on the expenditure incurred under Item 111 for salaries and allowances.
- The review of payroll reports for Pay Nos. 2, 7, and 13 with respect to 21 officers revealed the following irregularities;
 - Eight Senior Officers' current contracts were not sighted in the personal files. I was unable to verify the accuracy of the salaries and allowances paid to the concerned officers;
 - Deductions was not made to Nambawan Superannuation for one officer, as required; and
 - Six officers whose names were not on the Staff Establishment Register were paid fortnightly salaries on Pay Nos. 2, 7 and 13.

Wages

The following irregularities were noted from my review of the wages paid during 2013 financial year:-

- Wages totalling K777,729 were charged to Vote Items 124 and 135 instead of Vote Item 112.
- Of the 15 payment vouchers examined totalling K513,445 were examined and I noted that; In 11 payments totalling K390,471 the *Financial Delegate*, Certifying officer, paymaster and a witness did not sign in the required spaces provided on the wages sheet (FF10) to satisfy that all necessary checks for rates, periods, deductions, additions and other information were accurate and that the right persons were being paid (as stated in *FMM Part 18 Division 4 paragraph 24*).
- Out of 52 payments made to 40 officers in a fortnight, it was excessive by a total of K108,273.
- Four payment vouchers totalling K122,974 relating to wages were not made available for audit review.

Overtime

- Overtime payments charged to incorrect Vote Items were in excess of K116,994.

- I randomly selected four overtime payments totalling K78,579 and noted the following weaknesses:-
 - In all 4 cases, No prior approval was sighted from immediate supervisors stating that the officers need to work the extra hours. I was unable to ascertain the basis for payment of the extra hours; and
 - In all instances, the verifying officer did not verify the calculations and authority of the overtime worked and paid out.

Leave Fares

- Recreational leave payments totalling K19,883 were charged to incorrect Vote Item 112 and 135, instead of Vote Item 114.
- Three leave payments totalling K41,793 were not made available to audit.

Retirement Benefits, Pensions, Gratuities and Retrenchment

- Payments of pensions, retrenchments and gratuities totalling K20,978 were charged to incorrect Vote Items such as: - 112, 124 and 135 instead of 141.
- Five payments vouchers totalling K229,050 were not made available for me to ascertain the validity and accuracy of the payments made.

Rental/Accommodation Payments

- The total cost of accommodation in 2013 financial year, for officers' was K1,483,518. It was Senior Management's decision to pay out rent accommodation for its employees. No approval from the Salaries and Conditions Monitoring Committee (SCMC) of Department of Personal Management to pay accommodation for employees of the Commission; and
- During my audit examination, I noted that, contract officers were entitled to housing allowance but were paid rental accommodation instead. The rental accommodations were more costly than the housing allowances stated in the contracts. Instances are detailed below:
 - Two senior officers were receiving fortnightly housing allowances with their salaries, while they were living in rental accommodation paid for by the Commission. The actions of knowingly misappropriation public moneys amounted to double dipping from the State with elements of fraud. Rentals paid were also in excess of the officers' housing allowance by K57,480.
 - Four senior officers entitled to housing allowance, were instead paid rental accommodation. Audit noted that, the rentals paid were above the housing allowance by K133,504 in 2013.
 - No formal approval was sought from the Salaries and Remuneration Committee at Department of Personnel Management for officers who were not entitled to housing allowance, however, were paid rental accommodation by the Commission.

The issue of rental accommodation was raised in my prior year audit reports but no remedial action was taken.

ELECTORAL COMMISSION TRUST ACCOUNT (ECTA)

The Trust Account administered by Electoral Commission of PNG is known as the Electoral Commission Trust Account (ECTA).

Bank Reconciliation

- Bank reconciliation for December, 2013 contained significant un-reconciled items of unidentified cheques totalling K8,751 which goes back to 2007, 2008 and 2011, no action had been taken to clear the long outstanding items;
- The Commission prepared and submitted its bank reconciliation to Department of Finance monthly, however, not within seven days after the end of each month as required.
- No segregation of duties on the preparation, reviewing and authorisation of the bank reconciliation. The Accountant was the only officer who prepared and submitted the bank reconciliation to the Department of Finance.
- During the audit review of the payment details, I noted that eight payments totalling K194,625 in 2012 were not in accordance with the Trust Guidelines and Instrument;
- December 2012, bank reconciliations also consisted of unidentified cheques totalling K10,166 which dated back to 2007, 2008 and 2011 were not investigated and identified.

Management Response

The management acknowledged my findings and recommendations and advised that corrective measures were taken to remedy the shortfalls.

ADVANCE MANAGEMENT

A review of the advance register, acquittal files and related accounts and records revealed the following control weaknesses:-

- A total of 853 (94.6%) advances with a total value of K6,328,423 were un-acquitted at 31 December 2013 and remain un-acquitted at the time of audit in March, 2014;
- A total of 232 advances amounting to K5,306,430 were paid via the paymaster and remained un-acquitted.
- In perusal of the un-acquitted advances, I identified a total of 124 officers who were paid second advances while their first advances were outstanding;
- The advances register was deficient and did not contain data such as; the cheque numbers, and the date issued, and no column for the advance holders to acknowledge receipt when receiving their payments; and

- In 2012, the manual advance register was not kept-up-to-date, it only had records of advances from January to March, 2012. The un-reconciled and un-acquitted advances comprised of 889 advances totalling K1,806,875 as at 31 December, 2012.

Management Response

I was advised by management that it took note of the control weaknesses identified and promised to take corrective actions.

DEPARTMENTAL RESPONSE

The reported findings were brought to the attention of the Commission through a management letter delivered on 19 December, 2013 and the management responded accordingly on 18 March, 2014.

CONCLUSION

The results of my audit indicate that overall, there were significant and serious weaknesses in the control framework. However, in general, I noted that there were improvements in the system and operation of controls within the Commission compared to previous years.

3. OFFICE OF MAGISTERIAL SERVICES 2013 - 2012

OVERVIEW

The Magisterial Services is established under *Section 173* of the *Constitution* of the *Independent State of Papua New Guinea*. Its main functions and related activities are provided by separate acts of the Parliament. However, its management and operational activities and Determination of Terms and Conditions are provided in its enabling Act, the *Magisterial Act, 1975*.

The Magisterial Services comprise of magistrates and support staff. Magistrates of the Magisterial Services preside over District and Local Courts in criminal and civil jurisdiction, and also constitute as Legal Land Courts, Children's Court and Coroner's Court throughout Papua New Guinea. They conduct reviews of and hear appeals from Village Courts, and are also responsible for supervising the Village Courts.

FINDING

CORPORATE GOVERNANCE

Corporate and Annual Plan

- Magisterial Services now has a Corporate Plan covering a period of two years. The Corporate Plan (2014-2015) was launched in 2014.
- No Annual Management/Activity Plan was prepared for 2012 and 2013 as required in *GO 8.11*.

Senior Management Meetings

The following shortfalls were noted when screening the minutes of the meetings convened in the respective financial years:-

- No schedule or chart showing tentative dates of senior management meetings held during the year; and
- Poor record keeping of meeting minutes and vital information not captured, consequently, I was not able to establish whether there were, quorum to proceed with the meeting; the agenda of the meeting disclosed in the meeting minutes; and deliberations and discussions held in the previous meetings.

Internal Audit Unit

- The management was advised that it will be advantageous for an audit committee to be established so that interested parties would discuss audit plans and results, including my audit reports.
- The Internal Audit Division had an Annual Activity Plan for 2013 which was approved by the Chief Magistrate which included other activities for IUD:-

- A draft Internal Audit Report of seven court locations and head quarter covering the audit systems, processes and procedures effective and efficiencies on their performance of monthly bank reconciliations, petty cash, fuel advances and acquittal;
- Maintenance of asset registers and reconciliations of all assets;
- Revenue collections; and
- File management
- The monthly brief prepared by the internal auditor is an agenda item that gets presented to the Chief Magistrate and her management on the issues identified during the course of this audit. However, senior management was not proactive in the implementation of the internal audit recommendations.

Management Response

The management concurred with my observations and advised that with the current recruitment of Chief Magistrate and the Director Corporate Services in 2013. Controls would be put into place.

REPORTING REQUIREMENTS

Annual Financial Management Report

- No annual report for 2013 and 2012 on the overall assessment of the Department's financial management performance was prepared and submitted to Department of Finance as required in the *PFM Act, Section 5*.

Annual Management Report

- No report on the work and achievements of the *Magisterial Services* in relation to the Corporate and Annual Management Plans were submitted to the Department of Personnel Management since 2008. As such, the Department had breached the statutory requirements of the *GO 8.12*.

Management Response

I was advised by management that it had submitted reports on to Finance Department, however, it concurred that the major failure was the Annual Report.

BUDGETARY AND FUNDS CONTROL

Variances Noted between DoF (IFMS) and MS (PGAS) records

The comparison of the expenditure summary generated by the IFMS 2222 against the expenditure vote summary through the PGAS system revealed the following variances between expenditure balances for period 12 in the year ended 31 December, 2013 and 2012.

Details	Variance - MS vs DoF records	
	2013	2012
Revised Appropriation	5,696,458	1,335,672
Warrant Authority	5,696,458	1,335,672
Actual Expenditure	12,355,317	19,252,314

Over Expenditure as per IFMS report

IFMS reports from Department of Finance revealed a total over-expenditure of K15,308,000 from three Expenditure Vote Items in 2013 and in 2012 the report revealed over expenditure totalling K12,803,148.

Management Response

The management concurred and advised that no proper reconciliation was performed between the TMS report and the PGAS. Consequently, huge disparities were noted.

BANK RECONCILIATION

Magisterial Services operated an operational account number 1000321954 with Bank of South Pacific. The audit review of the bank reconciliation statement for the month of December as at 31 December, 2013 and other related accounts and records reveal the following:

- The bank reconciliation for 31 December, 2013 had the following un-reconciled items as shown in the Table below:-

Particulars	December 2013	December 2012
Service or Bank Fees - Dating back to 2007	73,784	71,696
Unidentified cheques debited to the bank a/c	68,144	68,144
Various transactions requiring adjustments	3,623,854	3,623,854
Various Credits that needs to be posted in the cash book	136,746,389	95,670,377
Unpresented Cheques	10,445,571	9,220,765
Mismatches - dating back to 2007	36,897	34,683
Other Items - dating back to 2007	2,097,998	1,379,692

- The Office has requested Finance Department to assist in resolving and rectifying the long outstanding reconciling items;
- I observed that the Office had improved significantly in terms of preparing its monthly bank reconciliation and submitting to Department of Finance.

Management Response

The management concurred with my findings

ASSET MANAGEMENT

Centralised Asset Register

- The Office did not have a proper centralised up to date fixed asset register to account for the purchase of fixed or attractive asset.

Land and Building Register

- The audit review of the register revealed that it was deficient of relevant data and it was not drawn up in accordance with the requirements stipulated in *FMM*;
- A Housing Policy which was approved in late 2013 (if any) was not provided for audit verification. In the absence of the Housing Policy, I was unable to ascertain whether the Chief

Magistrate in her capacity had charged a rate as per the approved Determination 2012-2013 and that Human Resource and Payroll personnel were fully informed to deduct from the Magistrates and the Deputy Chief Magistrates living in Institutional Houses.

- The Register captured records of 87 houses in which the agreed agency ownership was either Magisterial Services or other government agencies. The discrepancies noted are as follows:
 - Magisterial Services did not know the value of the properties under its ownership to report accurately on the land and building register;
 - The Office did not capture the costing associated with maintenance and renovation in the register; and

Attractive Items Loan Register

- The IT Division did not maintain a loan register for attractive items such as laptops, cameras, mobile phones, external drives, portable printers, scanners, iPods, and voice recorders among others. 23 payments totalling K404,987 were invested on attractive items. In 2013 and 2012 the total cost was K153,695.

The discrepancies noted are as follows:-

- Mobile Phones (Black Berry and Samsung Galaxy) were purchase and issued to Managers and Executive Management however, no policy was in place to govern the criteria (eligibility and phone brand), agreement (if any), replacement date (if any) among others for strict compliance and for future reference; and
- A payment totalling K8,980, was paid for five Samsung Galaxy S4 mobile phones from the Trust Account moneys for five Land Court Provincial Engagement Team. Members of the Team also received Telephone allowance of K3,600 per annum.
- No criteria was used, however, upon the Acting Special Project Officer memorandum, the request was approved and payment was facilitated. In the absence of a policy in place, the recipients were seen to be double dipping as they were also paid telephone allowances through their fortnightly salaries.

Motor Vehicle Fleet

The Fleet Register maintained by the Assets and Property Division had the following discrepancies:-

- The Motor Vehicle Fleet Register was not drawn up in accordance with the *FMM* requirement.
- In 2013, a payment totalling K143,129, was made to purchase a vehicle was facilitated under Expenditure Vote Item 111 which was budgeted for Salaries and Allowances. This payment violated the budgetary process and breached the *Appropriation Act*, and *FMM*. In addition the Vehicle was not registered in the Fleet Register.
- In 2012, two vehicles totalling K341,607 were not recorded in the register.

Unrecorded Asset

- At 31 December, 2013, 121 payments totalling K1,773,851 worth of assets purchased during the year remained unregistered. I noted from prior years assets totalling K1,670,800 were not registered in the Assets Register at the time of audit in March, 2014.

Management Response

The management concurred with my observations and recommendations

PROCUREMENT AND PAYMENT PROCEDURES

I randomly selected 90 payment vouchers totalling K2,463,755 for audit examination (ie, 67 in 2013 and 23 in 2012) and review of the procurement and payment procedures, and the following discrepancies were noted:-

- The Services did not maintain a quotations register as required by the FMM;
- The required three written quotations were not obtained for 45 payments totalling K1,102,169 prior to purchases as a requirement in the *FMM* and *Finance Instructions*;
- The Service facilitated payments to suppliers in 44 payments totalling K1,381,319, without proper supporting documentations, eg; tax invoices, receipts and delivery dockets as evidence that goods and services were received in good faith;
- A payment of K91,080 for a vehicle, revealed following discrepancies;
 - General Expense (FF4) was not duly approved by the Financial Delegate; and
 - Section 32 signature did not agree with the specimen signatures.
- Another payment totalling K27,500 paid to a contractor was based on an unsigned contract agreement. The payment was irregular due to the fact that an unsigned contract agreement is not legally binding by law;
- A payment to a Construction company for K69,778 was executed without a minor contract agreement as per *Finance Instruction* issued by Finance Department;
- Another payment to a printing company totalling K33,000 did not have the approval from the Government Printing Office prior to engaging private printing service providers;
- Another payment to a company totalling K15,500 for repair of an official vehicle engine overhaul. Supporting documents revealed that the State vehicle was involved in an accident during unofficial hours but was not reported. No report was provided by the officer involved in the accident. The accident was not reported to the Police. The payment was considered irregular, and it should have been paid for by the officer. No disciplinary action was taken on the officer;
- Two payments amounting to K37,315 did not have FF3 and FF4 documents duly signed and attached as source documents to effect the expenditure;
- Eight payments totalling K29,292 in consultancy fees were paid to a consultant. No copy of the contract of engagement was provided for audit verification;

- Four payments totalling K91,371 were effected using the proforma invoice instead of the original company taxed invoices;
- Payments made to ten contractors to carry out various minor contracts aggregating to K859,889 were examined and the following discrepancies were noted:-
 - Minor contract was not executed between the contractor and the Department as required by the *Finance Instruction 1/2008*; and
 - In two instances totalling K195,428, audit could not ascertain the contract value for the works to be undertaken and to validate the propriety of the payment made.
- Certificate of completion was not attached to the final payment of K28,000 and K15,271 for work done payment were considered irregular as it was effected without any proper assessment undertaken.

Management Response

HUMAN RESOURCE MANAGEMENT 2013

Training Plans/Reports

- A five years (2014-2017) training and development focus plan which was in draft at the time of audit (April, 2014), and
- No Annual Training Plan and Report was submitted to Secretary, DPM before 31 March each year as required by the *GO*.

Payment of Wages

A randomly selected sample of four casual payments totalling K19,982 revealed the following anomalies:-

- From a payment of K10,884, I observed that ;
 - The officer was engaged without the approval from DPM contrary to *GO*
 - No employment agreement was in place; and
 - The duty roster which was attached to the payment voucher was not certified correct nor was it either signed by the officer.
- A payment totalling K5,712 to a casual engaged by Kimbe Court House was considered irregular due to the following;
 - Proper approval was not sought from relevant authorities before engaging the casual;
 - the claim was for work carried out without a contract ; and
 - the casual should be paid from Concept Payroll and not PGAS as required by *GO*.

TRUST ACCOUNTS

Magisterial Services maintains a Trust Account namely, Lands Dispute Settlement Trust Account and a review and analysis of the accounting records and the management of this Trust Accounts revealed the following discrepancies and were not resolved by management:-

- The Trust Instrument was not provided for audit review, therefore, I was unable to ascertain whether the Trust Instrument was valid and that monies held in the Trust Account were spent in accordance with the Trust deed;
- Management continue to use excel spreadsheet cashbook and process payments using manual commercial cheque out of the Trust Account and not through PGAS as required;
- The bank reconciliation for December, 2013 was prepared without the source document such as monthly bank statement from the Bank against the cashbook and the accuracy of information captured in the reconciled balances of the Trust Account for 2013 financial year was not ascertained. These issue remained unresolved by management and will be followed up in my next audit (2014);
- The Project Team/Committee established to solicit meetings and oversee projects funded out of this Trust Account were not functioning effectively. Meetings were held on ad hoc basis and copies of management meeting minutes were not signed and approved by the authorised officer (chairman); and
- A total of K461,291 and K902,028 was expended for the years ended 31 December, 2013 and 2012 respectively, however, annual reports of 2013 and 2012 respectively were not prepared to account for the progress of the project as indicated in the work plan.

I randomly selected ten payment vouchers totalling K230,973 for audit review and the following discrepancies were noted:-

- A payment totalling K38,390 was paid for accommodation and venue hire. However, the following irregularities were noted'
 - No approval was obtained from the Chief Secretary as per the *Circular Instruction No.2/2013* with reference to temporary ban on all conferences and workshops conducted by the Department, statutory authorities and provincial administration;
 - Three required written quotations were not obtained which violated *FMM* requirements and *Finance Instructions*;
 - The payment was facilitated on pro-forma invoice; and
 - Travelling allowances were paid in full for a day when lunch and dinner were provided and resulting in double payment of related allowances for the 17 Officers.
- Two payments totalling K32,559, for printing services without prior approval from Government Printing Office. A private company was paid a total of K22,534 even though GPO provided the lowest quote and consequently, breached the *FMM* requirements;
- A payment of K28,111 for accommodation for Land Court Team whilst in Goroka, the following discrepancies were noted:-

- Three written quotations were not obtained;
 - The payment was facilitated on pro-forma invoice instead of a tax invoice;
 - The value on the pro-forma invoice was altered from K26,591 to K28,111 without authorising the changes (not initialed); and
 - No Receipts from the service provider indicating that cheque was received.
- Trust Instrument not provided; and
 - The Trust Account was not established and operated in PGAS, however, it was managed and operated using manual cheques and operated outside of PGAS.

Management Response

The management concurred with my findings and recommendations.

ADVANCE MANAGEMENT

Audit review of the Advance Register and related accounting records revealed the following discrepancies:-

- The Advances Register was not maintained in accordance with the *FMM* requirements. It lacked the vital information's such as cheque numbers and acquittal dates;
- 786 advances totalling K873,734 were paid in 2013, however, no audit trail to ascertain advances paid were recorded;
- Second advances were issued to officers who did not acquit their previous advances which is a breach the *PFM Act*;
- The advances register maintained revealed that 117 advances totalling K165,195 and K230,746 remain un-acquitted at 31 December, 2013 and 2012 respectively.

Management Response

The management concurred with my findings and recommendations.

DEPARTMENTAL RESPONSE

The findings were brought to the attention of the Chief Magistrate in the management letter issued and the responses were incorporated under respective audit issues.

CONCLUSION

The results of my audit and the number and the magnitude of the control weaknesses identified in the course of the audit indicate that in overall, there were weaknesses in the control framework.

Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

4. DEPARTMENT OF CORRECTIVE INSTITUTIONAL SERVICES 2013 - 2012

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, 1995*, 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 facilities and to manage and maintain them in accordance with this 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 Plan and Annual Management Plans

- The Department has in place a Corporate Plan for the period 2011 to 2020. However, the annual management plan for the year ended 31 December, 2013 was not prepared as required.

Annual Management Reports

- The Department did not prepare and submit the annual management reports to Secretary, DPM as required in the *GO for years 2013 and 2012*.

Annual Financial Management Report and Quarterly Review Reports

- No quarterly budget review reports were compiled in 2013 as required in the *PFM Act, and in 2012*, only the first and second quarterly budget review reports were furnished.

- The annual management report highlights the work and achievements of the Department in non-monetary terms. The Department failed in its obligation by not producing an annual management report for 2013 and 2012.

BUDGETARY AND FUNDS CONTROL

Recurrent Expenditure

Comparative Balances (IFMS and PGAS)

A comparison of the Expenditure Summary report for the years ending 31 December, 2013 and 2012 from Department of Finance against the Department of CIS (PGAS) revealed the following unexplained variances; refer to Table for details:-

Particulars	Variance 2013	Variance 2012
Revised Appropriation.	(4,371,647)	6,554,174
Warrants Issued	53,603,600	47,108,400
Actual Expenditure	43,641,971	41,256,538

The variances between the two Ledgers derived from the non-reconciliation of the two records during the respective years. This revealed a serious lack of monitoring and control on the Cash Flow Management.

Expenditure in excess of Warrant Authority (DoF IFMS)

Although there was no over expenditure noted in the total balances, there were over expenditures noted under two Vote Items totalling K2,689,000 in the recurrent budget reported in the expenditure statement (IFMS 222) maintained by Department of Finance as at 31 December and under five Vote items totalling K4,653,537 as at 31 December 2012.

BANK RECONCILIATION – Cash Management

CIS operates a Drawing Account No. 4311-6108 with the Bank of Papua New Guinea. Audit verification of the 31 December, 2013 and 2012 bank reconciliation and related accounts and records, revealed the following audit findings:-

- Reconciling items as at December, 2013 were highlighted but not investigated, cleared and adjusted in the cash book and the bank account: the reconciling items outstanding are presented below:-
 - Bank transfers from Waigani Public Accounts dated February, 2013 of K30,865 and cancelled cheques of K360 dated 23 May, 2013 were not posted in the cash book.
 - Unpresented cheques totalling K7,522,915 were at 31 December, 2013.
- Unpresented Cheques in 2012 amounted to K7,416,302. This included stale cheques aggregating K544,340 issued in year 2010 and year 2011. This had not been journalized and cleared from the CRL and debited back in the cash book.

ASSET MANAGEMENT

As per the *FMM, Part 32* the Department is required to adequately safeguard, record and properly identifies all fixed assets acquired during the year.

- No assets register (if any) was furnish for my verification.
- CIS asset management unit was dysfunctional. Consequently, in 2013, 194 assets totalling K1,931,640 and K5,269,624 in 2012 were purchased but not recorded in the assets register.

PROCUREMENT AND PAYMENT PROCEDURES

An audit examination of the 135 payment vouchers totalling K18,937,880 (ie, 95 in 2013 and 40 in 2012) were selected on a random sample basis and the following discrepancies were noted:-

- Specified relevant authorising officers' names and specimen signatures were not made available for audit purposes hence, audit could not ascertain if proper approvals were obtained prior to effecting procurement if goods/services and payments;
- In 50 payments vouchers totalling K1,613,793, the required three written quotations were not obtained prior to effecting procurements; and
- 74 payments totalling K3,132,286 were made to suppliers based on Pro-forma invoice or quotation instead of using the original company tax invoices.
- Receipts or reports were not attached to confirm delivery of goods and services in nine payments totalling K2,583,695;
- Consultancy/Contract agreement were not sighted to confirm four payment amounting to K304,562;
- Three unbudgeted payments totalling K594,495 were made for outstanding claims for prior years;
- Payments vouchers were not sighted for two payments totalling K879,200; and
- The Department did not maintain a quotation registers as required.

HUMAN RESOURCE AND PAYROLL MANAGEMENT

Training Plan

- No annual training plan and report was submitted to Secretary, Department of Personnel Management as required under *GO 5*.

Reconciliation of Payroll

The Department did not maintain its own ledgers pertaining to the expenditure on salaries and allowances but relied on the Department of Finance records. There was no reconciliation of the payroll performed by the Department during the 2013 and 2012 financial year.

Personal File

During my review of the maintenance of the personal files, I randomly selected a sample of 34 personal files which revealed the following anomalies:-

- Contract of Employment/Agreements were not sighted in Seven contract officers in their personnel files;
- Six officers had no Salary/Leave history cards attached in their personal files;
- 26 officers had Salary/Leave history cards that were not update or no records at all;
- Seven officers had no salary and wages declaration forms attached; and
- All 34 officers' personnel files were not folioed.

Recreational Leave Entitlement

The review of a randomly selected ten Officers who took Recreational Leaves totalling K142,024 in 2012 revealed the following anomalies:-

- No recreational leave information was sighted in two employees' personal files although the recreational leaves were taken;
- A total of K17,174 was paid to an officer, however, no birth certificate was sighted for all five dependents claimed;
- Six out of nine dependents claimed by two officers had no birth certificates sighted in their personal files, to substantiate the total amount of K28,345, that was paid; and
- An officer was receiving dependents' travel warrants in prior years without declaration until 2012. Those dependents were not properly declared prior to effecting payments for recreational leave fares.

TRUST ACCOUNT

CIS Head Office maintains and administers a trust account namely, "The Prison Industry Trust Account" and was established in 1998 as *GOPNG Correctional Service Prison Industries Trust Account*.

Expenditures contrary to trust instrument

91 payments totalling K258,150 and 32 payments totalling K298,638 were paid to various individuals and suppliers for purposes not related to the nature of the Prison Industries Trust Account in 2012 and 2013 respectively.

Bank Reconciliation

A review of the bank reconciliation statement for the month of November and December, 2013 and other related records relating to the Prison Industry trust account revealed the following anomalies:-

- Two cash Books were maintained for the PNG CS Prison Industry trust Account; PGAS Cash Book; and Manual Cash Book.
- The PGAS cash book disclosed a credit closing balance of K8,731 as at 20 December, 2013. The manual cash Book disclosed a credit closing balance of K352,731 as at 17 December, 2013. The bank account balance as per the statement was K180,423 at 31 December, 2013;
- The cashbook was not kept-up-to-dated. Receipts and bank fee charges for the months of November and December, 2013 were not posted in the (PGAS) cashbook, Consequently, not giving a true and fair financial status of the Trust account;
- Audit also noted that the Cheque History Listing Printout did not show a realistic status of payments made. Payments presented at the bank were listed as unrepresented as per the printout dated 25 April, 2014;
- There was no evidence to substantiate that the Department of CIS had been submitting copies of the monthly bank reconciliation statement to *Department of Finance* 14 days after close of each month, as stated in the *PFM Act*; and
- The bank reconciliation done monthly did not have necessary details such as, date of preparation, prepared by and checked by.

All the above observations were noted in AGO 2011 and 2012 audits and similar recommendations were highlighted and addressed to the Management of Correctional Services. However, no corrective actions were taken by management.

ADVANCE MANAGEMENT

The audit review of the advances accounts and records for year 2013 and 2012, revealed the following discrepancies:-

- A total of 1,127 advances with an aggregated sum of K1,968,644 and K4,046,614 were not recorded in the advance register in 2013 and 2012 respectively;
- 772 officers did not acquit their advances in 1,396 instances amounting to K1,293,579;
- The Advance Register did not contain a column for the acquittal dates. Therefore, audit was unable to determine whether the advance holders had acquitted their advances within the required time frame of seven days for domestic travels and 14 days for overseas travels;
- In 978 instances totalling K838,012 second and third advances were paid to 323 various officers despite not acquitting their first advances in 2013
- In 60 instances, travel advances totalling K1,123,344 were paid to the paymaster and not the advances holders in 2013.
- Advance acquitted in 36 instances totalling K86,164 were not reviewed by the financial delegate and no proper supporting documents were attached to substantiate the use of the advances.

DEVELOPMENT BUDGET

CIS had four Projects that were in operation under Public Investment Program (PIP) for the year 2012. One project (Rural Lock-ups) was fully funded by the Government of Papua New Guinea (GoPNG) in the year 2013.

All projects were administered by the Department of CIS- Head Quarters. The Facilities and Assets Management Unit (FAMU) of the Department was directly coordinating and facilitating the program, the implementation of the projects were carried out at respective sites.

Compliance to PIP Procedural Guidelines

The following discrepancies were noted relating to the requirements of the PIP procedural guidelines:-

- No annual work plan for all four projects was furnished for AGO audit review after AGO requests. I was not able to analyse the actual expenditures against the work plans to establish if the activity planned for were implemented;
- Cash flow statements for all four projects were not furnished;
- CIS did not have a Project Steering Committee in place as required; and
- Quarterly reports for the development budget was not prepared and submitted to Department of Finance, Accounting Frameworks and Standards Division as required.

It has become a trend that despite continuous requests for the accounting records pertaining to the project's Trusts accounts in the past years for audit, the Department had failed to provide these important source documents.

Procurement and Payment Procedures

Projects Funds Held in Trust Account

The project funds, through the warrant authorities were paid into their allocated votes under the development budget. The funds were then transferred out from the Main Account during the year and deposited into the projects Trust Accounts titled *Correctional Service Development Project GOPNG Fund Trust- AC#1000586954*. The Trust Account was not interfaced into the PNG Government Accounting System (PGAS). I was advised that the Trust Account had been operating manually since its establishment.

Overall, management did not comply with the statutory rules and guidelines in relation to managing Trust Accounts and pooling of funds from the main drawing account that was operating outside of the PGAS accounting system and funds were noted to be used by the management inconsistent with the Trust Instrument or guideline.

1. Boram Jail Relocation

A total amount of K1,485,774 was paid in 2012 to a contractor for the relocation of Boram Jail in Wewak, East Sepik Province. Although payments were made, there was no evidence sighted to substantiate that work was carried out. I further noted, that the contractor failed to deliver and abandoned executing the re-allocation fully after receiving the payments. Several correspondences and

follow-up letters were made to CSTB to terminate the contract but no response had been received from CSTB at the time of writing this report.

2. Moreguina Rural Lockup

The contractor completed only 90 percent of Moreguina rural lockup project in the Central Province and left despite receiving in full the contract value.

3. Redevelopment of Baisu Correctional Service

A total of K2,982,791 was paid to another contractor for the redevelopment of Baisu Correctional Service Stage 1A in Mt Hagen, Western Highlands Province. The completion date for the project lapsed on 30 April, 2013 and the project was in-complete.

An amount of K2,657,512 was paid to a supplier, however, no valid contract agreement was sighted on file.

PROJECT: – Rural Lock-Ups

According to the CS Trust Account Cash Book maintained by FAMU, the actual expenditure which was verified during audit and I confirmed K14,590,442.

The payment verifications were done on a randomly selected sample of 59 payment vouchers totalling K5,581,258, which revealed the following weaknesses:-

- In eight instances, I was not able to verify nor validate the propriety of the payments made totalling K1,760,878 due to the non-availability of the payment vouchers despite repeated requests;
- In 30 instances, payments totalling K1,208,143; the required three written quotations were not obtained prior to purchase of goods and services;
- In three instances, payments totalling K322,856 were bills incurred in prior year, however, these expenditure were unbudgeted for;
- 51 payment vouchers totalling K3,820,381 sighted were not examined and certified prior to making the payments;
- In 14 instances payments totalling K396,161 were made to suppliers based on Pro-forma Invoices/quotations rather than the original company tax invoices;
- All 51 payment vouchers totalling K3,820,381 did not indicate the Expenditure Votes the funds were used or charged to;
- 18 payments totalling K2,026,601 were made to suppliers without any supporting documents;
- 12 payments totalling K1,951,193 were paid to contractors without the Project Supervisors certified report on work status; and
- Ten payments totalling K1,338,715 were made to minor contractors without sighting the minor contract agreement.

DEPARTMENTAL RESPONSE

The findings were brought to the attention of the Commissioner in the management letter issued. However, the management did not respond accordingly.

CONCLUSION

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

Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

5. DEPARTMENT OF COMMERCE AND INDUSTRY 2013 - 2012

OVERVIEW

The Department of Commerce and Industry's (DCI) mission is to encourage the expansion of industry and commerce by promoting internal and external trade, generating employment and the active participation of nationals, establishing standards and monitoring performance.

The Department is expected to fulfill that mission in the context of the relevant sections of various Acts and through its exercise of the following functions:

- Formulate and administer appropriate legislation relating to weights, measures and standards;
- Provide services to ad-hoc Organisations and Committees relating to the functions of the Department; and
- Has responsibility for all matters concerning the development and growth of Secondary and Tertiary Industries.

The Department promotes and supports the following legislations:

Administration of Investment Promotion Authority Act, 1990, Industrial Centers Development Act 1990, Cooperative Societies Act, (Chapter 389), Customs Act, (Chapter 101) (Part V and Parts I and II of the Customs [Prohibited Imports] Regulations only), Free Trade Zone Act, 2000 and Business Groups Incorporation Act, (Chapter 144).

FINDINGS

CORPORATE GOVERNANCE

Corporate Plan and Annual Management Plan

- The Department had in place a Corporate Plan for 2013-2017, however, it was in draft form and was not sanctioned by the Secretary; and
- The Annual Plan for 2013 was completed, but was not endorsed by the Secretary at the time of audit in March, 2014.

REPORTING REQUIREMENT

- I sighted an unsigned Annual Report which highlighted activities of the Department of Commerce and Industry both in monetary and Non-Monetary terms. However, no evidence was sighted to prove that this report was actually being submitted on a timely basis to the Department of Personnel Management; and
- Non Compliance with PFM, Act and GO which requires Annual Financial Management Report and Annual Management Report to be prepared and submitted to Secretary Department of Finance and DPM respectively.

BUDGETARY AND FUNDS CONTROL

Recurrent Expenditure

A comparison of the Expenditure Summary report for the period ending 31 December, 2013 and 2012 from Department of Finance (IFMS 2222) and the Department of Commerce and Industry (PGAS) report revealed the following unexplained variances, *refer to Table below for details:-*

Comparison of IFMS 2222 and PGAS Balances

Particulars	Variance 2013	Variance 2012
Revised Appro.	61,591,400	120,744,800
Warrant Authority	(4,355,900)	17,790,020
Actual Expenditure	(5,393,999)	11,353,623

- The differences between the records of the Main Public Accounts maintained by the Department of Finance (IFMS) and that of the Department of Commerce and Industry (PGAS), revealed that no reconciliation was done on the two records, thus, reflecting a serious lack of monitoring and control of Cash Flow Management.

Comparison of IFMS figures against the Budget Appropriation for 2013

I noted that, IFMS 2222 showed expenses incurred under Program activity – *Department of Trade and Industry* (Program No: 11329) totalling K362,000. These expenses were not budgeted for under five Vote Items.

DRAWING BANK ACCOUNT

The Department had prepared all 12 monthly bank reconciliations for the financial year 2012 and in 2013 however:

- Three fraudulent cheques for K58,950 were stated in the bank account and not in Cash Book dating back to 2004.
- The amount of K7,621,600 under other items included fraudulent cheques, reprinting of cheques, cancelled cheques with unidentified and duplicate journal entries, variances caused by overstatements, reversal entries, double posting (Debits) and non-listing of cheques in cash book which dated back to year, 1996.
- Reimbursements from the main public account totalling K9,912,988 from September, 2012 to August, 2013 were not posted in the Cash Book.
- The stale cheques were not cleared, adjusted or written off for the years 2008 to 2012 totalling K435,153.
- Other Items (Credits) of K104,468 was made up of cancelled cheques and were without any journal entries raised to clear them in the Cash Book. There were cancelled cheques dated back to year 2010.

- No action was taken against other items (debits and credits), the same outstanding cheques were brought forward to the period ending 30 August, 2013.
- Management had failed in its responsibility to maintain proper books of accounts and records as required by the FMM.

ASSET MANAGEMENT

Asset Register

The Assets Register(s) were not kept-up-to-date and not maintained in accordance with statutory requirements;

- Assets purchased during the year, 2013 totalling K347,467 in 153 Items were not recorded in their respective registers;
- The totals of K11,996 and K111,071 respectively were the costs of laptops and computers, purchased during the year, however the 2012 purchases were not recorded in the assets register;
- The Assets Register was deficient and did not contain data such as: date of purchase, name of suppliers, cheque number, etc; and
- No stocktake was done during the year, 2013.

Motor Vehicles Fleet Register

The Department maintained a motor vehicle's fleets register. A total of 15 motor vehicles were owned and used by the Department in 2013. The following observations were noted:-

- Five motor vehicles were purchased in 2013 totalling K253,840. Only four vehicles were registered in the Motor Vehicle Fleet Register;
- A vehicle purchased at a cost of K137,160 was not recorded in the Motor Vehicle Fleet Register;
- The purchases of five motor vehicles were not budgeted for;
- 12 office vehicles were allocated to various officers of the Department to maintain for 24 hours basis with fuel provided by the Department. There was no indication that the directives from *DPM Circular instruction No:5 of 2013* dated 7 March, 2013 was adhered to by the *Department*. The following observations were noted:
 - There was no indication that vehicle inventory register was submitted to the Secretary for Department of Transport with list of names who were authorised to drive Government vehicles;
 - No indication that proper authorisation was sought from appropriate authorities for use of GREEN PERMIT for "unrestricted use" by Departmental Heads and Deputies who may be required to use Government vehicles 7 days a week at 24 hours;

- No indication that proper authorisation from authorities for issuance of RED PERMIT for “restricted use” to officers who are required by nature of their work to drive Government vehicles; and
 - A standard letter of authority and identification card signed by the Departmental Head was not sighted for officers who were required to drive Government vehicles outside of normal hours solely for work purposes.
- Seven vehicles did not have “Z” registration number plates at the time of audit in March, 2014;
 - Five vehicles had their glasses tinted contrary to Finance Instruction;
 - Log books were not maintained to control the use of each vehicle;
 - The Department did not maintain a service log book for motor vehicles scheduled maintenance and repair, service and registration; and
 - The Motor Vehicle Fleet Register was deficient of important data of vehicles such as; purchase date, name of supplier, purchase price of motor vehicle, quantity, physical location, etc.

PROCUREMENT AND PAYMENT PROCEDURES

A sample of 289 (ie, 158 in 2013 and 131 in 2012) payment vouchers totalling K26,840,876 were randomly selected and related accounts and records were reviewed, the following anomalies were revealed:-

- 134 payment vouchers totalling K26,840,876 were not made available for audit review;
- The required three written quotations were not obtained for 45 payments totalling K826,923 prior to purchase of goods and services as required by *Part 12* of the *FMM*. I was unable to ascertain whether due regard was adhered to economy or avoidance of wastage;
- 19 payments totalling K839,263 were for prior year’s outstanding bills. These payments were unbudgeted for and affected the cash flow operations of the Department;
- 84 payment vouchers totalling K2,363,960 were not examined and also not signed by the financial delegate prior to making payments;
- 73 payment vouchers totalling K2,193,852 were not certified by the certifying officer;
- 19 payments totalling K505,274 were made to suppliers based on proforma Invoices/quotations;
- 13 payments totalling K6,039,565 were charged to incorrect Votes;
- No quotations register was maintained in the 2013 financial year. This issue was raised in 2011 and 2012 audit reports;
- No formal letter of request from the Department to the *Department of Police* to engage Police officers for escort services was sighted, even an acceptance or acknowledgement letter from

the *Department of Police*, to substantiate the payments totally K150,000 for the police escort allowances;

- There was no indication that recipients/police officers had received their travel allowances;
- Five payments totalling K109,675 were made to suppliers without the supporting documents such as, invoices attached to the claims;

HUMAN RESOURCE AND PAYROLL

Management of Employees files

A randomly selection of 45 employees (26 in 2012 and 19 in 2013) and a review of the accounts and records including personal files, revealed the following anomalies:-

- Completed Tax declaration forms were not sighted in 11 personal files;
- All 45 personal files did not have the statement of earnings.
- Personal records relating to compassionate leaves and sick leaves were not updated in 15 files,
- File 15 files did not have salary history cards updated, consequently, three of these officers were paid higher duties allowances (HDA) for acting on positions which were more than two levels above their substantive positions; and
- HDA cards in the personal files were not updated in four instances. Approval for HDA payments were not sighted in 39 instances (ie, 26 in 2013 and 13 in 2012).

Contract Officers

I randomly selected 29 employees and I reviewed their personal files and noted the following anomalies:-

- Seven employees, contract of employment/documents were not sighted in their respective files; and
- Contract of Employment documents were not renewed for eleven employees.

Casuals

During the examination of the 2013 Staff Establishment Register, Budgetary Appropriation, Expenditure Transaction Details and other related accounts and records, I noted the following discrepancies:-

- The establishment register stated that a total of 54 casual employees were paid K813,059 as salaries and wages in 240 instances as at 31 December, 2013. However:-
 - No evidence of proper clearance was sought from the Department of Personnel Management prior to engagement of all 54 casuals;
 - Position numbers held against each casual employee prior to engagement was not sighted for all 54 casuals; and

- All 54 casual employees were paid cash fortnightly and not through the Government payroll system. No evidence that casuals were issued staff payroll numbers by the Secretary for the Department of Personnel Management.
- 18 payments of salaries and wages totalling K33,127 were paid to an officer via the paymaster in 2013;
- An Officer was paid K103,197 as furlough leave entitlements for the months of December, 2012 to September, 2013 and was re-called back in March, 2013. Whilst recalled back, the officer was paid a total of K33,127 as wages. This payment was viewed as double dipping and in breach of the GO;
- According to his pay slip for pay period ending 26 December, 2012, the officer was paid K59,004 as SDMA. His SDMA entitlement was K25,000 annually. No reasons were given for the overpayment of K34,004 SDMA that was paid to the officer;
- The same officer was paid K288 as DMA on pay period ending 26 December, 2012. Again no explanation was received from the management;
- Included in his furlough leave entitlement, a gratuity payment of K22,573 was paid and recently the officer was over paid by K7,900 in gratuity.

Special Domestic Market Allowances (SDMA)

A random sample of ten officers was selected for review of SDMA in 2012 and I noted the following discrepancies:-

- Six officers were paid SDMA. However, there were no authorisation documents in the files authorising the payments; and
- Three contract officers did not possess first degree academic qualifications (certificates) to receive SDMA as required in the GO.

TRUST ACCOUNT

Trust Accounts maintained by the Department included:-

- i) Regional Centre for Technology and Innovation (RCTI);
- ii) Co-operative Societies of PNG; and
- iii) PNG Trade and Investment Account.

The following records, reports and related documents were not furnished for audit:-

- Trust Instrument for each Trust Accounts;
- Specimen signatories to each Trust Accounts;
- Bank Reconciliation statements;
- Bank statements; and Cash Book.

The accounts and records were not made available for my audit perusals in the prior years. As a matter of concern, the Department of Commerce and Industry should seriously attend to these requests with urgency and provide the respective accounts and records for my future audits.

ADVANCE MANAGEMENT

I examined the advance records and I observed these discrepancies:-

- 338 advances totalling K1,019,963 and 32 totalling K107,208 were not recorded in the Advance Register for 2013 and 2012 respectively.
- 402 advances totalling K1,285,263 and 76 totalling K428,638 remained un-acquitted at 31 December, 2013 and 2012 respectively;
- The Advance Register did not capture acquittal date column, therefore, I was unable to determine whether the advance holders had acquitted their advances within the required timeframe of seven days for domestic travels and 14 days for overseas travels;
- 47 officers were given second or more advances totalling K498,007 whilst their first advances remained un-acquitted during the year 2013;
- 37 cash advances with a total of K202,047 in 2012 and 129 totalling K604,003 in 2013 were paid out through the paymaster and not direct to persons, this was contrary to *FMM, Part 20*.

DEVELOPMENT BUDGET – PIP

Two projects were funded by GOPNG through the Development Budget for 2013 was continued to be funded from 2012 as shown in the table below;

No:	Name of Project	Appropriation (K) 2013	Appropriation (K) 2012
1	Pacific Marine Industrial Zone	10,000,000	10,000,000
2	SME Access Risk Financing Facility	2,000,000	2,000,000
3	Simbu Limestone	-	2,000,000

Pacific Marine Industrial Zone

- According to the Development Budget Appropriation, K10,000,000 was allocated to Pacific Marine Industrial Zone (PMIZ).
- 177 payments totalling K11,939,718 were charged to the PMIZ project Vote and resulted in an over expenditure of K1,939,718 at 31 December, 2013.
- 36 payment vouchers totalling K10,507,536 were paid to service providers, individuals and PMIZ Trust Account at the close of Government Accounting period dated 13 December, 2013.
- Five payments totalling K10,305,478 were drawn out of the main Drawing account and paid into the Madang Marine Park Development Trust Account on the close of Governments accounts. Payment vouchers for these payments were not provided for my audit verification.
- 68 payments totalling K390,763 were paid to individuals and service providers for purposes not related to the PMIZ project;
- Bank reconciliations, cash book and other related records were not provided for audit verification;

- The Madang Marine Park Development Trust Account transactions were not processed through (PGAS) but, were done through manual cheque payments.

Simbu Limestone

- 65 payments totalling K2,000,000 were spent on Simbu Limestone Mine Feasibility Study. In my audit verifications, I observed that 46 payments aggregating K1,675,846 were not directly related to the project.

DEPARTMENTAL RESPONSE

These findings were brought to the attention of the Secretary in a Management Letter issued. However, at the time of preparing this report (*Part 2*), the management did not respond to the management letter.

CONCLUSION

The results of my audit indicate that overall, there were significant weaknesses in the control framework. The control activities such as delegations, authorisations, reconciliations, data and payroll processing and management monitoring were not sufficiently robust to prevent, detect, or correct error or fraud especially in relation to the management of Trust Accounts, PIP Accounts Advances and Procurement.

Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

6. DEPARTMENT OF DEFENCE 2013 - 2012

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 to fulfill that Mission in the context of the *Defence Act, 1974* and other relevant legislations and through the 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; and
- Provide services to standing or ad hoc organisations in relation to the functions of the Department.

FINDINGS

CORPORATE GOVERNANCE

Corporate Plan and Annual Plan

The Corporate Plan generally highlighted the Corporate Objectives of the Department for 2013 to 2015 and the strategies to meet these objectives. The Department also provided the Annual Expenditure Plan for 2013 to support the implementation of its Corporate Plan on an annual basis.

The Annual Plan highlighted the objectives, activities, strategies and goals for each Division in more detail. The Annual Expenditure Plan also included the budget for each activity and duration of activities.

Quarterly Budget Review – Fourth Quarter at 31 December, 2013

The Management did submit to my Office a copy of the *Department of Defence* Quarterly Budget Review Report (4th Quarter), giving details of all expenditure items for both re-current and development in monetary terms

Management Response

The management acknowledged my complementary remarks and promised to review the plans for their effectiveness within the Department.

BUDGETARY AND FUNDS CONTROL

Variances between the DoF and Defence records

The comparison of the Expenditure Summary statement generated by Department of Finance (IFMS) and the Expenditure Vote Summary of the PGAS system noted the following variances between statements balances for period 13 of 2013 and 2012 in regard to recurrent budget.

Details	Variance 2013	Variance 2012
Original Appropriation	(33,829,800)	0
Revised Appropriation	(19,166,263)	10,000,000
Warrant Authority	75,419,903	(10,800,000)
Actual Expenditure	32,769,833	(5,800,000)

The variances between the two Ledgers derived from the non-reconciliation of the two records during the respective years. This revealed a serious lack of monitoring and control on the Cash Flow Management.

Over Expenditure

IFMS 2365 report produced by the Department of Finance revealed an over expenditure of K3,134,000 arising from two Expenditure Vote Items in 2013 and in 2012 expenditure in excess of warrant authorities was noted in 14 items totalling K15,483,264.

Management Response

The management concurred with my observations

BANK RECONCILIATION – Drawing Account

All the bank reconciliations from January to December, 2013 were not independently checked and verified for its accuracy and completeness before submission to Department of Finance.

The following reconciling items were not cleared at 31 December, 2013:-

- cancelled cheques totalling K11,359,199 were not adjusted in the cash book;
- In 2011 manual cheques totalled K10,440;
- Credits in the bank account and not posted in the cash book totalled K157,592,641;
- Unpresented cheques amounted to K84,515,607; and
- The above reconciling items were not supported by supporting schedules to substantiate the amounts stated on the monthly bank reconciliation statement at 31 December, 2013.

Management Response

The management concurred and advised that the reconciliations have not been properly checked and verified for accuracy and completeness

ASSET MANAGEMENT

I noted the following observations in relation to the management of assets by the Department.

- The procurement function was not centralized for acquisition of all forms of assets (fixed assets and attractive and inventories/stores).
- No Assets Management Policy was in place;
- The Department maintained a database system namely the 'Capital Assets Management System' in the form of a 'User Booklet'". The system captured purchases at K10, 000 and above; and
- The booklet was not furnished for audit review; consequently, I was unable to confirm and assess the efficiency of the *Capital Assets Management System (CAMS)*.
- No Motor Vehicle Fleet register was maintained and kept to register the motor vehicles, plant machineries etc.
- Nine new vehicles acquired at a cost of K2,298,715 in 2013 and 15 vehicles costing K6,180,709 and two motorbikes costing K59,200 purchased in 2012 financial year were not verified to any form of record.
- No stocktake was done on all assets/properties of the Department during the 2013 financial year.
- Assets register was not maintained to record substantial amount of money spent on acquiring assets.

Management Response

The management acknowledged that it lacked a proper asset management system to account for various assets within the country.

PROCUREMENT AND PAYMENTS PROCEDURES

I reviewed of 37 paid vouchers totalling K3,334,932 in 2013 for procurement of goods and services and I noted the following weaknesses:-

- No quotations register was provided for audit review.
- Payment vouchers were not kept and maintained properly in eight instances, as a result, payment vouchers totalling K857,839 were not made available to audit.
- No cheque copies were attached to all 37 payment vouchers.
- 227 payments totalling K2,495,686 were incurred on the acquisitions of Stationeries, Office Equipment and Furniture. A sample of eight payments amounting to K584,230 for audit tests revealed the following discrepancies:-
- In two payment vouchers totalling K121,349 and K22,140;

- The required three written quotations were not obtained and attached to ten claims with a total cost of K1,883,748;
- A payment of K242,972 by Cheque No: 9233048 was effected on a pro-forma invoice instead of an original company tax invoices;
- Three payments totalling K154,740 were authorised by Section 32 Officers who exceeded delegation limits;
- No contractual agreement between the Department and the fuel suppliers was sighted during my audit; and
- Further, vehicle log Book was not made available, to validate the fuel usage during the year.

Management Response

The management concurred with my audit observation and promised to ensure that the recommendations were undertaken to mitigate the procurement and payment risks within the Department.

A sample of 42 payments totalling K3.6 million were selected from the 2012 expenditure transaction details and a review of the payment vouchers revealed the following irregularities:

- The Department did not have a Procurement Plan/Strategy for financial year;
- The Department procured stationeries from small and less reputable companies. The procurement of stationeries were made from five such companies at a total cost of K478,666;
- For various goods and services. Payments were made in installments when exceeding K300,000 and did not go through the normal APC or CSTB approval process;
- No log books were maintained for all the motor vehicles. Consequently, I was unable to confirm and verify the propriety of the fuel purchased and its usage with cost of fuel supplied amounting to K1.2 million and no contract was signed between the Department and the respective suppliers to supply fuel; and
- A sample of 14 payments for vehicle hires had no required three written quotations attached. This was in breach of the procurement and payments procedures and guidelines;
- Payments for vehicle hires were made on proforma invoices instead of tax invoice and the PTB approvals were not sighted for private hire; and
- Seven payment vouchers with a total cost of K962,403 were not made available for my review.

Management Response

The management concurred with my observations and informed that the procurement issue noted by audit was significant and attributed to the absence of a centralized purchased division/function within the Department of Defence. The respective division handled their own purchases and this has led to abuse, fraud and control breakdown within the Department.

HUMAN RESOURCE MANAGEMENT AND PAYROLL

- The Department of Defence did not have a training plan/policy and a staff development and training committee in place to make decisions for all Training needs.
- A report for the 2013 training expenditure was submitted to DPM. However, a total of K4,298,510 incurred on Training was not reported to DPM;-
- There was no staff performance appraisal done for all the staff members in 2013 financial year.
- Gratuity payments totalling K154,303 in six instances were made through PGAS and not through the Concept payroll as required by law; and
- Inaccurate calculations of gratuity for four officers resulted in over payments totalling K13,682;
- Documentary evidence for gratuity calculations for two contract officers totalling K11,913 were not located in their personal files;
- All officers' personal files did not contain salary/wages tax declarations; and
- 23 officers' files did not contain educational qualification certificates to validate their recruitment and employment with the Department.
- The storage location for the Personnel files was accessible by officers other than human resource officers.
- A total cost of K538,146 was paid on casuals during the year (2013) through PGAS for casuals on short term contracts instead of concept payroll system as required.
- Four payment vouchers totalling K179,581, were not approved by the supervisors before work commenced; and
- Furthermore, no proper and legal *Finance Form 83* ('Overtime and Shift Allowance Statement') were filled and attached; to payment vouchers in all four payments. Timesheets/Overtime Advise forms were not certified by the authorising officer for two payments totalling K85,748 and K51,513 respectively.

In my review of 15 payment vouchers for airfares totalling K308,756, I noted the following weaknesses:-

- No recreational leave forms were filled and attached for two payments made totalling K38,340;
- All recreational leaves were accrued beyond the required 15 working days for a completed year of service;
- Payments were not examined and certified by the responsible officers; and
- Further, other supporting documents were not attached to substantiate the legitimacy of dependents that were claimed. Supporting documents such as school concession letter, statutory declaration forms, Tax dependency declaration forms and birth certificates were not provided before the recreational leave benefits were granted.

Although recommendations were made in prior year's audit (2011 and 2012) reports, the issues relating to payments of recreational leave entitlements to officers due for leave remained unresolved.

Management Response

The management advised me that it would rectify the anomalies noted.

The following issues/control weaknesses were noted during the 2012 audit:-

- According to the Department, a payroll was certified to ensure that it was correct before processing at the Department of Finance, however, I was not provided any documentation to substantiate that statement;
- No work and time reports for the employees of the Department to track and keep account of each individual staff work performance;
- Recreational leave entitlements paid out during the year was K12.5 million which included unbudgeted outstanding entitlements totalling K1.6 million dated back to 1996; and
- A sample of 44 payments at a cost of K529,339 in regard to recreational leave, HDA, Gratuity and overtime payments revealed the following discrepancies;
- Supporting documents were not attached to substantiate the legitimacy of dependents that were claimed including payments not examined and certified for 16 recreational leave payments totalling K295,397;
 - Payment vouchers in 202 instances were not made available for audit and payments were not examined and certified by the accountable officers.
 - A sample of 14 payment vouchers totalling K97,187 in regards to HDA revealed an officer on grade 13.7 was paid at grade 17.1, which was well above two levels contrary to the *GO* of the *Public Service*, such actions reflects clearly the abuse of the systems for the *Public Service*.
 - In 13 payments related to HDA totalling K92,724 were not provided for audit; and
- Seven payment vouchers pertaining to gratuity payments totalling K55,126 were reviewed and it was noted that:-
 - Four payment vouchers totalling K40,704 paid through PGAS were not provided for audit verifications;
 - Three payment vouchers provided did not have the Employee Contracts attached. I was unable to verify the gratuity payments made to officers who were acting on contract positions; and
 - A payment did not have evidence of the calculations of the gratuity paid.
- Audit verifications of overtime was done on seven payment vouchers totalling K81,629 revealed that:-

- Five payment vouchers totalling K28,846 were not provided for my audit verification and tests; and
- In two payments the entire overtime advice sheet including the calculations made were not signed as prepared, checked and authorised for accuracy. Further, there was no justification for the overtime work done.

Management Response

The management concurred with my observation and recommendations

TRUST ACCOUNTS

My audit review of the accounts and records relating to Trust Accounts maintained by the Department revealed that:-

- The Department maintained two Trust Accounts (Defence Force Commercial Support and International Obligation Division) that were approved by the Department of Finance, however:-
 - The Trust Instruments were not provided for my audit verification;
 - Monthly bank reconciliations was only done up to September 2012 indicating that they were not compiled on a timely manner;
 - Monthly bank reconciliations were not signed and dated by the preparer and reviewer by senior accountable officers within the Department; and
 - Cheque Reconciliation Listing was kept up to December, 2011.

PAYMASTER'S IMPREST ACCOUNT 2013

I noted that the Imprest account was not managed according to the accounting concept of an Imprest advance (a holding balance).

The Management was using the Paymasters Imprest Account as a Withholding Account and made transfers of large sums of unused funds from the PGAS –Recurrent budget after the ‘close of account’ every year into the Imprest account to avoid depositing the unused fund back to the main CRF (which is a requirement by law under the *PFMA*). In 2013, the Department made 113 transfers totalling K46,430,525 into the Imprest Account; refer to summary in Table below:-

No	Date	No of Payments	Total Amount K
1	19/12/2013	3	101,734
2	21/12/2013	3	250,000
3	23/12/2013	3	131,364
4	24/12/2013	2	5,225
5	26/12/2013	32	438,515
6	27/12/2013	9	2,003,655
7	29/12/2013	27	40,186,244
8	30/12/2013	34	3,313,787
	Grand Total	113	46,430,525

I selected 20 payment vouchers for audit verifications; the following irregularities were noted:-

- A hand written support letter by the A/FAS (Finance) dated 26/12/2013 was used as the authority to make the transfers was attached to the payment vouchers. The same letter was photocopied 17 times and payments were then processed from it. A total of K40,612,638 was transferred in this manner;
- 14 payments (Transfers into PIA) totalling K37,960,768 were paid by Cheque No: 9233645, dated 29 December, 2013;
- Two other authorised transfers totalling K1,688,350 dated 27 December, 2013 and K955,520, dated 29 December, 2013 were paid by Cheque No: 9233641; and Cheque No: 9233649 respectively;
- The payment from the original letter was only K1,000,000, however, subsequent payments amounted to K41,612,638;
- The hand written minute authorised all unused funds for both Recurrent and PIP to be transferred to the PIA; and
- Similarly, two payments of K2,324,740 and K418,380 were effected from the same attachment.

During my review of the 2013 bank reconciliation; cash book, cheque book, and bank statement, I noted that:-

- The account was incorrectly used to process transfers and held unused funds at year end consequently, violated *Section 27* of the *PFM Act*;
- The account was also used to process expenditure refunds received from organisations;
- Monthly bank reconciliations for the Paymasters Imprest Account were not prepared;
- No cash book was maintained to record receipts and payments into the account for accountability purposes;
- The closing balance at 31 December, 2013 at the bank account was K13,320,817. However, I was not able to confirm the validity of this balance as no bank reconciliation was done; and
- Similarly, I was unable to ascertain the actual Imprest Amount (holding balance) for the Paymaster's Imprest Account as no documentation was provided for my review and verification.

Management Response

The management concurred with my findings and recommendations and advised that it took note of the very serious nature of non-compliance with the *PFM, Act* and its implications on the Department. However, it had undertaken remedial measures to mitigate the risks exposed. It also provided me an action plan which I will review in my future audits.

ADVANCE MANAGEMENT

My audit review of the Advances paid to officers during the year including the accounts and record pertaining to the management of advances revealed the following anomalies:-

- According to the ETD; 1,392 advances totalling K3,175,095 were issued to officers of the Department during 2013 financial year. Only 80 advances totalling K546,167 were registered
- The manual advance register was deficient, it did not capture other relevant data which were required by the *FMM* such as, cheque numbers and signature of recipients of advances, etc.;
- The advances issued during the months from January to May and December, 2013 were not recorded in the register while in 2012, advances paid from September to December 2012 were not recorded;
- Travelling advances totalling K1,913,547 were paid out from wrong expenditure vote items, 124,141,135, 136, 225 and 226;
- 73 registered advances totalling K514,927 remain un-acquitted as at 31 December, 2013 and as at December 2012, 178 advances totalling K482,124 remained outstanding;
- Contrary to the *FMM* requirements, 11 advances totalling K32,911 were paid to four officer's whilst their first advances remaining un-acquitted. This issue was also reported in 2012;
- 14 advances totalling K357,688 were paid out from the Paymaster's Imprest Account; and
- The Financial Delegate did not review the advance register as required by the *PFMM*.
- Prior year (2011) audit recommendations not implemented:-
 - All acquittals had not been reviewed and signed by an appropriate financial delegate to validate the authenticity of records submitted;
 - No separate cash and travel advances registers were maintained as recommended in the 2011 Audit Report; and
 - A total of 269 advances amounting K484,240 for 2011 remained outstanding as at time of the 2013 and 2012 audits.

Management Response

The management concurred and it advised me that necessary measures to ensure proper advance management within the Department were put in place to control and account for advances.

DEVELOPMENT BUDGET EXPENDITURE

The Department of Defence had five projects funded under the Development Budget of the Government of PNG. The projects are as follows;

<i>Program</i>	<i>Programs/Projects Description</i>	<i>2012 Appro. (K)000</i>	<i>2011 Appro. (K)000</i>	<i>Cumulative Total (K)000</i>
Project 1	Lombrum Naval Base Redevt Prog.	6,000	5,000	11,000
Project 2	Lombrum Naval Base Water and Treatment	0	2,000	2,000
Project 3	Maritime Surveillance	6,000	20,000	26,000
Project 4	Civic Act Prog Link-Baiyer Mad road	10,000	20,000	30,000
Project 5	Infrastructure and Capital works	5,000	0	5,000
	Total	27,000	47,000	74,000

The objectives of the Projects are to enhance maritime surveillance and border surveillance and protection to ensure PNG's sovereignty protection and defence and security of its national interests such as the Oil and LNG pipelines, PNG's rich fisheries and marine resources and its 200 nautical mile EEZ.

- I was not able to verify and confirm the validity of the funds spent on these projects and whether the monies and the projects were managed as required under the *PFM Act*, and other relevant legislations regarding spending of public funds, as no documentation/records were provided for my review;
- The Department made payments into the Paymaster's Imprest Account during the year under review totalling K32,494,224. It has been a practice by the Department to transfer project funds into this Account; and
- Majority of the payments made from the Paymaster Imprest Account during the year were done towards the Close of Accounts during the month of December, 2012.

Management Response

I was advised by management that Development Budget Expenditure was very important item for Management to carry out the plans and visions of the Government.

DEPARTMENTAL RESPONSE

The reported findings were brought to the attention of the Secretary through a management letter delivered on 13 February, 2013 and the management responded accordingly on 21 March, 2014.

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 continued to exist and indicate that the management had not taken any action to correct the deficiencies reported. However, I have been advised that remedial actions are now taking place.

7. DEPARTMENT OF EDUCATION 2013 - 2012

OVERVIEW

The *Department of Education's* broad mission is to prepare and develop a literate, educated and skilled person.

The mission of the Department as defined by the National Executive Council is:

- To facilitate and promote the integral development of every individual;
- To develop and encourage an education system which satisfies the requirements of Papua New Guinea and its people;
- To establish, preserve and improve standards of education throughout Papua New Guinea;
- To make the benefits of such education available as widely as possible to all the people; and
- To make education accessible to the poor and physically, mentally and socially handicapped as well as to those who are educationally disadvantaged.

FINDINGS

CORPORATE GOVERNANCE

Annual Report

Annual reports for the years 2013 and 2012 were in draft form at the time of audit in April 2014 and June, 2013 respectively.

Internal Audit Unit

The internal audit unit had its annual audit plan for 2013 and 2012 done including an annual report for the 2013 and 2012 financial year. The IAU annual report highlighted 46 audits that were programmed for the year. Only 19 audits were completed and reported for 2012, resulting in a shortfall of 23. The internal audit unit continues to have shortage of staff and it was also faced with logistic support, those constraints had been reported in previous years' audit reports.

Management Response

The Management concurred with my observations.

BUDGETARY AND FUNDS CONTROL

Variance in expenditure balances

The comparison of the Expenditure Summary for the Department of Finance (IFMS) against the report by Department of Education through PGAS system revealed the following variances, *shown below:-*

Comparison of IFMS and PGAS balances

Particular	Re-Current Budget		Development Budget	
	Variance 2013	Variance 2012	Variance 2013	Variance 2012
Revised Appropriation	3,425,800	(243,867,400)	(15,103,100)	0
Warrant Authority	3,417,800	(6,293,187)	(15,103,100)	0
Actual Expenditure.	80,298,017	48,988,133	53,657,754	0

The variances between the two Ledgers derived from the non-reconciliation of the two records during the respective years. This revealed a serious lack of monitoring and control on the Cash Flow Management.

Over Expenditure

As per TMS 90 for the year end 31 December, 2012, the Department had incurred expenditures more than the revised appropriation and warrant authority by K1,677,882 hence, resulting in over expenditure. Expenditure for wages was K186,090. There was no Appropriation and as such there should not be any expenditure charged to that Vote Item. This was a breach of the *Appropriation Act*.

Management Response

The Management accepted the findings that there are variances between respective Reports.

BANK RECONCILIATION

The Bank Reconciliation statement for month of 31 December, 2013 disclosed the following discrepancies:-

- Other items totalling K18,892,074 included various unidentified journal entries and missed out paid cheques. These included outstanding items dating as far back as 2004 and included 2005 to 2013;
 - Reimbursements totalling K54,211,700 for the months of January and February 2012, January to September 2013 and December 2013, were not cleared and posted in the cashbook;
 - Unpresented cheques totalling K80,974,400 includes 1,869 stale cheques totalling K9,841,026 dating back to 2009 were not cleared on the CRL and adjusted in the cash book;
 - other items totalling K3,760,632 included cancelled cheques not journalized dating as far back as 2003 and included 2004 to 2013. These items were not investigated, cleared and adjusted accordingly in the cashbook.
- The Department did not prepare and submit timely bank reconciliations as required to Department of Finance.

Management Response

The Management accepts the findings

ASSET MANAGEMENT

Asset Register

The review of the Assets Register and related accounts and records noted the following discrepancies:-

- The Register did not contain information relating to location and custodians and was not up dated regularly as required in the *FMM Part 32*;
- 111 Assets Items acquired during 2013 totalling K1,749,652 were unaccounted; also 15 assets acquired in 2012 and 2011 for a total of K1,350,553 were not recorded; and

Motor Vehicles

- six payments totalling K2,751,883 for 21 vehicles and three speed boats which were not captured in the Fleet Register in 2013; and
- The audit review of a report labeled “vehicle inspection report” revealed the following weaknesses:-
 - eight “Z” plated vehicles were tinted glasses regardless of the Circular from the Chief Secretary instructing government agencies not to tint vehicle glasses;
 - 65 departmental vehicles included vehicles donated to the Department after project’s completions; and
 - Log Books were not maintained.
- The cost of vehicle maintenance and services during 2013 was K1,135,857. The vehicle maintenance register sighted during my audit was not updated since 2010.
- Maintenance cost amounting to K198,026 for vehicles with private registration numbers were not identified as Departmental vehicles as no fleet register was maintained.

Management Response

The management concurred with my observations and advised me that in 2014 it expects to have an accurate record of assets on hand and an improved system for entries to the asset register.

PROCUREMENT AND PAYMENT PROCUDURES

Issues outstanding from the previous audit recommendation:-

- A Quotation Register was not maintained and kept as required by the *FMM* up to the time of audit in May, 2014;
- No internal policy on the procurement and payment of goods and services; and
- Proper custodian and safe-keeping of payment vouchers and other related accounting documents to be addressed by the Department soon.

The audit verification of payment vouchers and compliance with the legal requirements was done on 275 payments totalling K82,676,903 (113 for 2013 and 162 in 2012) revealed the following irregularities:-

- 126 payment vouchers totalling K2,964,530 were not made available for AGO audit scrutiny;
- The required, three written quotations for two payments with totalling K111,700 were not obtained prior to procuring goods/services as required by *FMM Part 12 Division 3*;
- Seven payments totalling K827,388 were made to suppliers or to payees without proper approval or endorsement from the management before funds were released as no documentary evidences were attached to the payment vouchers;
- CSTB approval on (APC) Authority to Pre Committee funds for expenditure over K500,000 were not sighted in three instances with a total cost of K5,382,374;
- A payment made for motor vehicles maintenance and repair totalling K101,276. However, included in that amount was a cost for the maintenance and repair of a single vehicle that costs K33,030. No Accident and/or Police Reports were not sighted to validate such a huge maintenance cost; and
- No contract agreement (if any) was signed between the contractors and the Department prior to engaging their services for three payments totalling K952,067;.
- During the year 2012, payment relating to purchase of fuel from a recognized supplier amounted to K112,005. However, a register to record, control and monitor fuel consumption by vehicles was not properly maintained.
- The Department did not have any policy in place relating to payment of fuel reimbursement. Payments were made based on fuel receipts produced by any officer in the Department.

Service and Maintenance of Vehicles

- Payments relating to services and maintenance of Departmental vehicles aggregated to K1,280,666 during the year 2012. The Department did not maintain a register or schedule to record and monitor vehicles that went in for regular service and maintenance.

Payments to Services Company

- The contract for security services between the Department of Education and a Security Company was for the period from 1 January, 2011 to 31 December, 2012. However, a payment for the month of January, 2013 for K18,414 was considered irregular, and outside the contract, it should not have been paid; and
- An over payment of K22,563 was made to the security company for the month of July to December, 2012 derived from incorrect hourly rates used other than the rates per the contract agreement .

Management Response

I was advised by management that it had improved its safe custody of payment vouchers and record maintenance in the 2012 year. I was informed that it had rectified the discrepancies noted.

TRUST ACCOUNTS

The review of the Trust Account Summary Report (PGAS) and other related accounts and records pertaining to the management of the Trust Accounts; revealed the following discrepancies:-

Tuition Free Fee Education Commodity Component Trust Account

The four payment cheques were drawn on the same date (24.12.2013) totalling K32 million. The payments made were contrary to the *FMM Part 13*, which states that contract officer (appointee) should satisfy himself that; work, goods and services were provided in accordance with the contract agreement schedule and timing before approval is granted for the next phrase of payment until the contract is completed.

The Trust Account summary report (PGAS) for 2012 obtained from the Department and the record from Finance Department and Bank records (bank statement), revealed that:-

Dormant and Overdrawn Trust Accounts

- Seven Trust Accounts had total closing balances of K272,706,048; the individual Trust Accounts have had their same closing balances (which had been reported) since 2009.
- Two of the Trust Accounts had a total overdrawn balance of K15,080,835 at 31 December, 2009; and
- The Department did not maintain a complete record of all Trust Accounts that it administered during the respective years. Twelve Trust Accounts with bank accounts that were not included in the Trust report produced and maintained by the Department.

Management Response

I was advised by management that it would liaise with Department of Finance to investigate and close dormant and non-operational trust accounts, and have them cleared from the PGAS system.

ADVANCE MANAGEMENT

The review of the Advances Register and related accounting records pertaining to the management of advances revealed the following discrepancies:-

- 57 advances with a total value of K1,408,235 were tested and I noted that: 22 advances with a total value of K1,053,352 in 2013 and K90,645 in 2012 were not registered in the Advances Register;
- Cash advance paid in the name of paymaster totalling K1,529,745 were not recorded in the advance register in 2012.
- According to the Advances Register, the un-acquitted advances at 31 December, 2013 was K599,698. The advances were not acquitted at the time of audit in May, 2014;

- Also according to the Advances register and regardless of un-acquitted advances the record disclosed that 73 officers received second and third advances despite having two or more outstanding advances under their names noted in both 2013 and 2012 financial years, and
- Acquittals sighted in ten instances were not properly acquitted with supporting documents to substantiate payments received.
- The Financial Delegate did not review the advances register as required to ensure that all advances were acquitted regularly. This issue was raised in my previous audit report and remained unresolved.

Management Response

The management advised me that it had taken remedial actions and had issued circulars by advising staff that further advances would not be provided while acquittals remain outstanding.

DEVELOPMENT EXPENDITURE

In 2013, three projects were selected at a total cost of K40,993,000 for details analysis against the work plan and quarterly budget review report.

	Project Title	Total Expended (K)
1	Secondary School Equipment	21,028,000
2	Inspector Housing and Transportation	9,971,000
3	TVET Sector Project	9,994,000
	Total	40,993,000

The following abnormalities were noted during the audit of 2013 financial years into the accounting documents and related records;

- In 18 instances, payment vouchers totalling K24,083,603 were not sighted by audit;
- The Department spent K7,359,142 on expenditures not related to the above projects;
- A total of K20,643,659 incurred on science kits for Grades 9 to 10 for various secondary schools, however, I was not able to confirm the delivery of this project; and
- A total of K9,106,509 was transferred to the TVET Impact Project Trust Account implementation of projects in 2014 due to late release of funds.

I verified four 2012 projects with a total expenditure of K55,953,800 against the work plan and quarterly budget review reports:-

	Project Title	Total Expended (K)
1	Education Infrastructure Development	29,805,700
2	Inspection Housing and Transportation	7,993,900
3	Establish Library for Every School	7,974,000
4	TVET Sector Projects	10,180,200
	Total	55,953,800

The following audit observations were made from the management of the above projects;

- Project completion reports were not submitted to the Project Manager for erecting and maintenance of houses valuing K4,995,000;
- In ten instances, advances out of project monies totalling K17,908 were not recorded on the advance register;
- Assets purchase during the year totalling K2,049,122 from the project vote were not recorded in the assets register maintained by the Department;
- A total of K5,111,284 from Establish a Library in Every School project was not spent as per the work plan;
- As per the TVET Sector Project, a total of K333,389 was paid for unrelated expenditure;
- All payments should be made as per the work plan so that the output can be achieved with in the minimum funding appropriated for the project. Similar observations were also made in 2011 as project funds were not used according to the work plan.
- In 85 instances, cash advances totalling K135,940 were un-acquitted;
- In 16 instances, cash advances of K55,493 were not recorded in the advance register; and
- Assets totalling K2,257,781 were not recorded in the Assets Register.

Management Response

The management concurred with my observations and had advised me that it had complied with PIP Procedural guidelines. I was promised that remedial actions would be taken for the anomalies noted.

DEPARTMENTAL RESPONSE

The above matters were brought to the attention of the Secretary through a management letter delivered on 19 December, 2013. Management responses were received on 30 June, 2014 and were incorporated accordingly.

CONCLUSION

Although the results of the 2013 and 2012 audits indicate that there were improvements in the operation of the internal controls compared to previous years, the overall result indicate that there were still significant weaknesses in the control framework.

The control activities, such as delegation authorisation, reconciliation, data processing, segregation of duties, and system access were not sufficiently robust to prevent, detect or correct error or fraud.

As advised by Management, I will review the remedial actions taken for the anomalies noted in my future audits of the Department to ensure that improvement have been made.

8. DEPARTMENT OF HEALTH 2013 - 2012

OVERVIEW

The Department's mission is to monitor the physical and mental well-being of people in their communities, and to promote and maintain community health at an acceptable level by planning and delivering preventative and curative medical and other health services.

The Department is expected to fulfill that mission in the context of the national health legislation and through its exercise of the following functions:

- Initiate, formulate and administer national health legislation and policies;
- Maintain and monitor standards of health services across the country;
- Provide pharmaceutical services;
- Provide mental health, radiotherapy and specialist medical services;
- Provide medical training; and
- Provide services to the Medical Board, Nursing Council, Fluoridation Committee and standing or adhoc organisations relating to the functions of the Department.

FINDINGS

CORPORATE GOVERNANCE

Corporate Plan/Annual Activity Plan

The Department has a National Health Plan for the years 2011 – 2020, a five year Corporate Plan (2009-2013) and a two year Corporate Plan (2013-2015). The Department complied with and met the *Public Service GO* requirements.

However, the Department did not prepare an annual activity work plan for 2012. The budget and Corporate Plan (2009-2013) and (2013-2015) to identify targets and indicators and to enable management to determine whether Departmental objectives would be met

Management Response

The management concurred with my observation and advised that all the reports were submitted to the Secretary and tabled at the Audit Committee Meetings.

REPORTING REQUIREMENTS 2013

Quarterly and Annual Financial Management Reports

- The Quarter 4 Budget Review for 2013 was in draft at the time of the audit in April 2014; and

- No Annual Financial Management Report was prepared for years 2013 and 2012 submitted to Department of Finance as required by the *PFM Act*.

Annual Management Report

- The Annual Management Report was still in draft at the time of audit in April 2014;

Management Response

I was informed by Management that the report has been submitted and approved by the National Executive Council on *NEC Decision No. 155/2014* dated 12 June, 2014.

BUDGETARY CONTROL

A comparison of the Statements of Expenditure Summary for Department of Finance against PGAS report for Department of Health for the year ending 31 December 2013 and 2012; revealed the following variances, *refer to Table below for details:-*

Comparison of IFMS and PGAS Ledger Balances		
Particular	Variance 2013	Variance 2012
Revised Appropriation	148,509,091	22,004,000
Warrant Authority	(34,677,391)	42,547,175
Actual Expenditure	(54,455,744)	56,646,859

The variances derived from the lack of reconciliations of the two statements produced by the IFMS and PGAS ledgers.

Differences were also noted under the development budget of K100,194,000 for actual expenditure as at 31 December, 2013 while in 2012, actual expenditure variance was K19,700,000.

Over Expenditure

- According to the DoF (IFMS); expenditure in excess of Warrant funds was incurred under seven vote items with an aggregated sum of K1,799,000 under the recurrent budget for 2013; and
- The Department of Finance (IFMS 2159) report for period 12, 2012 revealed also a total of K32,849,653 over-expenditure from 37 Expenditure Votes; and

Development Budget

The comparison of the Expenditure Summary generated by DoF (IFMS 2157) and the report by NDOH (PGAS) revealed a net variances of K113,067,000 (NDOH reporting more than DoF) between expenditure balances for period 12 of year 2012:-

- DOH overstated the Revised Appropriation by K26,700,000;
- Warrant authority records of the IFMS 2157 against PGAS had variances under four (4) expenditure Vote Items by K186,167,000, and

- Actual Expenditure between NDOH PGAS and IFMS 2157 had variances under four (4) expenditure Vote Items totalling K19,700,000.

The variances were as a result of non-reconciliation of the two records from Department of Finance and Health Department during the financial year, 2012.

Management Response

The management acknowledged my recommendations and advised that the variances in the Recurrent Budget were mainly caused by the non-reconciliation of the ledger accounts between NDOH (PGAS) and DoF (TMS/IFMS).

BANK RECONCILIATION

The National Department of Health operates a Drawing Account number 4311-6129 with Bank of Papua New Guinea.

Bank reconciliation statement for December 2013 and related accounts and records revealed that:-

- A total of K296,520,000 included overpayments, posting errors, unidentified variances, among others items dating back to year 2006 which were cleared from the statement;
- Significant un-reconciled items were noted in the Bank Reconciliation statements for 31 December, 2012 relate to, Other items (debits) of K19,944,710 included various journals for cancelled cheques, and unidentified variances dating back to 2006 and up to 2011. These were long outstanding items that were not investigated, identified and appropriately posted and cleared in the cash book.
- No monthly bank reconciliations was done in 2013 and 2012; and
- Monthly Bank reconciliations were not submitted to Department of Finance as required in the *FMM Part 3, para 4.7*.

Management Response

I was advised by management that it had written to DoF, however, no positive response was received.

ASSET MANAGEMENT

The audit review of the assets register and other related accounts and records revealed the following discrepancies:-

- The Asset Register was deficient and was not formatted in accordance with information required by the *FMM Part 32*; such as: data unit costs, estimate of economic life and corrective maintenance history were not captured. This issue was raised in 2012 and remained unresolved.
- 44 asset items valuing K6,021,865 were not registered in any form of record;

- Annual stocktake was not carried out for 2012 financial year;
- Motor Vehicle Fleet Register was deficient in that it did not capture the relevant data such as, cheque No/Reference No, disposal particulars (if any), purchase Price and custodian personnel/Division. This issue was raised in 2012 and remained unresolved;
- A total of 40 Motor Vehicles acquired at a cost of K2,509,280 and K1,100,000 for years 2013 and 2012 respectively were not registered in the Fleet Motor Vehicle register;
- Five vehicles valuing K520,000, were purchased from funds in incorrect expenditure Vote Items (126 and 135); and
- No Motor Vehicle Maintenance File or Schedule was kept for each vehicle to keep track on maintenance dates and cost amounting to K2,167,710 in 2013. This issue was also raised in 2012.

Management Response

The management agreed with my findings and advised that due to the decentralized nature of the procurement system in the Department, respective branches purchased their own assets; hence, vital asset information was not updated in the Asset Register. However, I was informed that it had reviewed the procurement process for assets in order to centralize it so there is better control and management of assets.

PROCUREMENT AND PAYMENT PROCEDURES – Recurrent Budget

I selected 74 payment vouchers totalling K56,094,418 (ie, 47 in 2013 and 27 in 2012) for audit verifications and the following discrepancies were noted:-

- The quotation register, invoice register and list of approved suppliers/vendors were not maintained by the Department.
- CSTB approval and Authority to Pre-Commit for two payments totalling K3,874,037, were not obtained prior to purchase as required under *Finance Instruction No.2/2013*;
- Seven payments totalling K7,027,324 had no receipts or reports attached to confirm if goods and services were provided to the Department,
- The Department made four payments totalling K6,745,269 based on pro-forma invoices;
- Two payments totalling K620,760; were for outstanding claims for previous years.
- In 2012, FF3 and FF4's were not authorised by the respective officers prior to purchases, and payments were effected based on pro-forma invoices instead of tax invoices.
- Contractual documents relating to five payments to medical suppliers totalling K4,488,158 were not attached to the payment vouchers;
- A payment of K2,144,347 made through electronic bank transfer through Bank of PNG did not have invoices or receiving report attached; and

- The payment voucher for a part payment of K1,792,295 was not made available for my sighting and vouching.

Management Response

The management agreed with my findings and advised that it had taken remedial action to rectify the anomalies noted.

HUMAN RESOURCES AND PAYROLL

Payroll reconciliation

Payroll reconciliation was not carried out in the financial year 2013 and 2012 including prior years. This issue was reported in my last audit in 2012 and remained unresolved by management.

Casual Paid Via PGAS (Kundu Pay)

I noted 433 payments in 2013 totalling K5,311,060 for casuals were paid via the Kundu Pay system. However, I was unable to ascertain (if any) the total number of casuals who were paid in each fortnight through the Kundu Pay.

There were disparities in total fortnightly amounts for example; Pay # 4 (K119,922); and Pay # 10 (K77,513) in 2013.

Senior Contract Officer - Extra Utility Allowances (Flex Card Credits)

Nine payments totalling K195,454 were made to two service providers were for flex cards. The payments were noted to be irregular:-

- No policy was in place by the Department to govern the payment of flex card and the distribution of flex cards to eligible officers;
- The flex card register only recorded to the value of K34,600 resulting in a total amount of K160,854 unaccounted for;
- 11 senior officers were recipients of the flex cards, however, the payroll records revealed that nine senior contract officers who were receiving telephone allowances as part of their salary package in 2013 were also receiving the benefit.
- Two senior contract officers were receiving telephone allowance in the form of flex cards when they were not eligible to. Their substantive salary grades were equivalent to contract category C and D in the public service.

Senior Contract Officer's Excessive Housing Allowances

In 20 payments totalling K437,667 in rental accommodations for four contract officers and the Department was meeting those costs, revealed that:-

- A lease agreement between National Development Bank Ltd and a senior officer was not submitted for audit review. A total of K130,000 was paid in 2013 by the Department as the senior officer's rental;

- The current contract of employment for the same officer was not in the personal file. I was unable to ascertain whether the officer was a genuine contract officer and was entitled to the housing allowances;
- The review of three employment contracts revealed that; these contracts signed were not drawn up in accordance with the *DPM Circular No.14/2011* dated 29 August, 2011 which clarified that contract officers in category “A” were entitled to K15,000 and Category “B” were entitled to K7,500 for accommodation respectively. It also highlighted that housing is not a condition in the *Public Service*.

An officer’s accommodation allowances of K67,600 as per his signed contract was an oversight by the Department;

- The rental accommodation for four senior officer’s were excessive in nature and in breach of the *GO No.9* resulting in a aggregate variance of K407,666 to be repaid to the State.
- The accommodation allowances was configured in the Concept Payroll for grades in the Public Service who were eligible for accommodation and should not be paid through PGAS DPM as it’s a leeway for abuse and malpractices.

Management Response

The management agreed with my findings and advised that remedial actions were taken to rectify the discrepancies noted

- In 2012, records and documents furnished for audit revealed that 134 personnel were overpaid with various allowances aggregating K2,609,129 in gross;
- Nine employees who had been terminated between 2007 and 2012 were still on the payroll and continued to receive salaries and allowances amounting to K113,321;
- A total of K1.4 million was paid as increment based on staff performance appraisals to 16 employees; In my review of their personal files I observed that there was no approval for such increments to the staff members who were paid on *Pay No.26*; and
- There was no Internal Control or Policy in place to control the operations of the payroll system. The password to the Alesco Payroll System was not changed frequently. As a result, the issue of security of the system in regard to the access and alteration of information in the system was high risk.

ADVANCE MANAGEMENT

The audit review of the Advances Register and other related accounts and records revealed the following discrepancies:-

- The Advance Register was deficient, it did not capture all vital data accordance with the *FMM* requirement such as: FF4 dated, designation of officer receiving advance, signature of recipient, and payment Cheque Nos. This issue was reported in 2011 and 2012 and remains unresolved.

- In 2013 advances paid amounted to K622,557. However, I was unable to ascertain and verify the Advances register the registration of the advances issued to officers as the register did not record all information required.
- 28 advances totalling K286,896 were paid via paymaster unrecorded which constitute 46% of all unrecorded advances in 2013.
- In 2012, advances totalling K552,331 were not recorded and remained outstanding as at 31 December, 2012.
- 378 advance with a total value of K639,030 were un-acquitted at 31 December 2013.
- 187 advances totalling K394,837 and 420 advances totalling K807,273 for 2013 and 2012 respectively were paid to officer who had their first advances unacquitted.
- The financial delegate did not review the advance register to ensure all advances were acquitted as required in the *FMM*.

Management Response

I was advised by management that it has amended the Register to conform to *FMM* requirements.

DEVELOPMENT BUDGET (PIP)

GRANTS 2013

The Department received K2,148,500 under Expenditure Vote Item 143 and K12,035,000 under Expenditure Vote Item 144 in 2013 Recurrent Budget.

I selected two grant recipients namely Susu Mamas Incorporated and St John's Ambulance and I examined the deeds of agreements and other related accounts and records and I observed the following anomalies:-

Susu Mamas Incorporated.

- Grant payments totalling K1,941,400 was paid to Susu Mamas Incorporated.
- Acquittals were not properly supported by copies of receipts, etc, to substantiate the grants used in the first and second quarter of 2013 totalling K970,700.
- The acquittal of K970,700 for the third and fourth quarter was not provided for audit verification purposes.
- Susu Mamas Incorporated did prepare and submit its Annual Report at 31 December, 2013 to Department of Health. However, audited financial statements were not made available for audit.
- According to the 2013 Recurrent Budget, St John's Ambulance was not allocated any funding in the financial year as per the budget book. However, the Department paid a total grant of K6,441,500 to St John's Ambulances for year 2013.

- The St John's Ambulance's budget was catered for under Expenditure Vote Item 144, therefore, the 2013 budget increase to K12 million due to K6 million belonging to St John's Ambulance in previously years, St John's Ambulance budget were presented separately.
- Acquittal Reports were submitted for the four quarters. I observed that the acquittal did not have proper supporting documentations such as fuel receipts, rental invoices and other invoices or ledger accounts or a full listing of how the public monies were spend during the quarters.
- No annual report was provided by St John's Ambulance on the K6,441,500 funding used in 2013.
- No Audited Financial Statement (if any) was made available for audit at the time of writing the report as required in the deed of agreement para 3.4.

Payment Vouchers

- I vouched nine payments totalling K8,382,900 and I noted the following anomalies;
- Two payments totalling K1,970,700 the payment vouchers were not made available for audit verifications;
- Four paymentstotallingK2,912,200 the Department facilitated the payments without the examiner's and certifying officer's approval;
- No financial returns/report was sighted to confirm five payments totalling K4,941,500 made to an Ambulance agency.

Management Response

In response to my findings the management advised that is was reviewing all the current MOUs with a view to addressing acquittals and reporting requirements in the new MOUs.

DEPARTMENTAL RESPONSE

The Department had responded to the findings reported in the management letter issued and their responses were incorporated accordingly in this Report (*Part 2*).

CONCLUSION

The results of audit and the number and magnitude of control weakness identified in the course of audit indicate and that, overall, there were significant and serious weaknesses in the control framework. The control activities such as delegations, authorisations, reconciliations, segregation of duties, system access and management oversight were not sufficiently robust to detect or correct errors of fraud.

Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

9. DEPARTMENT OF TRANSPORT 2013 - 2012

OVERVIEW

The Department's mission is to ensure the provision of transport infrastructure and services are economically efficient, well integrated, reasonably cheap, safe and able to meet effective demand, while ensuring appropriate level of equity in the provision of transport infrastructure and services, and acceptable local participation in infrastructure related industries.

Its mission is to manage financial resources in order that Government policies are implemented in the people's best interest.

The Department is expected to fulfill its mission through the following activities:

- Maintain and control all navigational aids pertaining to each mode of transport;
- Provide services to Marine Boards, Land Transport Board and other-ad-hoc committees relating to the functions of the Department;
- Administration of all legislation pertaining to land, air and sea transport; and
- Formulation and implementation of policies relating to the land and sea modes of transportation.

FINDINGS

CORPORATE GOVERNANCE

Minutes of TMT Meetings

Minutes of 2013 and 2012 meetings were not made available for audit review although requested. Two audits were done and one report was tabled at the Audit Committee Meeting on 09 April, 2014 however, these reports were not made available for my review.

Sick Leave Payments

During my review I noted in five instances that sick leave credits were paid to divisional/branch/sectional heads. This was biased and maybe seen as an abuse of official designated position for personal gains. Discriminatory practices are contrary to good corporate citizenship where management cohesiveness in driving the corporate plan and implementing the annual work plan to achieve the Departmental overall bench marks would impede and become less productive in its mission statement with minimal achievements as detailed below:

Instances where sick leave payments were restricted to divisional/branch or sectional heads, amounting to discriminatory practices.

	Description of Goods/Services	Cheque No.	Amount (K)
1	Pmt for s/leave crdts	50843	39,287
2	Pmt for s/leave credits	50967	28,929
3	Pmt for s/leave credits	50967	8,635
4	Pmt for s/l credits	50507	21,402
5	Pmt for s/l credits	50507	8,000
			106,253

Annual Audit Plan

The annual audit plan for 2013 was completed and presented to the Audit Committee. The Audit Plan captured the audits to be done and the direct audit hours.

Two internal audits reports produced included reviews of various *Acts* and *Regulations* and included recommendations and management should take note of.

REPORTING REQUIREMENTS

No Annual Report for the years ending 31 December, 2013 and 2012.

The fourth quarter budget review report for 2013 was not prepared at the time of audit in May 2014.

Management Response

I was informed by management that attempts were been made to produce one for 2012.

DRAWING BANK ACCOUNT 2013

All Monthly Bank Reconciliations for year 2013 were done up-to-date, however, reconciling items not cleared at 31 December, 2013 included

- Credits in the bank statements not in the cashbook was K2,408,491 and
- Unpresented cheques at 31 December, 2013 was K1,746,944;

Reconciling items not cleared at 31 December, 2012 included cheques amounting to K96,896.

BUDGETARY AND FUNDS CONTROL

Comparison of PGAS Expenditure Summary Vs IFMS 2222

A comparison of the PGAS Expenditure Vote Summary printout maintained by the Department of Transport and the Expenditure Report on IFMS 2222 produced by the Department of Finance revealed the following variances; *refer to the Table below for details:-*

Particulars	Variances 2013 (K)	Variances 2012 (K)
Revised Appropriation	100	(13,443,100)
Warrant Authority	(3,271,100)	2,292,000
Actual Expenditure	46,186,137	(1,243,000)

The variance between the two statements occurred as no reconciliations were performed on the two statements by the management respectively.

Expenditures in excess of Warrant Authorities in 2012

- Department of Transport recorded (PGAS), K475,200 as over expenditure, spending more than the warrant issued.

- The TMS 330 produced by the Department of Finance for the year ended 31 December, 2012, revealed that a total expenditure of K191,924 in the recurrent budget exceeded the Authorised fund allocation by Warrants under Vote Item 112;

Management Response

The management advised that attempts were made especially at end of year and differences were discussed with Treasury and Finance on the best possible way to resolve before actual close of accounts.

REVENUE MANAGEMENT

Monthly Revenue Summary for 2013 revealed that, the actual revenue collections of K8,094,600 exceeded the budgeted target of K1,400,400 by a total of K6,694,200. The revenue budget was unrealistic and under estimated.

I noted that the collection figures continued to be distorted as a result of the overlapping in banking of collections over time. This weakness in banking of collection was highlighted in AGO last audit of revenue and collections of public monies and since my 2005 audit. This issue had been reported earlier and remained unresolved.

Management Response

I was advised that this anomaly was rectified.

ASSET MANAGEMENT

- The Department did not maintain an Assets Register for years, 2013 and 2012.
- A total of 176 assets items acquired in 2013 totalling K1,149,277 were not registered in the assets register and remained unaccounted for at the time of audit in April 2014:-
- No annual stock take done in 2013 and 2012;
- The Department did not maintain any reports for sales or disposal of assets in 2013;
- The function for the procurement of asset was decentralized; where each Division/branch was responsible for acquiring its own fixed assets and consumable stores according to its own needs. There was no central screening function to ascertain whether the *Procurement Framework and Principles (Part 11 FMM)* were complied with.
- No Log books were maintained and kept by the custodians and users of the Department's vehicles.
- The Department did not have an "Asset Management Policy" to enhance the management of all fixed assets for the State in order to exercise prudence, improve and tighten controls on the planning, procurement, acquisition, maintenance/operational costs, board of survey and disposals, and write-offs of fixed and attractive assets.
- Computer equipment and accessories purchased amounting to K346,909 were not recorded in the assets register;

- 33 payments totalling K205,759 were made for Office equipment and Furniture's, however, official identification (if any) were not allotted;
- 67 payments totalling K346,909 made for computers and accessories were not recorded in the assets register;

Management Response

The Management concurred with my findings and advised that it had updated its Asset Register from 2009 to 2012 and look forward to completing the update of 2013. I noted that it had taken remedial actions to rectify the anomalies noted

PROCUREMENT AND PAYMENTS PROCEDURES

- The Department did not have a Procurement Plan or Procurement Policy in place to capture Five Fundamental Principles of the Procurement Framework and Principles for the government.
- The claim for the Secretary's new vehicle costing K143,574 was not certified correct prior to purchases ;
- The claim for the new vehicle costing K78,900 was not approved by the Department's Finance, Audit and Procurement Committee and was not certified by the Certifying Officer in the FF4 form;
- No document relating to the "*specimen signature of Financial Delegates*" for the Department in 2012 and 2013 financial year. Therefore, I was unable to ascertain the status of the financial delegates and their respective financial delegation limits.
- A sample of 562 payments vouchers totalling K2.6 million were selected on a random sample basis and the payment vouchers were reviewed to ascertain compliance with the *Procurement –Framework and Principles* when obtaining goods, works and/or services on behalf of the government through the Department of Transport revealed the following deficiencies:-
 - A quotations register was not maintained to register for both verbal and written quotations, Stationery Suppliers and Office Accessories
 - In 217 payments totalling K1,582,499 were paid to 11 different companies for the supply of stationeries and office accessories.

The Department procured stationeries from small and less reputable companies for such goods to avoid the normal procurement arrangement with the CSTB:-

- 76 payments with a total cost of K543,303 were excessive, unnecessary and extravagant; the stationeries were acquired from non-reputable companies.
- There was no transparency in the above successive procurement. No stock inventories or bin cards were maintained by the Department as a whole to record receipts, issuances and balances of stock.

- One less reputable company was paid a total cost of K1,094,944 in 2013 in 123 instances for stationeries and office equipment where two Minor contracts were done with the Department instead of CSTB. These actions were contrary to *Finance Circular No. 1/2013*. There was no APC approval from CSTB for purchases from that particular company.
- Payments were split to circumvent procurements procedures contrary to *Finance Instruction No. 2/2013*;
- In 14 payments totalling K17,536 were paid to the paymaster;
- In the absence of the progress reports and completion certificates (if any) for projects completed the authenticity and propriety of K3,588,291 paid was not ascertained; and
- Two overseas trips were taken by Minister, Ministerial staff and the Secretary and his staff totalling K141,177. There were no evidence of approval for those trips by NEC for Minister and ministerial staff and Chief Secretary for the Secretary and his staff.
- Five bills totalling K135,000 were paid in advances after the 10 December, 2012 close of Accounts; and
- 102 domestic and overseas advances amounting to K276,436 were issued to officers while the previous advances issued to them remained un-acquitted.

Motor Vehicles Service and Maintenance

- 175 payments totalling K415,513 for servicing and maintenance of motor vehicles. However, the Department did not have a schedule time table for the servicing and maintenance of its motor vehicle fleet in 2012.
- 157 payments totalling K315,209 made to six companies for supplying fuel for the Department's motor vehicle Fleet during the year. However, due to no fuel log books maintained for all the vehicles, audit was unable to ascertain whether the fuel purchased were for official use after hours and during business hours;

Management Response

The management took note of my observations.

TRUST ACCOUNTS/PIP PAYMENTS

Public Private Project (PPP)

Public Private Partnership's K6 million was paid to into the Trust Account under the PPP arrangement to facilitate the rehabilitation of Rural Airstrips in PNG. A withdrawal of K3,588,291 was made during the year 2013 and the closing balance was K2,411,709 at 08 January, 2014. However, no progress reports and completion certificates (if any) were issued by the National Airports Corporation to substantiate airstrips maintenance/upgrading and inspection.

Due to the non-availability of records, I was unable to ascertain the fund allocation for this Trust account.

The national government allocated K15.0 million in 2012 for this project, K3.2 million was spent during the year and the remaining K11.8 million at the close of accounts into the Navigational Trust Account to be used later. However, I was unable to ascertain the authority for the transfer of K11.8 million to the “Navigational Trust Account” which was a completely different project from the Public Private Project.

Verification of Payment vouchers

The review of K3.2 million for expenditures incurred under the Public Private Project, revealed the following discrepancies:-

Consultancy Services for Public Private Partnership (PPP)

Twenty four payments totalling K1,636,000 were made to consultants rendering Consultancy Services to the Department for the Public Private Partnership (PPP) during 2012;

- However, I was unable to ascertain from the payment vouchers, whether the Department had engaged the right technical people for the (PPP) project;
- No documentation relating to the Consultancy Profiles and Certificates of Compliance, IPA Registration numbers or tax file numbers were sighted or attached to the claims to validate the specialized and technical expertise of the consultants;
- In three instances, the total consultancy fees paid were in excess of 205,106 and 166 percent over and above (i.e. 105 and 166 percent more) then the required maximum limit of K270,000. I noted that such payments were extravagant and wastage of public monies and breached the conditions in NEC Decision No. 47/2011 Para 4 (c) and CSTB requirements;
- The consultants did not pay any tax on the consultancy fees they received from the Department;
- No certificates of completion for work done either on feasibility studies or project planning proposals etc., or reports attached to any of the claims to substantiate the claims and payments made;
- Management did not validate authenticated documentation of contract and COC from Internal Revenue Commission to quantify that one consultant was not using two different surnames;
- The director was the financial delegate, commitment clerk, authorising and certifying officer for the claims and payments made (more than 50% of the claims were treated as such during the year);
- No internal controls and internal checking system through segregation of duties was in place to enhanced proper accountability processes and compliance with the PFMA/FMM and NEC Decisions;

- From my physical verification of the presented cheques for December, 2012 the Drawing Account and the General PGAS Cash Book. I noted that payment cheques with amounts over K45,000 were cashed by consultants paid from the PPP funds; and
- Management was advised not to entertain such exploitive attitude and to safe guard the Department and the people it was serving by ensuring that all such payments were banked into the payees' accounts.

Other Payments

Five other payments totalling K387,801 were also paid out from the PPP funds; refer below for details:-

- Two motor vehicles valuing K307,751 were acquired for the project;
- The Director was paid K10,000 for entertainment allowance for travel to Brisbane. This was contrary to the Salaries and Remuneration Commission Determination (SRC) 2007 and updated on 1 June, 2011, which required that Departmental Head EX5 and Other Office Holder at EX5 should be paid only K5,200 per annum;
- Another officer was paid K10,000 for providing tender evaluation service; and
- An advance payment of K60,050 was made to Australia through the Bank of PNG.

Unavailability of Payment Vouchers

Five payments totalling K305,050 were not validated as payment vouchers were not provided for audit review.

Summary of Fund used under PPP – 2012

- According to records sighted, a total fund of K2,202,854 from the PP Project was used during 2012;
- The unused fund of K11,813,230 that was in the project account; was transferred into the Navigational Trust Account (Rehabilitation of balance of PPP project fund by Cheque No. 49106 dated 11 December, 2012) after the close of accounts (on 10 December, 2012) without the approval from the Secretary of Department of Treasury or Finance. There was no document to support or state the remaining balance; and
- An unaccounted and unverified amount of K983,917 was revealed during audit. Management did not provide evidence of how the money was used during the year 2012.

Management Response

I was informed that all payments were made in accordance with the terms and conditions applicable to each consultants engaged.

HUMAN RESOURCES AND PAYROLL MANAGEMENT

During my review of the Human Resource and Payroll Management, I noted the following issues/control weaknesses:-

- Fortnightly Payrolls were not certified by the Divisional Heads before submitting to Department of Finance for data input in the concept payroll; and
- In four instances sick leave credits totalling K16,675 were paid to officers of the Department. No medical reports were sighted to substantiate the claims that the officers concerned had acquired severe and bed ridden sicknesses to warrant the lump sum payments as such.
- A total of 96 casuals were engaged in 2012, 38 casuals were paid under Alesco pay-roll system, 58 paid under PGAS systems ;
- The casuals on the Alesco pay-roll system had employee numbers and their salaries were budgeted for and also their personal files were properly kept; and
- The 58 casuals who were paid through PGAS did not have proper personal files and employee numbers. Their basis of recruitment was not justified. These casuals were hired on the basis of a need for road inspectors.

Management Response

The management had responded accordingly to my findings.

ADVANCE MANAGEMENT

The only advance registers maintained by the Department were for the Travelling Allowances and Goods and Services (Accommodation, Vehicle Hire, Cash, etc).

- A follow up of prior years' audit recommendations revealed that the Department had not maintained separate registers for Salary and Cash Advances. Consequently, cash advances aggregating to K12,200 paid in 2012 were not reported and acquitted.
- In 308 instances, a total of K1,262,816 remained un-acquitted for the 2013 financial years;
- Second advances continues to be paid in 2013;
- Of 35 advances acquitted, 14 acquittals were not sighted and six had no proper acquittals in 2013; and
- Unrecorded advances aggregate to K431,862 in 117 instances.

I observed that the management made no attempt to recoup the outstanding salary and cash advances since 2010.

Management Response

The management took note of my findings and informed me that the DOT Audit Committee was appreciative and had acknowledged the Department's continuous effort in managing its outstanding Advances register.

DEPARTMENTAL RESPONSE

These issues were brought to the attention of the Secretary through the management letter, and they responded accordingly and I incorporate their responses in this Report (*Part 2*) respectively.

CONCLUSION

The results of my audit indicate that overall, there were significant weaknesses in the control framework. The control activities, such as delegations, authorisations, reconciliations, data processing, segregation of duties and system access were not sufficiently robust to prevent, detect or correct error or fraud.

Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

10. DEPARTMENT OF TREASURY 2013 - 2012

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 Department's 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

REPORTING REQUIREMENT

No Annual Management (Performance) Reports prepared for the prior years and the current year, 2013. No full report was submitted to the Department of Personnel Management as required by Law.

No quarterly and/or Annual Financial Management reports of the Department was provided, despite repeated reminders. Consequently, I was unable to ascertain whether, the Department had achieved its objectives for the 2013 financial year.

Management Response

The management concurred and advised that it had rectified the anomalies noted.

BUDGETARY AND FUNDS CONTROL

Variance in Expenditure Balances

A comparison of the IFMS Expenditure Vote Summary printout maintained by the Department of Treasury and the Expenditure Statement on IFMS 2222 produced by the Department of Finance for Period 12, revealed significant variances between the statement balances; *refer to Table below for detail:-*

Particulars	Variances(PGK) 2013	Variances(PGK) 2012
Revised Appropriation	-3,636,979	-12,200,321
Warrant Authority	-116	114,889,359
Actual Expenditure	-766,852,235	-7,706,735

Further, the expenditures statement (IFMS 2222) produced by the Department of Finance for the years ended 31 December, 2013 and 2012 stated expenditures in excess of warrant authorities issued under 11 Vote Items totalling K352,944 in the recurrent budget.

ASSET MANAGEMENT

Asset Register

My audit of the control and record keeping of the Department's fixed assets and inventory revealed the following weaknesses:-

- Still no centralised assets register maintained by the Department to record all assets purchased during the year and prior years (reported in 2012);
- The issue reported in 2012 audit, pertaining to divisions procuring their own assets and maintaining their own registers was not rectified during the year ended 31 December, 2013;
- No control codes or labels were attached to the asset items for identification purposes therefore, the locations custodianship and condition of the assets were not ascertained during my audit;
- No stocktake was done during the year (2013);
- Assets purchased totalled K256,700 and K164,229 in 2013 and 2012 respectively were not recorded in the assets register.
- Two vehicles purchased in 2013 totalling K185,966 were not recorded in the fleet register;
- The motor vehicle fleet register maintained did not have all vital information;
- 14 motor vehicles owned by the Department did not have Z- plates;

Management Response

I was informed by management that the registers were not up to date and attempts were made in 2011 to rectify the anomalies noted.

PROCUREMENT AND PAYMENT PROCEDURES

Security and Missing Payment Vouchers

- Payment vouchers were not properly kept and stored in a safe and secure storage location. Payment vouchers were left under officers' work stations instead; and
- Two payment vouchers with a total value of K1,993,373 were missing and not provided for my audit verification.

Procurement of Goods and Services

42 payment vouchers with a monetary value over K12.1 million were selected for audit verification to ascertain whether all applicable procedures for procurement and payments of goods and services had been complied with and I observed the following discrepancies:-

- Two companies were paid K47,319 for goods had no quotations and payments were effected on proforma invoices.
- Eight payments totalling K185,758 relating to fuel purchased, the required three written quotations were not attached; and no signed contractual agreements with the two fuel distributors and the Department.
- Another payment of K2,083,500 was paid for the use of five land cruisers between January and December, 2013; I noted the following anomalies relating to this payment:-
 - The required three written quotations were not attached to the payment voucher;
 - No approval was obtained from the Department of Finance for extensions of hire time and also no approval was sought from the Provincial Works Department;
 - No CSTB approval was sighted to commit Public funds over K500,000 and further, there was no contractual agreement between the hire car company and the Department; and
 - The payment was suspiciously made after the close of accounts (payment made on 24 December, 2013).
- The required three written quotations were not attached to the payment vouchers for seven payments totalling K1,846,700. The payments ranged from K12,500 to K1,221,000;
- Four payments totalling K537,100, were made on proforma invoices instead of the proper original tax invoices;
- Four payments totalling K589,900, did not have approvals from the Department of Finance to extend hire of vehicles used for over two weeks (14 days);
- No original supporting documents were attached to one payment voucher totalling K61,600 made to another car rental company; and
- No supporting documentation was attached to a claim made for outstanding payments worth over K1.2 million.
- A payment totalling K833,619 was made to a law firm. No approval was obtained from the Attorney-General to engage the law firm;
- Two payments totalling K2,833,555 were made to a law firm for K1,469,480 and K1,364,075 respectively, however, the Attorney-General's approval was dated October 24, 2010, for a case against the Department of Petroleum and Energy regarding land owner negotiation issues. The one page copy of approval had no specific time period of engagement; therefore, audit was unable to confirm whether the payments made in 2013 were genuine.
- The required three written quotations were not attached to all the three payment vouchers that were made available; and
- No contractual agreement was in place between the Department and the engineering company.

I reviewed 31 payment vouchers totalling K899,779 to ascertain whether there were sufficient and necessary controls existing over the procurement and payments for goods and services, revealed the following discrepancies:-

- The Department did not have a Procurement Plan or strategy;
- Payments made to service providers were made in installments to avoid the CSTB approval processes to acquire goods and services from the suppliers for the whole year;
 - Three payments made to two Stationery companies totalling K62,044 and K6,162 respectively, were based on pro-forma invoices. No evidence of goods received (no goods received notes or report was sighted);
 - One payment made for K15,089 was made on a pro-forma invoice and the required three quotations were not attached; and
 - No Certificate of Incorporation or tax file numbers attached to the payment vouchers of three stationery companies.
- Fuel cost totalling over K230,000 for the year was acquired from two companies. I was not able to verify and confirm whether fuel purchased were used only for official business of the Department;
- No signed contract/agreements between the Department and a company to supply fuel was made available or attached to the payment vouchers for audit verification; and
- Nine payments totalling K345,470 had no quotations attached. This was a breach of the procurement and payments guidelines.

Management Response

The management concurred with my findings and advised that it did not have a procurement plan.

HUMAN RESOURCE AND PAYROLL MANAGEMENT

During my audit of HRM for the 2012 financial year, the Department had funded staff ceiling of 200 employees. During the current (2013) audit, no action was taken by the Department on my audit recommendations for (2012) and prior years.

- At December, 2013, the Department had 153 staff on strength and 47 vacant funded positions. The issues highlighted in the prior years remained unresolved. Funded positions were vacant with no proper check and report done on how the fund allocations for the vacant positions were used during the financial period.
- Further, the expiry and renewal of contracts of employments for contract national officers were not effectively monitored. Officers continued to work without their contracts renewed (reported in 2012 audit report).

- A payment for K31,389, was made to officers in the Budget Division for overtime payment. No evidence of approval was sought from the supervisors or divisional head before the extra hours of work was performed.
- The 2012 payrolls and personal employment files were not provided for audit review;

Management Response

I was advised by management that the custodian of the storeroom where the files were kept was away and the room was inaccessible for the verification of the files.

TRUST ACCOUNTS

The review of the Trust Accounts in 2013, revealed that there were no *Trust Instruments* to facilitate payments made by the Department amounting to over K150 million. I was not able to ascertain the proprietary and the authenticity of these payments.

ADVANCE MANAGEMENT

A review of the advance registers maintained revealed the following discrepancies:

- 519 advances totalling K2,530,556 and 223 totalling K516,762 remained outstanding as at 31 December 2013 and 2012 respectively;
- Contrary to *PFMM* a total of 177 advances totalling K463,875 were paid to 60 officers as second advances whilst their first advances were outstanding in 2013;
- 17 cash advances amounting K158,012 were outstanding for the year 2012; and
- In three instances totalling K19,545 and 14 instances totalling K136,253 did not have the supporting documents attached to the acquittals forms in 2013 and 2012 respectively.

Management Response

The management concurred with my observations; however, it did not state the remedial actions to be taken.

DEVELOPMENT BUDGET

- The total expenditure incurred under the Development budget for 2013 was over expended by K3.376 million, *refer to Table for details:-*.

Development Budget Warrant issued Vs Actual Expenditure

Items	Description	WA (PGK)	Actual Expense(PGK)	Variances (K)
229100	Other Categories of Donor funded Project	0.00	1,688,000	- 1,688,000
21180	Micro Finance Expansion Project	1,500,000	3,188,000	- 1,688,000
	Total	1,500,000	4,876,000	-3,376,000

In 2012, a warrant of K1.5 million was issued under Microfinance Expansion Project and K1 million was expended. I was unable to verify how these funds were used as no accounts and record were provided for my inspection and audit.

Management Response

The management agreed to my findings and advised that it did not keep the records and documents to furnish for audit review.

DEPARTMENTAL RESPONSE

The reported findings were brought to the attention of the Secretary through a management letter delivered on 16 December, 2013 and the management responded accordingly on 20 May, 2014.

CONCLUSION

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

Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

11 DEPARTMENT OF POLICE 2013 - 2012

OVERVIEW

The Department's mission is to work in and with the Community in the preservation of peace and good order, the protection of life and prevention of crime, and the detection of offence.

The Department is expected to fulfill its mission in the context of the *Police Force Act, 1955* and other relevant legislation as follows:

- Assist in the development of policy and its implementation in planning *Police Force* development and the use of the *Police Force*;
- Provide investigatory, research, executive, administrative, financial management and other services to the *Police Force* in the discharge of its functions under *Constitutional Laws and Acts* of Parliament; and
- Provide services to standing or ad-hoc organisation relating to the functions of the Department.

FINDINGS

CORPORATE GOVERNANCE

- The Department did not provide a current Corporate Plan for my audit perusal. The Department was operating on the 2013 – 2014 RPNGC Bi-Annual Management Plan.
- In the Bi-Annual Management Plan, the Corporate Services Division was responsible for coordinating the Bi-Annual Management Plans; and
- No Performance Management Review was done during 2013 on the implementation of the Bi-Annual Management Plan.

REPORTING REQUIREMENTS

Quarterly and Annual Financial Management Reports

Quarterly Budget Review Reports were prepared and submitted to Budgets Division, Treasury Department.

The Annual Financial Management Report for year 2013 was not prepared and submitted to Department of Finance Accounting Frameworks and Standard contrary to *PFM Act*.

This issue had been reported in my prior years' audit reports with no remedial action to comply with statutory requirements.

Annual Management Reports

The Department of Police did not prepare an Annual Management (Performance) Report as required in the GO 8.12 for submission to Department of Personnel Management for the years ended 31 December, 2013 and 2012.

BUDGETARY CONTROLS

The comparison of the Expenditure Vote Summary (PGAS) and the Department of Finance's IFMS 2365 Report revealed that; the two records were not reconciled. There were variances noted on the statements balances for the year ending 31 December 2013; refer to Table below for details:-

Particulars	TMS100 (K)	PGAS (K)	Variance (K)
Revised Appropriation	353,451,000	364,229,000	-10,778,800
Warrant Authority	353,451,200	363,474,800	-10,023,600
Actual Expenditure	338,915,000	205,648,093	133,266,908

The variances resulted from the non-reconciliation of the two records.

Analysis of Actual Expenditure

In 2012, the PGAS reported expenditure total was more than the TMS by K192,805,469. The differences derived from the non-reconciliation of monthly TMS expenditure and the Departments PGAS expenditure reports.

My examination of TMS 90 for 2012 revealed; over expenditures under eight (8) Vote Items totalling K17,015,611; which derived from the non-reconciliations of fortnightly pays on the payroll for Item 111.

DRAWING ACCOUNT

All monthly bank reconciliations for January to December, 2013 were compiled and were submitted to Department of Finance as required. However, the December 2013 bank reconciliation revealed the following significant unreconciled items:-

- Other items was K20,642 not journalized and posted to the cash book ledgers; and
- Unpresented cheques were stated as K39,799,086. I was not able to ascertain the stale cheques total at 31 December, 2013 as the full Cheque Reconciliation Listing was not furnished for audit verification.

The December, 2012 bank reconciliation did not have the following significant reconciling items cleared at 31 December, 2012:

- Credits in the bank statement not in the cashbook totalled to K135,901,507;
- Other items amounted to K414,456;
- Included in the above unpresented cheques were stale cheques backdated to 2007 totalling K1,729,466;
- Stale cheques were not debited but credited again in the Cash Book; and

- The fund transfers to the Drawing Account from July to December totalling K42,528,259 were not posted in the Cash Book.

ASSET MANAGEMENT

The review of the internal controls systems on the management of assets revealed the following weaknesses:-

- No centralized assets register was maintained in 2013 and 2012; each branch and/or division procured its own assets and kept separate assets registers, and
- I was not able to ascertain whether all assets purchased in 2013 were recorded and were controlled by the Department.
- The Department did not maintain a proper Motor Vehicle Fleet register. I was unable to confirm whether the 25 vehicles acquired including any other funded/donated vehicles (given to the Department) in 2013 were all registered. Vehicles purchased totalling K36,541 in 2012 were also not recorded.
- Log books were not maintained and were not provided for our audit verifications;
- The Department does not maintain time schedule for maintenance and services of its Motor Vehicles.
- The Department had a total of eight Boats. I was not able to ascertain the date of acquisition, the costs of each boat, locations etc; due to the absence of a proper register for the boats as required in the *FMM*.
- No stocktake was carried out on the Departments assets (building, land, vehicles, office equipment and furniture/fitting, uniforms, guns/ammunition etc.) during the years ended 31 December, 2013 and 2012.

A review of assets registers for four Divisions maintained by the Department revealed the following discrepancies;

Transport and Vehicles Division

- The motor vehicles register for the Police Head Quarter and National Capital District respectively were not kept-up-to-date and no stocktake were done for year 2012;
- From a selected sample of ten motor vehicles totalling K1,424,949, eight vehicles totalling K1,169,245 were not recorded in the register; and

Land and Buildings Division

According to the PGAS records 121 payments with a total of K29,554,955 was spent on Infrastructure in Port Moresby and other centres during 2012. No Assets Register was maintained for Land and Buildings contrary to *PFMA Act*, and *FMM Part 32*.

Finance and Administration Division

- The Asset Register for this Division was not properly maintained and remained incomplete;
- No annual stock take of fixed assets was conducted to ascertain the availability, condition, location and value of the assets as at 31 December, 2012;
- Further, no Board of Survey Report (BOS) was sighted to determine whether the assets disposed were consistent with the recommendation of the Board of Survey (if any) pertaining to the manner and methods of disposal; and

PROCUREMENT AND PAYMENT PROCEDURES

The payment vouchers selected with a total cost of K48,133,543 for 2013 and K43,724,751 for 2012 for my review to ascertain the level of compliance with statutory and legal requirements pertaining to procurement and payment procedures revealed the following discrepancies:-

- 209 payments vouchers totalling K33,134,142 were not furnished for audit review;
- Five payments totalling K444,462 were not examined, and five payment totalling K229,505 were not certified prior to effecting payments;
- The required three written quotations were not obtained prior to the purchase of goods and services for 141 transactions with a total cost of K14,450,191, furthermore a quotations register was not maintained;
- In 67 instances totalling K8,854,519 contract agreements between the service providers and the Department were not cited;
- 46 payments totalling K6,000,710 were made without proof that the suppliers were registered companies with IPA of PNG;
- A payment of K120,000 made to a consultant was based on an unsigned consultancy agreement;
- Two payments totalling K495,000, to a tailoring firm for uniforms were effected without the original invoices; and
- In four instances totalling K34,106, I did not sight delivery dockets to confirm that the Department had actually received the goods and services from the suppliers;
- 28 payments totalling K7,210,855 were made without consent of Authority to Pre-Commit as required by the *Finance Instruction 1/2008*, as well as no CSTB approval prior to committing and paying for such expenditure;
- In 13 instances payments for vehicle hire totalling K3,094,600 did not have CSTB approval;
- In 37 instances totalling K6,657,388, there were no tax invoices, company reg. no., tax file no., and minor works contract;

HUMAN RESOURCE AND PAYROLL

- The review of the Staff Establishment Register for the Department in 2013 revealed that the positions were fully funded during the 2013 financial year. However, not all positions were occupied. A total of 2092 fully funded vacant positions included uniform and non-uniform personnel:-
 - There was no report provided by management on the accountability of how the funds for those vacant positions were used during the financial period.
- There was no evidence of the payroll being reconciled and approved by the human resource manager to ensure its accuracy prior to processing of pays for the year, 2012. Consequently, the inability to properly reconcile and verify the salary input prior to processing of pays resulted in over expenditure of K13,808,564. I noted that there was no internal control exercised over salary inputs and outputs; and
- In 16 instances, I noted that payments totalling K48,945 were made for overage and dependents not declared and were paid for by the Department contrary to the *Public Service General Orders* where dependents over 18 years were not eligible for airfares.

TRUST ACCOUNTS/PIP PAYMENTS

Of the Seven Trust Accounts that were maintained by the Department of Police for various specific purposes. Only the 2013 Police Operations Trust Account was made available.

Police Operations Trust Account

- Bank reconciliations provided for 31 December 2013, were not authenticated by an accountable officer;
- No quarterly or annual financial management report was submitted for audit; and
- Cheques were printed off-line from PGAS as receipts and payments were not posted in the PGAS system, such actions were contrary to *paragraph 5(a) of the Trust Instrument*.

During a review of the six active Trust Accounts and the quarterly reports compiled for 2012, I noted the following observations:-

- No records were furnished for audit in respect of four Trust Accounts which were the Police Communications Infrastructure Trust Account, Police Messing Trust Account, Police Band Trust Account and Police Air Wing Trust Account;
- A K22 million was used by Politicians in areas identified by them to develop Police Station and Police Barracks. In this regard no proper procurement procedures were followed;
- The Police Communications Infrastructure Trust Account Reconciliation for December 2012 was not up to date;
- Further, I noted that there were no *Trust Instrument* in the operation of the Police Band Trust Account; and

- There was no Trust Account Reconciliation for Police Air Wing during the year, 2012.

ADVANCE MANAGEMENT

- 583 advances totalling K1,872,168 paid from July to December, 2013 were not recorded in the advance register.
- 28 advances totalling K61,590 were un-acquitted; and
- All 12 acquitted advances totalling K46,005, no itinerary and boarding passes were attached to validate that duty travels taken by officers and advances were not acquitted within the required timeframe as stipulated in the *FMM*. This issue was raised in 2012 and still remain unresolved.
- The advances paid through the paymaster during the year 2012 was K4,011,160. That was not a good practice as the paymaster was intended for paying of wages only;
- According to the 2012 Paymaster Election Acquittals Summary Sheet in four instances totalling K394,500, officers did not acquit;
- Further, in the review of 20 % of the NATEL allowances and advances, I noted that in six instances, the Paymaster Election Acquittals failed to acquit K745,060 contrary to *Part 20* of the *PFM Act*; and
- *Part 17*, and especially *paragraph 12.1* of *PFM Act* and the *Financial Instructions* state that '*no advance is to be made for accommodation costs*'. I noted that the Department failed to comply with the *PFM Act*, by granting advances for accommodation to staff members whilst on duty travel.
- The advance management system revealed that, there was K19,054,050 for 1413 advances remained un-acquitted at the time of audit in 2013.

JOURNAL ENTRIES

The following observations were made in relation to the journal entries.

- Journal Entries were raised without the pre-requisite approval of the authorised senior officer in charge of accounts; even though were certified. There were instances where the journal entries were not verified by an authorised officer;
- Cancelled cheques were not attached with the relevant journal entries to enable the validity and propriety of the transactions; and
- Cheques were cancelled as a result of incorrect payee names. This reflected weaknesses in the internal control system as claims were not properly verified and paid to the correct payees.
- All these above issues were raised in 2012 and still remain unresolved.

REVENUE COLLECTION

In the review of the accounting records relating to collections, and safe custody of public monies, I noted the following anomalies:-

- Department of Police's main Finance Division at Konedobu did not control and co-ordinate all revenues collected from all Police's Cash Offices throughout the country.

I was informed that, since there was lack of capacity and coupled by remoteness of each cash collection points and locations, reporting of accurate revenue figures continued to be a problem.

PIP/DEVELOPMENT BUDGET

The Department of Police had a Police Housing Program funded through the Public Investment Program (PIP) since 2012 with an appropriation of K22 million and continued into 2013 with a budget of K10 million. The purpose of the project was to rehabilitate existing police houses by 2015 and to upgrade 5X divisional commanders' accommodation nationwide. Police houses were upgraded in Port Moresby, Madang, Mt Hagen, and Rabaul.

- Total budget appropriation was K10 million and actual expenditure incurred for the year was K10 million.
- 12 payments totalling K139,666,288 were not related to the Housing Project.
- 36 payment vouchers for a total of K7,333,977 were not provided for audit, therefore, I was unable to ascertain the authenticity and propriety of the payments made;
- Eight payments totalling K2,593,354, were not examined and certified before effecting payments;
- Section 32 Officers authorised procurements and commitments of funds were above their gazetted delegated financial limits in three instances totalling K360,378;
- In 40 instances totalling K10,164,111, contract agreements between the suppliers and the Department were not sighted; and
- Nine companies that were paid a total of K4,088,495, were not registered with Investment Promotion Authority of PNG.

DEPARTMENTAL RESPONSE

At the time of preparing this report (*Part 2*), the Department did not respond to the audit findings reported in the management letter issued.

CONCLUSION

The results of AGO audit indicate that overall, there were significant weaknesses in the control framework. The control activities such as delegations, authorisations, reconciliations, segregation of duties, data

processing, records keeping, management and monitoring were not sufficiently robust to prevent detect or correct errors or fraud.

Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

12. DEPARTMENT OF PRIME MINISTER AND NAT. EXE. COUNCIL 2013 - 2012

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's Missions and Program Specifications are formulated and implemented. The major programs within the Department are:-

- Provision of administrative and support services to Ministers of the State;
- The provision of services in support of the Department's substantive programs including policy analysis and planning, provision of secretariat services to the Prime Minister, legal advice to the government and co-ordination and monitoring the implementation of government policies;
- Production of General National Gazettes, Special Gazettes, Public Service Gazettes, Documents and Accountable Forms for various Government Agencies; and
- Management of domestic and foreign intelligence collection and dissemination of intelligence as well as measures to provide security in the country's interest.

FINDINGS

CORPORATE GOVERNANCE

Corporate Plan and Annual Plan

The Department has a Corporate Plan for the year 2011-2015 and the Annual Plan for 2013 and 2012 indicating compliance with requirements in the *GO*.

The Annual Plan prepared highlighted the objectives, activities, strategies and goals for each Divisions/office of the *Department of PM and NEC*. The Annual Plan also included the budget for each activities and duration of activities.

Annual Management Reports

The Department had prepared annual reports for years 2011, 2012 and in 2013. However, these reports were not submitted on a timely basis as required by *PFM Act*.

Quarterly Budget Review Reports and Annual Financial Management Reports

Part II Section 5 of the *PFM Act*, requires the Departmental Heads to submit 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.

- Quarterly reports were prepared and submitted to Department of Treasury as required for years 2013 and 2012. However, I noted that the Quarterly Review Reports for 2013 were not signed by the Chief Secretary;

- I also noted that according to the Quarterly Budget Review Reports, there was no report on payments/expenditure for projects funded under Development Budget in 2013; and
- Annual Financial Management Report for 2012 and 2013 were prepared and submitted to Department of Finance as required.

Management Response

The management concurred with my observations and advised that there were staff shortages in the Corporate Planning and Management Unit.

BUDGETARY CONTROL

Variance in Expenditure Balances from IFMS and PGAS records

The comparison of the Expenditure Vote Summary print out produced by the *Department of PM and NEC* against the Expenditure Statement produced by the Department of Finance (IFMS) indicated the following variances in the budget and expenditure balances for years ending 31 December, 2013 and 2012.

Particulars	Variance 2013	Variance 2012
Revised Appropriations	1,990,000	(10,557,424)
Warrant Issued	39,585,158	27,535,900
Actual Expenditure	4,717,247	31,090,622

The variances in expenditure balances noted in the above table have been a continuous audit finding every year. This problem needs to be resolved through a proper reconciliation of the expenditure balances as the figures per the IFMS Reports are those that are reported in the Public Accounts of PNG.

Expenditures could be over or understated which would not represent a true financial position of the Government of Papua New Guinea.

Management Response

The management concurred with my findings and advised that the IFMS records were not correct

BANK RECONCILIATION

The *Department of Prime Minister and N.E.C.* operates a drawing account no: 4311-6139 with the Bank of Papua New Guinea. However, monthly bank reconciliations up to 31 December, 2013 and in 2012 only December were prepared and forwarded to Department of Finance as required:

Management Response

The management acknowledged my findings as correct.

ASSET MANAGEMENT

Follow Up from Previous Audit Findings

The Department has shown improvement on the maintenance of Assets Register by including more columns as recommended in the previous audit reports such as preventive and maintenance requirements and disposal date and the method of disposal,

Asset Register

- The Assets Register for 2013 was maintained in electronic (softcopy) format. However, the Assets register maintained was in complete as;
 - majority of all Assets had no serial or internal code numbers on them;
 - unit costs and total costs were not stated including the custodian of assets;
 - The status and/or conditions of all Assets were not recorded in the register; and
- 90 assets purchased in 2013 with a total value K907,437 and 75 assets acquired in 2012 valuing K3,288,906 were not registered in the Assets Register maintained.

Motor Vehicles

- The motor vehicle register was not up dated regularly, therefore nine vehicles purchased in 2013 totalling K 844,821 were not registered in the Motor Vehicle Fleet register.
- The motor vehicle fleet did not contain the relevant particulars such as reference No; engine/model numbers; and disposal particulars (if any);
- The motor vehicle maintenance files were not maintained and kept for each vehicle to monitor the annual maintenance cost incurred on each vehicle;
- 13 vehicles had private registration number plates; and
- Five vehicles at a total cost of K319,900 were bought for the royal visit in year 2012. Those vehicles were reported to have been transferred to other government Departments and individuals. No legal directives or financial instruments was made available for AGO audit to validate the transfers of those vehicles or disposals to individuals.

Management Response

The management acknowledged my observations as correct and fair

PROCUREMENT AND PAYMENT PROCEDURES

For compliance with the procurement and payment procedures, I requested for 71 payment vouchers with an aggregating sum of K48,293,609 for audit review. The payment vouchers ranged from K50,000 to K20,000,000 which required three Written Quotations, Major and Minor Contract Agreements and Central Supply Tenders Board Approval:-

- The Department of PM and NEC did not maintain any manual Quotation Register to record the quotations obtain from suppliers. The Department maintained a computerized Quotation Register which was not furnished for audit review when I requested for it.
- The review of the 62 payment vouchers totalling K44,881,944 and their related accounts and

records revealed the following weaknesses:-

- Nine payment vouchers totalling K3,411,665 were not made available for review despite written request for them.
- A payment of K20,000,000 was paid from Department of PM and NEC's recurrent vote to fund the Government of Solomon Islands, however, no appropriation was made under the Recurrent Budget in the 2013 financial year for such expenditure; and the *FMM Part 7 – Budget and Expenditure Control* broadly covers the requirements that Government Department commitments and expenditures are within the authorised limits otherwise it is a breach of legislation'.
- Another payment of K9,000,000 from the Recurrent Vote to Air Niugini for using the Falcon Jet plane, however, I noted that no contract agreement between the Department of PM and NEC and Air Niugini Ltd was sighted. I was unable to ascertain on whose authority the payment was effected.
- Another payment of K5,500,000 was paid to the Task Force Sweep; I noted the following irregularities:-
 - No Contract Agreements or proper documentations of the payment was made available in terms of agreement between the Department and the Task Force Sweep; and
 - Sections in FF3, FF4 and ILPOC were not signed by responsible officers, namely; Section 32 Officers, Financial Delegates, Examiners and Certifying Officers.
- Major and Minor Contract Agreement were not sighted for procurement of goods and services in 24 payments totalling K18,967,227, ranging from K50,000 to K9,000,000.
- Payments totalling K705,493 in eight instances were paid out to suppliers for goods and services without obtaining three written quotations from other suppliers.
- In 24 payments totalling K8,930,420, the sections in FF3, FF4 and ILPOC were not signed by responsible officers and Financial Delegates including Section 32 officer's approval not obtained totalling K5,854,279 indicates major internal control weaknesses in the Department.
- A total of K500,000 cash advance for contingencies was paid to the Paymaster for after the Close of Accounts (shut-down period). The following deficiencies were noted from that payment:-
 - Unspent Funds from various Vote Items were added and a cheque raised and paid to Paymaster which is contrary to *PFM Act* that states that all unused monies at year end lapses and should be credited back to the Consolidate Revenue Fund; and
 - Payment voucher was not made available for audit verification.
 - The amount of K500,000 was not acquitted and remains outstanding at the time of this report in May, 2014.
- Three payments totalling K837,790; Pro-forma Invoices were used to execute the payments rather than the original company tax invoices which is the legal requirements.

The review of the Expenditure Transaction Details and other related accounts and records pertaining to the procurement and payment processes, revealed the following discrepancies:-

- Sixteen payments totalling K3,601,700 was paid to a particular company in 2012, for refurbishments. However, the following irregularities were noted;
 - All 16 payments totalling K3,601,700 were incorrectly charged to Vote Items 135 and 141 and not the correct Vote Item 225 for Construction, Renovation and Improvement,
- A total for K601,700 was paid for the refurbishment of VIP lounge at Jackson International Airport, the following discrepancies were noted:-
 - The first payment of K301,700 was effected by the Department based on a quote submitted by the company totalling K601,700;
 - The company was the sole bidder for those refurbishment jobs. I was unable to ascertain the criteria used to choose that company. No scope of work was prepared by the Department and sent to reputable suppliers for quotations. The scope of work was done by the company and not by the Department;
 - APC Approval from Department of Finance was obtained after the payment of K301,700 was effected. CSTB then granted the company a Certificate of Inexpediency (COI) noting that the request was genuine due to the arrival of His Royal Highness The Son of Queen Elizabeth II. This approval was in breach of the FMM as the Department failed to comply with the procurement procedures and sought approval prior to engaging the company;
 - No contract agreement was attached to the claim to validate the bidding documents between the State and the contractor. I was unable to ascertain the timing, schedule of payments; progressive reports to justify the next schedule for payment etc and importantly whether the Department had protected the State in the event of default by the contractor;
 - A Tax Invoice dated 12 October, 2012 totalling K601,700 was invoiced to the National Gaming Board Community Benefit Fund and not Department of PM&NEC. The same Tax Invoice was attached to the claim that was paid by Cheque No: 167073 dated 14 December, 2012 totalling K300,000; and
 - No Receipt(s) were attached to copies of both cheques payments. Receipts are important documents which acknowledged that payment made and had been received by the payee(s);
- Discrepancies noted from two payments totalling K3,000,000 for services rendered at Mirigini House;
 - No expenditure requisition form (FF3) was attached, therefore, I was not able to ascertain the authorised requisition officer, *financial delegate*, *Section 32 Officer* and the commitment clerk, and who authorised and approved the payment. I noted also that these payments were executed well after the close of accounts for the 2012 financial year;
 - No scope of work was designed by the Department and sent to reputable suppliers of the required work to be undertaken so that all the suppliers were given the same information for bidding purposes as such process should have been performed by CSTB, however; the Department bypassed the process;

- The Construction company provided their own scope of work with total costing at K6,817,038;
- Approval from CSTB not obtained;
- The payment bypassed two key agencies in the procurement process that was CSTB for tendering and awarding of major procurement and State Solicitor for contract documentation and clearance; and
- The APC approval granted by the Finance Department allowed the Department to pre-commit K500,000 during 2012 and the balance to be committed in other years. The Department, however, paid K3,000,000 in total contrary to APC approval.

Payment of Vehicle Hires

A randomly selected sample of 32 payments totalling K1,412,467 (paid to six hire car companies) to ascertain if proper procurement procedures were complied with, revealed the following findings:-

- The payment vouchers were not made available for AGO audit verification for three payments totalling K250,196,;
- In seven payments totalling K342,585 the certifying officers did not certify the claims prior to effecting the payments;
- Three payments made totalling K57,310, were for services rendered in 2011. No appropriations were made for such claim and payments in the Recurrent Budget.
- 46 payments totalling K2,421,493 (which constitute 53%) were actually paid out of Expenditure Vote Items 114/121/144/135 and 225 and not from expenditure vote Item 141 or 126 which are the legacy code for payment of consultancy. This practice has resulted in accommodating unbudgeted expenditure.
- Ten claims/payments totalling K665,000 paid to a consultant were made without the approval of the financial delegate and the claims were not signed by the commitment clerk as well as the claimant.
- The Department made two separate payments to the consultant totalling K715,000; for 11 claims. The following irregularities were noted;
 - The consultant was not paid on a monthly basis as stipulated in the contract instead received payments in September and December, 2012. A total of K715,000 was paid resulting in an unexplained difference of K65,000.
 - No final report was attached to the final payment;
 - No DPM Consultancy Steering Committee Approval attached to payment vouchers therefore, I was not able to ascertain whether the Department had complied with *GO No.12* when engaging the consultant;
 - The contract value K780,000 exceeded the Departmental Head limit of K300,000 which require the CSTB approval and Authority to Pre-Commit (APC) obtained from Department of

Finance however, the approval documents (if any) were not attached to payments vouchers;

- 24 claims/payments totalling K1,740,000; the consultants were engaged without the approval of the DPM Consultancy Steering Committee which was a breach of *GO 12.4*. and

I was unable to ascertain whether the management of the Department was exercising prudence and due diligence in spending public moneys.

Management Response

However, I was advised by management in its response that the Department had powers under the *PM and NEC Act, 2000* to defy other applicable legislations and public service procedures and requirements. The management further informed me that remedial actions were taken to rectify other anomalies noted

HUMAN RESOURCE AND PAYROLL

A random sample of 28 employees was selected from Payroll No.26 dated 26 December, 2013 and their respective employment conditions and records were verified to their personal files; the following discrepancies were noted:-

- 14 officers did not complete the Tax Declaration Forms;
 - No copies of Statement of Earnings in their personal files;
 - Salary History cards for various leaves, i.e. compassionate leaves, sick leaves and recreational leaves were not kept- up-to-date.
- Salary history cards in ten instances were not sighted in the respective officers' personnel files.
- Three personnel files for three officers were not made available for audit review.
- 15 officers were paid SDMA during the year (2013). The respective personal files revealed no evidence of prior approvals or clarification sought from DPM to proceed with such payments to the officers concerned. The payment of SDMA was not budgeted for in the 2013 appropriation year.
- No Departmental Head's approval was sighted in six employees' files receiving higher duties allowances as required in *GO 13.33*. Personal files were not updated.
- Seven officers who proceeded on recreation leave during the financial period, did not contribute the required 10% cost towards their airfares (as per *GO 14.47*) or not deducted according to the respective officer's pay slip and data on payroll No. 26/2013.
- Three overtime payments with a total cost of K7,624 paid to senior officers who were above grade 10 levels. This is contrary to *Public Service General Order 13.56-13.84*.

Training

The Department did not have a Five Year Training plan in Place. I was not provided with an Annual Training Plan and Report for 2013 and 2012.

There was a major organisation restructure since 2011 and that the process was in progress 2013.

- According to the Expenditure Transaction Details (2012), it was revealed that payments totalling K427,172 charged to Expenditure Vote Item 136 (Training), without any Training Plan in place. I was unable to ascertain whether the expenditures relating to training were relevant to the achievement of the Department's Corporate Plan and core business objectives over the period, making reference to the National Training Policy and the Public Sector Training Package.

Payment of Overtime

The review of the overtime claims and other related accounts and records in 2012 revealed the following discrepancies:-

- Two payments totalling K9,377 were contrary to GO 13.56 – 13.84. The respective officer's position grades were above grade 10; and
- 13 payments totalling K66,962 were paid as overtime allowances. Audit was unable to ascertain whether the payees were officers of the Department, when their names were verified to the Staff Establishment Register.

Recreational Leave

The review of seven personal files and other related accounts and records for payments totalling K36,777 in respect of recreational airfares in 2012, revealed the following anomalies:-

- The details and calculations were not attached to the payment vouchers for three payments totalling K10,845, therefore, I was unable to verify the accuracy of the amounts paid;
- No birth certificates and tax declarations form were in the personal files to substantiate two payments totalling K15,087 made for dependents; and
- An officer was paid K6,941 for sick leave without the details (medical reports) being attached to the claim to substantiate the amount of cash payment.
- All payments relating to salaries and wages paid through PGAS in 2012 were contrary to GO Part 7.
- Seven employees were selected for audit review to ascertain whether proper supporting documents were attached to substantiate the payments made to them, I noted that:-
 - Two personal files for the officers were not made available for audit verification;
 - The approvals for engagement of employment were not sighted for five staff; and
 - Documents containing agreements between both parties were not sighted (terms and condition of employments).

Management Response

I was advised that the Department was mitigating the audit recommendations to rectify weaknesses and comply with applicable regulations and procedures.

TRUST ACCOUNT

Six Trust Accounts were directly administered by Department of PM&NEC. The audit review of the Trust Instruments, bank reconciliations and other related accounts and records pertaining to the Trust Accounts for (2013), revealed the following anomalies:-

- The Department had prepared and submitted monthly bank reconciliations for all six Trust Accounts for year 2013 to Finance Department as required. This was an improvement from year 2012.

Trust Accounts Reconciled Balances at 31.12.2013

No	Trust A/c Name	Bank Balance (K)	Cash Book Balance (K)
1	National Events Council (NEC)	9,190	3,794
2	TAF for Institutional Strengthening and Public Sector Reforms	190	220
3	National Planning Committee Task Force (NPC)	31,494,435	31,494,435
4	Kumul Disaster Relief (KDRA)	30,602	30,602
5	National Security (NS)	1,375,111	1,141,666
6	PM and NEC Housing Secretariat T/A	9,918	9,918

- Five Trust Accounts were operating outside of Government Accounting System (PGAS), contrary to *FMM* and *Trust Instruments*. This issue was reported in the previous reports.

Payments relating to four trust accounts were reviewed and the following irregularities were noted;

- Payment vouchers and supporting documents were not sighted in 21 instances aggregating K1,077,432; *refer details in Table below*.

Trust Account	Instances	Amount (K)
KDRA	4	301,151
NPC	3	186,700
NS	8	492,688
NEC	6	96,893
Total		1,077,432

- A review of four payments totalling K301,151 made from Kumul Disaster Relief Appeal (KDRA) Trust Account; disclosed the following anomalies:-
 - The reimbursement of K100,000 from NPC T/A was not in accordance with its *Trust Instruments*.
 - All four payments totalling K301,151 from KDRA T/A did not have any supporting documents to substantiate the authority and authenticity of the expenditure incurred from the Trust Account.
- 32 advances totalling K3,951,803 were paid to other agencies from NSTA and two advances totalling K5,127 from NEC TA.
- Assets purchased in 2013 totalling K602,795 and K498,836 respectively from NSTA and NECTA were not recorded in the assets register.

- The Public Sector Reform Program Trust Account was no longer active and the Department had requested Finance Department to close this account.

Management Response

The management accepted my findings.

ADVANCE MANAGEMENT

A Soft-copy Advances register was maintained in 2013 for the Department. According to that register a total of 1,975 advances with a total value of K7,983,989 were issued to officers of the Department during the 2013 financial year.

- The register was deficient, it did not capture other data including; designation of advance holder or user, and signature of recipient/holder (these data are required in *Part 20, Section 12.2 of FMM*).
- The Department did not maintain a Salary Advance Register to record payments of salary advances; this issue was highlighted in the prior year's audit reports.
- 732 advances paid to 261 officers totalling K5,066,261, were not acquitted at 31 December, 2013 and were outstanding at the time of audit in April 2014;
- 300 advances totalling K2,964,359 were not acquitted and remained outstanding as at 31 December, 2012.
- The unacquitted advances were inclusive of 127 advances that were paid to paymaster and pay mistress totalling K1,152,411.
- All advances have to be paid only to the individual officers concerned who should be accountable to acquit them in full. Advances paid through the Paymaster totaling K1,152,411 were all un-acquitted at 31 December, 2013 and still remains outstanding at the time of audit in April 2013;
- Inclusive of the un-acquitted advances were officers who had accumulated up to K100,000 and above without acquitting their first advances. This issue was also raised in 2012.
- In 2012 financial year, 199 advances totalling K3,618,462 were not captured in the Advances Register maintained.
 - 103 advances with a total monetary value of K3,359,101 which were paid to the paymaster and pay mistress were not recorded in the Department's Advances Register. I am very concerned about the substantial amount of public money in the form of advances the Department continues to pay through the Pay Master and Pay Mistress which remained unrecorded and un-acquitted; and
 - 66 advances totalling K3,996,888 which were paid through the paymaster and pay mistress and recorded in the Advance Register consisted of additional advances (second) and were not acquitted at 31 December, 2012.

- A selected sample of 32 advances that were acquitted all did not have the required supporting evidence to confirm and substantiate that advances were used for the intended purposes; and

Management Response

The Management concurred with my findings and advised that remedial actions will be mitigated and implemented as recommended.

DEPARTMENTAL RESPONSE

The findings were brought to the attention of the Secretary in the management letter issued and the responses were incorporated under the respective audit issues.

CONCLUSION

In general, there was little improvement in the system and operation of controls within the Department compared to previous years.

The results of my audit indicate that there were notable weaknesses in the control framework. The control activities such as delegations, authorisations, reconciliations, data processing, segregation of duties and management monitoring were not sufficiently robust to prevent or detect error or fraud.

Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

13. DEPARTMENT OF WORKS AND IMPLEMENTATION 2013 - 2012

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 works 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 Department has a current Corporate Plan in place for 2011-2015; and
- The Department did not have an Annual Activity Plan for 2013.
- The Department did not prepare and submit the Annual Management Report to Department of Personnel Management as required in *GO Div. 4 Section 32(a)*.
- Quarterly Budget Review Reports for 2013 were prepared and submitted to Department of Treasury as required; and
- The Department had also prepared and submitted an annual financial management report to Department of Treasury in regards to Development maintenance and funding in 2013.

BUDGETARY CONTROL

The Department of Works and Implementation has its own accounting and financial management systems - ORACLE. All the 19 Provincial Offices including Boroko HQ are linked and integrated on Oracle Information system.

A comparison of the Expenditure Summary for the period ending 31 December, 2013 generated by the IFMS 2365 and 2368 for re-current and development budget respectively by the Department of Finance against the report by Department of Works and Implementation through ORACLE system dated 11 April, 2014, revealed the following variances:-

Comparison of IFMS and ORACLE Balances

Particulars	Recurrent Budget		
	DoF (IFMS 2365)	Do WI (Oracle)	Variance
Revised Appropriation	179,538,000	137,738,000	41,800,000
Warrant Authority	179,538,000	147,548,000	31,990,000
Actual Expenditure.	199,744,000	139,656,000	60,088,000
Particulars	Development Budget		
	DoF (IFMS 2365)	Do WI (Oracle)	Variance
Revised Appropriation	699,881,000	843,081,000	(143,200,000)
Warrant Authority	347,250,000	527,150,000	(179,900,000)
Actual Expenditure.	456,983,000	525,055,000	(68,072,000)

The difference between the two records: the Main Public Account maintained by the Department of Finance (IFMS) and the Department of Works (ORACLE) derived from the lack of reconciliations of the two records, for both Recurrent and Development Budgets, hence, a serious lack of monitoring and control on the Cash Flow Management.

BANK RECONCILIATION – Cash Management

The Department of Works and Implementation (Do WI) operated a Main Drawing Account (#4311-6145) with the bank of PNG. This account was referred to as DoW-SAL Reimbursement Account (Ledger account code 320-65). The Main Drawing Account acts as a channel in which budgeted funds for the Department flow in the way of statement of expenditure and out flow by way of reimbursements of expenditure to the 20 operating accounts. The Department had 21 Drawing Bank Accounts. The drawing accounts comprised of a Reimbursement Account and 20 operating accounts including its Boroko HQ. Provincial Offices operate separate bank accounts.

HQ SAL Reimbursement Drawing Account (A/C #4311-6145)

Bank reconciliations were prepared up to December, 2013.

Boroko Drawing Account (BSP # 1000584332)

The December, 2013 bank reconciliation revealed the following irregularities:-

- Bank reconciliations for the Boroko Drawing account was not prepared and submitted to Finance on a timely basis as per the *PFM Act* requirements;
- Bank Account balance at 31 December, 2013 was K6,808,022. The General Ledger Balance was (K11,952,984);
- Adjustments from 2010 totalling K2,817,149, however, I was not able to ascertain the source of the amount;
- Bank Deposits not in general ledger totalling K3,170,354, manual cheques totalling K2,613,499 in bank but not in the general ledger; and
- Unpresented cheques totalling K37,046,599; included stales cheques aggregating to the sum of K2,783,844.

Provincial Bank Reconciliation Status

At the time of Audit (in June 13, 2014), 18 Provinces were in arrears in compiling their bank reconciliations by minimum of two months to maximum of 60 months (5 years).

ASSET MANAGEMENT

Asset Registers

The Department maintains a number of assets register for various assets which were administered by different divisions as noted in the Table below:-

#	Division	Asset Type	Remarks on Register
1	Contract Admin. Branch	Master Register	In process of creating electronic register.
2	I.T Division	Laptops and Computers	Only 2013 purchases in register which were noted to be purchased and disposed in the same year.
3	Assets Management Branch	Roads and Bridges	2011 Road Statistics Report provided – no register sighted during audit.
4	Public Transport Division	Hire/Non Hire fleet	Well-kept Register sighted.

- According to HQ Boroko Account (General Ledger); Assets purchased in 2013, at a total cost of K1,916,913 were not recorded in a fixed asset register;
- BOS survey report did not contain vital data such as year of purchase, reasons for disposal and methods of disposal,
- No assets stocktake were carried out for 2013 financial year.
- A vehicle involved in a accident has been repaired at the cost of K21,494, however, no disciplinary action has been taken against the officer responsible since the time of the incident.
- As noted in 2012, the register with regard to IT equipment had not been updated since 2008, as a result, asset purchased in the last five years were all unaccounted for.
- Motor Vehicle Register maintained was out-dated and was not maintained regularly as and when new vehicles were purchased and old ones were disposed off; and
- Records in regard to the custodianship of the assets and the state or conditions of the assets were not stated (working condition or not).
- There was no asset register maintained to record and monitor all the assets such as furniture and equipment purchased by the Department. As reported in my previous audit, the Department did not have a master/consolidated register.

Management Response

The management took note of my recommendations and advised that remedial actions were taken to rectify the discrepancies noted.

PROCUREMENT AND PAYMENT PROCEDURES

The examination on a randomly selected sample of 146 (ie, 76 in 2013 and 71 in 2012) transactions at a total cost of K110,799,445 and test checked on the compliance of the procurement and payment procedures revealed the following discrepancies:-

- 44 payment vouchers totalling K39,745,117 were not made available for audit review;
- 48 payment vouchers with a total cost of K67,172,653 did not have the Requisitions for Expenditure Form (FF3) to validate the authorities to procure and acquire goods and services;
- The required three written quotations were not obtained prior to purchases of goods and services for 14 payments with a total cost of K4,681,538 as required by *FMM Part 12 Division 3*;
- 22 payments totalling K30,080,847 were made to suppliers/contractors where no prior contract agreements for the services provided before funds were released, no documentations were attached as proof to validate the execution of the payments. There was no Authority to Pre-Commit funds, COI, and tender approval from CSTB were not obtained and COC from IRC, to validate the credibility of companies engaged by the Department especially when it was incurring millions of public moneys; and
- Three payments with a total cost of K6,547,959 no work reports or credible documentary evidence were attached to the payment vouchers to justify and substantiate the work performed and to quantify the amount claimed and was paid by the Department.
- The original company tax invoices were not obtained in five payments totalling K4,681,538; and
- Nine payments totalling K71,277 were processed and paid from proforma invoice. Original company tax invoices should be used for the payments as required by law.

Management Response

The management acknowledged my recommendation and advised that it had set in place strict control measures in the processing of claims for payment.

HUMAN RESOURCES AND PAYROLL MANAGEMENT

Training Plan

The Department did not have a five Year Training Plan and an Annual Training Plan in the year 2012.

In the Corporate Strategic Plan 2011-2015, the Department highlighted plans for Human Capital Development and people empowerment. However, without the five year training plan and annual training plan, I was not able to measure the achievement of the Corporate Plan.

Management Response

The management agreed with my findings

TRUST ACCOUNT - Bank Reconciliations

The audit observations relating to the four Government Funded Trust Accounts in 2013 are detailed below:-

- The December, 2013 bank reconciliation statements prepared for Key Roads for Growth and Maintenance T/A
- No monthly bank reconciliation Highlands Highway Rehabilitation Project T/A was made available for audit review. Closing balance of the General Ledger was K232,524.
- 32 Projects with a total unspent funds of K70,663,559; for 2012 development budget were deposited into the Trust Account. No proper feedback or reporting system was in place to account for such expenditure from outside source for minor works during 2013.

The December, 2013 bank reconciliation statement for WOOSTA; revealed the following anomalies:-

- Bank reconciliations were prepared, however, no supporting documents were provided to confirm the balances;

The December, 2013 bank reconciliation statement for the PTB Trust Account consisting of General Ledger closing balance of K18,012,391, unconfirmed due to no supporting documents.

- Provincial Deposit totalling K6,528,876 were not posted into the General Ledger; and
- A payment reversal in General Ledger were not in bank a reversal entry totalling K83,079 to be identified and adjusted accordingly in the GL.

11 active Trust Accounts and related accounts and records pertaining to the Trust Accounts maintained by the Department in 2012, revealed the following discrepancies:-

- bank reconciliations relating to the 11 trust accounts were not prepared and reviewed in a timely manner as specified in *Part 19* of the *PFM Act* and
- Nine active bank accounts with material balances and General Ledger maintained were not reconciled at 31 December, 2012 with a total of K206,188,809 in the bank and GL balance of K183,344,005;

Management Response

The management concurred with my findings and recommendations.

ADVANCE MANAGEMENT

- The Advances Register was not made available for audit review in 2013. I was not able to ascertain if advances paid were recorded in the advances register for a total of K1,336,190 expended on travel and subsistence expenses under Item 121.
- An examination of the advance register in 2012 revealed that 544 advances amounting to K718,846 was paid in 2012;
- A total of K689,936 advances made in 2012 were not acquitted; and

- Only 22 advances were acquitted, however, I was not able to review and verify the relevant files as no proper filling systems were maintained for the acquitted forms.

Management Response

I quote, “AGO’s recommendation is noted and steps have been taken to update the Advance register”.

DEVELOPMENT EXPENDITURE

Summary of 2013 Development Expenditure

In 2013, K878.1 million was appropriated for projects which comprised of GoPNG funds and Donor funds. Breakup of the development budget is captured in Table below:-

Activities	Funding	%
Donor Assisted Projects- 7	421,081,000	48
Government Funded Special Projects – 3	280,000,000	32
Government Funded Ongoing Projects – 18	177,000,000	20
Total	878,081,000	100

- The Government Funded Special Projects totalling K280.0 million for three main *Special Projects*, as shown below:

Vote	Project	Allocation (K)	Actual Expenditure (K)
26436019220225	Highlands Highway	80,000,000	80,141,541
26436017215225	Lae City Roads	100,000,000	86,948,854
26436018242225	POM City Roads	100,000,000	100,000,000
Total		280,000,000	

- No status or progress reports of each project were included in the annual report, prepared and submitted to Department of Treasury.
- The negative closing balance of the General Ledger at 31 December, 2013 for Highlands Highway Projects was (K161,541), which indicated an over-commitment of funds by K141,541.
- The K100 million budget for Port Moresby City Road was transferred to the National Capital District Commission for construction, maintenance and upgrading of the existing City roads.

Government Funded Ongoing Projects – 177 million

- The 2013 development budget included 18 ongoing projects that were at various stages of developments. During the 2013 financial year a total of K151.2 million was used on the 275km for design, 391km for road improve and maintenance plus 3 Bridges. However, I was unable to quantify the actual expenditure on each project due to the non-availability of the related source documents and accounts.
- In 2012, K760.9 million was appropriated for 35 projects. This amount comprised of funding from the GoPNG and Donors. A total expenditure of K337.6 million was expended in the 2012 financial year, refer to Table below for details:-

	<i>(In thousands of kina)</i>		
Particulars	Revised Appropn (K)	W A (K)	Actual Expenditure (K)
GoPNG	502,588	366,400	266,944
Donor	258,297	70,700	70,700
Total	760,885	437,100	337,644

Quarterly Development Budget Review Report

Similar sentiments was noted in the 2011 audit, the quarterly budget review reports for 2012 were not prepared and submitted to the Department of National Planning and Monitoring as required under the *PIP Guidelines*. On request the Project Coordination Division provided a softcopy of a report which was incomplete. Further, the report was only for the financial aspect of the projects and not the physical aspects. The Department or the project coordination should be responsible for the completion of the reports for the benefit of the relevant stakeholders.

Project Steering Committee Meetings

The Department did not have a project steering committee in place as required in the PIP guidelines. Conferences were however, conducted twice a year at the regions (eg; Momase, Highlands and Southern Region) in which all provincial works managers meet and make presentation, on the progress of their projects. The Department believed that in this way the provincial managers discuss and learn from each other.

Management Response

I was advised by management that most provinces did not submit reports in time or otherwise, not at all, although circulars and numerous follow-ups were made the Project Coordination could only report financial aspect of the programs at that time. Hence the anomalies noted.

DEPARTMENTAL RESPONSE

The Department had responded to the audit findings reported in the management letter issued, and their comments were reproduced accordingly.

CONCLUSION

In general, there was no improvement in the system and operation of controls within the Department compared to previous years.

The results of the audit indicate that overall, there were significant weaknesses in the control framework. The control activities such as delegations, authorisations, reconciliations, data and payroll processing and management monitoring were not sufficiently robust to prevent, detect, or correct error or fraud. Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

14. NATIONAL PARLIAMENTARY SERVICES 2013 - 2012

OVERVIEW

The *Constitution of the Independent State of Papua New Guinea* provides that there shall be a *Parliamentary Services* separate from other services. The *Parliamentary Services* is administered by the Clerk of the National Parliament under the control and direction of the Speaker.

The *Parliamentary Services Act, 1995* was enacted to implement *Section 132* of the *Constitution* by making provision for and in respect of a *Parliament Service* are to provide:

- Clerical staff to enable the Parliament to operate efficiently.
- Maintenance staff to enable the Parliamentary facilities to be properly maintained.
- Security staff to maintain proper security for the Members of Parliament and facilities within the precincts of Parliament.
- Advisory services for the Speaker, Committees of the Parliament and Members of the Parliament other than Ministers.
- A Parliamentary reporting service.
- Such other staff and facilities as are required to ensure the efficient functioning of the Parliament.

FINDINGS

CORPORATE GOVERNANCE

- The *National Parliamentary Services* had a Corporate Plan for June 2013- June 2016. However, the Corporate Plan was in draft format and was not sanctioned by the Speaker.

STATUTORY REPORTING

- The *National Parliamentary Services* did not prepare an Annual Report for 2013.

BUDGETARY CONTROLS

The comparison of the 2013 Expenditure Vote Summary print out produced by the *National Parliamentary Services* and the Expenditure Statement produced by the Department of Finance (IFMS 2222), revealed the following variances in the Statements balances:-

PARTICULARS	VARIANCE (+ /-)	VARIANCE (+ /-)
Current Appropriations	(9,400,300)	8,900,000
Warrant Authority	(9,400,300)	8,942,000
Actual Expenditure	(9,400,300)	42,810,997

The variances in statements balances noted above had been a reoccurring audit finding every year. The National Parliament did not do a proper reconciliation of the balances between the two Ledgers. Expenditures maybe over or understated and would not represent a true and fair financial position of the GoPNG Public Accounts.

Management Response

The management agreed with my findings

CASH MANAGEMENT – BANK RECONCILIATIONS

The *National Parliamentary Services* operated the following five bank accounts including the Opposition's salary bank account:-

No	Account Type	Purpose	Bank Rec for 2013	Bank Rec – 2012
1	Operating	General Operations	January – June	Yes
2	Salaries and Pensions	For Salaries and Pensions	January – June	Yes
3	Members Advances	Advance to MP	January – June	Yes
4	NP Imprest	For Emergency	Not provided	No
5	NP Home Ownership	Home Ownership Scheme	Not provided	No

The following anomalies were noted during my review:-

- Bank reconciliations for the months of July to December were not prepared for the year ended 31 December, 2013 for three accounts;
- Bank Reconciliations for Imprest Account and National Parliament Home Ownership including the Cash Books were not furnished for audit verification and tests for years 2013 and 2012;
- The monthly bank reconciliations were not certified as correct by the financial delegates;

National Parliament Imprest Account

The Imprest Account was established to service only emergency situations and the daily float of the account at any one time was supposed to be K30,000. A review of the accounts and records relating to the account in October, 2012 revealed the following;

- The Imprest Account was *operated outside of PGAS*.

The Imprest Account had accumulated funds totalling K43,921,700 as per the cash book,

- transfers were made from the other four bank accounts during January to September totalled K16,761,700;
- Unspecified direct deposit of K460,000 and Government Grants of K26,700,000 was also credited into the Imprest account rather than the Operating Account.
- The transfers were deemed illegal which were made in excess of the set imprest advance amount of K30,000;
- A total of K3,580,000 was paid in legal fees for two law firms in 2012 (from January to September) from the Imprest Account.

- The *National Parliament* had a Legal Section; however, about 99% of the legal counsel was sought from outside. Legal fees were incurred through PGAS as well as the Imprest Account.
- Entertainment allowances and Donations from the former Speaker and the former Clerk's Offices amounted to a K3,155,374 (Jan-Sep, 2012).
- Donations from the former Clerk's Office was K55,000 while the former Speakers Office spent K3,100,374 for payments including Donations, Entertainment, Electoral Visits and Financial Assistance.
- The cash book was defective, it did not include details such as dates, payees and particulars for payments etc; and as a result I noted four cheques totalling K257,600 did not state the payee.
- All payment vouchers for the 2012 financial year were not provided for audit review. Therefore, I was unable to ascertain the authenticity and the validity of those payments.
- The cheque book was also defective and did not contain vital data as indicated with five Blank cheques noted in 2012,
- A cheque written as "pay cash" was altered from K200,000 to K150,000 to match the bank. Those officers concerned were on suspension at the time of audit and the Fraud Squad was also conducting an investigation into the matter.
- 14 cheque payments were drawn as "Pay Cash" to business houses, companies, organisations, etc, totalling K2,264,730. I was unable to ascertain whether the payments made were actually paid to the individuals because the cheque copies were not attached to the requisition forms and further, the bank statements were not made available for audit review.
- The Imprest Account had been grossly abused and manipulated by man in positions of Trust for their personal gains and beneficiaries.
- The procurement procedures as outlined by the *PFM Act* and the *FMM* with regards to spending of public funds were completely ignored when drawn cheques from the Imprest Account which was treated as a personal bank account by those senior accountable officers of the National Parliamentary Services.
- These payments were made in thousands and millions of kina as opposed to the objective of the account to service only emergency payments. The Imprest account held millions of kina rather than the intended float of K30,000 at any one time. Furthermore, perusal of the cash book revealed that Blank cheques and Blank Payments were also made out of the Imprest Account.
- The management lacked proper monitoring and management of the bank accounts. Management controls such as bank reconciliations and reporting were not robust to prevent and detect miss-use and theft of public money.

Management Response

I was advised by management that an officer was appointed to do the bank reconciliations on a fulltime basis.

ASSET MANAGEMENT

A review of the asset register and related records and documents revealed the following irregularities:

- In 2013, 193 of the assets acquired at a total cost of K5,196,148, were not recorded in the Assets Register and in 2012 only a total cost of K107,286 and not K558,823;
- There was no process in place to properly record assets purchased, disposed off or traded-in;
- No stocktakes were conducted to keep track and account for the fixed and attractive assets;
- There were no internal assets policies or guidelines; and
- The *National Parliamentary Service* did not maintain a separate Registers for categories outlined in the *PFMM Part 32* except for Fleet Register.
- The Motor Vehicle Register was not maintained properly and kept-up-to-date.
- 39 Motor Vehicles were not registered and their whereabouts (custodians/location) were not known and could not be ascertained when the accounts and records for the 2012 financial year were reviewed.
- An additional six vehicles at were acquired a total cost of K322,904, however these were not recorded.
- The dates of purchase and costs of vehicles for the 20 vehicles the Parliament had taken delivery of were not recorded in the Motor Vehicle Fleet Register; and
- A proper Motor Vehicle Fleet Register as prescribed by *FMM Part 32* was not kept.

Management Response

I was advised by management that it will rectify the anomalies noted.

PROCUREMENT AND PAYMENT PROCEDURES

A sample of 110 payments totalling K9,054,272 were selected on a random basis for audit verification and I noted the following discrepancies:-

- 62 payments vouchers were not made available for audit verifications and to confirm the validities and the propriety of the payments totalling K5,752,700;
- Quotations register was not maintained in 2012;
- In six payments totalling K328,386; the required three quotations were not obtained prior to the purchase of goods and services;
- 17 payments totalling K259,185 were not examined by the examiner or certified by the certifying officer prior to drawing the payments cheques;
- In 22 instances totalling K1,639,470, ILPOCs were not used for purchasing;

- A payment of K28,662 was made to a hire car company but no supporting documentation were attached to validate the purpose and authorisation of the vehicle hire;
- Three payments totalling K118,942 were effected without the FF3 and FF4
- 22 contractors which provided services in 2013 and 2012 financial year were paid K12,528,279 these contractors had no contractual agreements between them and National Parliament Services STB. No documentations as such were made available for validation of the status of the contracts (if any) considering the type of costs involved in the claims and payments made;
- Contrary to the statutory requirement (*PFM Act/FMM*) which states that all vehicle hires within POM are prohibited. Vehicles were hired from hire car companies and individuals within Port Moresby which cost the State a total of K7,055,348 during the 2013 financial year.
- Payments totalling K3,499,903 in 239 instances were paid to National Parliament Refreshment Room during the 2013 financial year.

The following records and documents related to National Parliament Refreshment Room were requested and not provided for audit although requested as follow;

- Bank Reconciliation statements; Bank statements ; Cash Book for January to December, 2013; Financial Report; and List of signatories and specimen signatories of related bank account.
- Audit therefore, could not ascertain if payments and records from the accounts were expended and maintained according to the *Parliamentary Services Act, 1997*.
- As reported in the internal audit report in 2012, a total of 44 staff members were paid a total of K1,230,142 for Housing Equity under the National Parliament Housing Scheme;
- Without any Policy for the National Parliament Housing Scheme to ascertain how and what criteria was used for these staff to be eligible to receive such entitlements;

Management Response

The management concurred with my observations and recommendations and advised to rectify the anomalies noted.

HUMAN RESOURCE MANAGEMENT AND PAYROLL 2013

Management of Employees files

A sample of 20 employees selected from pay#25 (28/12/13) and a review of their respective files revealed the following anomalies:-

- Completed Tax declaration forms were not sighted in 14 personal files;
- 19 files did not have current statement of earnings;
- Personnel records relating to compassionate and sick leaves were not updated in 17 instances;

- 14 files did not have their history cards updated; and
- No salary deduction from six officers who had received advances during the year, 2013;
- Three overtime payments to officers who were not eligible for overtime payments as their position/grades were above grade 10; and
- Ten employees were paid HDA resulting in the following:-
 - An officer was paid HDA for acting on a position which was more than two levels above his substantive position contrary to GO; and
 - Approval for HDA in six instances were not sighted including HDA records were not in their respective personal files;

Training

- The *National Parliamentary Services* did not furnish for audit the Five year Training Plan (if any) Annual Training Plans and Reports for audit review.

Casuals

- The staff establishment register had a total of 30 casuals and the Expenditure Transaction Details disclosed a total of 134 casual employees resulting in an excess of 104 casuals;
- All 134 casual employees were paid by cheques through PGAS and not the Government Alesco Payroll System totalling K836,310; and
- In 342 instances, 26 staff salaries aggregating K444,884 were paid by cheques through (PGAS) and not through the Government payroll system (ALESCO).

ADVANCE MANAGEMENT

Audit examination and test on advances payments revealed the following weakness and irregularities:-

- Contrary to *Sections 5 subsection (1(b))* of the *PFM Act*, there was no Advance Register maintained since 2010;
- Advances not recorded and remained outstanding;

Particulars	2013 (K)	2012 (K)	2010/11 (K)
Travel Advance	1,217,216	1,854,374	4,9000,000
Cash Advance	78,100	0	
Members Advance	7,645,347	778,297	
Salary Advance	486,861	357,570	

- A review of the acquittals files maintained revealed that 176 travel advance with a total value of K911,512, were not acquitted;

Management Response

I was advised by management that remedial actions were taken to rectify the anomalies noted.

DEPARTMENTAL RESPONSE

The above matters were brought to the attention of the Clerk of Parliament through a management letter delivered on 31 March, 2014. Prior to issuing the management letter, the audit findings were discussed with responsible *Parliamentary Services* officers. Management responses were received and were incorporated accordingly.

CONCLUSION

In general, there were no significant improvements in the system and operation of controls within the Parliamentary Service compared to previous years. The results of my audit indicate that overall, there were notable weaknesses in the control framework. The control activities such as delegations, authorisations, reconciliation, data processing, segregation of duties and management monitoring were not sufficiently robust to prevent, detect or correct errors or fraud.

Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

15. DEPARTMENT OF COMMUNITY DEVELOPMENT 2012

OVERVIEW

The *Department of Community Development* was established to prepare and implement long term goals for the Welfare of the community at large. Amongst other responsibilities, the Department takes charge of issues on social concerns of the community and especially advocating the equal rights in life for less advantaged citizens of the country such as women and children.

FINDINGS

CORPORATE GOVERNANCE

Minutes of TMT/SMT Meetings

After numerous requests for the Top Management Team's Minutes of Meetings and the failure to submit to me on time, I was unable to review and assess the decisions and implementations of those decisions made by the TMT.

Internal Audit Unit

The internal audit unit for the Department was dysfunctional since the change of management and was in that state during the time of audit in April, 2013.

REPORTING REQUIREMENTS

Quarterly Report

The three quarterly reports sighted for 1st, 2nd and 4th quarters were not presented in accordance with the statutory requirements of the *PFMA (Part II Section 5)* and the *FMM*.

The strategy of comparing the detailed internal reports (monthly/quarterly) against the Annual Operational Activity Plans were not captured in the quarterly reports to quantify the funding that had been spent on the employees, and service providers against what had been implemented and achieved from each Annual Operational Activity Plan in each quarter either implementations were done in segment or in full. The analogy of the key target areas and their respective scopes and implementations and the achievable target areas were not captured in those reports.

Annual Management Report

I reproduce the comments in the 2012 Annual Management Report of the Department as highlighted below:-

- "Due to the non-availability of the Minutes of Meetings of the TMT/SMT and the various Committees existing in the Department; I was unable to validate and substantiate achievements under the corporate plan and the annual activity plans for the various goals.
- Achievements on the HRM- Payroll management did not reflect better management:

- On gratuity payments that were done through PGAS rather than through the ALESCO Payroll system;
 - Wages were paid through PGAS rather than the ALESCO Payroll (According to *GO No. 4*, all wages are to be paid through ALESCO Payroll; which was effective from January 2012).
 - The report did not reflect what was captured in the Cash Book for year 2012.
- No *Financial Instruction* or *Administration Circular* was sighted on the “introduction of life and medical insurance cover for all staff and family” for public servants”.

BUDGETARY AND FUNDS CONTROL

Variance in Warrant Authority Allocations with Expenditure Balances

The comparison of the 2012 Expenditure Vote Summary printout maintained by the Department of Community Development with the Expenditure Statement on TMS 330 produced by the Department of Finance for Period 12 of 2012 revealed significant variances between the two Statements’ balances;

Particulars	DoF (TMS330) (K)	DoCD (PGAS) (K)	Variances (K)
Revised Appropriation	74,867,500	181,601,900	-106,734,400
Warrant Authority	75,036,900	30,876,600	44,160,300
Actual Expenditure	55,622,323	24,027,590	31,594,733

The differences noted were due to non reconciliation of the two records. Both records should be reconciled on a monthly basis as required in the FMM.

- Differences noted in the Warrant Authority Allocations by ten vote items totalling K34,815,700 TMS 100 and PGAS;
- Expenditure Statement (TMS 90) produced by the DoF were in excess of Warrant Authorities totalling K440,145 under five Vote Items in the Recurrent Budget; and
- The comparison of Expenditure by Vote Items for the TMS90 and the PGAS also revealed differences under nine vote items totalling K9,106,791 with Department’s ledger expending more.

BANK RECONCILIATION – Drawing Account

A review of the December, 2012 monthly bank reconciliation statement revealed the following un-reconciled items:-

- Other Items (Schedule 6) totalling K311,128 comprised of:-
 - Cancelled cheque (s) totalling K15,163 presented at bank in August, 2011;
 - July, 2011 Reconciled Items amounted to K88,366;
 - Unidentified JEs from August to December, 2011 amounted to K78,428; and
 - Unidentified JEs raised in May and December 2012 was K58,015.
- Reimbursements of K31,878,209 for the months of March 2011 to December 2012; and

- Stale Cheques amounting to K95,097.

ASSET MANAGEMENT

50 payments with a total cost of K1,061,438 was for fixed assets acquired during 2012 financial year. Other audit verifications on the purchases and recording of assets revealed the following findings:-

- At the time of audit in April, 2013 the asset register was not kept-up-to-date; it was not properly maintained in accordance with the statutory requirements;
- 41 payments totalling K434,439 of assets purchased during the year 2012 were not registered in a Register;
- Three motor vehicles were registered with private plate numbers;
- The motor vehicle fleet register did not include important information of vehicle such as registration, purchase date, safety sticker, insurance, Engine #, Speedo, and vehicle model for the four vehicles purchased in 2012.
- Five motor vehicles had tinted glasses. Government vehicles are public properties and should not be tinted;
- Management had an Internal Transport Policy however, it did not set out procedural guidelines on the usage of the motor vehicles;
- Log books were not maintained to control the use of each vehicle;
- No maintenance register or schedule for maintenance and services of vehicles was maintained during 2012; and
- No yearly stocktake was done on all the assets and consumables at the end of 2012.

PROCUREMENT AND PAYMENTS PROCEDURES

In my review of the procurement and payment procedures, I noted these weaknesses:-

- No financial returns or reports were made available for my verification of the following payments on grants and financial assistance made during 2012 financial year:-
 - Six grants totalling K42,305 paid to the National Council of Women;
 - Three grants totalling K280,000 paid to organisations dealing with Disable Persons;
 - Two financial sponsorship totalling K22,000 paid on behalf of the Department's Minister to Church Ministries;
 - 24 financial assistances totalling K109,796 paid to organisation and individuals;
 - Four financial donations totalling K150,000 paid on behalf of the Minister to Church Ministries and a School;
 - A payment of K2,000 for inmates celebration was drawn to the Paymaster; and
 - Eight payments totalling K70,000 were paid for the Minister's Commitments.

- Two payments totalling K6,241 for diesels and a Generator. I was unable to verify (location) and sight the asset items;
- The crises on the Departmental Heads and court referrals had cost the State (Department) a total of K404,851 all (15 payments) spent on hire vehicles, from various unknown car dealers;
- 12 payments totalling K38,300 were paid as “Token of Appreciation”. Five payments totalling K24,800 were paid through the Paymaster. Four were paid from Vote Item 135 and eight were paid from Vote Item 112 respectively;

There was no provision in the *2011 Appropriation Act* and there was also no provision in the budget activity and item to quantify the expenditure. Further, no provision is in the *PFM Act*, and the *FMM*.

- In 49 instances excessive hires were made from 14 private hire vehicle vendors amounted to K1,330,340. The Department lacks regard for due diligence in the financial management processes which included; budgeting, commitment of funds, and management of expenditure and such attitudes amounts to wastage and extravagant use of public moneys. The K1,330,340 was not economically spent on buying the Department’s own vehicles for use instead of the private hires;
- 11 petty cash payments totalling K13,350 had no acquittals of petty cash vouchers sighted to verify how the petty cash advances were used, all were paid through the Paymaster;
- Seven payments totalling K37,857 were paid for *Reimbursements*. No evidence was sighted of *Section 32 Officer* or persons in authority, authorising these payments;
- 20 payments for consultancy costs totalling K728,216 were paid to consultants. No endorsement of DPM’s Consultancy Steering Committee’s approval nor the APC approval from the Central Tender Board (Department of Finance) were provided to substantiate the engagement of the consultants and the execution of these payments;
- Two consultancy payments as brokerage aggregated to K55,000. There were no contract agreement sighted for the engagement of the consultant;
- Nine payments totalling K550,300 all for legal fees were made to law firms including one payment cheque totalling K10,000 was drawn to the Paymaster:-
 - No documentary evidence from the Attorney-General to substantiating the approval for the engagements of private lawyers;
 - No APC approval was obtained from the Central Tender Board Committee to commit the amounts for the engagement of private lawyers’ services;
 - Payment made in favour of paymaster appears dubious as the Cheque was not paid direct to a Law firm so that the payments passed through the Lawyer’s Trust account; and
 - Management did not confirm the two payments totalling K190,000 made to a law firm; the payments had the same supporting invoice number and the two payment cheques were raised on 26 and 27 November, 2012 for K95,000 each.

- In another two payments for consultancy as brokerage who worked on the Department's latest corporate plan with printing costs amounted to K138,225. However, no contract agreement was sighted or attached to the payment vouchers;
- The Department's Office Landlord was paid a total of K25,498 for repair. Normal routine repairs and maintenance was not done by the Landlord but, by the Department. I was not able to ascertain the agreement for the work done due to no contract agreement was provided during the course of audit;
- In 220 payments totalling K1,394,111; the paymaster account was abused to facilitate all cash payments. These payments should have been made direct to the suppliers or to the individual officers for the purposes of transparency and accountability;
- In five payments totalling K42,000; where K1,000 was paid to an employee and the balance of K41,000 was paid in favour of the paymaster to be en-cashed and paid as allowances. The allowances paid to certain officers amounted to double dipping by the staff concerned. No provision was made in the *2011 Appropriation Act* to cater for such expenditure;

HUMAN RESOURCE MANAGEMENT AND PAYROLL

In my review of the security of personal files and employment records including other HR records and documents revealed the following anomalies:-

- No register or checklist was maintained to control the movement of personal files;
- All documents and correspondence in the personal files were not folioed and cross referenced on the cover of each personal file; and
- 11 officers who took recreational leaves did not have any tax declaration forms attached to the payment vouchers for verification of dependents claimed.
- Divisional Heads were not certifying the payrolls to ensure that there were controls over payments of salaries and wages before they were processed at the Department of Finance each fortnight.

Payments relating to Higher Duty Allowance (HDA), Gratuities and Recreational Leaves were examined on a sample basis and the following irregularities were noted:

- 24 payment vouchers totalling K165,143 were not made available for my audit examination;
- In three instances totalling K7,829 , approval for HDA payments were not sighted;
- No FF3s were attached to nine HDA payments to validate the authenticity of the payments;
- Two officers were paid gratuities totalling K18,784 during the financial year 2012, without any valid contracts of employments;
- Two gratuity payments totalling K25,865 made to a senior officer had no supporting documentations or a renewed contract of employment provided to me to substantiate the claims.

- Payments made to officers due for leave were done without the proper supporting documents such as, birth certificates, and Tax declarations attached to substantiate the claims made for payments;
- Five officers claimed recreational leave entitlements for their adult children who were over and above the legal age of 18 years;
- An officer was paid his outstanding recreational leave entitlements totalling K10,296 which included his eight dependents that had no birth certificates;
- In 34 instances, payments totalling K106,834 were paid to staff members for outstanding recreational leave entitlement back dated to 2009 contrary to GO;
- Recreational leave fares totalling K111,937 were paid out from different vote items apart from the budgeted Vote Item 114 amounting to misappropriation; and
- An officer was over-paid K14,659 in his recreational leave fares and has to repay.
- All 20 payments of overtime were not properly authorised by the financial delegate(s); and
- The calculations of the overtime payments did not have the normal rates of the officers and the officers rate at which they were paid.
- The listing of the casual employees provided for my review did not include such details as:
 - Date of Commencement;
 - Purpose of hiring them(short/long term); and
 - Documentary evidence of approval from Department of Personal Management for their staff numbers if hired for long term.
- 80 casuals who were paid through PGAS did not have proper personal employment files and employee numbers. The bases for their recruitments were not justified;
- The expenditure transaction details statement also revealed that the number of casuals paid through Kundu Pei Suspense Account during the year 2012 exceeded the number provided on the list for my audit;
- Wages paid per PGAS cash book ledger amounts to K1,091,982;
- Wages Sheet (*Finance Form 10*) were not certified, dated and signed by the certifying officer, financial delegates and the paymaster and mismanagement of the casual employees reflected the lack of controls on monitoring and certifying of payments of wages totalling K1,091,982 in 2012.

ADVANCE MANAGEMENT

A total of 1015 advances at a total cost of K2,617,500 was paid to officers in 2012. My audit verifications of the Advances Register sighted, revealed that the acquittals of advances were not properly managed resulting in officers not acquitting their advances within the financial 2012 year.

- In 57 payments totalling K250,551 no provision was made in the Department's Budget Appropriation to cater for contingency payments;
- In 25 instances, incidental allowances totalling K66,400 were not registered and not acquitted;
- A total of 108 unregistered advance with a total value of K173,928 were not acquitted at the time of audit in April, 2013;
- At the time of audit, the total number of un-acquitted advances was 454 with a total value of K1,331,635;
- A total of 38 Contingency allowances with an aggregated value of K163,988 paid through the Paymaster remain un-acquitted. The Paymaster was grossly abused in the payments of contingencies.

I noted that there was no Appropriation in the government systems that make references to the payment of contingency. The management did not explain how it budgeted for contingencies under its programs and activities.

- 103 payments totalling K152,450, were second or more advances paid to officers who did not acquire their first advances especially for travel allowances. These advances were also not acquitted at the time of audit in April, 2013.
- For every five samples picked and checked, three acquittal forms were not properly filled out and signed off by the financial delegate to ensure that the acquittal process had been completed with all supporting documents being attached; in compliance with the legal requirements in *(FMM) Part 20*;

JOURNAL ENTRIES

The following weaknesses were noted during my review of the Journal Entries, supporting documents and postings in the PGAS ledger:-

- 76 Journal Entries with a total value of K1,031,195 were raised in the financial period 2012. All 76 did not have proper narration to clearly explain the kind of transactions that occurred during the accounting period and had no evidence of internal validation checks being done prior to postings in the ledgers;
- All 76 JEs were not certified and signed by an authorised officer at the Finance Division before they were posted into the ledger;
- 22 Journal Entries totalling K221,158 which were posted in the ledgers; had no original Journal Entries documents were kept in the Journal Entries file maintained manually;

DEPARTMENTAL RESPONSE

At the time of preparing this report in July 2014, the Department did not responded to the management letter issued in November, 2013.

CONCLUSION

The results of my audit indicate that, overall, there were significant weaknesses in the control framework. The control activities such as delegation, authorisations, reconciliations, management monitoring and data processing were not sufficiently robust to prevent, detect or correct errors or fraud.

Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

16. DEPARTMENT OF FOREIGN AFFAIRS AND TRADE 2012

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, 1975*, *Migration Act, 1978*, other relevant legislation and 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; and
- Manage all Papua New Guinea's treaties.

FINDINGS

CORPORATE GOVERNANCE

The Department did not have a current corporate plan in place at the time of audit for the 2012 financial year.

The Department had not prepared an annual management report as well as an annual management plan for the fiscal year 2012 contrary to *GO 8.12* and *8.11* respectively.

BUDGETARY AND FUNDS CONTROL

Variances in Appropriation and Expenditure Balances

In my comparison of the Expenditure Vote Summary produced by the *Department of Foreign Affairs and Trade* (PGAS) with the report produced by the Department of Finance (TMS) the following variances were noted, *refer to Table below for details*:

Particular	DoF (TMS90) (K)	DoF&T(PGAS) (K)	Variance Over/(Under) (K)
Revised Appropriation	63,078,700	70,787,700	(7,709,000)
Warrant Authorisation	62,888,800	68,862,243	(5,973,443)
Actual Expenditure	66,588,807	62,714,902	3,873,905

The actual expenditure revealed a significant variance of K3.9 million which was captured at Department of Finance main ledger. The K3.9 million relates to expenditure Vote Item 111. This was an indication of non-reconciliation of records by both Department of Finance and Foreign Affairs and Trade, in respect to revised appropriation, warrants and actual expenditure.

BANK RECONCILIATION (Drawing Account)

The Bank Reconciliation for 31 December, 2012 revealed the following reconciling items:-

- Monthly Reimbursements from the Main Public Accounts not yet cleared and posted in the cash book was K17,206,805;
- Included in the total unrepresented Cheques of K1,567,582 were stale cheques amounting to K63,438;
- An amount of K14,630 for an undated cheque was not cleared and remains outstanding since 2011; and
- Delays in submission of monthly bank reconciliations to Finance Department.

ASSET MANAGEMENT

My audit review of the asset register and related accounts and records pertaining to the management of the fixed assets and inventories, disclosed the following audit findings:-

- The assets register maintained was deficient in that the register did not contain details of model and serial number, name of custodian or officer responsible, date purchased and costs of each asset;
- 27 Office Equipment items valued at K146,854 were purchased during the year. However, I was not able to verify their physical existence due to the register not been updated and was incomplete as previously reported; and
- Annual stocktake not carried out as required in *Part 32 of FMM* for the 2012 financial year.

PROCUREMENT AND PAYMENT PROCEDURES

A randomly selected sample of 120 payments with a total of K13,295,477 for my audit review revealed the following audit findings:-

- 68 payment vouchers with a total value of K4,786,274 were not provided for my audit review;
- In 13 payments totalling K359,583, goods and services were acquired without obtaining the required three written quotations from various suppliers;
- Proforma invoices were used as supporting evidence to effect payments in five instances with a total value of the K126,088 instead of tax invoices to ensure that goods/service providers pay tax and companies were registered with IPA; and
- In eight payments totalling K112,356, requisition for expenditure forms and general expense forms were not approved by authorised officers and financial delegates.

HUMAN RESOURCE MANAGEMENT

A review of human resource management and payroll together with related records and documents revealed the following discrepancies:

- The Department had a Human Resource Operational Priorities Plan (HROPP) 2010-2014. However, without the existence of a five year Corporate Plan. I was not able to ascertain whether the Department had a proper Training Plan for its employees. This issue was raised in previous audit report and still remains unresolved;
- 16 officers have been unattached since 2010;
- Casual and overtime payments totalling K90,000 and K91,708 respectively were made during the year 2012. However, due to the unavailability of payment vouchers, I was not able to ascertain the validity of the payments made.

ADVANCE MANAGEMENT

During my examination of the advances register and the related accounts and records pertaining to the management of advances during the 2012 financial year:-

- A sum of K306,792 overseas travel allowances in 57 instances and domestic travel allowances in seven instances totalling K13,715 were all not recorded in the advance register respectively;
- No cash advance register was maintained to record 16 cash advances paid totalling K62,470. Further, acquittal of these advance were not ascertained and they remained outstanding at year end;
- Outstanding advances relating to overseas travel advance aggregated to K899,406 in 192 instances while domestic travel recorded a total of K142,608 in 140 instances remained outstanding as at 31 December, 2012; and

- A sample of 20 officers were selected and vouched to ensure the first advance was acquitted before receiving the second advance. All 20 officers continued to receive additional advances without acquitting the first contrary to *FMM part 20*.

FOREIGN MISSIONS

The examination of the Overseas Missions Financial Returns Register maintained for 2012 revealed the following weaknesses pertaining to delays in submission of monthly financial returns to Headquarters:-

- Out of the 19 missions/posts established, 13 missions had submitted all their returns for the year 2012 while five missions submitted parts of the returns. One of the mission was just opened in November 2012; and
- Delays ranging from 1 to 15 months in forwarding monthly financial returns to Headquarters were noted for all missions.

DEVELOPMENT BUDGET

The Department of Foreign Affairs and Trade had a total of two projects that were wholly funded by GoPNG for the year 2012. A total of K13,645,000 appropriated, however, only K6,600,000 was issued through the warrants authority and the same amount was expended:-

- Work plans and cash flow documents for the two projects were not provided although requested. Without the work plan and the cash flow documents, I was not able to ascertain whether the funds expended were within the work plan for the year 2012.
- Although funds were expended during the year, no reports or acquittals provided for my verification to vouch for the monies expended.

DEPARTMENTAL RESPONSE

The above matters were brought to the attention of the Secretary through the management letter and no management responses were received on the audit issues reported.

CONCLUSION

The results of my audit indicate that overall, there were significant weaknesses in the control framework. The control activities, such as delegations, authorisations, reconciliations, data processing, segregation of duties and system access were not sufficiently robust to prevent, detect or correct error or fraud.

Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

17. DEPARTMENT OF FINANCE 2012

OVERVIEW

The *Department of Finance* has two major programs:-

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

FINDINGS

BUDGETARY AND FUNDS CONTROL

According to the Department of Finances' Expenditure Statement (IFMS), 20 Vote Items with a total of K2,425,794 were over-expended during the year 2012.

BANK RECONCILIATION – Drawing Account

The Department of Finance operates the FCB Drawing Account No. 4311-6167 with the Bank of Papua New Guinea. Bank reconciliation for 31 December, 2012, revealed the following anomalies:-

- Other items total included the previous years (2010 and 2011) opening cashbook balances brought forward stated as K2,002,857;
- Unpresented cheques totalling K124,985,531 included stale cheques from 2007 not yet cleared in cash book during 2012; and
- Other credit items at bank account and not in cash book totalling K2,002,857 was a bank reconciliation balance from 2010 including cheques cancelled and a reversed journal entry.

ASSET MANAGEMENT

My review of the Assets Register and other related accounts and records revealed the following anomalies:-

- The Department did not implement my recommendations made in the previous year's audit;
- The Department did not furnish for examination a consolidated asset register although requested. Each divisions maintained their own registers;

- Substantial Public Moneys were spent on acquiring laptops and computers, printers and faxes, chairs and furniture, phones and accessories were not verified due to non-maintenance of updated assets registers at the time of audit;
- 12 vehicles purchased during the year totalling K1,296,237 were not recorded in the motor vehicle fleet register; and
- Eight motor vehicles did not have government 'Z' plates.

PROCUREMENT AND PAYMENTS PROCEDURES

A sample of 94 payment vouchers with a total value of K64.9 million was selected for my audit review on the compliance with legal requirements of procurement and payment procedures with related accounts and records revealed the following audit findings:

- Eight small companies were engaged to supply stationeries to the Department at a cost of over K1.3 million. The stationeries companies were small and less reputable to supply stationeries to a Government Department. No minor contract agreements were made with these companies prior to engaging them;
- Five companies were not registered with IPA and did not have certificates of compliance attached to the respective payment vouchers;
- 26 payments totalling K5.6 million vouchers did not have the required three written quotations attached to them, which is a breach of the procurement and payments procedures and guidelines;
- A hire car company was paid K1.5 million for settlement of services rendered five years ago in 2002, and as such it was unbudgeted expenditure.
- Five payment vouchers totalling K38.4 million were deemed to be missing and were not made available for my review and verification;
- No certificates of completion or reports of work done were attached to all the claims for payments outlined in their contracts with a total cost of K3.7 million;
- No company profiles were attached also as supporting document such as, IPA registration as consultants, certificate of compliance and tax file numbers for these consultants. The consultants were not taxed on the payments they were receiving from the Department;
- Three payments for consultancy services were effected on proforma invoices instead of legal company tax invoices from the consultants;
- A consultant company was paid more than K300,000 without any prior APC or CSTB approvals; and
- Companies were paid in excess of K300,000 during the year without the Department obtaining the procurement approvals from the CSTB to pre-commit.

HUMAN RESOURCES AND MANAGEMENT

My review of the Staff Establishment Register and related records revealed the following weaknesses:-

- List of Casuals not provided for my audit reviews;
- 119 unattached staff at Headquarters and Provincial Treasury Offices;
- No report sighted on how funds were used for the vacant positions, nine in the Simbu Provincial Treasury and 12 in the Accounting Frameworks Division; and
- Higher Duty Allowances (HDA) paid to 11 officers selected from the concept payroll for four pay periods revealed that the personal files for all 11 officers were not maintained properly and not kept-up-to-date.

TRUST FUNDS AND TRUST ACCOUNTS

Accounts and records pertaining to the 21 Trust Accounts maintained by the Department were not made available for my audit perusals such as cash books, monthly bank reconciliations; payment vouchers; specimen signatures; and Unknown custodian and unknown locations of the respective Trust Accounts.

ADVANCE MANAGEMENT

A review of the Advances Register, acquittals and related accounts and records pertaining to the management of Public Moneys paid to officers in the form of advances, revealed the following anomalies:-

- Prior year's (2011) audit recommendations pertaining to properly maintaining the Advances Register were not implemented. All the columns as prescribed by the *PFMM Part 20* have not been entered in the register ;
- 18 un-acquitted advances amounting to K25,190 reported in 2011 still remains outstanding at the time of audit in February, 2013;
- The total advance of 1993 with the total monetary value of K1,927,499 were not registered in the manual register;
- Ten officers were issued with second or more additional advances whilst the first advances were still not acquitted in 41 instances with a total value of K63,829; and
- All the acquittal forms for 2012 financial year had not been cleared and signed by the financial delegate, therefore, were not filed away. Hence, verifications of the acquitted advances were not done.

DEVELOPMENT BUDGET EXPENDITURE

Integrated Financial Management System (IFMS)

The IFMS report compiled by internal audit and compliance division was very comprehensive. The primary audit objective was to assess the General IT Control environment as well as test selected application controls in relation to IFMS. The General IT Control environment covered the areas of access and security, change management, business resilience and incident management. The application controls tested supports key business processes and considered certain key segregation of duties, delegation limits and interfaces with external systems.

The report contained a number of audit recommendations in regard to access controls; interfaces; change management; disaster recovery and business continuity; backups and security.

I noted from the report that the internal control mechanism designed to mitigate potential risks was not satisfactory.

Management should comment whether the recommendations have been implemented or are in the process of being rectified.

DEPARTMENTAL RESPONSE

The reported findings were brought to the attention of the Secretary through a management letter. However, the management letter responses were not received at the time of writing this Report.

CONCLUSION

The results of my audit indicate that overall, there were notable weaknesses in the control framework. The control activities, such as delegation, authorisation, reconciliation, data processing, segregation of duties, system access and management monitoring were not sufficiently robust to prevent, detect or correct errors or fraud.

Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

18. DEPARTMENT OF IMPLEMENTATION AND RURAL DEVELOPMENT 2012

OVERVIEW

The *Department of Implementation and 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 Department of Implementation and Rural Development is to facilitate administration of National Parliament members' electoral development funds for rural infrastructure development.

FINDINGS

CORPORATE GOVERNANCE

With the Establishment of the new Department (DIRD) in 2011, a new Corporate Plan was required. The Department had a "Draft Corporate Plan for the years 2012 to 2017" at the time of audit in June, 2013.

The Annual Financial and Management reports were not prepared and submitted to Department of Finance and Department of Personnel Management respectively as required.

Management response

The management concurred with my comments and informed that new programs were included in the separate plan 2012 to 2017.

BUDGETARY AND FUNDS CONTROL

Analysis of Appropriation Vs Actual Expenditure

I noted that the expenditures incurred under Items 112 was over-expended by K29,599 without the issue of a Warrant Allocation while, 141 was over-expended by K179,461, the total allocation was only K86,300. The over-expenditure of allocated fund was in breach of the *Appropriation Act*.

Management Response

There was no appropriation for Item 112 in 2012 Budget. The Expenditure was only made in Item 141. The Item was not over-spent because the amount appropriated was K150,000 which was warranted only for reduced amount of K86,330 and the total actual payment".

CASH MANAGEMENT – Bank Reconciliation

My verification of the documents and related schedules for the bank reconciliation for the month of December, 2012 contained stale cheques worth of K51,655 and were yet to be investigated and cleared.

Management Response

The management advised that the stale cheques were cleared off from the Cheque Reconciliation Listing in February, 2013.

ASSET MANAGEMENT

The *Department of I&RD* maintained an Assets Register that stated assets purchased in 2012 only. This was not updated and was incomplete as at the time of audit in June, 2013. No Consolidated or Master Assets Register was sighted to show the previous years' purchases.

A random sample of 31 assets purchased in 2012 totalling K423,500 were checked to the asset register and I noted that a total of 22 assets totalling K157,605 were not recorded in the register.

The Motor Vehicle register maintained was incomplete as it only contained records of vehicles purchased from years 2007 to 2011. Three vehicles purchased in 2012 at a total cost of K247,990 were not captured in the register.

The issue of maintaining logbooks for the Department's vehicles was still outstanding. All officers assigned to drive government vehicles had failed to comply by filing the necessary log books as and when a vehicle was used. This was contrary to *FMM Part 31.6*.

Management Response

Contrary to my observations, the management advised that all assets purchased were recorded by year of purchase from 2008-2013. A procurement officer was recruited in 2013 and improvements have been made to keeping of accounts and records.

AGO counter comment

All issues reported were made during the time of audit. Improvements were noted after audit period.

PROCUREMENT AND PAYMENT PROCEDURES

In my review and examination of 30 paid vouchers totalling K586,578 together with related records and a review of the procurement and payment procedures in operation, I noted the following irregularities:

- Quotation register was not established. This issue was raised in previous audit (2011) and still remain unresolved;
- Files in regard to payment vouchers were "kept in the open" which gave an opportunity for unauthorised removal of documents from the respective files. Proper maintenance and safe custody of all documents including payment vouchers were not prioritized by the Department;
- Four payments totalling to K66,242 were not sighted although requested;

- Five payment vouchers totalling K194,913 were paid without the approval of the financial delegate;
- A payment of K12,034 to a stationery company was also not approved by the authorised requisition officer;
- Two payments of K48,984 were not certified by the certifying officer prior to effecting payments;
- Nine payments totalling K334,873 were paid without obtaining three written quotations as required;
- 13 payments were made from Pro-forma invoices and quotations obtained which all amounted to K301,240. In addition, No Goods and Services Delivery Notice (GSDN) were sighted to verify the receipt of the goods and services by the Department.

Management Response

Management concurred with my observations and agreed to rectify the anomalies and irregularities noted.

ADVANCE MANAGEMENT

In my review of the advance registers and related records relating to the payment, recording and acquittal of advances, I noted the following control weaknesses:

- The Department maintained two advance registers (both Manual and PGAs registers) for purposes of cross-checking and updating as previously mentioned in my 2011 audit. It was revealed that the manual register did not have such information or columns:-
 - Date of General Expense Form (FF4),
 - Designation of the officer receiving the advance,
 - Signature of the recipient and remarks.
- As per the manual advance register, outstanding advances amounted to K95,738 in 32 instances at 31 December, 2012;
- Advance register maintained through PGAS stated a total of 49 un-acquitted advances totalling K94,479 paid to 12 officers going as far back as 2007;
- Out of the 49 un-acquitted advances, six payments totalling K17,148 were outstanding for the year 2012, while K77,331 were for prior years;
- Ten officers were paid second or more advances when their first cash and travel advances were still not acquitted. This was contrary to *Part 20, paragraph 12.11*;
- The Department had not taken any action to recover the outstanding advances through salary deductions or any reminder notices sent even though *Part 20 Para 12:12* sanctions the Department to do so; and

- The Department did not have an Advance Policy in place as an internal control mechanism to set out the roles and responsibilities to be performed by the Paymaster, Advance Holders and the Financial Delegates in issuing, recording, acquitting, and monitoring advances. This indicated a lack of internal controls in the management of advances.

Management Response

The management acknowledges the deficiencies noted and advised that “the accounts section maintains an effective and an up to date acquittal status reported at all times and the report contains relevant information for every officer who receives the advance”

DEVELOPMENT BUDGET – PSG and DSG

A total of K206,922,000 was allocated in 2012 as the Development component for Disbursement of funds to the various districts in PNG.

(a) DSG/PSG (Discretionary Funds)

During my review of controls surrounding the management and the disbursement of DSG/PSG Grant cheques, I noted that Manual cheque registers were maintained for the five Regions in PNG

The registers were incomplete when checked with information such as name of person collecting the cheque, signature of collector, date and the Paying officer acknowledging the cheque recipient were not completed; and

DIRD reported in DSG/PSG annual report that out of the total allocation of K27,250,000; a total of K23,400,000 was disbursed out to members while K3,850,000 was yet to be disbursed; and

(b) Non-Discretionary Funds

“The Non-Discretionary funds for PSG/DSG” was transferred back to Department of Finance (DoF) in 2007 where DoF has been in charge of disbursing and monitoring of these funds since.

(c) DSIP Monitoring

The DSIP funds should be used purposely for inspection, monitoring and assessing of projects, in accordance with the administrative guidelines and other enabling legislations or Acts.

In 2011 a total of K586,000 was allocated for DSIP monitoring. A follow-up on the outcome of this exercise revealed that towards the end of the year between the months of November and December in 2011, the senior management of DIRD advised that prepayments of the DSIP monitoring payments be paid from the remaining total Balance, for DSIP monitoring purposes in the 2012 financial year. The reason being, no funding was secured under DSIP Monitoring for year 2012.

A further enquiry on this matter revealed that officers responsible for the various regions were advised to cash their prepayment advances and hand-over the cash, to be locked away in the Office safe. These monies were used “as an extra cash machinery” which I noted as unbudgeted for and as such, were not paid from the recurrent budget.

A report on the outcome of this exercise was requested for my review, however, no report was furnished to my office up to the completion of this audit in July, 2014. DIRD also did not have an annual work plan on this exercise.

(d) DSIP - FEEDER ROADS – 2012

The DSIP – Feeder Roads for the year under review was budgeted for K178,000,000. Two separate payments had headings as “1st Batch” and 2nd Batch” for the five regions. My analysis was made, based on the records provided under the five regions and the following shortfalls were noted:-

- Payments totalling K89 million were paid for all 89 Districts DSIP Feeder Roads in the 1st Batch with no outstanding or unpaid funds recorded; and
- A comparison of the DIRD – 2012 Summary Report for 1st and 2nd Batches against my analysis revealed that all payments totalling K89 million for the 1st Batch agreed while the 2nd Batch payments relating to “unpaid” amounts disagreed.

There was no proper reconciliation made between the ledgers maintained and the PGAS records for justification and as well as a senior officer to monitor and certify that such grants/allocations (i.e. DSG/PSG and DSIP Feeder Roads) were being paid out or were unpaid.

(e) District Management Information System (DIMS)

DIMS Project is aimed at strengthening the functions of the lower levels of Government in PNG, with a focus on District Administration and Local Level Government (LLG). The objective of the project was aimed at providing the Government of PNG with the means to assess, decide on and to facilitate the implementation and monitoring of the developmental expenditure at the district level of all 89 districts of PNG as outputs within two years.

- The District Management Information System (DIMS) was in operation without an Annual Work Plan.
- Consolidation of development expenditures on all 89 districts that began in 2003 up to the current year (2012) was specified in the project summary, however, was not implemented;
- The establishment of all Assets Registries in all 89 districts by 2012 was not achieved; and
- The Establishment of the “smart targeted monitoring system” for district level projects in all 89 districts were not implemented.
- Payments totalling K276,231 were unrelated to DIMS.

Management Response

Among other disagreements the management advised that the funds were disbursed when acquittals were submitted. Further, the management informed that consultants were engaged due to the level of skilled personnel at the district level.

DEPARTMENTAL RESPONSE

These findings were brought to the attention of the Director in the Management Letter issued and the responses were received and incorporated under respective audit issues.

CONCLUSION

The results of the audit and the magnitude of control weaknesses identified in the course of audit indicate that overall, there were significant and serious weaknesses in the control framework. The control activities such as delegations, authorisations, reconciliations, segregation of duties, system access and management were not sufficiently robust to prevent, detect or correct errors or fraud.

Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

19. INTERNAL REVENUE COMMISSION 2012

OVERVIEW

The main objectives of the *Internal Revenue Commission (IRC)* are to:

- Assess and collect income tax, GST, group tax and excise tax;
- To provide tax education and awareness campaigns and to propose tax administration reform measures; and
- Facilitate trade and manage the movement of goods and people across the borders to protect the PNG community and to ensure PNG's laws are upheld.
- The customs functions performed by IRC were separated from taxation that took effect as from 1 January, 2010.

FINDINGS

INTERNAL AUDIT UNIT

The IAU has 12 funded positions vacant at the time of my audit. The staff strength for the unit consisted of a Director and three auditors. I view the Staff Shortage as critical and management has to take remedial action due to the nature of the Commission.

BUDGETARY AND FUNDS CONTROL

Variance in Warrant Authority and Expenditure balances

In the comparison of the 2012 Expenditure Vote Summary printout maintained by the Internal Revenue Commission and the Expenditure Statement (TMS 330) produced by the Department of Finance for Period 12/2012, I noted these significant variances between the statements balances.

<i>Particulars</i>	<i>DoF (TMS330) (PGK)</i>	<i>IRC (PGAS) (PGK)</i>	<i>Variances Over/(Under) (PGK)</i>
Revised Appropriation	47,275,000	49,475,000	-2,200,000
Warrant Authority	47,255,000	49,475,000	-2,200,000
Actual Expenditure	9,745,675	25,265,242	-15,519,567

The variances noted between the IRC and DoF records indicated that, no reconciliation was carried out during the financial year to make adjustments and reconcile the PGAS balance to the DoF ledgers.

Management Response

The management responded among other issues that a Senior Finance officer was assigned the task to ensure reconciliation of the TMS and PGAS ledgers was undertaken from this point forward. I was advised that any issue identified during the course of that project would be brought to the attention of the Department of Finance.

BANK RECONCILIATION – Drawing Account

Significant reconciling items were not cleared to reflect the correct and true cashbook balance as at 31 December, 2012:

- Credits in the bank account was stated as K3,854,551. The amount was not posted in the cash book at the time of audit; and
- Unpresented cheques included stale cheques amounting to K2,159,454. The value of the stale cheques has been debited back in the cash book.

Management Response

The management concurred with my observations and advised that the discrepancies were rectified.

ASSET MANAGEMENT

Review of the Assets Register

IRC maintained a Master Assets Register including all the Regional Offices. However, there was no record sighted for the Properties owned by the Commission throughout the country;

- A separate register was not maintained for the attractive items such as radios, cameras, tape recorders, etc; but were instead, recorded together under office equipment items;
- The total of K1,928,444 worth of assets was not recorded in the register.
- Dates of items purchased were not recorded in a chronological order and also the Unit Costs in the master asset register that was maintained.

Motor Vehicle fleet Register

- Two motor vehicles value with a total of K153,602 which were acquired during 2012 were not registered in the motor vehicle fleet register;
- All the motor vehicles purchased in 2012 and one in 2006 did not have an internal asset code number for ease of identification and cost of asset was not always stated;
- There were no calculations made for depreciation over the years to determine the current value of the assets.

Land and Properties

I noted the following anomalies relating to several properties which were purchased during 2012, under the Development Budget for the regional managers throughout the country:-

- No Land and Building Register was maintained contrary to *FMM Part 32*.
- In the master assets register, the properties purchased during 2010 and 2012 were stated as IRC owned. No legal documentation was sighted to substantiate that the properties were

owned by IRC, and also the titles for the properties were not made available for my audit validation.

Loss and Deficiency Register/Items Written-Off

I was not provided a stocktake report or a Loss and Deficiency register for my verifications although they were requested for during the audit.

Management Response

I was advised by management that the Asset Register would be updated and kept in chronological order ensuring the cost of items procured are registered.

PROCUREMENT AND PAYMENT PROCEDURES

A total of 31 payment vouchers with a total value of over K7.4 million, was requested for my audit review to ascertain whether sufficient and necessary controls over the procurement and payments procedures, (quotation kina value) of goods and services were complied with:-

- In six payments totalling K1,019,082 the required three quotations were not attached to the payment vouchers;
- The Commission breached the Appropriation Act, when it made two prepayments (advance payments) to a Utility Company at a total cost of K422,830 for the 2013 financial year; and
- Seven payments with a total value of K652,181 were made from proforma invoice instead of the tax invoices.

Audit noted under the RAS II project that; a company was engaged by the Commission during the year at a total cost of K479,600.

My review of the three payment vouchers of the company with a total value of K270,300, revealed the following anomalies:-

- According to the contract sighted, the contract price was K286,000 but this company was paid K479,600. The over-payment of the contract price was K193,600;
- The RAS II project management service should have been procured through the normal CSTB approval as the amount expended exceeded K300,000;
- There were no certificate of Incorporation from IPA, no company profile, no tax file number and no completion reports attached to the invoices submitted for payments. However, the company was charging GST and was paid K479,600; and
- Invoice submitted to IRC for payments were without a formal or proper letter head to validate and authenticity the viability of the company.

The Commission's engagement of two law firms during the year under review at the cost of K889,342. My review of six payment vouchers totalling over K958,298, revealed the following anomalies:-

- The BCL court case managed by one of the law firms has been ongoing since 2007 and it has cost the State millions of kina which audit could not quantify due to supporting documentation were not provided for my audit verifications; and
- No prior approvals were granted from the Attorney-General for the engagement of the law firm since 2007.

Management Response

I reproduce the management's responses *"Seven payments were made on a Pro-Forma Invoice instead of the tax invoices. A directive has been issued to all Section 32 Officers, Requisitioning Officers and Accounting Staff commencing immediately, cheques will be strictly upon Tax Invoice and not Pro-Forma Invoice."*

DEVELOPMENT BUDGET

The Commission had properties in the country, but did not have a Land and Building register to keep a proper record of properties owned and newly acquired. The Commission acquired properties under the 2012 Development Budget, details of the properties are noted below:-

- *GEREHU STAGE 3B2 - Section 528, Lot 26 and Section 529, Lot 7*
 - Two properties with a total cost of K364,559 inclusive of white goods, at Gerehu, NCD. No record of how much each of the two properties had actually cost the Commission. No proper follow-up was done to obtain titles of these properties; and
 - No evidence sighted of the previous owner(s) or title of the properties at Gerehu Stage 3B.
- *KIMBE, West New Britain - Section 1, Allotment 25 – K785,000*
 - There were correspondences from BSP and IRC on the issue of the title for the Kimbe property dated between 31 January, 2013 and 18 June, 2013; there was no evidence on the progress/outcome whether the title had been transferred to IRC;
 - No evidence of the previous owner and title of the property. According to the 4th quarter report, the cost of the property was K785,000. No valuation report from an independent valuer was attached to substantiate that the property was worth K785,000; and
 - No evidence of approval from CSTB was obtained prior to purchasing the property.
- *MADANG, Madang Province - Portion 1329, Milinch Kranket – K440,000*
 - There were correspondences relating to the property during September 2013; there was no record of the titles;
 - The value of the property was not stated or disclosed in the documents; and
 - Approvals were not granted to acquire property or consent obtained from CSTB prior to executing the payments.
- *ALOTAU, Milne Bay Province - Portion 1329, Allotment 14 – K550,000*

- Correspondences relating to the property were dated September, 2013, no records of the title was sighted.

Approvals from CSTB (APC) were not obtained prior to purchases and payments of the properties which all cost over the K300,000 that required the CSTB endorsements.

Management Response

The management had responded satisfactorily to my findings

HUMAN RESOURCE AND MANAGEMENT

Employment of Casual Staff

According to the Expenditure Transactions Details (ETD) the Commission paid casual employees through PGAS during the 2012 financial year, the following observations were noted during my audit of the accounts and records:-

- List of casuals was not provided during the time of audit, when requested for;
- The quarterly reports had no report on the engagement of casuals during the year. However, the total payments on casuals was K22,563 which were made in March and April, 2014;
- I was unable to confirm and verify the validity and accuracy of the number of casual employees due to the non-availability of records; and
- According to the last quarter budget review report, a total of 207 funded positions remained vacant.

According to the ETD a total of K375,051 was paid as recreational leaves fares. My audit review of a sample of 15 recreational leave fares for values above K7,000 totalling K150,142, I noted the following discrepancies:-

- On all 15 instances, recreational leave entitlements totalling K150,142 did not have any legal documentations including marriage, birth and adoption certificates to substantiate the dependents claimed;
- In three instances, dependents claimed amounting to K8,167 were over the required age of 18 years and; and
- In nine instances dependents claimed amounting to K14,067 were under the age of 18 years.

Management Response

The management had responded satisfactorily to my findings

TRUST ACCOUNTS

Five Trust Accounts were maintained by the Commission in 2012 according to the 2012 fourth quarter report, refer to details below:-

No	Trust Code	Name of Trust Account	Bank Balance at 31/12/2012 (K)
1	248	National GST Trust Account	2,485,791
2	-	P-GST Trust Account	55,865,086
3	543	Personal Income Tax ABG Trust Account	2,014,266
4	544	Revenue and Company Tax ABG Trust Account	9,032
5	549	Provincial Bookmaking Trust Account	-

The following observations on the maintenance of the Trust Accounts were noted:-

- *Trust Instruments* for the NGST and Trust Account were not provided for audit verification;
- Bank Reconciliations for the Personal Income Tax ABG Trust Account, Revenue Company Tax ABG Trust Account and the Provincial Bookmaking Trust Account were not provided for audit examinations; and
- The Revenue and Company Tax ABG Account had recorded nil activities for sometimes. All the transactions were carried out from the Personal Income Tax Autonomous Bougainville Government Trust Account. That account was currently rated by the bank as dormant and should be closed with the balance transferred to the Personal Income Tax ABG Trust Account to avoid the bank deducting the bank fees.

Management Response

I reproduce the management's responses,

- *"Trust Instrument for the PGST Trust Account is also not currently available on our records. A copy of the trust instrument has been requested from Department of Finance and will be provided when received; and*
- *Revenue and Company Tax Autonomous Bougainville Government Trust Account.*
 - *There is no activity on this trust account because IRC has not yet identified any taxes received under this category.*
 - *This account was opened pursuant to the provisions of Section 39(2) of the Organic Law on Peace-Building in Bougainville-Autonomous Bougainville Government and Bougainville Referendum 2002 provides in mandatory terms for the Minister for Treasury to establish a trust account for Bougainville into which shall be paid all revenue from company tax, duties of customs collected in Bougainville and 70% of value added tax collected in Bougainville.*
- *This is the legal basis for the establishment of this trust account. The account cannot be closed on the basis of Sec 39(2) of the Organic Law on Peace –Building in Bougainville-Autonomous Government and Bougainville Referendum 2002".*

ADVANCE MANAGEMENT

Audit review of the advance register and related records revealed the following discrepancies:

- The advance register did not capture information required by the *FMM* such as: date of advance, name and designation of the officer receiving the advance, signature of the recipient, date of acquittal and remarks.

- Six travelling advances totalling K7,858 were not acquitted which included an amount of K3,514 for two officers who were retrenched and terminated.
- I was unable to ascertain whether the soft copy advance register was reviewed by a financial delegate, there was no evidence that the files were reviewed.

Management Response

The management responded positively to my recommendations and will improve the register with all details as required in the *FMM*.

DEPARTMENTAL RESPONSE

The Commission had responded to the audit findings reported in the management letter and their comments have been considered and included accordingly in this report (*Part 2*).

CONCLUSION

Audit results indicate that there were some improvements in the operations of the internal controls compared to previous years. This was evident in the revenue collection, assets and advance management. However, my audit indicated that there were significant weaknesses in the control framework.

The controls activities, such as delegations, authorisations, reconciliations, data processing, segregation of duties and system access were not sufficiently robust to prevent defect or correct errors or fraud.

20. DEPARTMENT OF LANDS AND PHYSICAL PLANNING 2012

OVERVIEW

The Department's mission is to contribute to social and economic growth through facilitating the equitable distribution and productive use of land.

The Department is expected to fulfill its mission in the context of the following Acts: *Land Act, 1996, Land Groups Incorporation Act, 1974, Land (Ownership of Freeholds) Act, 1976, Land Registration Act, 1981, Physical Planning Act, 1989* and the *Survey Act, 1969*.

FINDINGS

CORPORATE GOVERNANCE

The Department had not prepared and submitted annual management reports to Secretary, Department of Personnel Management as required in the *Public Service GO 8.12*. As a result, I was unable to determine the status of the Department's performance and whether it achieved its long-term goals and objectives as specified in the five year Corporate Plan and the annual work plan.

The Department had not prepared the quarterly budget review reports and the annual financial management reports as required in the *PFM Act, Part II, Section 5*.

BUDGETARY AND FUNDS CONTROL

Expenditure Analysis Recurrent

In my comparison of the Expenditure Vote Summary report for the period ending 31 December, 2012 generated by the Department of Finance and the *Department of Lands and Physical Planning*, the following variance were noted:-

Particulars	DL&PP record (PGAS) (K)	DoF record (IFMS2165) (K)	Variances Surplus/(Deficit) (K)
Revised Appropriation	70,585,400	49,206,700	(21,378,700)
Warrant Authority	47,286,940	49,091,800	1,804,860
Actual Expenditure	47,277,832	32,126,781	(15,151,051)

- The differences in the two records derived mainly as a result of non-reconciliation of the ledgers, it reflects a serious lack of monitoring and control on the Cash Flow Management; and
- In my analysis of the variance between Actual Expenditures of the two records I noted the following discrepancies:-
 - The Departments Actual Expenditure exceeded that of the Main Public Account by K1,515,1052;

- The Department did not have records of item 111, 112 and 141 which were captured in Department of Finance records. An expenditure totalling K10,524,840 under vote item 143 was captured in the Department record and not in the Department of Finance.

Revenue Analysis

The actual revenue collected was K26,073,366 as per Department of Finance revenue summary report for the period ended 31 December, 2012. However, the Department of Lands and Physical Planning report only K24,523,336. There was an unexplained net variance in all 13 revenue vote aggregating to K1,550,030.

Revenue for the year was estimated at K26 million and the Department actually collected K24.5 million resulting in shortfall of K1.6 million.

BANK RECONCILIATION

The Department of Lands and Physical Planning operates a Drawing Bank Account Number 4311-6131 maintained by Bank of Papua New Guinea. No monthly bank reconciliation was prepared for year 2012 resulting in arrears by more than 12 months.

ASSET MANAGEMENT

In my review of the Assets Register and related accounts and records, the following discrepancies were noted:-

- The Assets Register was not kept-up-to-date. 37 assets items totalling K139,600 that were purchased during the year were not registered; and
- The Department had a Motor Vehicles Fleet Register that was completed at the time of audit. The fleet register did not contain records of the useful life of the vehicles. Records of disposals of the assets were not provided for my verification.

PROCUREMENT AND PAYMENT PROCEDURES

My audit review of the 59 payment vouchers totalling K510,469 and related accounts and records pertaining to the procurement and payment procedures revealed the following weaknesses:-

- Seven payment vouchers totalling K105,447 were not provided for my audit review.
- Nine payments totalling K71,753, the required three written quotations were not obtained prior to purchase of goods and services as required under *Part 12* of the *FMM*;
- 20 payments totalling K127,684 were effected based on Pro-forma Invoices. Payments should be made on original company tax invoices alone which is a legal requirements as per *FMM*;
- In six instances, invoices for the payments totalling K97,409 were not attached to the payment vouchers, I was not able to verify the validity of those payments;

- In 12 payments totalling K95,120, the requisitions for expenditure forms (FF3) were not sighted. Further, the payments aggregating K23,021 were processed from incomplete finance forms in (FF4); and
- PTB approval was not obtained prior to engaging an external hire for a payment of K8,500.

HUMAN RESOURCES MANAGEMENT

- I selected a sample of ten employee's files and checked for compliance with legal requirements stipulated in the *GO*, revealed the following audit findings:-
 - The employment contract agreements were not updated and also were not in line with the new salary structure; and
 - The employees' history cards that indicate recreational leave taken, salary paid, sick leave and others have not been updated.
- No Annual Training plan was developed and submitted to DPM Departmental Head for financial periods 31 December, 2011 and 2012 respectively.

ADVANCE MANAGEMENT

My audit review of the management of advances issued to officers of the Department during the 2012 financial year revealed the following audit findings:-

- The Department did not maintain a cash advance register for the fiscal year 2012, and therefore, the 29 cash advances paid through the paymaster were not recorded;
- 383 travel advances with a total value of K440,884 were not acquitted at 31 December, 2012;
- All 13 officers selected for further verification did not acquit within seven days after their travels to comply with the requirement by the *FMM*; and
- Six acquittals did not have supporting documents such as boarding passes etc, were attached to the acquittal forms.
- Five officers were issued second or more advances in 23 instances totalling K19,012 despite not acquitting their first advances.

PIP DEVELOPMENT BUDGET

The Department of Lands and Physical Planning had two ongoing programs:

1. Border Mapping Programs
2. Land Development Program

Land Development Program

In 2012 the Land Development Program was Appropriated K10.1 million. There were five projects under the land development program which are listed below:-

1. Valuation Project;
 2. Physical Planning Projects;
 3. Leap Projects;
 4. Registration of Customary Land; and
 5. Capacity Building.
- Only the Physical Planning Projects had annual work plans for year 2012;
 - No Annual Work-Plan and Cash Flow was submitted to Department of National Planning and Monitoring as required in *DNPM ADVICE No. 1/2010*.
 - No quarterly budget review reports and cash flow statements were compiled during year 2012 for all the five projects. Therefore, I was not able to ascertain whether the implementations (expenditure) made on the projects met the requirement of the Department National Planning and Monitoring;
 - Between January and November, 2012 a total of K9,146,884 had been spent on the projects, however, no proper accountability reports were provided to the DL&PP and DNP&M on the status of those projects.
 - 41 payment vouchers totalling K795,201 were selected for my review together with the related accounts and records, revealed the following irregularities:-

Seven payment vouchers amounting to K362,753 were not made available for audit;

- Requisition for Expenditure Forms (FF3) were not attached to payment vouchers in 13 instances totalling K69,916, consequently, the approvals of those expenditure was not ascertained in audit;
- Payments were made without obtaining the required three written quotations in six instances totalling K177,727;
- Payments made on pro-forma invoices in six instances totalling K166,378;
- Invoices or supporting documentations were not sighted in seven instances totalling K55,306; and
- A payment of K11,480 was unbudgeted for and reflects a misappropriation of the projects fund.

DEPARTMENTAL RESPONSE

The Department did not responded to my audit findings reported in the management letter issued, up to the time of writing this report.

CONCLUSION

Overall result of the 2012 audit indicates that there were significant weaknesses in the control framework. The control activities such as delegations, authorisations, reconciliations, data processing, segregation of duties, and system access were not sufficiently robust to prevent, detect or correct errors or fraud.

Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

21. DEPARTMENT OF NATIONAL PLANNING AND MONITORING 2012

OVERVIEW

The mission of the *Department of National Planning and Monitoring* is to co-ordinate the development of the national development policies 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 the Medium Term Development Strategy and preparation of Medium and Annual Plans;
- Resource sourcing and annual capital budgeting;
- Monitoring and evaluation of implementation of policies and programs as well as post implementation impact of projects; and
- Provision of technical support to the provinces in implementing the Provincial Government reform.

FINDINGS

BUDGETARY AND FUNDS CONTROL

In my comparison of the 2012 Expenditure Vote Summary printout maintained by the Department of National Planning and Monitoring and the Expenditure Statement on TMS 330 produced by the Department of Finance for Period 12, 2012, significant variances were noted on the statements' balances, *refer to Table below for details:-*

Particulars	DoF TMS330 (PGK)	DNPM IFMS (PGK)	Variances (PGK)
Revised Appropriation	331,520,600	320,883,600	10,637,000
Warrant Authority	331,520,600	320,883,600	10,637,000
Actual Expenditure	66,458,583	165,445,671	(98,897,088)

Expenditure in Excess of Authorisation

The expenditure statements (TMS 100) produced by the Department of Finance for the year ended 31 December, 2012 revealed expenditures in excess of warrant authorities issued under four Vote Items totalling K2,057,863 in the recurrent budget.

Management Response

I was advised by management that the IFMS technical team had not properly developed the reporting functions and that information was not properly queued in the system, hence, reports from the system for the years 2011 and 2012 were not quality assured.

BANK RECONCILIATION

During my review of the monthly bank reconciliation, the following discrepancies were noted:-

All of my audit recommendations since the 2008 audits were not considered and implemented. In my review of the 2009 and 2010 bank reconciliations, I noted that no reconciliations were prepared for November and December, 2009. No monthly bank reconciliations was done for the financial periods 2010, 2011 and 2012 respectively.

The monthly bank reconciliations were done manually. The IFMS was unable to perform the reconciliation due to non-availability of the 2010 closing and 2011 opening balances.

Management Response

I reproduce the management responses, *"The Department fully admits that it did not properly account for expenditures through proper bank reconciliations. However, the change of DNPM's accounting software from PGAS to IFMS, suspension of our bank reconciliation officer, constant changes to accounts staff and management in general, understaffing within accounts section, etc. have also contributed to the limited instances of bank reconciliations observed during the period"*.

ASSET MANAGEMENT

There had been no mitigations on the audit recommendations of prior years for implementation, the following reoccurring anomalies were noted:-

- The Assets Officer confirmed that the Assets Register had not been properly maintained or kept-up-to-date since 2008;
- The following details were not included in the assets register:-
 - Date of Purchase; Unit Cost; Total Cost; Estimate of Economic Life; Preventative Maintenance Requirement; Corrective Maintenance History; and Officer Responsible.
- According to the ETD-2012, Department acquired various types of assets totalling K4,387,975, including land acquired for a total of K4,000,000; and
- Since there was no proper Master Assets Register maintained by the Department. I was unable to ascertain the existence, locations and custodian/users of those assets acquired during the 2012 financial period and prior years.

Management Response

I was advised by management that it had rectified the anomalies noted

PROCUREMENT AND PAYMENT PROCEDURES

My review of the procurement and payment procedures with the related accounts and records, the following audit findings were noted:-

- The Department did not have a Procurement Plan in 2011 and also for financial year 2012. I was unable to confirm and verify whether procurement of goods and services were done in compliance with the statutory procurement procedures;
- No quotations register was maintained also by the Department;
- The required three quotations were not obtained prior to acquiring goods and services in 21 instances totalling K1,016,283;
- Another 12 payments totalling K356,474 were effected on pro-forma invoices and not the Original Company Tax Invoices that is required by law;
- No copies of the specimen signature of the Financial Delegates and their financial limits for the 2012 financial year were provided for my review. Therefore, I was unable to verify the correct and valid Financial Delegates within the Department and their delegation limits;
- 39 payments to seven companies which were engaged by the Department to supply stationeries worth over K182,000. The following observations were noted from the list of concern companies:-
 - The Department procured stationeries from small and less reputable companies;
 - From the ten samples selected, two payment vouchers totalling K29,814 were not provided for my audit review;
 - Ten payments totalling K139,404 were effected on proforma invoices; and
 - No Certificates of Incorporation or tax file numbers for four companies sighted with the payment vouchers.
- From the 2012 ETD, more than 70 Hire Car Companies were engaged by the Department during the year a total cost of over K3.2 million. The following audit findings were made from the review of a sample of payments for Hire Cars made to 13 Companies:-
 - 62 payments made to eight Hire Car companies costing over K1.6 million. No contract agreements, APCs or CSTB approvals were sought from the appropriate authorisation prior to the engaging the companies 'services;
 - On all 13 samples selected, there were no required three quotations attached to the payment vouchers and these payments were in breach of the procurement and payments guidelines; and
 - Another hire car company was paid for services costing over K500,000 during the year without following the proper procurement procedures;

- The procurement did not go through the normal APC or CSTB Approval as required to effect procurements in excess of K300,000;
- It did not have required three written quotations attached to two payment vouchers for payments totalling K154,152; and
- No authority or clearance to make external hire of vehicles was sought from the Department of Works prior to acquiring the services.
- 25 consultancy companies were engaged costing the Department K5.2 million. The following audit findings were noted from the review of accounts and records pertaining to procuring and payment for consultancy services:-
 - Two payments for consultancy costing a total of K410,000 the payment vouchers were not provided for my audit review;
 - Consultancy companies had signed contract of agreements with the Department and payments were made, the scopes of work were not attached to the claims to substantiate the type of works done for seven payments made to five consultants costing over K3.1 million; and
 - A law firm was paid in excess of K2.5 million during the year 2012:-
 - The firm charged K300,000 per month for a period of nine months from October 2011 to June 2012; and
 - There was no CSTB or APC approvals and no scope of works documentations were attached to the payment vouchers to support the claims for payment.
 - Another company was paid more than K100,000 for consultancy services rendered to the Department. No report(s) or documentations of the type of works/services were attached to the payment vouchers:-
 - Two payments had only invoices and FF3 and FF4 no other supporting documents were attached to the claims.
- Five payment vouchers totalling K454,814 were not provided for my audit verification.

Management Response

The management concurred with my findings and advised to rectify the anomalies noted.

HUMAN RESOURCE AND MANAGEMENT

The review of Human Resource management process and payroll controls revealed the following discrepancies:-

- The payrolls were not certified by a Divisional or Branch Head nor was the payrolls were reviewed by senior management during the pay runs;
- The required Finance Form 10 (FF10) was not used for (salaries and wages) for officers as required under *Section 18* of the *Finance Management Manual, paragraph 23 to 27; and*

- The Department engaged a total of 14 casual staff during the review of DNPM quarterly report 2012. The casuals were paid through the *IFMS* system; the following observations were made pertaining to the payment of the casuals:-
 - 14 casuals were paid through IFMS system at a total cost of K77,988;
 - No records (Personal Files/Listing) of all the casual workers' engaged during 2012 was provided for my audit review. Consequently, I was unable to confirm and verify the payments made to the casual workers; and
 - The Department did not comply with the legal requirements stipulated in the GO No.7.3-7.5 when it recruited and made payments to the casual employees.
- A total of 103 payments for recreational leaves entitlements totalling K299,955 were paid during the 2012 financial year. The Department did not keep a proper record of recreational leave payments:
 - 22 payment vouchers for amounts above K5,000 with an aggregating sum of K141,107 for the payments of recreational leave entitlements were not provided for my audit verifications.
- 69 overtime payments were made during the year totalling K169,003; the respective payment vouchers were not provided for audit verifications, therefore, I was not able to confirm and verify the propriety of the payments.

Management Response

I was advised by management that a new Officer was appointed to take charge of the payroll section and I was informed that a permanent branch head for HR has been appointed to stabilize the implementation of the Department's new structure 2012 –2014.

TRUST ACCOUNTS

Main Holding Accounts – Bank of PNG

My review of the DNPM Annual report 2012, revealed that there was no report pertaining to how the Trust Accounts were maintained and accounted for by the Department. The same observation was made during the 2011 audit. The Department of National Planning and Monitoring (DNPM) did not mitigate and act upon my audit recommendations.

Subsidiary Trust Accounts – Commercial Banks

The Department maintained a total of 17 Trust Accounts in 2011. The 2012 DNPM annual report revealed only ten Trust Accounts were being operated through the Commercial Banks, the Trust Accounts were directly controlled and under the custody of the Departmental Secretary.

The Estimates for the Trust Accounts for 2011 were not provided to the Department of Finance by the respective Trust Managers. There was no report on the Trust Accounts for the 2012 financial period:-

- No report was furnished to the Department of Finance by the Trust managers during the two years (2011 and 2012), as stated in the annual reports; and.

- I was unable to ascertain the movement of funds and how funds were used (receipts and payments) under each Trust Account during the financial years 2011 and 2012 respectively due to the lack of proper accountability and responsibility by the management of the Department to provide concise and up-to-date reports on the management of the Trust Accounts.

Management Response

The management concurred with my findings and advised that remedial actions were taken to rectify the anomalies noted.

ADVANCE MANAGEMENT

A total of 589 various advances with a total value of K1,636,718 were paid out to officers of the Department during the year 2012.

The Department does not maintain manual or softcopy advance register(s), consequently:

- I was not able to ascertain the accountability and monitoring processes of acquittals of the 589 advances (K1,636,718) at the close of accounts and records for 2012 financial year; and
- I was also unable to ascertain and verify, officers who may have taken more than one advance while the first advance was still outstanding or un-acquitted.

I was also unable to confirm and ascertain the acquittal status of 28 cash advances totalling K156,111 that were issued during the 2012 financial period.

Management Response

I was advised by Management that it had administered the audit recommendations presented as way forward to improve cash advance management outcomes.

DEVELOPMENT BUDGET

My review of the Department of National Planning and Monitoring (DNPM) 2012 Annual Report, I made the following observations pertaining to the DNPM Development Budget:-

- 17 projects were implemented through the Department during 2011 financial period. 12 projects were funded by GoPNG, three project were funded by donors and two were co-funded by GoPNG;
- Only six projects were implemented and monitored by the Department during 2012. The cash flows and warrant funds of the projects were programmed by the branch and the actual roll out of the projects was coordinated through the PIP Wings;
- Contrary to the Department's report as stated on *page 79 of DNPM annual report 2012, Branch Achievements* stating 2012 development budgets implementation reports. The reports were not provided for my audit review;

- The Development Funds allocated through the Public Investment Program for 2012 financial period was K303,722,000. A total of K146,364,606 was used to fund projects and programs in 2012. No financial and work status reports and guidelines on the projects were made available for my audit review:
 - I was unable to ascertain whether:-
 1. PIP guidelines were adhered to when funds were disbursed;
 2. Development Funds which were tied to projects had been acquitted;
 3. DNPM was mandated to use these development funds to finance re-current activities; and
 4. I could not also confirm the propriety of the K129,380,558 that was allocated to projects and expended during the year 2012.
- The government introduced new development budget policies and the 2011 Development Budget was the first budget to implement the PNG Development Strategic Plan (PNGDSP) and the Medium Term Development Plan (MTDP 2011 – 2015). Each of the Sectors responsible has taken part in various ways of conducting awareness of the new development budget policies as reported in their 2011 Annual Report. During the 2012 review there were no reports on the progress and the latest developments;
- Three regional workshops were conducted in 2011 (Kokopo, Madang, Goroka and Bougainville) to create awareness on the PNGDSP and MTDP. Consultations were also held with sector agencies and provinces to help define their expected output in the DSP and MTDP. An MTDP alignment toolkit was developed by DNPM and distributed to agencies and provinces did not align their plans to the DSP and MTDP; therefore the policy branch was continuing to take lead by ensuring that all sectoral and provincial plans were fully aligned to the DSP and MTDP before the end of 2012. Those documentations and records were not provided for audit verification;
- The project registers for on-going and new projects/programs were also not made available for my verification;
- The release of funds was slow at the beginning of the year due to agencies not being on time with their submission of their Annual Work Plans and Cash flows. The line agencies were always slow in producing their annual reports to allow the Department to program the release of funds in line with the Department of Treasury's overall development budget cash-flow schedule;
- The Infrastructure and Economic Division stated that they held a Mid-Term joint review in collaboration with the Department of Treasury where the officers from the division participated and resulted in the production of the development budget mid-term review report. The third and fourth quarterly reports for 2012 (3 and 4) were not provided for my verification;
- I was advised that program and sector officers conducted regular trips to project sites and produced a consolidated report on the outcome of projects and evaluation of projects; however, I was not furnished those reports;

- Regular site visits have been made to validate results and analyse projects, outputs and resources allocated. One of these visits was the Department of Defence's Lombrum Naval Base Water Supply and Treatment Plant Project in the 1st quarter. However, during the Department of Defence audit of 2012. My requested for the Project reports at the Department of Defence which coordinated the project were not provided for my verification. This report was also not made available for audit verification during the audit of the *Department of National Planning and Monitoring*; and
- I was not provided the respective reports for audit as stated by the sectors. Further, I did not view any of the reports and was not able to confirm and verify whether they were produced as stated in the 2011 Annual Report. Furthermore, all Monitoring and Evaluation Reports were not furnished for audit review. As a result, I was unable to comment on the overall performance of the PIP parked with DNPM in 2012.

Management Response

The management concurred with my findings and advised that remedial actions were taken to rectify the anomalies noted.

DEPARTMENTAL RESPONSES

The Department had responded to the findings reported in the management letter issued and their responses have been incorporated accordingly.

CONCLUSION

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

The results of my audit indicate that there were significant weaknesses in the control framework. The control activities were not sufficiently robust to prevent, detect or correct errors or fraud. Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

22. NATIONAL JUDICIAL STAFF SERVICES 2012

OVERVIEW

The *National Judicial Staff Services* encompasses the functions of the 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 *National Judicial Staff Services Act, 1987* 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.
- attendants, interpreters and other staff to ensure the efficient functioning of the Courts.

FINDINGS

CORPORATE GOVERNANCE

Annual Report

The annual report for 2012 was completed but not furnished to me as it was not endorsed by the Secretary at the time of audit in March, 2013. In the absence of the annual report, I was unable to determine the status of the Services' performance, whether it achieved its long term goals and objectives as specified in the four year corporate plan and the annual plan.

BUDGETARY CONTROL

My comparison of the expenditure summary report for the period ending 31 December, 2012 from Department of Finance (TMS 90) against the *National Judicial Staff Services* report (PGAS) revealed the following discrepancies:-

Particulars	NJSS-PGAS (K)	DoF-TMS 90 (K)	Variance (K)
Revised Appro.	82,033,799	73,831,300	(8,202,499)
Warrant Auth./CFC	82,033,799	73,831,300	(8,202,499)
Actual Expenditure	72,779,155	95,014,375	22,235,220

- The *Table* above reveals the differences between the records of the Main Public Accounts maintained by the Department of Finance (TMS) and that of the *National Judicial Staff Services* (PGAS). It means that the two ledgers were not reconciliation during the year, hence, it reflect a serious lack of monitoring and control on the cash flow management.
- The total for the revised appropriation as noted in the National Judicial Staff Services record included carry over funds of K8,202,499 from 2011. This was contrary to *Part V, Section 27* of the *PFM Act* it states that “*all re-current appropriations out of the consolidated revenue fund (CRF) made in respect of a fiscal year will lapse at the end of that fiscal year.*” And as such that all unused fund should have been credited back to the CRF at year end and not carried over as indicated.

Management Response

I was advised by management that as a third arm of government it was not required to remit the surpluses to the Consolidated Revenue Fund at the end of the financial year.

BANK RECONCILIATION

In my review of the bank reconciliations, cash book and related accounts and records, revealed the following audit findings:-

- NJSS operated a perpetual cash book in excel with the cashbook generated from PGAS and the cash book account is reconciled to the bank account on a daily basis;
- All bank reconciliations for the year 2012 were performed on excel spread sheet;
- Bank reconciliations for the drawing account were not submitted to Department of Finance as required in the *FMM Part 3, para 4.7*;
- Bank reconciliations were not duly checked and approved by authorised officers to attest for accuracy; and
- Further, the bank reconciliation for 31 December, 2012 had these anomalies:
 - Bank account statement for 31 December, 2012 had an overdrawn balance of K92,134;
 - Cashbook had a credit year-end balance of K3,867,583; and
 - Stale cheques totalling K1,205,784 were not investigated and cleared. *Refer to details noted below:-*

Unpresented cheques – 2010	K 451,690
Unpresented cheques - 2011	K <u>754,094</u>
	K <u>1,205,784</u>

Management Response

The management concurred with my findings and advised that remedial actions were taken to rectify the anomalies noted.

ASSET MANAGEMENT

Assets

The total value of assets purchased in 2012 was K560,152.

A sample of 57 payments totalling K555,529 for assets items purchased were not recorded in the register maintained for various assets items.

Motor Vehicle

The motor vehicle fleet register maintained by the Services revealed the following anomalies:

- 15 motor vehicles totalling K2,017,136 were purchased in 2012. Thirteen of those motor vehicles totalling K1,743,412 were not recorded in the asset register.
- The Service did not have an updated motor vehicle register. The fleet register that was provided to me by the transport division did not reconcile with the master asset register provided by the asset management division.

PROCUREMENT AND PAYMENTS PROCEDURES

A random sample of 146 payment vouchers totalling K14,274,649 was selected for my audit review together with related accounts and records the following anomalies were noted:-

- Six payments totalling K55,755, I was unable to verify nor validate the propriety of the payments made, due to the non-availability of the payment vouchers;
- 18 payments totalling K312,996 were processed and paid based on pro-forma invoices. Original company invoices were not used for purposes of effecting payments as legally required;
- In 29 payments totalling K839,752, the required three written quotations were not obtained for commitments exceeding K5,000 prior to purchase of goods and services. In the absence of these quotations, I was unable to ascertain whether due regard to economy was taken into consideration in the purchases made;
- Six payments totalling K6,683,350, for prior year's reimbursements. Those payments were unbudgeted for and had affected the cash-flow operations of the Service;
- In 20 sick leave credits totalling K166,041 were calculated and paid to offices based on medical reports. Those payments made were based on *Circular Instruction no: 36/ of 2007* from DPM dated 12 December, 2007. However, I noted that, the *Circular Instruction* covers the period from January, 2007 to January, 2010 and, therefore, the payments were deemed as illegal and should have been forfeited;
- In 19 payments totalling K101,517 were paid to a Budget-Rent-a-Car for hire of vehicles. There were six payments which included K2,000 per payment totalling K12,000 as collision damage waiver fees which was refundable. I was not able to sight evidence of receipts or records to indicate that these fees were refunded; and

- Minor contract agreement documents for two contractors totalling K119,521 were not made available for my audit examination.

Management Response

The management concurred with my findings and advised that remedial actions were taken especially in procurement by having minor contracts with preferred suppliers.

HUMAN RESOURCE AND PAYROLL MANAGEMENT

Probation Officers

I selected and examined ten out of 48 personal files for probationary officers and the following anomalies were noted:-

- Six probationary officers did not have their medical certificate in their respective files;
- Nine officers did not have evidence of 'date of birth' in their personal files; and
- Character reference report from police and oath of affirmation were not sighted in all ten officers' respective personal files;
- Three officers did not have copies of their qualifications to prove their eligibility; and
- Three officers did not have in their files the reference reports from their current or previous employers.

No proper documents were provided nor sighted in the personal files for the probationary officers, indicated management not adhering to requirements in the *GO No. 4, part 1*.

Management of Employee Files

One of the most aspects of human resource function is to maintain records that demonstrate compliance with applicable human resource statutory and regulatory requirements, agency policy and agreements with other parties. Hence, up to date records on individual employees are vital and should be properly maintained.

My review of a sample of 29 employees selected from pay roll number one of 2012 dated 3 January, 2012, and the employee files and related documents revealed the following findings:-

- Seven employee files were not provided for audit verification;
- Completed tax declaration forms were not sighted in six files. As a result, I was unable to confirm the correctness of tax deduction on the payroll;
- 19 employees' files did not have the statement of earnings.
- 19 employees' files did not have the history cards updated.
- Three employees' files did not have their history cards in the files.

- Approval for higher duty allowance (HDA) from the Secretary of NJSS were not sighted in the employee files for three officers.

Contract Officers

The *Public Service (Management) Act* stipulates that the Departmental head is responsible for administering the contracts of his senior officers, acting on the advice of the Department of Personnel Management. The Departmental head should ensure that allowances and benefits (gratuity) are payable under each contract and a contract review committee should be in place to renew all employment contracts.

From a sample of 23 contract officers, I noted the following anomalies:

- In two instances, the contracts of employment were not provided for audit verification;
- Contracts for two officers expired in March and October, 2012 respectively and their contracts were renewed on 01 January, 2013. In this regard, the following matters of concern were noted:-
 - The officers continued to receive the stipulated remunerations and benefits after the expiry date of their employment contracts respectively;
 - GO 9.48 states 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 officer's performance over the period of the Officers' contract. No performance review report, (if any), for the Officers concerned was sighted during my audit.

Management Response

The management concurred with my findings and advised that remedial actions were taken to rectify the anomalies noted.

TRUST ACCOUNTS

Sheriff National Court Trust Account.

- Two Trust Accounts were operated under the account name "Sheriff National Court Trust Account" with account numbers# 1000583619 and 1001657344 at Bank of South Pacific. My examination of the ledgers, together with other accounts and records pertaining to the Sheriff Trust Account, the following matters of concern were noted:-
 - No cash book was maintained by the sheriff's Office to record transactions made from the two Sheriff's Trust Accounts' operations;
 - A register was maintained with details of receipts and payments on a daily basis. Cash receipts and cash payment journals were prepared based on the register and bank statements provided by the Bank. I noted that, the cash receipts journal did not record receipts numbers while the cash payment journal recorded the cheque numbers. This indicated that receipts were not issued for all cash received. There were serious internal control weaknesses existing within the management of the Trust Account. The problem with unrecorded receipts should be addressed immediately by the management;

- Furthermore, bank reconciliations from January to December, 2012 for the two Trust Accounts were prepared based on the register maintained and not from a proper cash book as required. No cash book was maintained and the cash book balance on the bank reconciliation was not validated;
 - All 24 bank reconciliations for the two accounts were not signed by the officer responsible for preparing them nor reviewed and approved by an authorised officer;
 - The Trust Accounts were not maintained in PGAS and therefore all transactions were done manually; and
 - The Trust Instruments were not signed and dated.
- The Registrar's Office maintained a register which recorded cases of court decisions made in favour of judgment creditors. It was revealed that all banking arrangement for payments and receipts relating to cases prior to 2010 were operating under Trust Account no: 1000583619, while cases after 2010 were operating under Trust Account no: 1001657344. The following discrepancies were noted:-
Sheriff National Court Trust Account: 1000583619 (prior to 2010)
 - Bank reconciliation for the month ending 31 December, 2012 had a bank balance of K1,361,143 while the cash book balance stated a balance of K1,366,806 as at 31 December, 2012. I was unable to verify the cash book balance due to no cash book;
 - The register recorded payments to individuals and companies totalling K1,069,748 while the bank statement revealed a total of K221,248 resulting in a net difference of K848,500;
 - An amount of K1,000,000 recorded in the register was a reversal entry from the bank but recorded in the register as a payment. Transactions were not properly recorded in the register;
 - Six payments totalling K151,500 did not have the necessary details captured in the register; and
 - Four payment vouchers totalling K83,867 were not sighted on file.

Sheriff National Court Trust Account No:1001657344 (after 2010)

- Bank reconciliation for the month ending 31 December, 2012 had a bank balance of K1,210,531 which was the same as the cash book balance. I was unable to verify the cash book balance as no cash book was maintained;
- The register recorded payments to individuals and companies totalling K302,324 while the bank statement stated a balance of K465,339 resulting in a variance of K163,015; and
- As per the bank statements, 20 payments totalling K465,339 were paid to various individuals and companies during the year 2012. Six out of the 20 payments, totalling K220,959 did not have the necessary details recorded in the register.

Registrar Trust Account

I was unable to examine the registers, records, reports and other documents related to the registrar's Trust Account due to the non-availability of relevant accounts and records.

Management Response

The management acknowledged my findings and advised that remedial actions were taken to rectify the anomalies noted by installing accounting and database management systems.

ADVANCE MANAGEMENT

My review of the accounts and records pertaining to the management of advances, revealed the following irregularities:-

- In 609 travel advances with a total of K889,948 were paid by the *Service* during the year (2012):-
 - 488 travel advances totalling K733,367 remained un-acquitted at 31 December, 2012; and
 - Ten officers were issued second or more advances totalling K87,412 while their previous advances still remained un-acquitted.
- A randomly selected sample of 37 advances acquittal, totalling K108,944 from the register and checked the acquittal files maintained and noted the following irregularities:-
 - Seven officers did not acquit the remaining balance travel advance balances totalling K7,428;
 - 15 Officers did not acquit their advances within the required timeframe after returning from duty travel, delays were ranging from 8 to 47 days;
 - In eight instances, completed acquittal forms were not sighted in the acquittal files, although they were recorded as acquitted;
 - Accommodation receipts were not attached to the acquittal forms as supporting documents in seven instances; and
 - Boarding passes were not attached to the acquittal forms as supporting documents in three instances.

Management Response

The management advised me that it was going thru a restructure and would strategically place the Fixed Assets Section to prudently manage assets.

DEPARTMENTAL RESPONSE

The above matters were referred to the Secretary of the *National Judicial Staff Services* and I received favourable responses.

CONCLUSION

The control activities such as delegations, authorisations, reconciliations, data processing, and segregation of duties, management and monitoring were not sufficiently robust to prevent, detect or correct errors or fraud. There is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

23. DEPARTMENT OF PROVINCIAL AND LOCAL LEVEL GOVERNMENT AFFAIRS 2012

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 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; and
- Administer policy and functions relating to the Electoral Development.

FINDINGS

CORPORATE GOVERNANCE

Corporate Plan

The *Department of Provincial and Local Government Affairs* has a five year Corporate Plan for the period 2012 to 2016 and a 2012 Activity Plan as required in the *Public Service GO 8.11*.

The Corporate Plan identifies five Strategic Result Areas as the overarched business Activities of the department, which are listed below:-

- Service delivery by provinces and local-level governments;
- Governance in provinces and local-level governments;

- Coordination, performance monitoring and reporting;
- Enhanced performance of LLG Special Purpose Authorities and special projects; and
- Ministerial support, effective and value for money corporate services.

The Plan did not outline the core activities, major strategies, outputs, and performance indicators of various divisions of the Department. According to 2012 Activity Plans. My audit review noted 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 indicators on the timing aspect are also not specified as to how often or within and what time frame outputs will be produced.

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.

Compliance with Legislation

The Department is also bound by other main legislation administered by the department for the Minister:-

- *Provincial Government Administration Act 1997;*
- *Local- level Government Administration Act 1977;*
- *National Capital District Commission Act 2001;*
- *Organic Law on the boundaries of the National Capital District Commission;*
- *Organic Law on Provincial Boundaries;*
- *Organic Law on Provincial Governments and Local –level Governments 1988; and*
- *Animals Act (Chapter 329) 1952; Cemeteries Act (Chapter 302) 1955; and Cities Act (Chapter 4) 1971.*

The Minister has portfolio responsibility for the following:-

- *Disaster Management Act (Chapter 403) 1984 (administered by the National Disaster Office not the Department);*
- *Fire Services Act (Chapter 64) 1962 (administered by the Fire Services not the Department); and*
- *Liquor Licensing Act (Chapter 312) 1963 and Liquor (Miscellaneous Provisions) Act (Chapter 313 1973 (administered by the Liquor Licensing Commission not the Department)*

The Secretary has responsibility for:-

- *Section 167 Land Registration Act (Chapter No. 191) 1981 as Custodian for trust land;*
- *Sections 134 and 135 Land Act (Chapter 45) 1996- protection of the interests of customary landowners including service on customary landowners; and*

- *Section 125 Land Registration Act (Chapter No. 191) 1981*- transmission of deceased estates entitled to claim land.

To ensure that correct procedures, acts and legislations are applied on consistent basis and officers are aware of their responsibility more detailed procedures, acts and legislations are issued by the management. I was not provided with copies of the procedures, acts and legislations although requested. In the absence of provided procedures, acts and legislations I consider that they either did not exist or they were not up to date.

Minutes of Meetings

I was unable to ascertain tentative dates for senior management and team meetings, total number of meetings convened during 2012 and details of agenda items deliberated and resolutions made at the meetings.

Internal Audit Unit

The IAU for the Department was manned by two staff members. Eight audit programmes were targeted for two financial years. No internal audit report was made available for my review, and audit investigation report on an alleged misused and misappropriation of Public Funds by the Acting Director of Jiwaka Transitional Authority.

REPORTING REQUIREMENTS

Annual Management (Performance) Report

The Annual Management Reports for the fiscal year ended 2012 covering the overall implementation and performance/achievements (expected outcome and actual output) of the Annual Activity Plan/ Corporate Plan during the year by the staff members and the *Department of Provincial and Local Government Affairs* as a whole; was not prepared and submitted to DPM/PM&NEC at the required time in March, 2013. There were no reports at the time of audit in May, 2013.

The only report furnished for my review was the 2011 Annual Report and 4th quarter budget review report for 2012.

BUDGETARY CONTROLS

Recurrent Budget

During my comparison of the Vote Summary Printout produced by the DP&LGA and the Expenditure Statement from the Main Public Account which was compiled by the Department of Finance. I observed the following variances of the closing balances, *refer to Table for details*:

Particular	DoF TMS 330 (K)	DP&LGA PGAS (K)	Variances Surplus/(Deficit) (K)
Original Appropriation	14,633,800	20,208,800	(5,575,000)
Revised Appropriation	21,514,500	27,177,300	(5,662,800)
Warrant Authorised	21,308,500	18,739,200	2,569,300
Actual Expenditure	21,297,953	16,606,023	4,691,930

- It was reported in my 2011 Final Audit Management Letter that *DP&LLGA* was submitting Monthly Expenditure Reports to the Department of Finance. However, during the audit of the year 2012, I was unable to validate that monthly reconciliations of the IFMS/TMS reports and PGAS reports were undertaken;
- Comparison of warrant authority amounts as per TMS 330 against PGAS records revealed a difference of K4,424,200 under 15 expenditure vote items;
- The TMS 100 produced by the Department of Finance for period 12 revealed expenditures in excess of warrant authorities issued under five expenditure vote items totalling K513,872; and
- Comparison of Actual Expenditure as per TMS 330 against PGAS revealed variances of K219,624 under four expenditure vote items.

Development Budget

My comparison of the Expenditure Vote Summary printout produced by the *DP&LGA* (PGAS) with the Expenditure Statement from the Main Public Account compiled by Department of Finance revealed the variances captured in the Table below:-

Particular	DoF (TMS Ledger) (K)	P&LGA (PGAS Ledger) (K)	Variances Surplus/(Deficit) (K)
Original Appropriation	41,174,000	2,000,000	39,174,000
Revised Appropriation	39,774,000	2,000,000	37,774,000
Warrant Authorised	39,774,000	900,000	38,874,000
Actual Expenditure	2,586,759	680,934	2,175,825

- The allocations by warrant authorities recorded on the two ledgers indicated that the TMS reported figures were more than the figures on the PGAS report by K38,874,000; and
- Actual expenditure reported more in Department of Finance record by K2,175,825.

Management Response

I quote, *"The Salary warrants being posted in the PGAS to balance out with the TMS"*.

DRAWING ACCOUNT

My review of the bank reconciliation statement prepared for 31 December, 2012 with the related accounts and records revealed the following audit finding:-

- The bank account and cash book balances at 31 December, 2012 did not reconciled. The bank had a NIL (K0.00) balance whilst the cash book balance was K20,671,515 Cr;
- Schedule 5: *Cheques presented at Bank not posted in Cash Book* totalling K95,110 that comprised of; Opening balance up to November, 2005 totalling K92,447, cancelled cheque valued K875 presented at bank in May, 2008 and manual cheque valued K1,786 drawn in November, 2008. These items were not investigated and cleared in the cash book;

- Schedule 6: Other debits of K480,563 comprised of unidentified differences, Cancelled Cheques, unidentified Journal Entries, Overpayments and Payment cheque on CRL/CHL not in Cash Book;
- Schedule 7: Credits in the bank account not posted in cash book totalling K17,428,983 represented fund reimbursed from the Main Public Account for the months of November and December, 2012 and not cleared at the time of audit;
- Schedule 8: Unpresented cheques totalling K3,777,222 on the schedule did not agree to the CRLs total of K3,742,874 resulting in a difference of K34,348; and
- No full time officer to perform the duties of compiling the monthly bank reconciliation statements.

Management Response

The management acknowledged my recommendation and advised to implement and strengthen the weaknesses.

ASSET MANAGEMENT

My audit follow-up observations revealed that:-

- The Asset Management Function is still decentralized; each Division is still responsible for purchasing their own assets and stationeries. The individual divisions, however, are not effectively communicating the detail information of the assets they are purchasing to the Manager-Administration to update the Departmental Centralized (Master) Asset Register;
- The National Disaster Centre (NDC) which is under the Department of Provincial and Local Government Affairs maintains its own Assets Register. The NDC does not also communicate to the Manager-Administration details of their assets to be captured in the Master Asset Register;
- The Asset Register for NDC was also not made available for my audit review when I requested for it;
- In the absence of a properly maintain Master Assets Register, I was unable to confirm the total number of assets purchased during the 2012 financial year;
- According to the asset report compiled by the Manager-Administration the status of the Departmental Assets on hand or disposed;
- *Asset held at Somare Foundation*

As per the report, the movement of relocation was on a short notice therefore, removal of all assets at a later date was denied by the Building Management due to non payments of outstanding bills by the Department. Assets included furniture and a motor vehicle (Mazda BT50 ZGC 905) was withheld. The total Kina value of the assets withheld at Somare Foundation Premises was not ascertained during the audit due to lack of data.

- *Assets held in a Storage Container*

There was furniture (filing cabinets with files) which were removed and stored in the Department's storage container located at the old Central Government Building yard at Waigani; again no Kina value and volume of the assets was forwarded for our audit reviews.

- *Assets donated to Provincial Administration*

The new Office Building was fully equipped with furniture and Department staffs were required to move in with their computers and files. Therefore, furniture that was brought from Garden City was stored at the new office building car park. Upon Senior Management Team decision the furniture were donated to Provincial Administration. Three Provincial Administrations showed interest so the assets were grouped and donated accordingly; again the volume of assets and total Kina value of assets (disposed off) given to the Provincial Administrations were not surrendered for my audit reviews.

- *Tendered Assets to Staff*

Old furniture which were sold to the Departmental staff and they are yet to pay up, the actual kina value of those furniture being sold off to staff members was also unknown.

My audit review of the procurements, accountability and related accounts and records pertaining to the management of assets within the Department revealed the following weaknesses:-

- No Board of Survey (BOS) report(s) was provided for my audit review pertaining to Departmental assets which were donated to the Provincial Administrations and old furniture sold to staff members;
- The Assets Register was not kept-up-to-date. It did not have the particulars of assets that were disposed off during the Office relocation from Somare Foundation (Waigani) to Garden City (Boroko) and then to the current location at new office Building in 2012; and
- I was not able to confirm the number of assets stored and are currently used at the various locations and those that had been disposed off through various means due to the non-availability of any authentic accounts and records of the movement of all Departmental assets (both old and new).

- *Annual Stocktake*

No annual stock- take was carried out for the 2012 financial year. The last stocktake was done in year 2010.

- *Assets Acquired in 2012 Financial Year*

According to the ETD, it revealed that 82 assets items with a total cost of K519,843 were acquired during the year. The custodians and locations of the assets within the Department was not ascertain due to the non-availability of authentic records for my sighting and verifications at the time of audit in April, 2013.

Management Response

I was advised that an Annual stock take exercise would be carried out in 2014 and onwards.

HUMAN RESOURCE MANAGEMENT

My audit review of the accounts and records pertaining to the management of the human resources within the Department revealed the following audit findings:-

Casual Employees

According to the Human Resources Division's casual employees listing, it revealed that, 14 officers were paid as part-time or casual employees:-

- Six officers were paid through the National Disaster Trust Account, five were paid through PGAS and three were paid through the Concept Payroll;
- Three casuals were engaged as operational clerks, two office attendants since 2008 and 2010 respectively and their status of employments had not been reviewed since then;
- Another two casual employees who were attached to the Executive Division were not on the staff Establishment Register and also no such position(s) had been created for under that division;
- 11 casuals were engaged without any prior and formal approval from Department of Personnel Management to create position for them;
- No personal files were maintained and kept for seven casuals, therefore, I was unable to ascertain the current employments status of those officers, six commenced in 2012 and one commenced in 2000;
- Documents in the personal files were not folioed to safe guard them from being removed and for ease of identifications in the files; and
- According to the ETD, it revealed that 66 wages payments for the five casuals paid through PGAS cost the Department a total of K52,182; and the vote items charged were (135 and 139) instead of vote item 112.

Recreational Leave Entitlements

According to the ETD, it revealed that 106 payments with a total cost of K565,952 were paid to various travel agents during the 2012 financial period.

My review of the payment vouchers with the related accounts and records, revealed the following discrepancies:-

- According to the HR Divisions, it had identified 13 officers to have taken their recreation leaves during the 2012 financial year. My verifications to the ETD, it revealed only ten officers to have been paid to take their recreational leave. The 13 together with the ten who actually been paid were not validated to the respective divisions they worked at the time of

audit. A total of 36 payments of recreational leaves fares was paid to a Travel Agent with a total cost of K215,485;

- Two “*advance payments*” for re-creational leaves fares totalling K43,800 paid to a Travel Agent. The advance payment of leave fares was for officers of two Divisions within the Department. The pre-payments of air fares to the Travel Agent were irregular, and were subject to abuse or misappropriation by those who authorised and approved the payments;
- No proper and central control and monitoring of officers due to take their recreational leaves. The function at the Human Resource Divisions is defunct in that divisions/branch were responsible in making decisions on who to take leave and were by-passing the Human Resource Division in the process;
- Four officers claimed for their dependent children who were already over and above 19 years old. Such actions cost the Department a total of K36,726, the individual payments ranged from over K6,000 to K15,000 respectively;
- According to one Travel Agents’ Statement of Accounts, it revealed 37 unidentified individuals who had obtained air tickets at a total cost of K21,882 from the Agent and charged to the Department;
- Recreational leave fares were incorrectly charged to Vote Items 121 (Travel and Subsistence) and Vote Items 135 (Other Operational Expenses) which is a ‘*gross abuse of the Appropriation Act passed in the National Parliament in November, 2011*’. The Department had a Budget Appropriation of K240,000 under Vote Item 114 for Recreational Leave Fares; and
- Documentations relating to approval and calculations of credit days for leave and approvals for payments were not sighted in the respective personal files for 16 officers.

Overtime Payments -2012

According to the ETD revealed a total of 46 officers were paid overtime at a cost of K55,917 in year 2012:-

- 13 of those officers received overtime totalling K14,846 were not eligible for those payments;
- Six of those officers were attached to the Finance Division and occupying positions grades from 11 (4 officers), one in grade 13 and the other in grade 18 level:-
 - No approval was sought from the Departmental Head for working outside normal working hours;
 - No overtime and shift allowances statement was completed by each officer showing particulars of work performed and certified to be correct before payments were effected; and
 - Funding used for the payments were all from Vote Item 135 (other operational expenses) and not Vote Item 113 (overtime).

Management Response

I was advised by management that it had rectified the anomalies noted. However, I noted that Recreational leave fares were paid to Travel Agents all throughout the year and were charged to incorrect Expenditure Vote Items.

TRUST ACCOUNT

My review of the management of the Disaster Trust Account and related accounts and records revealed the following discrepancies:-

- My followed up on the previous reported audit issues regarding funds being transferred from the Recurrent Budget (National Disaster Centre Vote) to the Disaster Trust Account, revealed that the management was still transferring funds from the Recurrent Appropriation to the Trust Account in 2012 without the authority of the Secretary of Treasury;
- An amount of K2,108,938 was transferred from the Recurrent Votes to the Disaster Trust Account before and after the Close of Account for year 2012. The amounts transferred included K780,912 on 11 December, 2012 following by the highest amount of K800,000 on 12 December, 2012 and another amount of K457,273 on 21 December, 2012, the Department continues to breach the legal requirements stipulated in the *PFM Act* and turning a blind eye on the Severity of its actions.
- The books of account and records for the National Disaster Trust Account were not maintained through the PGAS as required by the *PFM Act*, In spite of my previous audit reports, management had not made any effort to rectify these anomalies;
- All accounts and records pertaining to the Trust Account for year 2012; were not made available for my audit perusal. As such, I was unable to vouch the transaction details against payment vouchers and supporting documents to ascertain the validity of those transactions made during the year, with an aggregated cost of K2,108,938; and
- Trust monies were expended outside the *Trust Instrument* and used for expenses of Recurrent nature totalling K713,132.

Management Response

I was advised by management that it had taken heed of my recommendations and had rectified the anomalies noted.

ADVANCE MANAGEMENT

AGO review of the advances registers and related accounts and records pertaining to the management of issuing and acquitting advances, revealed the following audit findings:-

- A total of 794 various advances with a total cost of K1,147,237 were paid during the 2012 financial year;
- A total of 662 advance valued at K814,315 were acquitted at the time of audit in April, 2013;
- A total of 145 advances with a total value of K327,941 were un-acquitted and remained outstanding a the time of audit in April, 2013;

- A total number of 13 advances with a value of K4,979 had not been accounted for;
- My audit validations of 25 acquittals of advances valued at a total of K31,167 were randomly selected for my verifications:-
 - No supporting documents were attached to ten acquittal forms (advances) with a total of K11,491 such as boarding passes and tickets to substantiate the used of the advances received.
- 27 officers (inclusive of senior management officers) were issued second advances totalling K210,896 whilst their first advances were still outstanding. The senior officers were overriding the control procedures by creating a culture where controls were no longer considered necessary;
- The *Financial Delegate* who was the official manager of the management of advances in accordance with Financial Regulations, did not review the register for advances to ensure that all advances were properly recorded and acquitted within the specified legal timeframe and within the Appropriation year also;
- No follow-up action was taken by the Financial Delegate to remind officers concern to acquit their advances;
- 18 salary advances totalling K72,873 were furnished for my audit review while the Expenditure Transaction Detail captured 23 salary advances totalling K13,382. While the discrepancies of records and accountabilities was so apparent, all salary advances were not acquitted and still remained outstanding at the time of audit in April, 2013;
- Another ten salary advances totalling K8,282 were not recorded in the register; and
- Two payment cheques for salary advances totalling K58,723 were drawn to the current Departmental Head. The transactions (payments) were made prior to the sealing of the officer's contract of employment. The salary advances were still not acquitted at the time of audit in April, 2013.

Management Response

The management acknowledged my recommendations and promised to take corrective actions to address the weaknesses.

DEPARTMENTAL RESPONSE

The Department responded to my Audit Management Letter and their comments are stated accordingly.

CONCLUSION

In general, there was 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.

Further, the results of my audit indicate that overall there were notable weakness in the control framework. The control activities such as delegations, authorisations, reconciliations, segregation of duties, management monitoring, etc. were not sufficiently robust to prevent, detect or correct errors or fraud.

24. DEPARTMENT OF JUSTICE AND ATTORNEY-GENERAL 2012

OVERVIEW

The Department's mission is to ensure efficient and expeditious settlement of disputes, through the Justice System and the maintenance of social order according to the rule of law.

The Department is expected to fulfill its mission in the context of the following:-

- Provide legal advice to all Arms of Government,
- Probate and administration of estates;
- Administrate probation and parole services; and
- Provide services to the Legal Training Institute, the Law Reform Commission, Solicitor General's Office, all Courts in the National Judicial System, the Magisterial Services Commission, the Land Titles Commission, the Accountants Registration Board, the Public Curator's Office and standing or ad-hoc organisations relating to the functions of the Department.

FINDINGS

BUDGETARY AND FUNDS CONTROL

Variances in Expenditure Balances (Recurrent Budget 2012)

In my comparison of the 2012 Expenditure Vote Summary printout maintained by *Department of Justice and Attorney-General* and the Expenditure Statement on TMS 330 produced by Department of Finance for Period 12, 2012, I noted significant variances. *Details shown in table below:-*

Particulars	DoF (TMS 330) (K)	DJ&AG (PGAS) (K)	Variance (K)
Revised Appropriation	139,850,300	65,585,100	74,265,200
Warrant Authority	139,491,750	48,444,100	91,047,650
Actual Expenditure	8,492,404	48,399,854	(39,907,450)

PGAS and TMS did not agree, there was variances in the expenditure balances recorded in the Department of Finance and the Department. I concluded that what was captured on the Main Public Account was not a true and fair reflection of what had transpired during the financial year at the Department.

Expenditures in Excess of Warrant Authority

The Expenditure Statement (TMS 100) produced by Department of Finance for year ended 31 December, 2012 revealed that, expenditures were in excess of warrant authorities issued under seven Vote Items totalling K4,269,741 in the recurrent budget.

BANK RECONCILIATION

In my audit verification of the accounts and records and related bank reconciliation schedules for the December, 2012, revealed the following audit findings:-

- Reconciling items not investigated, adjusted and cleared in the cash book and the bank account:-
 - Schedule 7: Credits in Bank Account not in Cash Book
The amount of K6,302,640 represented reimbursements from the Main Public Account for the month of December was not yet journalized and posted in the Cash Book.
 - Schedule 8: Unpresented Cheques
Unpresented cheques totalling K2,126,928. Stale cheques totalling K29,804 dated back to 2005 not yet cleared from the Unpresented Cheques.
 - Other Items (Credits)
Other items totalling K944,373 comprised of unidentified cheques since 2010.

I noted that no action taken against schedules 6 and 11 and as a result, the same outstanding cheques were brought forward to the current period ending 31 December, 2012.

Management had failed in its responsibility to maintain proper records and update its Cash Book records to comply with requirements stipulated by the *FMM*.

ASSET MANAGEMENT

I randomly selected a sample of 60 payments for assets totalling K789,726 for my audit reviews which revealed the following findings:-

- A total of K492,491 worth of office furniture and equipment's, Motor vehicles and mobile phones were bought during the year;
- The assets register furnished for my review disclosed data of assets purchased in 2012 only;
- The assets register did not contain important details of assets, such as Assets model number, serial numbers, officer responsible and vehicle registration number etc;
- Details of Mobile phones purchased were recorded in the Office furniture and Equipment register. Mobile phones are considered as Attractive Items as stipulated in *Part 29* of the *Financial Management Manual* and therefore, details of such items should be entered on stock-cards under a separate section. There was no evidence to indicate that this requirement was complied with; and
- I was unable to ascertain the status of a stocktake of all Departmental assets due to the manager in-charge of assets was on official duties at the time of audit.

PROCUREMENT AND PAYMENTS PROCEDURES

A sample of 89 payment vouchers totalling K6,298,770 were randomly selected for my audit review, which revealed the following findings:

- 23 payments totalling K1,606,865 were not verified and validated due to the non-availability of payment vouchers;
- 23 payments totalling K629,323, the required three written quotations were not obtained prior to purchase of goods and services as required under *Part 12* of the *FMM*. In the absence of such quotations, I was unable to ascertain whether due regard to economy was taken into consideration when the purchases were made;
- Six payments totalling K316,673 were not certified by the Certifying Officer prior to drawing the payment cheques;
- Nine payments totalling K151,490 were made to suppliers based on Pro-forma invoices. Original Company Tax Invoices should be used for purpose of effecting payments, and is the only and legal acceptable evidence of goods/services delivered to the government agencies;
- In 11 instances, requisition for goods and services (FF3) were not attached for payments totalling K502,876;
- A payment of K37,377 was made to a supplier without an invoice attached to the claim;
- A payment of K10,219 was made to a private clinic for medical check-up for the Executive management branch of the *Department of Justice and Attorney-General*. However, I noted that the:-
 - Payment was made without any budgetary provision;
 - No medical invoice/bill was sighted to verify the accuracy of the claim and payment; and
 - No list of names of officers was sighted to confirm that only employees of Justice and Attorney General were recipients of the medical services.
- A total of 26 payments totalling K168,382 were paid to the paymaster during the year 2012 for expenses not related to salaries, wages or overtime. This was contrary to the *PFMM part 19*, as a paymaster is the person in whose name or position a cheque is drawn for payment of salaries, wages, overtime and/or who actually pays cash salaries, wages and overtime to officers and employees within the Department; and
- No contract agreement was sighted for payments totalling K318,780 for services of providing pot plants on hire during the year 2012.

HUMAN RESOURCE AND PAYROLL MANAGEMENT

Management of Employees files

My review of 20 Employee files whose names were selected on a random sample basis from pay number 24 of 2012 dated 29 November, 2012 and noted the following audit findings:-

- Completed Tax declaration forms were not sighted in ten personal files. I was not able to confirm whether tax deducted were correct or not;
- No Statement of Earnings for 14 officers were sighted the personal files, I was not able to validate the accuracy of the annual salaries and allowances paid to the officers concern; *and*
- Six officers Personal Files were not provided for my review.

Special Domestic Market Allowances

A sample of 20 officers were selected for the verification of the SDMA paid to them against the requirements as stated in the *General Order*, the following irregularities were noted:-

- All 20 officers receiving Special Domestic Market Allowances (SDMA) in 2012 did not have any documentary evidence of the Departmental Head's authorisation for them to be paid SDMA;
- Ten of those officers receiving SDMA were still on probation;
- Eight officers did not possess a first degree qualification. No qualification certificates from any educational institutions was sighted in their personal files; and
- Three casual officers were also paid SDMA. Two were security guards and the other was a Record Clerk.

Contract Officers

15 contract officers were selected and their personal files were examined and the following findings were noted:-

- Contract of Employment were not renewed for nine senior officers at the time of audit dated 24/09/13; and
- One officer's personal file was not provided for my audit review.

Probationary Officers

A total of 102 Probationary Officers were employed at the time of audit. 15 personal files were reviewed during my audit and the following audit findings were noted:-

- Eight Probationary Officers did not have their Medical Certificate in their respective personal files;
- Nine officers did not have evidence of Date of birth in their personal files;

- Character reference reports from Police were not sighted in ten officers respective personal files;
- Two officers did not have copies of their educational qualification certified;
- Four officers did not have their reference reports from their current or previous employers in their personal files;
- Three officers' personal files were not made available for my audit review; and
- No Completed Oath or Affirmation was sighted in eight officer's personal files.

TRUST ACCOUNT

Four Trust Accounts were managed by the DJAG. Two of the Trust Accounts were managed by Public Curator's office and Public Solicitors office respectively. The Trust Accounts are the listed below:-

- Legal Fees Trust Account;
- Library Trust Account;
- Public Curators Trust Account; and
- Public Solicitors' Trust Account.

Trust Accounts for the Public Curators and the Public Solicitor are audited upon submission of the Annual Financial Statements as required in the *Trust Instruments*.

Observation relating to the Legal Fees Trust Account and Library Trust Account are detailed below:-

Legal Fees Trust Account

As per the *Trust Instruments*, states that, the Minister for Finance and Treasury by virtues of powers conferred by the *PFM Act* hereby directs "payments made from the account shall be authorised by the Departmental Head of the department of Justice and Attorney General, or his delegate, and only for the purpose of meeting the cost of legal representation engaged on behalf of the state by the *Attorney General* and shall comply with the *PFM Act*".

Payments out of the Trust Accounts

My review of the payments made from the Trust Account revealed that:-

- 112 payments amounting to K2,043,375 were made for various expenditures, contrary to the purpose stated in the *Trust Instrument*;
- A sample of 20 payments totalling K1,203,523 the related payment vouchers were reviewed, the following discrepancies were noted:-
 - Two payments totalling K34,863 were based on proforma invoices rather than the required Original Company Tax Invoices;

- A payment of K4,548 made to a Helicopter company was based on a quotation, and the General Expense Form (FF4) was not examined and certified by the responsible accountable officers; and
- Two payment vouchers totalling K7,437 were not sighted during audit.

Trust account Reconciliation

My review of the bank reconciliation for the month ending 31 December, 2012, revealed the following discrepancies:-

- All reconciling items were not adjusted by way of journal entry (J/E) for postings in the cash book (Debits in Bank Account not in the cash book) total of K486,779 in service charges and others;
- Credits in Bank Account not in cash book totalling K348,912, capture in Schedule 7 were not yet journalised for positing in the cash book; and
- 38 outstanding cheques amounting to K223,220 dating back to 2009 were reclassified as stale and adjusted in the cash book accordingly.

Library Trust Account

Payments out of the Trust Account

- 696 payments totalling K3,055,355 were made for various expenditures which were contrary to the purposes stated in the *Trust Instrument*;
- A sample of 20 payments totalling K373,282 were randomly selected and vouched, the following audit findings were note:-
 - Two payments totalling K56,528 did not have FF3's and FF4's in the file; and
 - Three payments totalling K35,498 were based on pro-forma invoices and quotation, rather than the Original Company Tax Invoices being the prime service documents to support the claim and payments.
- A payment of K16,350 made as 'Determination pay' to a person was not located in the payment vouchers file.

Trust account Reconciliation

The bank reconciliation statements for the month ending 31 December, 2012, revealed the following findings:-

- Debits in Bank Account not in Cashbook (K8,917) comprised of bank charges were not yet journalised for positing in the cash book;
- Credits in Bank Account not in cash book totalling K207,578 captured in Schedule 7. The amount comprised set payments from housing rentals and Village Court related expenses; and

- Unpresented cheques at 31 December, 2012 with an aggregated total of K218,806.

ADVANCE MANAGEMENT

My audit review of the advance register and related accounts and records pertaining to the management of advances, revealed the following findings:-

A sample of 177 travel and cash advances totalling K645,601 paid during the year revealed the following irregularities:

- 73 advances totalling K273,534 remained un-acquitted at the time of audit in 2013;
- 33 advances totalling K156,115 were made to 14 officers who had their prior advances still outstanding;
- 52 acquittals of advances totalling K214,313 were not made within the required timeframe for both overseas and domestic travels as required by *FMM part 20*;
- 24 advances totalling K70,743 were not recorded in the advance register;
- 11 advances totalling K96,642 were paid via the paymaster. However, as per the *FMM Part 19*, a Paymaster is the person in whose name or position a cheque is drawn for payments of salaries, wages, overtime and/or who actually pays cash salaries, wages and overtime to officers and employees within the Department;
- Recovery of advances did not occur in prior years and for the year under review; and

DEPARTMENTAL RESPONSE

The findings were brought to the attention of the Secretary in January, 2014. At the time of writing this report (*Part 2*) no response was received from the Department.

CONCLUSION

In general, there was no marked improvement in the system and operation of controls with the Department compared to the previous years. The results of the audit indicate that overall, there were significant weaknesses in the control framework. The control activities such as delegation, authorisation, reconciliations, data and payroll processing, management monitoring were not sufficiently robust to prevent, detect, or correct error or fraud.

Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

25. DEPARTMENT OF PETROLEUM AND ENERGY 2012

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 Section 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

REPORTING REQUIREMENTS

Annual Financial Management Report

At the time of audit of the *Department of Petroleum and Energy* in May, 2013, no Annual Report for the year 2012 was made available for my audit sighting and review.

Financial Quarterly Budget Review Reports

The Department had prepared the four quarterly budget review reports at the time of audit on the 13 May, 2013. The review of the quarterly reports revealed that:-

- The four quarterly reports sighted, were not presented in accordance with the statutory requirements in the *PFM Act, (Part II Section 5)* and the *FMM*.
- *Endorsement of quarterly reports*: - the quarterly reports were not signed by the Secretary of the Department.
- *Annual Operational Activity Plans 2012*: - The strategy of comparing the detailed internal reports (monthly/quarterly) against the Annual Operational Activity Plans were not captured in the quarterly reports to quantify the funding that had been spent on the employees, and service providers against what had been implemented and achieved from the Annual Operational Activity Plan in each quarter, either implementations were done in segment or in full. The analogy of the key target areas and their respective scope and implementations; together with the achievable target areas were not captured in the reports. *No Annual Operational Activity Plans (2012) were attached to the quarterly reports for the year, 2012.*
- *Monthly Bank Reconciliations*: No report on the latest monthly bank reconciliation of the "Drawing Account" for the Department was captured in any of the quarterly reports for

2012. The last MBR was done for the month of August, 2012. The figures in the Table on receipts and payments were obtained from the ANZ bank with no comparative figures from Department's ledger accounts.

Management Response

The management concurred with my findings and will pursue them to improve in these areas.

BUDGETARY CONTROLS

Recurrent Budget

In my comparison of the 2012 Expenditure Vote Summary maintained by the Department of Petroleum and Energy with the Expenditure Statement on IFMS 2159 or TMS 330 produced by the Department of Finance for Period 12, 2012, I noted significant variances between the statements' balances. Refer to Table below for details:-

Expenditure Balances

Particulars	DoF TMS330 (K)	DPE PGAS (K)	Variances (K)
Revised App.	36,551,500	36,683,500	-132,000
Warrant Authority	36,132,000	29,814,500	6,317,500
Actual Expenditure	35,563,279	29,698,405	5,864,874

The variance indicated that no reconciliation was performed on the two Ledgers as legally required.

In addition, the expenditure statement (IFMS 2157) produced by Department of Finance for the year ended 31 December, 2012 revealed expenditures in excess of warrant authorities issued under vote item number 135, Other Operational Expenditure totalling K4,000,000 in the Recurrent Budget.

Management Response

The management concurred with my findings and advised to rectify the anomalies noted.

CASH MAMANGEMENT (Drawing Account)

Drawing Account

The *Department of Petroleum and Energy* operated a Drawing Account No.4311-6136 with the Bank of Papua New Guinea.

- The monthly bank reconciliations was only done up to August 2012. No MBR was done for the months from September to December, 2012.
- Observations and Comments on the schedules to the latest monthly bank reconciliation for August, 2012 are noted below:
 - Debit in Bank Account not in Cash book - K40,000

The unaccounted payments that were presented at the bank on 2 February, 2009 had not been investigated and actions taken on the person who fraudulently printed the cheque.

- Cheques in Bank Account not in Cash Book - K204,570

This Schedule consisted of:-

- o One cheque No. 931 categorised as Wrong Cheque presented at bank on 16 June, 1999 worth K4,570; and
- o Another Fraudulent cheque No. 99998, presented at the bank on 24 May, 2000 totalling K200,000 (pending investigation).

If the wrong cheque was cancelled including the fraudulent (both were falsely presented at the bank); management would have promptly investigated and resolved and charged the officer(s) responsible. Weaknesses in the Department; includes lack of controls and disciplinary actions taken on employees to combat stealing of public monies.

- Other Items – K1,513,230

This Schedule contained discrepancies highlighted below:

- o 15 Unidentified Journal Entries were raised totalling K1,276,878 which included a JE for a dishonored Cheque No. 2, worth K1,157,000 (dated 30 November, 2000) and another JE for a cancelled Cheque No.4720 worth K50,000 (dated 21 March, 2002);
- o Two duplicated Cheques Nos. 9464 and 9476 totalling K13,876 in the CRL/CHL Reports were deleted from the CRL; and
- o A cancelled Cheque No. 19959 totalling K200,000 was presented at the bank on 14 December, 2008.

- Credits in Bank Account not in Cash Book – K27,001,665

This schedule consisted of bank transfers of funding from the Main Public Account for the months from March to August, 2012. As per Cash Book Analysis, I noted that Funds Reimbursements from March to December totalling K34,641,366 for the ten months.

- Unpresented Cheques at 31.08.2012 - K5,559,813
 - o The figures on Schedule 8 for August monthly bank reconciliation were distorting and unrealistic, including the closing balance noted above and on the CRL balance after removal of August presented cheques.
 - o According to the CRL for August 2012, the Unpresented Cheques after Removal of the presented cheques was K4,448,423.
 - o I noted on August CRL print out that 31 presented cheques totalling K2,299,873 were presented in February, 2013.

Management was advised to explain this abnormality in the PGAS.

Management Response

The management concurred with my observations and advised to rectify the anomalies noted

ASSET MANAGEMENT

No Asset Register

The Department did not maintain an Asset Register as required in the *FMM Part 32*

I noted that the Department was in the process of creating an asset register, however, the register sighted was deficient of such data; Date of Purchase; Quantity; Unit Cost; Total Cost; Estimate of Economic Life; Preventative Maintenance Requirement; Corrective Maintenance History; Physical Location and Officer Responsible as required in the *FMM*.

Unrecorded Assets

Assets purchased during the year, 2012 amounted to K429,096. In 31 instances relating to Office furniture and equipment and Computers and Laptops. I was unable to verify the assets to the assets register due to its defectiveness.

No Annual Stock Take Undertaken

No stocktake was done on the fixed and attractive assets including inventories and stores by the Department for 2012 financial year.

Motor Vehicle Register not updated

Seven vehicles with a total cost of K306,180 were purchased during the year, 2012. Three vehicles with a sum of K108,156 were recorded while the other four totalling K208,024 were not recorded.

Management Response

The management concurred with my observations and advised to rectify the anomalies noted

PROCUREMENT AND PAYMENT PROCEDURES

My audit examination of the selected 117 payments totalling K8,341,412 and related accounts and records together with a review of the internal control systems disclosed the following weaknesses:

- No Quotations Register was maintained by the Department;
- No specimen signatures kept for *Section 32 Officer* and *Financial Delegates* to be verified against the FF4, FF3 and other related documents;
- 51 payment vouchers totalling K2,695,519 were not made available for my audit reviews;
- Requisition for Expenditure form (FF3) was not sighted for a payment of K46,976 dated 15 June, 2012 (chq # 28441) for vehicle hire. I was not able to ascertain whether proper approvals were obtained prior to procurement;

- A payment of K25,417 to an officer for consultancy services dated 9 October, 2012 (chq#29102) was not examined by the examiner before processing the payment;
- A payment of K50,128 to an officer for Vehicle hire dated 15 June, 2012 (chq#28456) was effected without correct certification by the Certifying Officer;
- 24 payments totalling K3,300,335 were made without the signature of the Department's delegated authority to indicate whether goods and services were received before the claims were paid;
- Eight payments amounting K523,022, the required three written quotations were not obtained prior to effecting purchases;
- Two payments totalling K78,294, Tax Invoices were not attached to substantiate the payments made;
- 12 payment totalling K463,501 no Consultancy Agreements were attached to the claims, therefore, I was unable to ascertain the correctness of the payments made;
- Two other payments totalling K209,999; PTB approval from Department of Works (DOW) for external use of hire vehicle was not obtained prior to engagement of private vehicles; and
- Four payments totalling K874,042, *Section 32 Officers* designated limit of signing approval were over and above their financial limits.

Management Response

The management concurred with my observations and advised to rectify the anomalies noted

PAYROLL MANAGEMENT

No Payroll Reconciliation

In my review, I noted that payroll was not properly reconciled and approved by a competent Human Resource Manager for accuracy and validity prior to processing of pays from pay no.1 to 26 of 2012.

Salaries and Allowances Paid Through PGAS

80 payments totalling K630,745 related to salaries and allowances that were paid through PGAS. The payment vouchers were not made available for my review to ascertain whether those payments were properly authorised and relevant approvals from respective senior personnel were obtained prior to effecting payments.

4th Quarterly Report – 2012

Human Resources Management: According to the Quarterly 4 report for 2012, the following information was highlighted:

- The Budgeted Salary for the Department was at K7.3 million; the actual costs of salary/wages was not captured in the report; and

- The Department's Staff ceiling highlighted is noted below:-
 - *Funded Ceilings* - Incorrect total funded ceiling quoted in the report as 145 when it should have been 168;
 - *Casuals* – 15 casuals were funded, but only ten casuals were paid through the Concept payroll. No report sighted on the five unaccounted casuals. However, a total of 67 casuals were paid through PGAS. The casuals were not part of the Department's Approved Staff Establishment;
 - *Funded vacancies* - The report also highlighted 23 funded vacancies, however, no mentioned was made on the other five also (130 – 102=28) and including the 28 which were correct and 23 vacancies ;
 - *Manpower* - On page 5 of the report, on Manpower it quoted 27 as the current funded vacancies and 107 Payroll Agency Head count;

A total of 15 casuals were on the Concept Payroll whilst payroll agency head count was 11. The report stated that 61 casuals were paid through PGAS;

There were inconsistencies with the report and on Page 5 of the report on Manpower compared against the Staff Ceiling that was stated;

- *Savings on Funded Vacancies* - The savings from the funded and vacant positions were not reported by management;

The funded vacancies were internally advertised on 27 June, 2012 and by the end of 2012, recruitment was in progress.

- *Unattached Officers* - No other information was available on the unattached officers, however, five officers were identified for retrenchment, and were captured on the Staff Ceiling Table (in the report).

Management Response

The management concurred with my observations and advised to rectify the anomalies noted

ADVANCE MANAGEMENT

A review of the advance register and related records and documents revealed the following irregularities:

- I noted that there was no Advance Register maintained and it was compiled during the audit. This was in breach of the *PFMA Part 20* where advance register must be maintained and readily made available for audit inspection at the prescribed date;
- Unacquitted advances at 31 December, 2012 aggregating K773,245 and
- Sampling tests showed that for every four samples picked three acquittal forms were not properly acquitted as per required legislative (*PFM Act*) *Part 20*:

Management Response

The management concurred with my observations and advised to rectify the anomalies noted

JOURNAL ENTRIES

Department of Petroleum and Energy had a Journal Entries Register. However, the register of Journal Entries was not properly maintained and kept-up-to-date. The latest date in the register was 23 August, 2012. The Journal entries passed after this date were not registered in the JE register at the date of audit in April, 2013.

Review of Journal Entries

A total of 54 Journal Entries totalling K476,048 were raised from 31 January to 10 December, 2012. My analytical review of the Journal Entries, revealed the following findings:-

- Journal Entries No: 28 with Cheque No: 28475 amounting to K5,706 was signed and verified by the same person;
- JE No: 33 and 34 amounting to K1,497 and K8,889 respectively did not have proper narrations to clearly explain the nature of the transactions that actually occurred during the accounting period;
- There was a Change of Authorised Officers Signatures on the JE No: 18 and 20 totalling K6,260;
- The original Cheque Nos. 28764, 28330 to 283334 and 28556 were not attached to the respective Journal Entries No: 34, 18 – 22 and 31-33. The total amount for all these Cheques was K53,793. Original Cheques were not attached to enable me to determine the validity and propriety of the transactions;
- Journal Entry No: 2697 and 2669 did not have the original hard copies (records) and were not sighted in the Journal Entry file that was maintained manually. I was unable to determine the validity and propriety of the transactions;
- Wrong Cheque No: 120830 totalling K7,040 was attached with Journal Entry No: 2709; as a result, I was unable to match and determine the correct transactions for that particular Journal Entry;
- 17 Journal Entries passed totalling K105,615 were raised due to an error with the PGAS system; and
- Journal Entries Nos: 1 to 7 did not have sufficient supporting documents to fully disclose and account for the nature of the transactions during the accounting period.

Management Response

The management concurred with my observations and advised to rectify the anomalies noted

DEPARTMENTAL RESPONSE

Prior to issuing the management letter, the audit findings were discussed with the management and the concerned officers. Furthermore, the management letter issued was also addressed to the Secretary. The management had responded and their responses were incorporated accordingly in this report (*Part 2*).

CONCLUSION

The results of my audit indicate that overall, there were significant and serious weaknesses in the control framework. The control activities such as delegations, authorisations, reconciliations, segregation of duties, system access and management were not sufficiently robust to detect or correct errors or fraud. Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

26. DEPARTMENT OF LABOUR AND INDUSTRIAL RELATIONS 2012

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 18 Legislations it administers – viz: the *Employment Act*, the *Industrial Relations Act*, the *Employment of Non-Citizens Act*, the *Workers Compensation Act*, *Industrial organisation Act*, *Industrial Safety Health and Welfare Act*, *Explosive Act*, *Explosive (Adopted) Act*, *Inflammable Liquid Act*, *Trade Licensing 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 Organisation; 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 organisations 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 licensing 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 organisations relating to the functions of the Department.

FINDINGS

CORPORATE GOVERNANCE

Corporate Plan

The *Department of Labour and Industrial Relations* did not have a Corporate Plan for the year 2012 financial period in compliance to requirements under *Public Services GO 8.11* to coordinate and direct the Department and to facilitate the formulation of an annual budget. There was also no Management Plans to link the budget and Corporate Plan to identify targets and indicators and to enable the management to determine whether objectives are being met. In the absence of the

corporate plan, Annual Work Plans, performance indicators, as outlined cannot be precisely or specifically be quantified to program objectives identified in the corporate planning process although work plan and annual reports were furnished for the period ending 2012. Year 2012 was regarded as a transition period from the previous corporate plan to the current corporate plan covering 2013 to 2015. Briefly, quantitative measures describe outputs in terms of how much, or how many and requires a unit of measurement to be identified. Performance indicators on the timing aspect (critical path) were not specified as to how often or within and what time frame outputs would be produced.

The management therefore was not in a position to:

- Monitor the achievements of the Department's objectives or programs;
- Effect necessary changes;
- Determine areas where change were required; and
- Amend the objectives and strategies.

Compliance with Legislation

It was noted during my audit that legislations or procedures were being reviewed and referral made whilst others were pending approval from Cabinet since the last audit. Those legislations were:-

- The Employment of Non-Citizens Bill 2006;
- The Industrial Relations Act;
- National Occupational Skills Standards and Certificate Bill 2006;
- Drafting of new Industrial Relations Bill;
- The Policy and legislation concerning Occupational Safety and Health;
- Employment Act;
- Employment Placement Services Act;
- Independence Trust Act;
- Industrial Safety and Welfare Act;
- Workers' Compensation Act; and
- National Training Council Act.

During my follow up in the current period, the following issues relating to the reforms of the Labour Laws:-

Bill/Act	Status
1.Industrial Relations Bill	
✓ Public Service Commission &Arbitration Act	Have yet to process before going to Parliament
✓ Teachers Service Commission and Arbitration Act	Have yet to process before going to Parliament
✓ Industrial Relations Act	Have yet to process before going to Parliament
✓ Industrial Organisation Act	Have yet to process before going to Parliament

Bill/Act	Status
2. Occupational safety and Health Bill	
✓ Inflammable Liquids Act	Have yet to process before going to Parliament
✓ Industrial Safety and Welfare Act	Have yet to process before going to Parliament
✓ Explosive Act	Have yet to process before going to Parliament
3. Employment Relations Bill	
✓ Employment Act	Have yet to process before going to Parliament
4. National Employment Service Bill	
✓ Placement Act	Work In Progress
5. National Skills Development Authority Bill	
✓ National Training Council-NTC	Work In Progress
✓ National apprenticeship Trade Testing Board-NATTB	Work In Progress
6. Workers Compensation Act	Work In Progress

I was not advised on the tentative deadlines for the finalization of these enactments.

Minutes of Meetings

The following shortfalls pertaining to the Minutes of Meetings were noted:-

- The Minutes of Meetings for the year, 2012 were not furnished for my review when I requested for them;
- I was unable to ascertain whether the Departments' business were deliberated frequently to assess its progress towards attainment of its goals as set out in the annual activity plan (if any); and
- There was no schedule or chart showing tentative dates of senior management team meetings in 2012. As a result, I was not able to confirm the total number of meetings held during the year if there were any.

Independence Fellowship Scheme Trust Account

In the first quarter meeting minutes for 2008, the Director reported that an amount of K100,000 for the Trust Account was invested as IBD went missing and the Officer was reminded to produce a report. No actual report was produced at time of audit in October, 2009. I was not provided with a draft copy (if any) as requested in 2009 and further, there was still no report provided for review during the 2012 audit.

Annual Reports

No annual reports were provided by the Program Managers, Divisions and Statutory Bodies were furnished for the period ended 31 December, 2012, I was not provided with copies of those reports when I requested for them. I was unable to ascertain whether activities performed by Divisions during the year achieved the annual objectives/goals of the Department.

Internal Audit

The *Department of Labour and Industrial Relations* had an internal audit function that consisted of only one officer:-

- The Internal Audit Unit did not performed any audit assignments during the year (2012);

- The internal auditor was engaged only in various adhoc investigations. The respective reports (if any) of those investigations were not furnished for my audit review at the time of audit on 13 December, 2013;
- The Department does not have an Internal Audit Committee to oversee the activities of the Internal Audit Unit; and
- No Internal Audit Charter was adopted for the mandates and the scope of internal audit activities.

REPORTING REQUIREMENTS

The Annual Reports for the financial year ended 2012 covering the overall assessments on the work and achievements of the *Department of Labour and Industrial Relations* were not prepared and forwarded to appropriate authorities, at the time of audit in December, 2013. As such, the Department had breached the statutory requirements under the *PFM Act*, and the *Public Service GO*.

BUDGETARY CONTROL- VARIANCES IN EXPENDITURE BALANCES

Variances in Expenditure Balances

In my comparison of the funds released through the Warrant Authorities and funds expended in 2012 as per the 2012 Expenditure Summary printout produced by the Department against the Expenditure Statement generated by the Public Accounts, Department of Finance (per TMS 330) report for the period 12, I noted that the Department had understated its warrant authority and expenditure by K3,480,200 and K7,058,340 respectively:-

Particular	DoF records	LIR records	Difference; Dept records +/-
Revised Appropriation	14,866,800	11,932,000	2,934,800
Warrant Authorised	8,433,900	11,914,100	(3,480,200)
Actual Expenditure	7,839,179	14,898,519	(7,059,340)

DRAWING ACCOUNT – Bank Reconciliation

Delay in Bank Reconciliation

Submission of Monthly Bank Reconciliation Statements from May to December, 2012 for the Department's drawing account number 4311-6130 were not cleared for a period of eight months.

ASSET MANAGEMENT

Assets Register

My audit review of the maintenance of the assets register revealed the following weaknesses:-

- No centralized Assets Register was maintained. Divisions/branches had their own registers. I was not able to locate all assets at one time and whether new assets purchased during the year were recorded in the Assets Registers;
- No stocktake was done for the period ending 31 December, 2012. The last updated report on the Fixed Assets Stocktake Sheet was in 2008;
- In 131 items of assets totalling K709,872 were purchased during the year and were not recorded in the Assets Register(s);
- National Tripartite Consultative Council Division (NTCC) Inventory update on their assets was not proper as required by the *FMM*;
- In 99 items of Office Equipment purchased during the year totalling K206,592 were not recorded on the Assets Register(s);
- 27 payments totalling K37,036 for Furniture and Fitting was not recorded in the Assets Register; and
- One payment totalling K30,181 for Land and Building was also not recorded in the Assets Register.

Motor Vehicle Fleet

- Four payments totalling K382,036 for motor vehicles were not recorded in the Asset Register;
- I noted that there was no Motor Vehicle Log Sheet (or book) kept for each vehicle usage; and
- 22 vehicles marked with **x** on the Motor Vehicle Fleet Register had private plate Nos. and not “Z”-plate to indicate that they are government owned vehicles.

PROCUREMENT AND PAYMENT PROCEDURES

Quotation Register

My review of the procurement transactions (sample) revealed that:-

- No quotations register was maintained by the Department as required in the *FMM*.

Contractors

A total cost of K705,827 was paid for services rendered by the contractors engaged by the Department during 2012. No contract/agreement documents between the Department (State) and the contractors was made available for my audit review. Ten payment vouchers totalling K333,934 were randomly selected for my audit verification revealed the following findings:-

- The contract/agreement documents signed between the ten mentioned suppliers and the Department were not provided for my audit review at the time of audit;

- Only seven payment vouchers totalling K270,043 were provided for my audit review and verification;
- The other three paid vouchers totalling K113,891 were not furnished for audit;
- The Requisition for Expenditure Form (FF3) and General Expense Form (FF4) were not duly signed by the financial delegates for one payment as required by the *FMM*;
- For two payments the required three quotations were not obtained for purchases made over K5,000;
- For three payments goods received were not duly signed for on the purchase documents with the Department's stamp as goods received; and
- On seven payments were made for goods and services received but were not stamped as paid.

PAYROLL AND HUMAN RESOURCES

Certification of Payroll

The Department's Payroll Reconciliation for pay number 26 of 2012 that was furnished for audit, revealed that all the Divisions of the Department had spent over and above their Appropriations.

- The Department was appropriated a budget of K6,337,400 for its payroll expenditure. According to pay number 26/2012, the payroll expenditure was K10,229,690, resulting in an expenditure variation of K3,892,290 or a percentage increase of 161.42% compared against the total payroll Appropriation.

Employment of Casual Staff

According to the PGAS printout ledger, the Department engaged a total of 15 casuals during the year. Also, a schedule of casual workers summary sheet provided to me, revealed 26 casual workers. An additional six workers were not paid through the PGAS ledger, I was unable to verify the names to the concept payroll.

Due to the inconsistencies in the accounts and records maintained by the Department (HRM), I was unable to ascertain the correct number of casuals and how they were paid and how much of the government paid them during 2012.

Overtime Payments

A sample of nine overtime payments totalling K27,251 was selected for my audit verifications. Three payments cheques (copies) totalling K10,438 were not presented for my audit review.

Training Plan

The Department did not have a Training Plan for its officers due to the transition period in their Corporate Plan and no proper staff development plan was made for the year (2012).

Attendance Register

Each Division in the Department kept its own Attendance Register. Whenever an officer was sick, they manually filled in the green sick leave form. However, there was no monthly or quarterly attendance summary list for all Divisions of the Department. I concluded that there were no follow-ups on officers' attendance and work output.

TRUST ACCOUNT

In my review of the Trust Account, the following discrepancies were noted:-

- Five Trust Accounts were maintained by the *Department of Labour and Industrial Relation*;
- The accounts and records for only three Trust Accounts were provided for my audit review namely:-
 - Work Permit Trust Accounts;
 - National Training Council Trust Accounts; and
 - National Apprentice and Trade Testing Board Trust Account.
- Trust Deeds and Instruments for the National Training Council Trust Account were not provided for my audit review.
- Work Permit Trust Account
 - Bank Reconciliation for the year 2012 were not regularly submitted to Finance Department as required;
 - Bank Reconciliations were not signed as prepared and verified by the respective accountable officers in the month of October to December; and
 - Comparing the Bank Statement Balances and the Cashbook Balance, I noted that there were significant variances. Not all the receipts and payments made were recorded in the cash book.
 - The following anomalies below were noted from December Bank Reconciliations review:-
 - o Outstanding Deposit amounted to K7,444,975 for 2012; and
 - o Unpresented Cheques for 2012 were stated as K2,921,478.
- National Training Council Trust Account
 - Bank Reconciliation for the year 2012 were not regularly submitted to Finance Department as required;
 - No Bank Reconciliations for the months of November and December.
 - My review of the October reconciliation noted unpresented cheques for 2012 amounted to K76,069;

- National Apprenticeship and Trade Testing Board
 - Monthly bank reconciliations were furnished to the Department of Finance as required.

REVENUE

According to the following source documents; summary monthly revenue collections reports, summary quarter revenue collections reports and revenue collection detail monthly reports printout (January to December, 2012, it revealed that:

The Department of Labour and Industrial Relations (DLIR) revenues derived from seven revenue sources, refer to Table below for details:-

Trust Account	Year to Date Collection (K)
1. 162/1 Trade License – External Revenue,	92,430
2. 162/2 Industrial Safety – External Revenue,	554,426
3. 162/3 Work Permit Fees – External Revenue,	27,593,440
4. 162/4 Empl. Agent Fees – External Revenue,	232,854
5. 162/5 Inflammable Liquid – External Revenue,	342,370
6. 162/6 Indust. Organ. Fees – External Revenue, &	1,570
7. 162/99 Sundry Receipts – External Revenue.	0
Total External	28,817,090

The Annual Target of K20,016,000 external revenue collections for the year 2012 was surpassed by a surplus of K8,801,090 which represented 44% over the revenue estimations.

ADVANCE MANAGEMENT

A review of the advance register and related records and documents revealed the following irregularities:

- In 141 advances totalling K213,081 remained un-acquitted at 31 December, 2012;
- 14 officers were given second advances whilst their first advances were still un-acquitted; and
- Although the Department had issued cash advances to officers, a cash advances register was not maintained to register them. All those cash advances were still un-acquitted at the time of audit.

DEPARTMENTAL RESPONSE

The findings were brought to the attention of the Department in the management letter issued. However, the management did not respond up to the time of writing this report (*Part 2*).

CONCLUSION

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

27. DEPARTMENT OF AGRICULTURE AND LIVESTOCK 2012

OVERVIEW

The Department's mission is to encourage agriculture production to increase for both internal consumption and export, thus increasing rural well-being and contribution to social and economic development.

The Department is expected to fulfill that mission on the context of the related legislation such as *Animals Act, 1952, Cocoa Act 1981, Copra Act, 1953, Coffee Industry Corporation (Statutory Functions and Powers) Act, 1991, Palm Oil Industry (Biala Project Re-Organisation) Act, 1976* and through the exercise of the following functions:

- Administer all legislation relating to *Agriculture and Livestock*;
- Promote agriculture development and productive employment generation;
- Assist Provincial Governments to increase their agricultural capacity;
- Prepare and implement appropriate investment programmes for major commodities and livestock;
- Liaise with the Rural Development Bank (now National Development Bank) and the National Plantation Management Authority;
- Operate experimental stations and laboratories conducting adoptive research into the production and preparation for market of primary products; and
- Provide public extension services and scientific information.

FINDINGS

REPORTING REQUIREMENTS

Quarterly and Annual Financial Management Reports

As required in *Section 5* of the *PFMA*, 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* had produced quarterly financial reports for the years 2011 and 2012. The quarterly reports did not include reports on work programs, output and outcome. Performance was, therefore, not accounted for in the reporting phase which clearly indicated that the reports were not utilized to highlight achievements and more importantly, non-achievement of objectives. Consequently, there was no accountability of what each division had achieved during each quarter, which also indicated that the Department was not complying with the Budget Appropriations.

An Annual Financial Management Report was produced for the year 2012, however, the report was unsigned and not submitted to Department of Finance.

Annual Management Reports

The *Department* had not prepared and submitted the reports on the attainment of the planned objectives of the Department for the last five years, since 2008 and including 2012 to the Secretary, Department of Personnel Management which is a legal requirement stipulated in *Division 4, Section 3(a)* of the *Public Service (Management) Act, 1995*.

BUDGETARY CONTROL

Variances in Expenditure Balances

In my comparison of the 2012 Expenditure Vote Summary printout maintained by the Department (DAL) and the Expenditure Statement on TMS 100 produced by Department of Finance for Period 12. The following significant variances between the two statements' balances, *refer to Table below for details:-*

Recurrent Budget

Particulars	DoF record-TMS100 (K)	DAL record PGAS (K)	Variance Surplus/(Deficit) (K)
Initial Appropriation.	14,587,300	18,007,300	(3,420,000)
Revised Appropriation	14,587,300	69,646,000	(55,058,700)
Warrant Authority	11,975,100	59,109,000	(47,133,900)
Actual Expenditure	64,071,750	58,173,522	5,898,228

Development Budget

Particulars	DoF record-TMS100 (K)	DAL record PGAS (K)	Variance Surplus/(Deficit) (K)
Initial Appropriation.	26,637,000	23,217,000	3,420,000
Revised Appropriation	25,137,000	23,217,000	1,920,000
Warrant Authority	25,137,000	1,800,000	23,337,000
Actual Expenditure	9,867,722	1,798,619	8,069,103

The Tables above highlighted the differences between the records from the Main Public Accounts maintained at Department of Finance (TMS) and that of the *Department of Agriculture and Livestock* (PGAS). The differences in the two records derived from the non-reconciliation of the two records, thus, reflecting a serious breakdown in the monitoring and controls on the Cash Flow Management.

Over-Expenditure – Main Public Account (DoF) Record

Over-expenditure as per the Department of Finance record (TMS100) under recurrent budget was noted in all the economic Items. The development budget over-expenditure was made under Item 143 by K6,774,652.

Over-Expenditure – PGAS DAL Record

There was an increase in the revised appropriation in the recurrent budget by a total of K51,638,700 when I compared to the initial appropriations. Department of Finance records, however, did not reflect such variance. The increase was mainly from Items 114 and 141 hence, increasing the actual expenditure above the initial appropriation of K6,010,100 by K45,618,537. This was illegal and contravenes the 2011 *Appropriation Act*.

Furthermore, the expenditure incurred under Vote Items 114 and 141 with a total over payment of K51,628,637 were not related to the respective Vote Items. The expenditure were for other unbudgeted activities and incorrectly charged to the two Vote Items. The total Initial Appropriation for the two Vote Items was only K895,600.

My review of the annual report for the Department at 31 December, 2012 dated 5 March, 2013, revealed the following discrepancies:-

- Unauthorised release of K51,638,637 under Items 114 and 141 were grossly abused and manipulated for the purposes of spending public monies on unbudgeted activities and no regard for compliance with the rule of law as stipulated in the *PFMA/FMM, Appropriation Act* and others; and
- Recurrent budget 2010 for year 2011 financial year was also over-spent by K27.5 million to K41.5 million from an appropriation of K13.9 million. The same illegal act occurred again in 2012 by making illegal and unauthorised entries to revised appropriation and warrants in the PGAS system to incur expenditure that was not budgeted for.

The degree of abuse and corruption in the Department's cash management system was very extreme and systematic. It has gone from bad to worse in the 2012 financial year. People holding positions of trust were now creating fictitious warrant authorisation with fictitious figures allocated in millions which were posted into the PGAS to facilitate fictitious payment cheques.

CASH MANAGEMENT- Bank Reconciliation

My audit review of the accounts and records pertaining to the Department's drawing bank account and cash book, revealed the following weaknesses:-

- At the time of audit in August, 2013, the latest Bank Reconciliation Statements sighted were for the months of January and February 2012; and
- There was no permanent Bank Reconciliation officer, however, a temporary officer was performing the Bank Reconciliation duties and was unqualified and incapable of compiling the monthly bank reconciliations and all other related duties.

ASSET MANAGEMENT

Asset Register

The *Department* did not maintain a Fixed Assets Register as previously reported in 2011.

Assets purchased in 2012 totalling K509,200 comprise of furniture, laptops and accessories, external drives, computers and accessories, printers, camera and mobile phones were not verified for their existence due to the non-maintenance of an assets register for both fixed and attractive items.

Motor Vehicle Register

Motor vehicle register maintained by the Department was deficient as it did not contain records of the date of purchase and the custodians. I was not able to verify the three vehicles purchased in 2012 totalling K318,004.

Furthermore, the purchase of two new Toyota Land Cruisers at a total cost of K130,863 for the Top Management was unbudgeted for.

PROCUREMENTS AND PAYMENT PROCEDURES

My audit review on a sample of 74 payment vouchers selected randomly totalling K8,248,313 with the related accounts and records revealed the following irregularities:-

- The Quotations register was not maintained, this weaknesses was previously reported in prior years;
- 48 payment vouchers totalling K5,177,831 were not made available for my sighting, therefore, I was not able to ascertain the validity of those payments made;
- 13 payments totalling K1,656,674 the required three written quotations were not obtained prior to acquiring the goods and services.
- Two payments to a consultant at a cost of K103,446 included a part claim for services rendered since 2007 which was five years in arrears;
- There was no existing policy or system of evaluation and awarding of minor contracts to suppliers;
- Five payments totalling K622,126 were made without the approval of the *Section 32 Officer*;
- Ten payments totalling K1,215,426, were effected without the approval of the financial delegate, the certifying officer and were not authorised by the respective requisition officer prior to acquiring the goods and services from suppliers;
- Four payments amounting K479,431 were made without the approval of the financial delegate and the certifying officer;
- Three payments for expenditures amounting K356,723 were not authorised by the requisition officer; and
- 12 payments totalling K1,554,623 relating to purchases were made without any supporting documents such as, minor contract agreement, contractor's certificate of Incorporation and certificate of compliance. As a result, I was not able to ascertain whether the service providers were genuine.

ADVANCE MANAGEMENT

My audit review of the accounts and records pertaining to the management of advances issued and used by staff members during the year revealed the following weaknesses:-

- A manual advances register was maintained only for recording Travel Advances;

- According to the manual advance register for 2012, 69 officers were paid second, third or more advances totalling K645,180 without acquitting the first advances contrary to *FMM part 20.11*;
- 123 officers did not acquit their travelling advances totalling K762,745 which were outstanding at 31 December, 2012 and were still not acquitted at the time of audit in September, 2013;
- A total of 147 samples for travel and cash advances were selected and verified to the advance registers and the acquittal files, revealed the following discrepancies:-
 - Delays in acquitting were noted in four and five advances respectively for domestic and overseas travel ranging from 11 to 149 days;
 - All acquittal forms were not reviewed by the Financial Delegate;
 - Three Acquittals with a total of K11,264 for two advances and one cash advance of K5,000 for a Christmas party did not have supporting documents;
 - Three Overseas Travel Advances totalling K42,951 noted as acquitted in the Register, however, no acquittal forms were not sighted in the acquittal files; and
 - 12 cash advances totalling K42,571 and three travel advances totalling K15,600 were not recorded in the register.
- Furthermore, no action was taken to recover outstanding and un-acquitted advances that have remained for a long period of time and beyond the Appropriation year(s).

DEPARTMENTAL RESPONSE

The results of the audits were reported to the Secretary of the Department in a management letter. However, the management did not respond up to the time of writing this report.

CONCLUSION

The results of audit and the number and magnitude of control weaknesses identified in the course of my audit indicate that overall, there were significant weaknesses in the control framework. The control activities such as delegations, authorisations, reconciliations, segregation of duties, system access or data processing, management and monitoring were not sufficiently robust to prevent, detect or correct error or fraud.

Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

28. OFFICE OF HIGHER EDUCATION 2012

OVERVIEW

The *Office of Higher Education* function, as mandated by legislation is to provide services to *Higher Education*. The Office's mission is to foster, enhance, and promote quality higher education for social, economic and technological development of Papua New Guinea.

The *Office of Higher Education* was established by the *Higher Education Act, 1983*. The main functions of the Office, in terms of the *Act* are:

- To advise the Minister, on all matters concerning higher education that are referred to it, and make recommendations on a National Plan for *Higher Education* covering broad areas of responsibility and objectives which should be assigned to various declared institutions; and
- To advise on general policies in relation to academic programmes, buildings and equipment, staffing and other related matters in declared institutions.

FINDINGS

CORPORATE GOVERNANCE

Corporate Plan

The *Office of Higher Education* did not have in place a five years *Corporate Plan* which is required under *GO 8.11*. In addition, there were no divisional plan or annual activity plans were put together 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. The only work plan compiled and made available for my review was for the Finance and Administration Branch. There were no strategic and operational plans to enhance the management to:-

- Monitor the achievements of the Commission's objectives or programs;
- Effect necessary changes;
- determine areas where change was required; and
- Amend the objectives and strategies.

Minutes of Meetings

The following audit findings were noted when I reviewed the Minutes of Meetings obtained from the Executive Branch:-

- Minutes did not clearly state whether there was a quorum to proceed with the respective meetings;
- The agenda of the meetings were not disclosed in the meeting minutes;

- Minutes of Meetings did not capture the deliberations and resolutions made in the previous meetings;
- No schedule or chart showing tentative dates of senior management team meetings in 2012 respectively.
- 11 Minutes of the senior management meetings were not signed by the Chairman and the Executive Officer.

Internal Audit

- No detailed audit program showing the areas and extent of review was done on routine operations during the year and no audit report was made available for my perusal; and
- Terms of Reference for the establishment of Audit Committee had been prepared and endorsed by the Director General and was awaiting Department of Finance approval.

Management Response

The management responded and confirmed that it did not have a corporate plan and occasionally had its meeting minutes signed by the Chairman. It further confirmed that it had an ad-hoc Internal Audit Unit. However, I was advised by management that it had the NHEP II (2014-2017) Plan and the employment of an internal auditor appointed as remedial measures in response to my audit recommendations.

BUDGETARY CONTROL

Recurrent Budget

My comparison of the Expenditure Statement produced by Finance Department against the Expenditure Vote Summary from the OHE for year ended 31 December 2012, revealed significant variances between expenditure statement balances, refer to Table below for details:-

Particulars	TMS 100 K	PGAS K	Variance K
Revised Appropriation	49,128,700	42,666,700	6,462,000
Warrant Authority	49,128,700	42,666,700	6,462,000
Actual Expenditure	49,287,156	40,935,952	8,351,204

- The same ledger reports revealed a net difference of K1,759,153 under five Expenditure Vote Items; and
- The Expenditure Statement (TMS 330) produced by the Department of Finance for period 12/2012 revealed expenditure in excess of warrant authorities issued under five Expenditure Vote Items totalling K1,509,300.

Development Budget

- In the comparison of the Expenditure Statement generated by the Department of Finance (TMS100) and the Expenditure Vote Summary (PGAS system) from *Office of Higher Education* revealed significant variance of K8,000,000 between the actual expenditure balances. Department of Finance ledger report more than *OHE*; and

- Ten Cash Fund Certificates with a total of K10,661,100 were not signed by the Director-General to authorise and validate the use of funds released through those CFCs.

Management Response

The Management concurred with my observations and had advised to reconcile the records to show correct and complete balances of the OHE accounts.

DRAWING ACCOUNT

My audit reviews of the bank reconciliation statements for the month of December, 2012 with the related accounts and records, revealed the following discrepancies:-

- The bank statement of account received from the Bank of Papua New Guinea disclosed a NIL bank balance at 31 December, 2012 and the cash book stated an overdrawn balance of K17,055,290;
- Reconciling Items dating back to 2009 which were not investigated, cleared and adjusted in the cash book to ascertain the accurate cash book balance, included the following items below:-
 - Credits in bank account not in cash book totalling K13,830,885; represented cash reimbursements for the months of November and December, 2012 from the Main Public Account which had not been actioned for posting in the cash book;
 - Unpresented cheques totalling K3,206,012 (included 26 stale cheques amounting to K60,751 for cheques issued from years 2009 and 2011); and
 - Other items of adjustments totalling K18,393 (credits) were reported in schedule 11 consist of cancelled and stopped cheques dating back to year 2009.
- The timeframe for the submission of monthly bank reconciliation statements to Department of Finance as per the FMM was not strictly complied with; and
- The bank reconciliation statements were prepared by the officer who was performing the duties of the Certifying Officer. This was highlighted in my previous audit report however; no action was done to rectify the risks/weaknesses in this very sensitive area directly concern the use and accountability of public moneys.

Management Response

I was advised by management that an officer would be appointed on fulltime to prepare the drawing account bank reconciliations to be delivered on a timely basis.

ASSET MANAGEMENT

My review of the assets register and related accounts and records, revealed the following discrepancies:-

- Eight assets items purchased during the year at a cost of K219,705 were not recorded in the assets register;

- No stock-cards were maintained for each fixed asset item and also no stocktake was carried out during the year; and
- A total of K39,681 was expended for vehicle maintenance and service. There was no proper record (schedule of timeframe) was maintained to monitor and control the dates each vehicle was due for maintenance and service.

Management Response

The Management advised me that an Assets Register will be maintained and updated it regularly.

PROCUREMENT AND PAYMENT PROCEDURES

My audit reviews of contract documents with the related accounts and records pertaining to three consultants who were paid a total cost of K157,000 for services rendered to the Commission, revealed the following discrepancies:-

- One consultant was contracted for the period from 7 September, 2011 to 1 May, 2012 and the total payment made in 2012 was K100,000. The consultancy agreement was signed on 17 May, 2012, after the expiry of the contract period resulting in a serious breach of the procurement procedures stipulated in the *FMM Part 13* and *Finance Instruction 1/2008* which states that a minor contract should be in place between the State and the supplier of goods and services for procurement falling within K50,000 to K300,000; and

No work reports on work done were attached to the payment voucher to substantiate the amount (K100,000) claimed and subsequently paid.

- The consultancy agreement relating to another consultant was not made available for audit although requested, as a result, I was not able to verify the payments totalling K30,000 made to the consultant.

Management Response

The management concurred with my observations and informed that none of this will occur in the future.

PAYMENT OF GRANTS TO INSTITUTIONS

Payment of Grants

Grants are paid to 31 accredited and recognized Institute Higher Education in PNG. As per the grants disbursement report for the year 2012, a sum of K23,318,930 was paid as shown in the summary below:-

Institution	No	Amount (K)
Universities	6	17,573,793
Teachers' College	9	2,697,295
Tech/Business Colleges	9	2,235,372
Nursing Schools	7	812,470
Total Paid		23,318,930

Acquittal of Grant Payments

All acquittals should reach *Office of Higher Education (OHE)* by the 31 December each year and also enrolment list by two weeks after enrolment. There were delays in receiving the acquittals ranging from 3 to 4 months or even one year. However, reminder notices were served to institutions reminding them to make timely acquittals. According to a status of acquittals compiled; three out of 31 institutions did not acquit the 2nd half of the finds while one Institute did not acquit during the year.

Institution	Board/Lodging Fees	Book/Equip Allowance	Total Amount	Remarks
Dauli Teachers College	141,743	9,970	151,713	2 nd half yet to acquit
Kokopo Business College	144,309	17,550	161,859	No acquittal received
Polytech Inst.of PNG	647,065	26,825	673,890	2 nd half yet to acquit
Mt.Hagen Technical College	172,998	17,545	190,543	2 nd half yet acquit
Grand Total	1,106,114	71,890	1,178,004	

Management Response

I was assured by the Management that it would ensure that all payments of grants to respective Institutes will be made after proper and timely acquittals are received and the Office is satisfied with the acquittals.

HUMAN RESOURCE AND PAYROLL

In my review and assessment of the human resources management, I observed the following anomalies:-

- There was no approved Training Plan for 2012 although there was a draft status report on training. This weakness had disadvantaged staff from enhancing their capabilities to perform duties effectively and efficiently;
- 16 officers were on short term contracts of employment. Three Officers contracts expired while another two did not have their contract documents in their files. Generally, Officers were employed for specific periods of time only, however, their performance were not reviewed to determine their terminations or continuation of employments; and
- According to the Contract of Employment for a senior officer, he was entitled to a Motor Vehicle Allowance of K72,623 per annum which was K2,784 a fortnight. However, he was provided a motor vehicle in March, 2012 at a cost of K124,440 whilst he continued to receive motor vehicle allowance for eight fortnights aggregating to K22,274. That was a clear indication of double dipping.

Internal Audit Report- Payroll Review 2012

Overpayment of salaries and allowances were noted from the Internal Audit Report on the Payroll Review dated September, 2013. A sample of 44 employee files was reviewed for the year 2012 and I discovered that certain officers within the Commission were illegally paid salaries and allowances:-

- Six officers were paid a sum of K11,957 in excess of their normal salary. In addition, one senior officer received K15,548 as overpayment of entitlement benefits; and

- Four officers were paid overtime totalling K3,267 without proper and complete overtime records.

Management Response

The Management acknowledged my observations and advised that remedial actions were taken to remedy the discrepancies noted.

ADVANCE MANAGEMENT

My review of the advances registers and related accounts and records revealed the following irregularities:-

- The advance register furnished for my review captured transactions for financial period 2012. I was unable to ascertain acquittal status of the advances totalling K52,473, which I reported in 2011;
- The advance register is still in soft copy which cannot capture the receiving officer's signature upon receipt which is a non-compliance with the *FMM, Part 20, Section 12.2* requirements of recording advances;
- 86 advances totalling K83,485 paid during the year remained un-acquitted at 31 December, 2012;
- 11 advances totalling K12,874 were not recorded in the register of advances;
- From a sample of 42 advances recorded as acquitted, the acquittal forms and supporting documents for 11 advances totalling K24,718 were not sighted in the acquittal files maintained. Consequently, I could not verify the correctness of the record as acquitted;
- I was unable to ascertain the authenticity of acquittals for 11 advances. Ten travel advances totalling K23,815, were recorded as acquitted, however, did not have supporting documents such as the boarding pass airlines tickets were attached to the acquittal forms to substantiate that the travels were actually taken by the Officers concern;
- The financial delegate did not regularly review the register of advances, which is a legal requirement in the FMM;
- 49 advances paid through the 'Paymaster' for various items amounted to K103,205. That process of paying advances is contrary to the legal requirements in the *FMM Part 20.1* which states that the advances should be made to the name of the advance holder; and
- Payments of salary advances in three instances amounting to K4,200 was made contrary to *FMM Part 20, paragraph 10.1*. Further analysis revealed that the salary advances were not recorded as no register was maintained.

Management Response

I was advised by Management that necessary steps would be taken to implement the three recommendations I made.

DEPARTMENTAL RESPONSE

The Department responded to my management letter and their respective responses are appended accordingly.

CONCLUSION

The results of the audit indicate that overall, there were significant and serious weaknesses in the control framework. I noted that there were weaknesses in Procurement, Advance Management, Procurement and Human Resources and Payroll. The control activities such as delegations, authorisations, reconciliations, segregation of duties, system access and management were not sufficiently robust to prevent, detect or correct errors or fraud.

Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

29. PNG CUSTOMS 2012

OVERVIEW

PNG Customs derives its powers from the *Customs Act, 1951* to control, supervise and authorise inward and outward entry of all forms of conveyances, persons and goods. It is also empowered to impose and collect duties for all goods imported and exported subject to exemptions granted in accordance with Customs to deal with breaches of the principal Act itself or other allied Acts and regulations. *PNG Customs* is empowered under the *Excise Tariff Acts, 1956* to charge and collect excise duties and taxes. The *Goods and Services Act, 2003* authorises *PNG Customs* to collect Goods and Services Tax ("GST") on all goods imported. Collection of these duties and taxes are subject to exemptions and reductions granted in accordance with and under the Customs Laws.

FINDINGS

CORPORATE GOVERNANCE

Corporate Plan and Annual Management Plan

I was provided with the annual work plan for the 2012 financial year. The plan was aligned to achieve milestones enshrined in *PNG Customs Annual Business Plan*. I noted that; the divisions/branches were not producing monthly or quarterly operational reports. Those reports form an important and vital linkage between the milestones set as per the Corporate Plan and against what is happening in each respective branch or division.

Without these periodic reports from relevant branches/sections, *PNG Customs* would not be in a position to monitor, review and evaluate whether the annual work plan were being implemented accordingly by respective branches and divisions. *PNG Customs* was unable to correctly determine where and how it was progressing in terms of its Annual Business Plan.

Annual Management Reports

PNG Customs Services had submitted the reports for 2012 to the Department of Personnel Management pursuant to the *General Orders*.

Meeting Minutes

PNG Customs was commended for the frequency and the number of Leadership Team Meetings as well as Senior Management Team meetings verbally advised to have been convened in 2012. However, all Meeting Minutes were not provided for my review when requested during the course of audit.

Internal Audit

In my review of the operations of the Internal Audit Unit of the *PNG Custom Services*, I observed that:-

- Significant audit issues were raised during the Internal Audit Committee meeting of (12 September, 2013) and the Internal Audit Unit was commended although understaffed by a

team of two Officers. The Unit uncovered fraudulent activities occurring at the Customs cash collection point at Jacksons Airport where a total of K19,267 collected had not been banked and was misappropriated by the Collector of Public Moneys.

Management Response

The Management informed me that a 2010-2012 Corporate Plan and 2012 Minutes were provided and I may have overlooked, however, it acknowledged my findings as relevant.

BUDGETARY CONTROLS

Expenditure In Excess Of Warrant Authorities

During my comparison of the Expenditure Summary generated by the TMS system and the General Ledger printout through the PGAS system, I noted the following discrepancies:

- No monthly reconciliation was done between PGAS Reports and the TMS expenditure summary from Finance;
- In 12 instances expenditure totalling K713,593 were over spent on 12 vote items, contrary to the *Appropriation Act, 2011* for 2012; and
- In 39 instances of over-expenditures totalling K772,391 under 39 Vote Items were formalized by way of journal entries transferring funds within Items of the Vote to cover those expenditures. Incurring over-expenditure with the view to securing future funds to offset the over-expenditure was not a prudent cash management practice, and was a breach of the legal requirements stipulated in the *FMM*.

Management Response

In response to my observations, the Management advised that the PGAS system disallows commitments over funds available, except for item 111. The system did not allow overspendings and they have committed by funds availability. However, it promised to take corrective actions.

BANK RECONCILIATION – Cash Management

I noted that the bank reconciliation for the *PNG Custom Services Operating Account* had two different account numbers.

The following reconciling items were not cleared as at 31 December, 2012:-

- The figures as per Schedule 8 for Unpresented Cheques totalling K9,837,091. A List of Unpresented Cheques changed to “Other Status like cancelled cheques” totalling K395,535 were not written back (debited) to the cash book by way of journal entries;
- Receipts in the cash book not in the bank account totalling K19,432 related to collections from the airport being fraudulently not accounted for and banked by the collector. No appropriate action had been taken on the officer to date even though the issue was reported by Internal Audit;
- Other items amounting to K21,500 as per schedule 6 were adjustments not taken up in the cashbook;

- Credits in the bank statement not in the cash book totalling K9,837,091 related to reimbursement from Main Public Accounts and were not taken up in the cash book since April, 2012; and
- Other items totalling K6,392 related to credits in the cashbook and not in the bank account.

Management Comments

The Management acknowledged and concurred with my observations and advised that it had sought technical assistance from Department of Finance and corrective actions have been taken

ASSETS MANAGEMENT

The total assets purchased by *PNG Customs Services* during the year ended 31 December, 2012 amounted to a total cost of K6,359,808. The Assets Register(s) were not properly maintained and kept-up-to-date:-

- Seven properties acquired during the year at a total cost of K5,570,650 were incomplete (no records kept); Included were also Office Furniture costing K266,085, Office Supplies and Equipment costing K289,158 and Motor Vehicles costing K500,000;
- No maintenance register was kept by Management even though, a Vehicle Policy was in place;
- Stock-cards were not maintained to update additions or disposal of assets; and
- No assurance that the management had implemented good asset management practices by way of maintaining proper records of assets, purchases and disposals. Further, I noted that:
 - Annual Asset Stocktake was conducted to ascertain the conditions and locations of all assets owned by *PNG Customs Services* for the year ended 31 December, 2012;
 - No evidence of BOS report was sighted and whether management had established such a board (if any);
 - No procedures were in place to determine the durability and usefulness of the assets periodically;
 - No custodian to manage and safeguard assets against theft, fire or vandalism;
 - No adequate insurance cover was taken up to cover its extensive portfolio of fixed assets;
 - The Motor Vehicle Fleet register was not updated for the year ended resulting in five vehicles purchased at a cost of K500,000 not recorded.

Management Response

The management agreed to my observations and I was advised that progressive improvements have been made and corrective measures have been taken to rectify the anomalies noted.

PROCUREMENT AND PAYMENT PROCEDURES

In my review and examination of 113 paid vouchers totalling K16,354,460, I noted the following discrepancies:-

- There was no Quotations Register maintained by the *PNG Custom Service*;
- In 49 instances, payment vouchers totalling K2,665,659 were not made available although requested. As a result, I was unable to vouch the propriety of payments made;
- I noted that in one payment totalling K95,486 there was no General Expense Form (FF4), Requisition for Expenditure Form (FF3) and supporting documents attached to the payment voucher;
- In two payments totalling K66,659 there were no FF3 attached to the payment vouchers; and
- In six payments totalling K178,040 no proper supporting documents were provided to validate payments made for hire vehicles.

Management Response

I was advised by Management that due to manpower constraints and limited office space, no quotations register was maintained and corrective measures are taken to rectify the anomalies noted.

HUMAN RESOURCE MANAGEMENT

In my examination of the accounts and records pertaining to HRM, I noted the following discrepancies:-

- The Establishment Register had been updated up to November, 2012;
- Files were not located due to movement into the new office premises;
- 37 payment vouchers totalling K241,270 relating to recreational leave were not made available for audit examination;
- The *Papua New Guinea Customs Service (PNGCS)* did not have a Training Plan; and
- There were 24 casual staff as at 13 November, 2012, however, their specific purposes of engagement as casuals were not ascertained during audit.

Management Response

The Management advised that the requested documents and records were provided at the time of audit and I did not have any consultations with the Training Manager.

TRUST ACCOUNT

- No report was furnished for the four Trust Accounts maintained for the year ended 31 December, 2012 according to the Internal Audit Unit;
- The only Trust deed/instrument that was provided for my audit perusal was Customs Technology Infrastructure Development Trust Account (CTIDTA); and
- Monthly bank reconciliations were done only for Customs Technology Infrastructure Development Trust Account (CTIDTA) for year ended 31 December, 2012.

Management Comments

The Management concurred with my observations and advised me that it had sought assistance from the Department of Finance. However, I was advised that the bank reconciliation template did not cater for accounts kept out of the PGAS System and hence the discrepancies.

ADVANCE MANAGEMENT

I observed that the advance register maintained at the *PNG Custom Services* was not kept-up-to-date to reflect the correct position of advances outstanding as at 31 December, 2012.

Management Response

The Management advised that due to manpower problems, the register was not kept. However, it is determined to maintain and update the register on a regular basis in future.

REVENUE MANAGEMENT

From my review of the revenue collections reported as per the *PNG Customs Services* Annual Report, I noted that the revenue budget was unrealistic as per the 2012 Annual Report:-

- Over estimations in three Revenue Codes; and
- Under estimations in two Revenue Codes.

The biggest component of the income from Import GST was attributed to the overseas procurement of LNG materials for the LNG Project where adequate provision was not provided in anticipation of this over-collection.

Management Response

In response to my observations, the management advised that the variances were as a result of mere estimates projected by Treasury in the 2012 Budget. However, adjustments were made after quarterly reviews were done with the Treasury Department. I was also advised that PNG Customs would embrace this recommendation and will continue to maintain hosting quarterly revenue review meetings with Treasury.

JOURNAL ENTRIES

In my review of journal entries and other related accounts and records, I noted the following anomalies:-

- In 63 instances totalling K767,791 no narration was provided in all the Journal Entries raised to fully reflect the authenticity of the Journal entries passed;
- Journal Entries and cheques were not compiled together and were not updated in the General Ledger Trial Balance. No journal entry listing was provided for audit review;
- Journal Entries were all being verified but were not filed with the cancelled cheques in one file;
- Certifying officer did not verify the postings made before verifying the figures in the Adjusting Journal Entries; and
- No reference was made between the Journal Entries and cancelled cheques.

Management Response

The management concurred with my observation and advised to seek assistance from the Department of Finance to rectify the anomalies noted.

DEPARTMENTAL RESPONSE

The Department had responded to my audit findings and their comments have been incorporated accordingly.

CONCLUSION

The results of audit indicate that there were some improvements in the operations of the internal controls compared to previous years. This was evident in the Revenue collection, assets and advance management. However, overall, my audit indicated that there were weaknesses noted in the control framework.

30. DEPARTMENT OF PERSONNEL MANAGEMENT 2012

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 Development System, Public Service Cadetship Scheme and Bonding System; and
- To review Governments IT standards and policies.

FINDINGS

REPORTING REQUIREMENTS

Annual Management Reports

The annual financial report on the overall assessment of the Department was not prepared and submitted as required.

Management Response

The Management agreed with my findings concerning annual financial reports and understand the importance of the reporting process.

BUDGETARY CONTROL

Variances between DoF and DPM records

In my comparison of the Expenditure Summary for the period ending 31 December, 2012 generated by Department of Finance against the report by DPM's PGAS system, I noted the following unexplained variances (excluding item 111).

Particulars	DPM (PGAS) (K)	DoF (TMS90) (K)	Variances (K)
Revised App.	37,528,100	29,268,500	8,259,600
Warrant Authority	28,557,600	29,259,300	701,700
Actual Expenditure	24,494,959	28,877,254	4,382,295

The Table above highlights the differences between the records of the Main Public Accounts maintained by Department of Finance (TMS) and that of the Department's (PGAS). I noted that the differences in the two records were as a result of non-reconciliation of the two records.

Management response

The Management concurred with my observations, however advised that the change in the accounting system from PGAS to IFMS may have caused the variances between the two records.

Unbudgeted expenditure

Expenditure reported by Finance Department under IFMS2156 (TMS90) stated expenditure under item 112 as K282,888 was unbudgeted for. This was a serious breach of the *Appropriation Act, 2011*.

Management response

The Management concurred with my observations however, advised that the ownership of Items 211, 212 and 215 were entrusted with the Department of Finance (DoF) and not with them. I was informed that the Department has tasked HR personnel to monitor on a regular to avoid discrepancies of such nature in future.

BANK RECONCILIATION

In my verification of the documents and related schedules for the December, 2012 bank reconciliation. I noted that, unpresented cheques totalling K8,782,445 were not cleared and adjusted in the cash book. Further, I informed management to investigate the unpresented cheques and clear them accordingly.

Management Response

I was advised my Management that attempts in writing to Department of Finance with regard to clearing backlogs of outstanding reconciliation of items have failed. However, it promised that the backlogs of outstanding reconciliation items were cleared and the bank reconciliations were done on a monthly basis.

PROCUREMENT AND PAYMENT PROCEDURES

I selected 21 sample payments totalling K1,080,194 for testing and I noted the following anomalies:

- In three instances payment vouchers amounting to K305,061 were missing and not sighted by audit;
- A payment of K33,869 for the purchase of a new printer was made without three written quotations obtained from different supplier/service providers as required.
- A manual quotation register maintained to record details of procurements and payments was not updated.

Management response

My recommendations were acknowledged and remedial actions were taken to remedy the anomalies.

ADVANCE MANAGEMENT

In my review of the advances register and test performed on 20 selected samples of advance payments totalling K66,188, I noted the following deficiencies:

- In seven instances advance payments totalling K43,681 were not acquitted within the prescribed acquittal time period. Inordinate delays in acquittal of advances was a common issue noted in the respective advance payments.
- In 43 instances advances and allowances totalling K66,681 were not acquitted. I noted that most of these advances were made to senior officers.
- Furthermore, I observed that the outstanding advances included second and third advances paid to officers as their earlier advances remain un-acquitted and was contrary to the *FMM part 20, para 12.11*. Non-compliance mostly occurred with senior officers.
- The advance register was not regularly reviewed by the financial delegate.

Management response

The management concurred and advised that remedial actions will be taken to address the anomalies noted.

ASSET MANAGEMENT

I noted these discrepancies in the asset management and control systems of the Department:

- The Department did not have a centralized asset register for the 2012 financial year as each division maintained its own assets register. The records maintained were deficient in that, there was no record of the date of purchase. As a result, I was not able to verify 24 assets purchased in 2012 valuing K406,545.

Motor Vehicles

The Department of Personnel Management maintained a motor vehicle summary report that contained records of vehicles in custody of the Department. In my review and physical inspection of vehicles and records, I noted the following irregularities;

- The summary report was deficient in that the report did not contain record of purchase dates, as a result, it was difficult for me to verify a vehicle that was purchased in 2012 from Boroko Motors;
- There was no annual stock take of vehicles done during the year 2012;
- A Honda CRV vehicle with registration number BCA 864 was reportedly stolen in 2012. However, there was no loss report and/or Police report furnished for my verification; and
- Six motor vehicles had private number plates and were with tinted glasses, contrary to *Finance Instructions*.

Management Response

The management concurred and advised that remedial actions will be taken to address the anomalies noted.

HUMAN RESOURCE AND PAYROLL

Maintenance of Employee Records

In my audit, I randomly selected and examined personal records of 21 employees and I observed the following discrepancies:

- 11 files with salary History cards were not updated;
- 16 files had no copies of annual earnings maintained;
- 19 files with sick leave cards were not updated;
- 17 files with recreation leave records were not updated, and
- Nine files with HDA details were not updated.

Payroll Reconciliation

Further, I reviewed the payroll process and control system and I noted the following anomalies:

- There was no evidence of monthly payroll reconciliation made available for audit though it was confirmed by HR Personnel Officer that there were payroll reconciliations done. The lack of this key control may facilitate fraudulent payroll activities where payments processed outside the system could not be detected in the absence of independent records and reconciliation.
- Payroll records were said to have been reviewed and certified by senior management before processing, however, there was no evidence of such made available for me to attest the accuracy and completeness of payroll expense.

Management Response

The management concurred and advised that remedial actions will be taken to address the anomalies noted.

TRUST ACCOUNTS

I noted that the Department (DPM) maintained three Trust Accounts namely;

1. Public Sector Workforce Development Project
2. Public Service Institutional Rental
3. Institutional Housing Pilot Project

Further analysis of the records and documents pertaining to these three trust accounts revealed the following;

- The Institutional Housing Pilot Project – Account # 1000439771, BSP Bank

This account was closed in October, 2012 as per written instruction from the then Secretary for Department of Finance. The Department confirmed the closure of this trust account and balance of funds totalling K6,704,270 held in the bank account was transferred back to Waigani Public Accounts (WPA) at the closure date.

- The Public Service Institutional Rental Trust – Account # 10001468866, BSP
 - This trust account was not maintained and operated in the PGAS system but in a commercial bank cheque account.
 - Cash book that was maintained and provided for audit was for the period 4 November, 2008 to 19 September, 2012. Total receipts and payments for the year ended 19 September, 2012 was K83,081 and K79,023 respectively.
 - The trust instrument/deeds for this trust account was not made available for audit perusal and as a result, I was unable to verify the expenditure incurred out of this trust account and the genuineness of the payments made.
- Public Sector Workforce Development Project Trust – A/c # 1285430, ANZ Bank
 - The account was maintained and operated in the PGAS;
 - Monthly bank reconciliation for 31 December, 2012 reported bank balance as K5,585,670 and cash book balance as K5,462,997. Included were unrepresented cheques totalling K122,673; and
 - Payments incurred during the financial year 2102 were related to the operation and management of the trust account.

Management Response

The management concurred and advised that remedial actions will be taken to address the anomalies noted.

DEPARTMENTAL RESPONSE

The above matters were reported to the Secretary of the Department and the responses are incorporated in this Report (*Part 2*) accordingly.

CONCLUSION

In general, there were no marked improvements in the system and operation of controls within the Department as compared to the previous years. The results of my audit indicate that overall, there were significant weaknesses in the control framework. The control activities such as delegations, authorisations, reconciliations, segregation of duties, data processing, records keeping, management and monitoring were not sufficient.

Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

31. PUBLIC SOLICITOR TRUST ACCOUNT 2012

OVERVIEW

The *Office of the Public Solicitor* is a Constitutional Office established by the *Constitution* of the *Independent State of Papua New Guinea* 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 instruments and related regulations.

FINDINGS

FINANCIAL STATEMENT

Statement of Receipts and Payments for the year ended 31 December, 2012.

The statement below is intended to show the *Public Solicitor's Trust Account* balances as derived from the accounts and records maintained by the *Public Solicitors Office* and bank balances for the year end 31 December, 2012. The statement shows the Trust Account's cashbook balance as K455,454.

Particulars	Amounts (K)
Opening Cash Book Balance (01/03/2012)	549,469
Add: Receipts	631,865
Less: Payments	725,881
Closing Cash Book Balance (28/02/2013)	455,454

In my review of the Cash book generated from a Microsoft excel spreadsheet, I noted that the trail balance and individual ledgers were manually prepared based on this cashbook. Further, I observed that figures' making up the *Office of Pubic Solicitors* Administration Expenses in the financial statement were different from the Trail Balance and the respective ledgers. The summary of the variances are shown below.

Year	Item	OPS record (K)	AGO (K)	Variance (K)
2012	Fuel	1,500	3,940	-2,440
	Other Operational Costs	93,945	87,905	6,040
	Legal Costs Received	6,000	9,620	-3,620

Management Response

I reproduce the managements responses herewith, *"The financial year for this Trust account period is 01 March, 2012 – 28 February, 2013. In an attempt to properly comply with the requirements in Part IV, paragraph 6(d) and (f) of the Lawyer's (Trust Account) Regulation 1990, the Trust Ledger was set out differently and subdivided into the Clients' Ledger Accounts and the Administration Ledger Accounts to enable improved accountability and management of the ledger accounts and to enable better control and review. The reconciliations are prepared monthly instead of being done quarterly as required under Section 10(7) of the Lawyers (Trust Account) Regulation 1990. The figures on the*

Trust Ledgers are correct. The balances reflected on the Bank Reconciliation are correct and similar to the figures reflected on the Statement of Receipt and Payments Statements”.

BANK RECONCILIATION

Bank reconciliation is a method of reconciling the balance shown in the bank account and the balance as per the cash book at any given date. A cashbook is an accounting record that is used to record basic information about cash receipts and payments. Cash book can be used as a tool for management, by taking advantage of the available cash receipts and cash payments. As it provides a statement of debit records and credit records, it can be used to manage cash out-flow and cash in-flow.

FMM volume 2 section 11.4 as well as the *Lawyers (Trust Account) Regulation, 1990* states the guidelines and procedures that should be followed when maintaining cash book and preparing bank reconciliation statements.

My review of the cash book and bank reconciliation statements, revealed the following discrepancies:-

- As required in the *PFM Manual Part 3 Division Section/4.7 “Copies of bank reconciliation statements should be forwarded to the Accounting Frameworks and Standard Division, at Department of Finance no later than 14 days of the close of each month.”* However, monthly bank reconciliations for the Public Solicitor’s Trust Account were not submitted to Department of Finance as required.
- In my 2010 audit report, the management agreed to have the bank reconciliation statement prepared monthly and certified by a senior accountable officer. However, I noted that there were no evidence that the bank reconciliation statements were prepared and reviewed at the end of each month

I also noted that, no manual journal entries were maintained for the Public Solicitors Trust Account.

Management Response

I reproduce the management’s responses herewith,

- *“Agree with findings, Bank Reconciliations were prepared on a monthly basis however they were not signed, certified and filed away but kept only on soft copy. Copy of the Bank reconciliation statements were also not submitted to Dept of Finance. Corrective measures will be taken to have the Bank reconciliations printed, certified and copies filed and also submitted to the Dept of Finance Accounting Frameworks.*
- *We confirm that the Cashbook was prepared from MS Excel spread sheets, 2009 and 2010 accounts were prepared using MYOB. We were not able to do 2011 and 2012 in MYOB as the files were lost during installation of our new server. Further, the absence of internet/email access in 2012 to 2013 due to ICT upgrades and refreshing done by Department of Finance caused the MYOB annual licenses to expire.*
- *We note the Controls and will ensure minor structural rearrangements are made to ensure some segregation of responsibilities in the preparation and certification of particularly the monthly Bank Reconciliation Statements and Trial Balance Statements”.*

PROCUREMENT AND PAYMENT PROCEDURES

The main purpose of the *Public Solicitor's Trust Account* as per the *Trust Instrument* is to manage funds for and on behalf of clients and thereafter to make payments to clients entitled to receive payments. The *Trust Instrument* also authorises the *Public Solicitor* to use funds not held in Trust for clients to be applied for other expenditure. The accounting of receipts and the disbursements out of the Trust Account are required to be in accordance with the *PFMA*.

FMM Part 12, 13 15 and 17 and the Lawyers (Trust Account) Regulation, 1990 Part 3(4) clearly outline the guidelines and procedures that a government organisation should be following in the procurement and payment of goods and services. All original payment vouchers are financial documents that must be kept in the Finance Area under the responsibility of the head of finance, along with all other vouchers and made readily available for audit review.

My review of the accounts and records relating to the payments totalling K336,307 for the year ended 31 December, 2012, it revealed the following weaknesses in the control procedures:

Payment Vouchers Missing

Ten payment vouchers with a total of K29,434 were not made available for my audit review. As a result, I was not able to ascertain the validity and the correctness of the payments made.

Non-Trust Payments

18 payments with a total of K61,208 were made contrary to the authorised payments mentioned in the *Trust Deed*. No documents of evidence or explanation from the management regarding the validity and the correctness of the payments made from the Trust Account which were in violation of the *Trust Instrument*.

No Proper Documentations

No proper supporting documentation were attached to the payment vouchers to substantiate payments made to the clients subtracts court settlements etc.

No proper documentation was sighted pertaining to ten payment vouchers with a total of K66,226 that were provided for audit review.

Segregation of Duties

A fundamental element of internal control is the segregation of certain key tasks and duties. The basic idea underlying segregation of duties is that no employee or group of employees should be in a position, to prevent and to conceal errors or fraud in the normal course of their duties. Traditional systems of internal control rely on assigning certain responsibilities to different individuals or segregating incompatible functions.

I observed that, there was a critical shortage of Staff, particularly staff with broad background in Government Financial Accounting. The Director Corporate Services was the only officer who prepared Receipts and Payments Journals, Cashbook, Bank Reconciliation of monies received and paid. One person performing all these responsibilities during the year 2012, as a result in the office did breach the *Finance Management Manual* regarding segregation of duties.

Management Response

I reproduce the management's response herewith, *"As you noted during the audit, critical shortage of staff hindered the segregation of duties. The office was able to address the manpower issue in 2013 during its restructure exercise. Vouchers are now signed off by different Finance officers so as receipting and deposits. Most deposits by MVIL are done direct into the trust account. OPS have to follow up with MVIL for our file copies prior to making payments to clients".*

RECEIPTS AND REVENUE

In order to keep an accurate account of funds, an entity should establish a uniform process of handling receipts by setting up controls and policies, entities should experience a reduction in errors, theft, and fraud. If controls and policies do not exist, it is easier for mistakes to go unnoticed, and for theft and fraud to occur undetected.

The *FMM Part 10* and the *Lawyers (Trust Account) Regulation, 1990 Section 7(1-4)* clearly states the guidelines and procedures that a government organisation should be following in the collection of public monies.

My review of the receipts I conducted 100% check on the receipts totalling K734,618 for the year 2012, the following anomalies were noted:-

- In the review, a total of 38 receipts identified.
 - Seven receipts totalling K150,246 were not recorded in the receipt book;
 - Six receipts totalling K116,261 were not recorded in the Cash book;
 - Another six receipts totalling K106,321 were not recorded in the ledgers; and
 - 31 receipts did not have documents in the receipt file for 2012 totalling K439,964.
- Further, I noted in the reconciliation with the bank statement and the other source document that;
 - 25 receipts on the Bank Statement totalling K400,514 were not documented. (Excluding Banks Fees, etc.);
 - Four receipts on the Bank Statement totalling K55,364 were not sighted in the Deposit Book; and
 - Four receipts recorded in the Bank Statement book totalling K36,800 were not posted in the Cash book.

Management Response

I reproduce the management's responses herewith,

- *"There is a proper receipt book and was made available during the audit.*
- *Both Receipt Book and Deposit Book have client names, file no. and receipt number details recorded in the Receipt book and on the deposit page. Both books were made available during audit. If checked will confirm details.*

- *Direct refunds from suppliers usually for admin expenses were not receipted. This will now be done following your recommendation.*
- *ALL receipts highlighted in your observations are all recorded in the Cashbook and Bank Statements. Only the direct deposits have not been receipted but are recorded in the cashbook. Corrective measures will be done to receipt the direct deposits and place on file record.*
- *Deposits from MVIL are usually done in one lump sum for a number of clients direct into the PS Trust. Your audit check may have overlooked that however these receipts are recorded separately in the cashbook under each client name*
- *Most MVIL receipts are for deceased clients and cheques are written in their names. Settlements payout for these receipts are made to their families with different first names but same surname, or some different surnames, however this receipts are recorded in the cashbook and identified by client number or surname with details stating as payout for this certain client.*

These receipts are for payments raised in December, 2011 and January, 2012 during the shutdown period for Court circuits over that period. As stated under expenses, these expenses are considered as other related expenditure appropriate for enhancing the efficient operations of the office consistent with Paragraph 2 (c) of the Trust Instrument of 30 March, 1995”.

TRUST ACCOUNT COMPLIANCE

Non-Trust Related Payments

The most recent *Public Solicitor’s Trust Instrument* was established and was signed on the 30 March, 1995. The Trust Instrument specifically stated that “the purpose of the Trust Account is to hold monies received by the *Public Solicitor’s Office* for and on behalf of clients and on related legal costs and for the *Public Solicitor* to thereafter disburse those monies to the clients entitled to them. All purchases from the account shall comply with the *PFMA*.”

From my review I noted that 18 payments totalling K61,208 that were made during the year 2012, were non-Trust related such as Travel Allowances, accommodations, airfares, hire cars, hire of venues for functions, etc.

Management Response

I reproduce the management’s responses herewith,

- *“In an attempt to comply with all the requirements of the Trust Instrument and the Lawyers (Trust account) Regulation 1990, a set of guidelines was prepared and a copy was also provided to your audit team. Your comments on that will be appreciated as that will assist in strengthening our system of effectively managing the accounting of the Trust Account. These guidelines detail the specific requirements of each accounting record required to be maintained pursuant to Sections 6,7,8,9 and 10 of the Lawyers (Trust Account) Regulation 1990 including the qualitative attributes of the accounting information to be maintained in these accounting records. This is the first time we have developed these guidelines and are confident that satisfactory adherence to these will see our improved management and accounting of the Trust Account”.*

DEPARTMENTAL RESPONSE

The Office had responded to my findings that were reported in the management letter issued, and those responses are appended in this Report (*Part 2*) accordingly.

CONCLUSION

The results of the audit indicate that overall, there were weaknesses in the control framework. I noted that the control activities, such as delegates, segregation of duties, reconciliations and management monitoring were not sufficiently robust to prevent, detect or correct errors or fraud. Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

32. PUBLIC SOLICITOR TRUST ACCOUNT 2011

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 instruments and related regulations.

FINDINGS

FINANCIAL STATEMENT

Statement of Receipts and Payments for the year ended 31 December, 2011.

The statement below is intended to show the *Public Solicitor's Trust Account* balances as derived from the records maintained by the *Public Solicitors Office* and bank balances for the year end 31 December, 2011. The statement shows the Trust Account's cashbook balance as K549,470.

Particulars	Amounts (K)
Opening Cash Book Balance (01/01/2011)	439,293
Add: Receipts	446,486
Less: Payments	336,309
Closing Cash Book Balance (31/12/2011)	549,470

My review of the Cash book generated from a Microsoft excel spreadsheet, it was revealed that the Trail Balance and individual ledgers were manually prepared based on this cashbook. Furthermore, figures making up the Office of Pubic Solicitors Administration Expenses in the financial statement were different from the Trial Balance and the respective ledgers. The summary of the variances are shown below.

Year	Item	OPS record (K)	AGO (K)	Variance (K)
2011	Fuel	6,000	3,560	-2,440
	Other Operational Costs	10,604	1,564	-9,040
	Legal Costs Received	6,000	9,620	3,620

Management Response

I reproduce the management's responses herewith,

- "Your letter refers to the financial year as 1 Jan 2011 – 31 Dec 2011 which is INCORRECT. The financial year for this Trust account period is 01 Mar 2011 – 28 Feb 2012.
- In an attempt to properly comply with the requirements in Part IV, paragraph 6(d) and (f) of the *Lawyer's (Trust Account) Regulation 1990*, the Trust Ledger was set out differently and subdivided into the *Clients' Ledger Accounts* and the *Administration Ledger Accounts* to enable improved accountability and management of the ledger accounts for the first time in the preparation of 2011 accounts. And to enable better control and review. The

reconciliations are prepared monthly instead of being done quarterly as required under Section 10(7) of the Lawyers (Trust Account) Regulation 1990.

- *The figures on the Trust Ledgers are correct.*
- *The 2011 figures displayed on the Bank Reconciliation and Statement of Receipt and Payments Statements are correct. The Error was the 2010 figures incorrectly displayed. We confirm that it was an oversight and Error. A copy of the corrected Statement of Receipts and Payments was attached”.*

BANK RECONCILIATION

My review of the records maintained in-respect of the cash book and bank reconciliation statements, I observed the following discrepancies:-

- As required in the *PFM Manual Part 3 Division Section/4.7 “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.”* However, monthly bank reconciliations for the *Public Solicitor’s Trust Account* were not submitted to Department of Finance as required.
- In my 2010 report, the management agreed to have the bank reconciliation statement prepared monthly and certified by a senior accountable officer. However, I noted that there were no evidence that the bank reconciliation statements were prepared and reviewed at the end of each month.

I also noted that there were no manual journal entries maintained for the *Public Solicitors Trust Account*.

Management Response

I reproduce the management’s responses herewith,

- *“Agree with findings, Bank Reconciliations were prepared on a monthly basis however they were not signed, certified and filed away but kept only on soft copy. Copy of the Bank reconciliation statements were also not submitted to Department of Finance. Corrective measures will be taken to have the Bank Reconciliations printed, certified and copies filed and also submitted to the Department of Finance Accounting Frameworks.*
- *We confirm that the Cash book was prepared from MS Excel spread sheets, 2009 and 2010 accounts were prepared using MYOB. We were not able to do 2011 and 2012 in MYOB as the files were lost during installation of our new server. Further, the absence of internet/email access in 2012 to 2013 due to ICT upgrades and refreshing done by Department of Finance caused the MYOB annual licenses to expire.*
- *We note the Controls and will ensure minor structural rearrangements are made to ensure some segregation of responsibilities in the preparation and certification of particularly the monthly Cashbooks, Bank Reconciliation Statements, Trial Balance Statements and record storage”.*

PROCUREMENT AND PAYMENT PROCEDURES

My review of the accounts and records relating to the payments totalling K336,307 for the year ended 31 December, 2011 revealed the following weaknesses in the control procedures:-

Payment Vouchers Missing

30 payment vouchers with a total of K136,984 were not made available for my audit review.

Non-Trust Payments

21 payments totalling K68,343 were not in accordance with the Trust Deed.

No Proper Documentations

No proper supporting documentation were attached to the payment vouchers to substantiate payments made to the clients such as court settlements, etc.

No proper documentation was sighted pertaining to three payment vouchers with a total of K33,783 that were provided for my audit review.

Segregation of Duties

A fundamental element of internal control is the segregation of certain key tasks and duties. The basic idea underlying segregation of duties is that no employee or group of employees should be in a position, to prevent and to conceal errors or fraud in the normal course of their duties. Traditional systems of internal control rely on assigning certain responsibilities to different individuals or segregating incompatible functions.

Management Response

I reproduce the management's responses herewith,

- *"Observations and recommendations are noted and arrangements will be made to address the cause of discrepancies.*
- *Finding is partially true for only some original documents plus vouchers that were not available at the Finance area at the time of audit. They were filed in the clients Court files and some in the Recurrent files when reimbursements for admin expenses were made. Missing vouchers have been retrieved and filed in the Trust payments file.*
- *Agreed with the Non-Trust related expenditure but are considered as other related expenditure appropriate for enhancing the efficient operation of the office consistent with paragraph 2(c) of the Trust Instrument of 30 March, 1995. These payments were made from holding funds and others were paid and reimbursed later. A separate Ledger account with the Trust Ledger has been included specifically to assist with the proper tracking and management of the non-trust related expenditures. These documents were on file and were made available during audit.*
- *Expenses without proper documentations; have documents on file and were refer to clients settlements. File was made available during audit.*
- *As you noted during the audit, critical shortage of staff hindered the segregation of duties. The office was able to address the manpower issue in 2013 during its restructure exercise. Vouchers are now signed off by different Finance officers so as receipting and deposits. Most deposits by MVIL are done direct into the trust account. OPS have to follow up with MVIL for our file copies prior to making payments to clients".*

RECEIPTS AND REVENUE

My review of the receipts, I conducted 100% check on the receipts totalling K530,862 for the year 2011, the following audit findings were noted:-

- In the review of a total of 38 receipts identified:-
 - 13 receipts totalling K229,151 were not recorded in the receipt book;
 - 12 receipts totalling K223,006 were not recorded in the Cash book;
 - Six were not recorded in the ledgers totalling K56,731;
 - 13 weren't recoded in the deposit book totalling K146,568; and
 - 11 did not have documents in the receipt file for 2011 totalling K133,801.
- A bank deposit of K175,721 in the Bank Statement was not traced to any source documents, there was no record provided for my sighting;
- Further, I noted in the reconciliation with the bank statement and the other source document that:-
 - Ten receipts noted on the Bank statement totalling K172,030 not yet posted in the Receipt book;
 - Another nine receipt totalling K153,475 in the bank statement were not in the Cash book; and
 - Another nine receipts not in the Deposit book were found in the Bank Statement totalling K70,892.
- During the month of December two transactions made totalling K104,277 were transfers of fund from the recurrent into the Trust Account such actions was in breach of the PFMA.

Management Response

I reproduce the management's responses herewith,

- *"There is a proper receipt book and was made available during the audit.*
- *Both Receipt Book and Deposit Book have client names, file no. and receipt number details recorded in the Receipt book and on het deposit page. Both books were made available during audit. If checked will confirm details.*
- *OPS DOES NOT receives cash receipts from clients, Legal Aid Fees are paid by clients direct into the PS Trust Account. All receipts are mainly by cheque from MVIL or DJAG or companies and paid either by cheque to OPS or paid by direct deposit into the bank account. The only cash handled during this financial year was unused cash for restorative justice activity to a rural area that was deposited back into the Trust account.*
- *Direct refunds from suppliers usually for admin expenses were not receipted. This will now be done following your recommendation.*

- *ALL receipts highlighted in your observations are all recorded in the Cashbook and Bank Statements. Only the direct deposits have not been receipted but are recorded in the cashbook. Corrective measures will be done to receipt the direct deposits and place on file record.*
- *Deposits from MVIL are usually done in one lump sum for a number of clients direct into the PS Trust. Your audit check may have overlooked that however these receipts are recorded separately in the cashbook under each client name if checked, will confirm.*
- *Most MVIL receipts are for deceased clients and cheques are written in their names. Settlements payout for these receipts are made to their families with different first names but same surname, or some different surnames, however this receipts are recorded in the cashbook and identified by client number or surname with details stating as payout for this certain client.*
- *These receipts are for payments raised in December, 2011 and January, 2012 during the shutdown period for Court circuits over that period. As stated under expenses, these expenses are considered as other related expenditure appropriate for enhancing the efficient operations of the office consistent with Paragraph 2 (c) of the Trust Instrument of 30 March, 1995”.*

TRUST ACCOUNT COMPLIANCE

Non- Trust Related Payments

The most recent *Public Solicitor’s Trust Instrument* established was signed on the 30 of March, 1995. The *Trust Instrument* specifically stated that “the purpose of the Trust Account is to hold monies received by the *Public Solicitor’s Office* for and on behalf of clients and on related legal costs and for the *Public Solicitor* to thereafter disburse those monies to the clients entitled to them. All purchases from the account shall comply with the *PFM Act*”.

From my review, I noted that out of the 53 payments that were made during the year 2011, only 19 payments were Trust related and were payments for MVIL settlement. The remaining 34 payments were non-Trust related such as Travel Allowances, accommodations, airfares, hire cars, hire of venues for functions, etc.

Management Response

I reproduce the management’s responses herewith,

- *“In an attempt to comply with all the requirements of the Trust Instrument and the Lawyers (Trust Account) Regulation 1990, a set of guidelines was prepared and a copy was also provided to your audit team. Your comments on that will be appreciated as that will assist in strengthening our system of effectively managing the accounting of the Trust Account. These guidelines detail the specific requirements of each accounting record required to be maintained pursuant to Sections 6,7,8,9 and 10 of the Lawyers (Trust Account) Regulation 1990 including the qualitative attributes of the accounting information to be maintained in these accounting records. This is the first time we have developed these guidelines and are confident that satisfactory adherence to these will see our improved management and accounting of the Trust Account”.*

DEPARTMENTAL RESPONSE

The Office had responded to my findings that were reported in the management letter issued, and those responses are incorporated this Report (*Part 2*) accordingly.

CONCLUSION

The results of the audit indicate that overall, there were weaknesses in the control framework. I observed that the control activities, such as delegates, segregation of duties, reconciliations and management monitoring were not sufficiently robust to prevent, detect or correct errors or fraud.

33 LIST OF DEPARTMENTS AUDITED IN THE LAST THREE (3) YEARS

No	Code	Name of Department	YEARS AUDITED		
			2011	2012	2013
1	247	Agriculture and Livestock	✓	✓	x
2	225	Attorney General	✓	✓	x
3	261	Commerce and Industry	x	✓	✓
4	242	Community Development	✓	✓	x
5	226	Correctional Services	✓	✓	✓
6	234	Defence	x	✓	✓
7	235	Education	✓	✓	✓
8	230	Electoral Commission	✓	✓	✓
9	245	Environmental and Conversation	x	x	x
10	206	Finance	✓	✓	x
11	217	Foreign Affairs and Trade	✓	✓	x
12	202	Governor General	x	x	✓
13	240	Health	✓	✓	✓
14	236	Higher Education	✓	✓	x
15	216	Internal Revenue Commission	✓	✓	x
16	252	Lands and Physical Planning	✓	✓	x
17	262	Labour and Industrial Relations	x	✓	x
18	224	Magisterial Services	x	✓	✓
19	223	National Judiciary Services	✓	✓	x
20	201	National Parliament	✓	✓	✓
21	229	National Planning and Monitoring	x	✓	x
22	204	National Statistics Office	x	x	x
23	267	Office of Rural Development	✓	✓	x
24	220	Personnel Management	x	✓	x
25	255	Petroleum and Energy	x	✓	x
26	211	PNG – Bureau of Customs	x	✓	x
27	228	Police	x	✓	✓
28	203	Prime Minister and NEC	✓	✓	✓
29	232	Provincial and Local Government Affairs	✓	✓	x
30	254	Mineral Policy and Geo Hazard	x	x	x
31	259	Transport	✓	✓	✓
32	208	Treasury	x	✓	✓
33	264	Works and Implementation	x	✓	✓
34	221	Public Service Commission	x	x	x
35	258	Information and Communication	x	x	x
36	213	Fire Services	x	x	x
37	212	Information Technology Division	x	x	x
38	222	Office of Public Solicitor	x	x	x
39	215	PNG Immigration and Citizenship Services	x	x	x
40	209	Office of the Registrar for Political Parties	x	x	x
41	218	Office of Public Prosecutor	x	x	x
42	231	National Intelligence Organisation	x	x	x
43	257	Public Enterprise	x	x	x
44	205	Office of Bougainville Affairs	x	x	x
45	268	Central Supply and Tenders Board	x	x	x
46	269	Office of Tourism Arts and Culture	x	x	x
47	246	Office of Urbanisation	x	x	x
		TOTAL	<u>18/36</u>	<u>29/47</u>	<u>14/47</u>

Key:

Departments Audited	✓
Departments Not Audited	x

34. ACKNOWLEDGEMENT

I would like to acknowledge the professionalism and commitment of my staff in undertaking the audit work that is reflected in this Report (*Part 2*). Their efforts have ensured the audit work program is on track and enabled preparing this report in a short period of time.

The co-operation and the assistance rendered by all Heads of Departments and their staff are 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.

A handwritten signature in black ink, appearing to read 'P. Nauga'.

PHILIP NAUGA
Auditor-General