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Report of the Auditor-General

PART II - 2010

National Government Departments and Agencies

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

18 February, 2013

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, I have the honour to transmit to the National Parliament the Part II of my Report for the year 2010.

The 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 2010.

Yours faithfully,

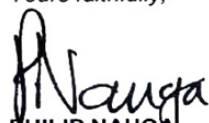

PHILIP NAUGA
Auditor-General

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LIST OF ACRONYMS

Abbreviation	Full Description
AGO	Auditor-General's Office
AMS	Asset Management System
APC	Authority to Pre-Commit
ASYCUDA	Automated Systems for Customs Data
BSP	Bank South Pacific
BOS	Board of Survey
CACC	Central Agencies Coordinating Committee
CFC	Cash Fund Certificate
COI	Certificate of Inexpediency
CRF	Consolidated Revenue Fund
CRL	Cheque Reconciliation Listing
CSTB	Central Supply and Tenders Board
DMA	Domestic Market Allowance
EDP	Electronic Data Processing
EMT	Executive Management Team
ETD	Expenditure Transaction Detail
FAS	First Assistant Secretary
FF3	Requisition for Expenditure Form
FF4	General Expenses Form
FMM	Financial Management Manual
GO	General Order
GoPNG	Government of Papua New Guinea
GPM	Goods Procurement Manual
GST	Goods and Services Tax
HDA	Higher Duty Allowance
HRM	Human Resources Management
IEO	Internal Examine Officer
ILPOC	Integrated Local Purchase Order and Claim Form
IPA	Investment Promotion Authority
ITC	Information Technology Configuration
JE	Journal Entry
KRA	Key Result Areas
MBA	Master of Business Administration
MOU	Memorandum of Understanding
NEC	National Executive Council
NEP	National Education Plan
OIC	Officer-In-Charge
OTC	Overseas Travel Committee
PFM Act	Public Finances (Management) Act ,1995
PGAS	PNG Government Accounting System
PIP	Public Investment Program
PNG IPA	PNG Institute of Public Administration
PTB	Plant Transport Branch
RAC	Revenue Accounting System
SAD	Single Administrative Document
SDMA	Special Domestic Market Allowance
SIEO	Senior Internal Examine Officer
SRC	Salaries and Remuneration Commission
SSG	Special Support Grant
TMS	Treasury Management System
WA	Warrant Authority

FOREWORD

My Report to the National Parliament for 2010 is being presented in four parts:

Part I of my Report deals with the Public Accounts of Papua New Guinea (to be tabled in early 2013);

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

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

- **Summary results of audits of 2010 accounts** are used to support the audit of the Public Accounts for 2010. In order to assess the reliability and accuracy of the reported expenditure and revenue of the 2010 Public Accounts, 18 Departments with significant budgetary appropriation were selected and their results evaluated; and
- **The control and transaction audits in 2010 of individual Departments** 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 report on the control weaknesses to improve on. Results of these are detailed under the individual agencies included in this Report.

ROLE OF THE AUDITOR-GENERAL – Introduction

Authority to Audit

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

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

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

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

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

Audit Coverage

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

- **Audit of 2010 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 2010, eighteen (18) Departments have been selected on the basis of significant funding in the 2010 budgeted recurrent and development expenditure.
- **The control environment in 2010** - 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 report on the 2010 control weaknesses to improve the processes. Results are detailed under the individual agencies included in this Report.

Responsibilities of Management

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

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

Responsibilities of the Auditor-General

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

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

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

Other than in relation to 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 organizations 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 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 organization abides by the applicable laws and regulations and ensures the reliability of financial reporting and the effectiveness and efficiency of operations. Internal control is often accepted as consisting of five interrelated components as follows:

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

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

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

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

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

The audits of internal controls

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

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

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

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

Corporate Governance

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

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

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

The results of the audits identified:

1. Eleven (11) out of eighteen (18) Departments had Corporate Plans and only six (6) had Annual Plans despite the requirements for all Government entities to have such plans. Corporate and Business Plans are important as they set the targets and performance indicators to assist with monitoring of achievements and taking corrective actions. Departments without these plans have difficulty in measuring performance which in turn leads to ineffective and inefficient service delivery.
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.

Internal Audit

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

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

In that respect it was found that two (2) agencies did not have an Internal Audit function established. For six (6) Departments that had Internal Audit, there was no Audit Charter and Audit Plan to set out the mandate and scope of audit coverage. In the majority of cases there was insufficient capacity in trained staff and funding for Internal Audit to carry out its duties during the year.

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.

Six (6) out of twelve (18) Departments did not comply with this requirement during the 2010 financial year.

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

Annual Management Reports

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

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

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

Only five (5) out of the thirteen (18) Departments have submitted these reports for 2010 to the Department of Personnel Management. Moreover, the Department of Personnel Management has not acted on this non-compliance or undertaken any follow up action.

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

Budgetary and Funds Controls

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

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

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

- A lack of monitoring of expenditure was noted in all eighteen (18) Departments. Departments did not prepare cash flow 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 18 Departments indicated non-reconciliation of their monthly PGAS report against the TMS General Ledger maintained by Department of Finance. As at 31 December, 2010 the aggregate variance between these two (2) records for 14 Departments indicated a massive variance of K147,752,131. This lack of monitoring expose the Public Accounts to the risk that moneys could be spent in excess of the appropriation limit, resulting in breaches of the *Appropriation Act* approved for the budget year including the *Public Finances (Management) Act, 1995* or even the *Constitution of the Independent State of PNG*.
- Incorrectly charged expenditures to Vote items for which funds were not appropriated, either through use of incorrect expenditure codes or through journal entries. There were also instances noted of funds being transferred between divisions and functions as at 31 December, 2010, contrary to the *2009 Appropriation Act for the 2010 budget year*.
- A lack of reconciliation between the PNG Government Accounting System (PGAS) and the TMS which captures all the financial transactions processed through the PNG Government Main Public Accounting System. Each Government agency is expected to reconcile their records (PGAS) on both revenue and expenditure with the monthly records produced by the Department of Finance (TMS). If there are any differences between the two records, journal entries are required to be raised by the Departments to make the necessary adjustments ensuring that both records have the same information on their respective ledgers. Materials variances were noted in several agencies for example; Department of Health – K26.7million, Department of Prime Minister & National Executive Council (PM&NEC) – K63 million and Department of Justice and Attorney General – K26.1 million.
- The non-performance of this very important reconciliation has a significant impact in the balancing of the General Ledger of the Public Account of PNG. Namely, what is captured on the main Public Account may not be a true and fair representation of the information being generated and processed during the financial year at the various agencies.

Bank Reconciliations

A bank reconciliation represents an independent verification by management to ensure that 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 assisting management to discharge its accountability requirements. Reconciliations need to be prepared within a reasonable period to ensure anomalies or errors have been identified and appropriate action taken.

The Finance Manual requires Heads of Government Departments and Statutory Authorities to reconcile their bank accounts on a monthly basis. Bank balances should be reconciled against the 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, as follows:

- Bank reconciliations were current in only fifteen (15) out of eighteen (18) Departments. However, even in those entities, significant unreconciled items were carried over for long periods of time. Three (3) Departments had their last reconciliation completed in January, June and September of 2010 respectively.
- The officers responsible for preparation of the bank reconciliation were not qualified and sufficiently trained.
- In a number of agencies, the reconciliations were not reviewed and certified as correct by a senior officer.

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

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

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

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

Assets Management

Government Departments and agencies spend significant amounts of money on asset purchases, especially on computers and accessories. It is the responsibility of the Departmental 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 stock-takes is a prerequisite to effective asset management. Regular reconciliations of the asset register with the entity's financial systems (i.e. procurement function) will help ensure the timely and accurate recognition of asset items and facilitate their physical control.

From the asset records of the eighteen (18) 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 utilised effectively, may not be protected from physical deterioration or maintained properly.
- Periodic stock-takes were not being conducted to determine the accuracy of assets on hand in agencies. In most cases the physical condition and durability of assets held is not properly ascertained. The risk of assets being removed without authority or through theft is high in agencies that do not conduct periodic stock-takes.
- From the samples of vouchers AGO selected for testing, in excess of K1.2 million was identified as unrecorded assets in which payment details of these assets could not be traced to asset recording, both resulting from lack of a register or simply not being recorded by any means.
- Controls surrounding management of vehicle fleets were non-existent. 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 did exist.

Procurement and Payment Procedures

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

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

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

Other significant issues were:

- Payment vouchers were not examined for completeness and certified correct prior to processing them for payment. These were noted in eleven (11) entities out of eighteen (18) audited;

- In nine (9) Departments, where AGO undertook detailed testing, the amounts relating to missing documentation was in excess of K4.5 million;
- Payments to suppliers were often made on pro-forma invoices and without required quotations. A number of agencies were making payments through this process; and
- A Department paid K5 million for rental of a property that was not occupied and the money is yet to be recovered. However, an additional K190,000 was paid to the same company without recovering the K5m paid earlier.

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

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

HR Management

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

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

Common weaknesses identified across the agencies were:

- Although the payroll is processed centrally by the Information Technology Division (ITD) of the Department of Finance for public servants, it is the responsibility of the Departmental Head to ensure the Department's payroll is accurate and complete. AGO found that there were no payroll reconciliations performed by HR areas throughout 2010 in all eighteen (18) Departments tested. Previous audits indicate also that not many agencies perform such reconciliations. The agencies did not maintain their own PGAS ledger records but relied on the Department of Finance records. The lack of this key control can facilitate fraudulent payroll activities where payments processed outside the system such as manual cheques would not be easily detected in the absence of independent records and reconciliation.
- One of the important aspects of the HR function is to maintain records that demonstrate compliance with applicable human resource statutory and regulatory requirements, agency policy and agreements with other parties. Up to date records in respect to individual employees are vital and should be properly maintained. Testing of a sample of employee files in all

eighteen (18) Departments noted that salary history cards were not updated on a regular basis with recreational leave, HDA, sick leave or tax declaration forms on dependents claimed.

- Personnel files were generally not kept in a satisfactory manner. The files were left lying around on the floor area and not in a secure environment. There is a risk of loss of payroll, personal information or documents, damage to the files and also unauthorised access to payroll and personal information.

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 *Public Finances (Management) Act, 1995* 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:

- Out of eighteen (18) Departments operating trust accounts, AGO identified the existence of six (6) trust accounts that are not operating under the Departments PGAS accounting system. When records are not properly maintained, monitoring of expenditure and compliance cannot be effectively performed.
- In most of the Departments with trust accounts, payments were made contrary to the purpose of the trust. These agencies have also not submitted monthly reconciliations and statements of receipts and payment to the Department of Finance.
- Surplus funds available in the trust accounts were not invested in line with the *Public Finances (Management) Act*. Such action was not taken on most of the trust accounts administered by agencies.

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

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

- Not a single Department had submitted its trust bank reconciliation statements within 14 days of the close of each month as required by legislation; and
- As at the time of audit in July 2012 AGO could not confirm the actual number of bank reconciliations received by Department of Finance due to the absence of a proper filing system.

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-existence controls, management overriding the controls and potential fraudulent activities occurring, I have examined in detail the area of management of advances. The following significant issues were identified:

- In nine (9) out of eighteen (18) Departments tested, unacquitted advances as at 31 December 2010 were in excess of K13.5 million. It was observed that most of these agencies issued further advances to officers whilst their previous advances remained outstanding;
- Two (2) Departments had unacquitted salary advances of K819,399. It should be noted that there were additional unacquitted cash advances accumulating from previous years. The agencies had no established limit on cash advances and, in some instances, the amount of the cash advances given to employees exceeded their annual salary;
- AGO observed the practice of agencies paying significant amounts to the Paymaster as cash advances. These cheques were cashed by the Paymaster/Paymistress and paid to officers of the Departments for various purposes. Such practice could lead to fraud as there is no documentation/audit trail. Examples observed were in the Office of Rural Development, Department of Community Development and Department of Education. AGO observed that it was common practice by agencies to draw advance payments by using the Paymaster where controls over acquittals have been unsatisfactory; and
- Management of the advances was very poor and there was no assurance over the completeness of the recorded balances. AGO identified K4,162,818 unrecorded advances in five (5) agencies alone.

Conclusion

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

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

Poor financial management, fraud and corruption are complex development issues in PNG and they can take many forms. Weakness in financial management and corrupt practices legitimises bad governance and diverts funding and energy away from development plans and achievement of national goals. Poor financial management, coupled with misuse of public money, has contributed to a decline in service delivery to the public, and since independence, financial mismanagement and corruption have had detrimental impacts on PNG's development processes.

Strong financial management is an essential part of any public sector. Public sector institutions play an important role in establishing and maintaining effective systems that support control, prioritization, accountability and efficiency in the management of public resources and delivery of services. These elements are core to the achievement of public policy objectives. The results from the AGO's audit clearly indicate the systems of internal control within departments are ineffective and departments are not exercising their financial management responsibilities.

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

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

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

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

1. CORRECTIONAL INSTITUTIONAL SERVICES

OVERVIEW

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

The Department is expected to fulfill that mission in the context of the *Correctional Service Act 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 programs for the benefit of detainees; and
- Provide a commitment to the ongoing pursuit of excellence in correctional management.

FINDINGS

BUDGETARY & FUNDS CONTROL

Comparison of Warrant Authority and Actual Expenditure (TMS)

- CIS had incurred over-expenditure of K3,654,686 in three (3) Expenditure Vote Items; and
- A total of K238,830 was transferred out of the recurrent budget and paid to the Correctional Services Trust Account in December 2010. Section 16(2) of the *Public Finances (Management) Act, 1995*, prohibits the transfer of funds from the Consolidated Revenue Fund to any Trust Account unless the transfer is specifically authorised by an Appropriation Act.

BANK RECONCILIATION

Drawing Bank Account/Cash Book

The Department maintains a drawing bank account No. 4311-6108 with Bank PNG.

Audit examination of the bank reconciliation for the related records and documents in December 2010 revealed the following findings:

- The Cash Book balance was K10,373,525 whilst the bank balance was nil;
- Credits in the Bank Statement totaling K7,378,450 representing reimbursements from Department of Finance for the month of December 2010 were not recorded in the Cash Book as required;
- Unpresented cheques totaling K3,016,708 included twelve stale cheques totaling K39,094;
- Other items (debits) amounting to K13,396 were not cleared; and
- Journal Entry 83/10 was raised to transfer funds totaling K30,000 from Vote Item 226-1706-1101-136 to 226-1706-1101-121. The proper process through Sections 3 and 4 transfers of budget internal fund transfer was not adhered to by Management.

PROCUREMENT & PAYMENT PROCEDURES

The audit of procurement and payment procedures was undertaken for the year ended 31 December 2010. As part of the audit follow up process, audit reviewed the internal controls surrounding procurement and payments to ascertain that purchases of goods and services were conducted in accordance with the relevant legislation, government policies, and financial instructions.

A sample of 25 payments totaling K893,347 was reviewed and the following audit findings were noted:

- In seven (7) instances, payments totaling K168,065 paid from the 2010 Recurrent Budget to service providers for services rendered in the years 2007 to 2009;
- A pensioner was paid K12,653 for accumulated unpaid pensions which was claimed for the periods from 1994 – 1997 and 2000 – 2007 respectively. This scenario clearly reflects on the bad management and ignorance of officers responsible for ensuring that retired personnel are treated with respect and dignity and are paid when entitlements are due; and
- Two (2) payments totaling K24,235 were made in 2010 to individuals for services rendered between 2005 and 2009 and for using private property with the intent to defraud the State by a couple with the collaborations of prison officers.

Payment for the use of a Private Computer K2,340

This payment relates to the use of:

1. A computer monitor at a rate of K50 per month for 18 months totaling K900; and
2. A UPS at a rate of K80 for 18 months totaling K1440.

Audit noted that:

- The rates used were not supported by documents to justify their validity;
- No prior approval was sought before arrangement was made; and

- Communication between the Information and Communication Technology Branch and Boram Correctional Institution regarding the matter did not take place before the expense was incurred.

TRUST ACCOUNT

The Correctional Service maintained two trust accounts; namely: Prison Industries and GoPNG Trust.

Details of trust accounts

Name	Bank	Account #	Opening Balance -PGK	Closing Balance-PGK
Prison Industries	BSP Port Moresby	1000586785	880,402	672,988
GOPNG Trust	BSP Waigani	1000586954	25,269,064	26,521,09

Prison Industries Trust Account

- Monthly bank reconciliations were not reviewed and approved by an authorized officer.
- No proper Cash Book was maintained for this trust account.

GOPNG Trust Account

A review of the bank reconciliation for the month of December 2010 highlighted the following:

- No Cash Book was maintained for this trust account;
- Credits in the bank account not in the Cash Book totaled K1,259,201;
- Bank interest for December 2010 totaling K3,316 was transferred to bank account No: 100058793. AGO was unable to ascertain the ownership of the bank account No. 100058793; and
- Unpresented cheques as at 31 December 2010 equaled K147,619.

ADVANCE MANAGEMENT

CIS maintained a PGAS Advance Register, however the register did not capture the following important details:

- FF4 date;
- designation of the officer receiving the advance; and
- signature of the recipient;

The review of the Advances Management System revealed the following discrepancies:

- According to the computer printout dated 1 December, 2010, a total of 279 advances totaling K279,091 remained unacquitted;
- 56 additional advances totaling K80,965 were issued to officers whilst prior advances remained unacquitted;

- Files containing the acquittal forms were not made available to audit;
- No corrective measures were taken by the Department to recoup outstanding advances; and
- No advance management policy was in place to guide officers involved in issuing, recording, monitoring and acquittals of advances.

DEPARTMENTAL RESPONSE

The findings were brought to the attention of the Secretary in the management letter issued. However, the management failed to respond up to the time of this report in June 2012.

CONCLUSION

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

2. DEPARTMENT OF COMMUNITY DEVELOPMENT

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

BUDGETARY & FUNDS CONTROL

Comparison of the Expenditure Summary for the period ended 31 December, 2010 generated by TMS against the Expenditure Vote summary produced through the PGAS system revealed the following:

There was no reconciliation done between PGAS and TMS for the year under review by the Department of Community Development. This issue was also highlighted in the prior year's audit report and has not been addressed accordingly by the Department;

- Examination of TMS report revealed a total appropriation of K9,838,200 whilst the Department's PGAS system revealed a total appropriation by way of warrant authority of K14,835,800 and an Equivalent expenditure of K14,682,181 leaving an unexplained variance of K4,843,981 between PGAS and TMS expenditures figures; and
- The TMS Report for the Development Budget revealed that 35% of the total funds appropriated under Vote Item 139 for donor funded projects were unutilised as at 31/12/2010. The Department's expenditure report revealed no expenditures whilst TMS showed that 65% of the total funds aggregating to K44,748,183 under this item was already spent.

BANK RECONCILIATION

An independent review on all bank reconciliations produced during the year under review revealed that the Department has carried out timely bank reconciliations in respect of its drawing account. However, long outstanding reconciling items were not investigated and immediately cleared which were then carried forward to succeeding months as detailed below:

- Un-presented Cheques totalled K278,741;
- Credit in the bank account not in the Cash Book amounted to K2,023,136;
- Reconciling items not cleared aggregated to K17,360 as at 31 December, 2010; and
- The Cash Book was overdrawn by K2,284,518 due to the Department not posting into the Cash Book, reimbursements from Waigani Public Account on a timely basis.

PROCUREMENT & PAYMENT PROCEDURES

The Department's efficient fund management depends on accurate information on availability and the requirement of funds as well as a reliable procedure for controlling expenditure spread over the entire period to avoid over and under expenditure. It is important to establish clear and accurate forecasts in order to ensure that sufficient cash is available to meet the day-to-day needs of the Department as well as long term cash flow forecasts, and to anticipate and plan for major inflows and outflows of funds.

Audit obtained the PGAS Cash Book and extracted the last quarter payments to ascertain whether there were accelerated and unbudgeted expenditures in the last quarter. Furthermore, examination of payments for the last quarter of the year 2010 revealed the following matters:

- In three (3) instances, for payment vouchers totaling K33,381 the Consultancy Steering Committee's approval and endorsement by the Attorney General was not sighted in audit to substantiate the authenticity and propriety of the payments made to the consultants in accordance with the Manual of Financial Procedures;
- In ten (10) instances, payment vouchers totaling K248,196 were not supported by documentary evidences to substantiate the payments;
- For a payment totaling K59,269 for procurement of computers, audit noted that the payment was made on a General Expense Form (FF4) instead of an Integrated Local Purchase Order Charge (ILPOC) contrary to procurement procedures of the Manual of Financial Procedures. The payment was not supported by duly documented evidence such as an approval from the Computer Equipment committee;
- An officer's overseas travel allowances totaling K18,367 were funded from Vote Item 135 Operational Expenses instead of item 121 travel and subsistence vote contrary to the *Appropriation Act 2009* for 2010 budget which reflects the following:
 - a) The travel was not consistent with an approved Departmental Annual Plan of activities for the Department;
 - b) Country papers purporting to represent the views and opinion of the Department on behalf of the Government of the Independent State of PNG presented at the meeting were not attached to substantiate the authenticity and propriety of the travel; and
 - c) Travel reports by two (2) officers of the Department were not sighted by audit to substantiate their training or courses undertaken overseas;
- A driver was paid K33,314 out of a total settlement of K64,287 being for loss of salary due to wrongful termination. However, there was neither a court order nor Secretary's approval of reinstatement stating reason for the driver's reinstatement;
- In another instance an employee's leave fares were paid totaling K20,010. Included in the above are airfares for four (4) adults over the age of 18 years and included as dependents with ages ranging from 20 years – 32 years:
 - The relevant officers in the HR division did not properly check the entitlements of each dependent before passing it to accounts for payment;

- Included in the above K20,010 was K11,630 for three (3) fortnights after 01.01.2011 calculated at K3,876 x 3 Fortnights = K11,630. However, perusal of casual pays for pay period ended 26/1/2011 indicated that he was again double paid K3,971. It appeared that there was no proper coordination between the HR Division and Accounts Division resulting in these duplicate payments;
 - There was no formal leave application submitted by the payee and approved by the Secretary for processing of the leave entitlements; and
 - The above payment appeared abnormal in that all the authorization, approval and certification and drawing of the cheque was done on the same date – 1 December 2010;
- A consultant was paid K12,000 for a claim of K50,000 for publication and distribution of training material. This payment is viewed as being irregular, and was contrary to the standard consultancy agreement clause 11.2 (b) which states that **“all reports and documents which are produced by the consultant for provision of the services shall be treated as important information, and shall at all times be the property of the State”**. The payee was a lawyer by profession and should have advised the Department accordingly that it was improper for him to receive such payments as contrary to the terms of reference;
 - Three (3) employees’ rec-leave airfares were en-cashed by way of cash cheques and paid to the employees direct without deducting their ten percent (10%) share of contributions to the State where it was viewed as irregular;
 - Audit noted that an ILPOC was raised for airfares totaling K10,990. The bearer of the cheque being Air Niugini was crossed off by the examiner without being initialed by the Financial Delegate rendering the claim invalid but yet paid to the payee who was the Chairman and Director of Urbanisation. The process of payment contravenes laid down financial regulations; and
 - Two (2) payments totaling K67,257 for pay periods ended 29/12/2010 and 26/1/2011 for casuals revealed that the casuals were paid in excess of K500 per fortnight which was in greater than the casual rate of K250. Two sets of payrolls were maintained by the Department where one was processed through the Concept payroll system whilst the other was paid by the Department through its operating account where some of the payees were Divisional Heads and not casuals as stated. Casuals are engaged on a specific job and upon completion should be terminated but not in this case where the casuals appeared to be engaged more permanently.

TRUST ACCOUNTS

A review of the trust accounts projects revealed that:

The Department of Community Development operated 19 trust accounts outside the Government Accounting System (PGAS) contrary to section 62 of the *Public Finances (Management) Act, 1995*, as amended. Furthermore, Trust Instruments for all 19 trust accounts were not sighted nor the bank reconciliations made available to audit for examinations; and

The Year End Balances for the following trust accounts were furnished without bank statements nor bank reconciliations to substantiate the balances forwarded by the Department as detailed below:

A/S	Name of Trust Account	Account Number	Bank/Branch	Balance 31.12.2010
1	DFCD Facility A/C	13326575	ANZ/WGI	-
2	Convention On Discrimination against women	13026901	ANZ/POM	1,648
3	Ending Violence Against Women	13069048	ANZ/WGI	1,166
4	PNG Womens Credit Project Trust A/C	1000489877	BSP/BKO	942
5	Donor Funded Project – Birth Registration & Child Protection	12096062	ANZ/WGI	362,625
6	Human's Rights Desk	12207593	ANZ/WGI	-
7	Community Mobilisation HIV/AIDS Project	13194503	ANZ/WGI	641
8	ICD General Operations	12870120	ANZ/WGI	-
	ICDC Subsidiary Accounts			
9	Integrated Community Development Programme	13309763	ANZ/POM	-
10	ICDP Construction Account	12870175	ANZ/BKO	-
11	Task Force Social Protection trust accounts	13544083	ANZ/KDU	-
13	Targeted Community Development Programme Secretariat Trust A/C	1000584143	BSP/WGI	1,691
14	Targeted Community Development Programme Secretariat Trust A/C	1000584143	BSP/WGI	180
15	Employment Oriented Skills Development Project(HM)	10001019929	BSP/WGI	9,667

As a result, the balances of the trust accounts of the projects for the year ended 31 December 2010 could not be verified as correct.

ADVANCES MANAGEMENT

An audit review conducted on the Advance Register and related records for advances paid to officers of the Department for the period covering 2007-2010 revealed the following weaknesses:

- All advances paid were not properly recorded either in the electronic Register or the manual Advance Register;
- The manual Advance Register did not indicate the dates when various advances were paid to each recipient; and
- Due to the inaccuracies noted in both Registers the following deficiencies were noted:
 - There was no proper reconciliation between the two (2) Registers. In twelve (12) instances, outstanding advances totaling K23,390 from the manual register were not traceable to the computer register;
 - In 13 instances, 2010 advances noted in the computer register not recorded in the manual advance register aggregated to K57,008 as at date of audit in April 2011;
 - AGO noted that second advances were issued to officers who did not acquit their first advances as required. In 172 instances, subsequent advances per the computer register ranging from the year 2007-2011 aggregated to K95,347 at the time of audit in April 2011;
 - In 26 instances, outstanding advances for year 2010 aggregated K35,730 as per the manual Advances Register.

- In 16 instances, outstanding advances as per the Paymaster's Advance Register aggregated to K35,274; and
- In eight (8) instances, subsequent advances paid as per the Paymaster's Advance Register aggregated to K19,700.

DEPARTMENTAL RESPONSE

The findings were brought to the attention of the secretary in the management letter issued. However, the management letter responses were not received up to the time of this report in June 2012.

CONCLUSION

In general, some improvements have been made in the system and operation of controls within the Department compared to previous years.

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

3. DEPARTMENT OF AGRICULTURE & LIVESTOCK

OVERVIEW

The Department's mission is to enable 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 the context of the *Animals Act*, *Cocoa Act*, *Copra Act*, *Coffee Industry Act*, *Palm Oil Act*, 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

CORPORATE GOVERNANCE

The Public Service General Order No. 8.11 clearly 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 Corporate Plan

As at the time of audit, the Department of Agriculture and Livestock had in place a five (5) year Draft Corporate Plan covering the years' from 2010 – 2014.

- Due to lack of supporting documentation, audit was unable to ascertain if the Corporate Plan was completed and launched.
- No Annual Activity Work Plan(s) was provided for our audit validation and to ascertain whether those plans were being aligned to the Corporate Plan for its implementation.

BUDGETARY & FUNDS CONTROL

Year 2009

A comparison of the 2009 (PGAS) Expenditure Vote Summary printout maintained by DAL with the Expenditure Statement on TMS 330 produced by Department of Finance for Period 12/2009 revealed significant variances between expenditure balances.-

Variances in Fund Allocation & Expenditure Balances-2009

Particulars	DoF* (TMS) (PGK)	DAL (PGAS) (PGK)	Variance (PGK) +(-)	Remarks
Revised Appropriation	24,209,700	21,431,600	(2,778,100)	TMS > PGAS
Warrant Authorised	24,208,700	20,949,000	3,259,700	TMS > PGAS
Actual Expenditure	20,298,295	13,419,199	(6,879,096)	TMS > PGAS

- Warrant Authorities Funding had not been posted accordingly in the PGAS Sub Ledger by the Department.

The Management of DAL did not do any reconciliation of its ledgers to the main public account ledger maintained at Department of Finance (TMS reports).

Expenditure in Excess of the Authorization

The Expenditure Statement (TMS 330) produced by Department of Finance for the year ended 31 December, 2009 revealed that:-

- In 13 Vote Activities, a total of K2,428,479 expenditure exceeded the Warrant Authorities for funds allocated under the Recurrent Budget.
- Internal Audit Unit incurred an over expenditure of K189,611 without producing any internal audit report during the year.

Year 2010

A comparison of the PGAS Expenditure Vote Summary printout (run-date: 20/04/11) against the Department of Finance - TMS 100 for Period 12 Report (run-date: 11/01/11) revealed significant variances between the two budgeted and expenditure balances as at 31 December, 2010:

Variances in Fund Allocation and Expenditure Balances – Period 12/2010

Particulars	DAL - PGAS	DoF – TMS	Variance	Remarks
Revised Appropriation	18,504,600	15,337,200	3,167,400	PGAS > TMS
Warrant Authorised	10,809,300	17,626,300	6,817,000	PGAS < TMS
Actual Expenditure	10,788,952	17,445,927	6,656,975	PGAS < TMS

Warrant Authorities

An analysis of the Warrant Authorities allocations recorded on the two records by Vote Items revealed the following:

- DAL did not record the fund allocation for Vote Item 111 totaling K5,453,100;
- Vote Item 141, PGAS recorded K1,254,300 less than what was recorded by TMS –DoF; and

- Ten (10) Vote Items totaling K133,400 fund allocation, PGAS recorded more than what was captured at the Main Public Account ledger. (TMS- DoF).

The physical verification of all Warrant Authorities revealed that:

- Warrant Authorities for 9 months of the year 2010 were not filed in the W/A file and not sighted at the time of audit in April 2011.

The comparison of expenditure recorded on the TMS and PGAS revealed that:

- Monthly salary payments totaling K5,452,684 were not posted in the Department's PGAS ledger during the year.
- Payments of pensions, retirements and gratuity (Vote Item 141) totaling K2,645,273 were not posted in the Department's PGAS ledger which was posted only at the Main Public Account ledger (TMS ledger).
- For two (2) other Vote Items (121 and 135) totaling K17,672; the Department's expenditure was more than what was captured on TMS. The payments made by the Department were not captured at the Main Public Account Ledger.

As at the time of final audit of 2010 audit noted as shown below that claims from years 2009 and 2010 were being paid from 2011 fund allocation from the Recurrent Budget which was not within the *Appropriation Act*:

- 427 claims totaling K2,036,910 for year 2009, and
- 125 claims totaling K632,394 for year 2010.

Development Budget

According to the Budget Books for Years 2009 and 2010 DAL's Development Budget Allocation were K11.031 million and K7.689 million respectively:

- No Fund Allocation through Warrant Authority was made in both years 2009 and 2010;
- All Development Budget funds were prepared by the respective Program Managers and reported to the Deputy Secretary – Technical, the Section 32 Officer who endorses and forwards to Accounts Section for processing;
- Situations as reported in the previous year's audit management report (2008/2009), have not improved relating to the system of filing payment vouchers and other related records; and
- Audit revealed that all Development Projects' records, including payment vouchers and manual cheques, were maintained and kept separately at Headquarters, whilst the records for the Recurrent Budget was maintained and kept at the Finance Branch in town.

Incorrect Expenditures - 2009

The audit review of 2009 year-to-date printout Commitment Ledger Activity Program, titled "Domestic Rice Production" and payments from K500 and over were extracted and reviewed. The following weaknesses were noted:

- 177 incorrect expenditures totaling K1,067,155 were noted including:

- 48 payments of wages from expenditure Vote Item112 totaling K278,868;
- 4 payments of travel and subsistence from expenditure Vote Item121 totaling K16,629;
- 81 payments of other operational expenses from expenditure Vote Item135 totaling K398,234;
- Three (3) payments for training from expenditure Vote Item136 totaling K28,200;
- 35 payments charged to grants and transfers from expenditure Vote Item143 totaling K60,515;
- Six (6) payments charged to construction, renovation, improvement seven (7) totaling K60,519;
- Personal emoluments were paid through PIP Votes;
- All payments made through PGAS Sub-Ledger and charged to PIP Votes were not proper due to the fact that, they were not budgeted for;
- A payment totaling K65,000 was paid for damages caused to a PMV. Audit was unable to determine the validity and genuineness of this payment as no Police Report or driver's accident report were attached to the payment voucher. Funds from Grants and Transfers to Public Authorities were used to settle the claim;
- A payment of K11,074 to Telikom (PNG) Ltd for telephone charges on Account No.363051 was incurred by the Minister and further:
 - No payment vouchers were made available for audit review;
 - The validity and genuineness of this payment was not ascertained; and
 - It is uncertain whether phone calls charged were for official business or personal calls. Funds allocated for construction, renovation and improvement were used to settle the bills;
- In three (3) instances Transfer of Funds" totaled K200,000 to 2KR Trust Account. No documentation was provided that validated their genuineness and propriety. In addition no responses were received confirming the transfer of funds from Grants and Transfers to Public Authorities; and
- In eight (8) instances, various overseas travels with an aggregated value of K131,769 were paid from the Development Budgets which were not budgeted for.

BANK RECONCILIATION

Year 2009

Audit verification of the monthly bank reconciliation statement for the month of December 2009 for the Department's Drawing Account No. 4311-6104 with Bank PNG revealed the following anomalies:

- The Drawing Bank Account and the PGAS Cash Book did not reconcile as at 31 December 2009;
- Reconciling items were highlighted but not investigated and cleared:

- Credits in the bank statement, not in the Cash Book totaled K2,205,899.
- The unpresented cheques were K527,000 but did not agree with the unpresented cheques as per the CRL balance of; K441,595 resulting in a difference of K85,405 that were not processed through the PGAS Cash Book; and
- Other outstanding items (debits) K4,362,638, and (credits) K9,628,390 were not cleared.

Operating/Drawing Account - Year 2010

Further analysis of the reconciling items together with the latest bank reconciliation for the month of December 2010 revealed the following:

- The bank reconciliation statement for the month of December 2010 did not have the date, name and signature of the person who prepared and reviewed it;
- Reconciling items were highlighted but not investigated and cleared. The outstanding reconciling items were:
 - Other items (debits) totaling K4,976,370;
 - Credits in the bank account, not in the Cash Book totaling K1,833,811 for December 2010 reimbursements;
 - Unpresented cheques totaling K1,199,278; and
 - Other items (credits) totaling K9,695,196 were still outstanding.
- 211 stale cheques totaling K389,200 for the years from 2005 to 2009 as per the Cheque Reconciliation Listings were not cleared.

Public Investment Programme (PIP)

The Department maintained a PIP bank account No. 4312-6104 with Bank PNG but no bank reconciliations were sighted.

ASSETS MANAGEMENT

Assets Register

The AGO verification of the Assets Register revealed the following matters of concern:

- Asset Register maintained had information only on land, institutional Housing (NCD only) and motor vehicle fleets;
- Plant and equipment were not included in the Asset Register;
- The Assets Register was not updated on a regular basis;
- There were no stock-takes carried out on the assets maintained by DAL;
- Attractive items such as mobile phones, digital cameras, laptop computers were not recorded in an Attractive Assets Register:

- Attractive and portable items such as mobiles, laptops, desk top computers and digital cameras which were purchased in year 2009 totaled K166,936; and
- Attractive items purchased in year 2010 totaled K104,577;
- According to the Motor Vehicle Fleet Register maintained by DAL, 20 vehicles out of the total 47 vehicles had private plate numbers instead of the “Z” government plate numbers;
- 80 houses were owned and used by DAL on behalf of the government. There was no data on their current conditions, last maintenance and total rent fees collected from tenants;
- DAL has 431 institutional land areas in 18 Provinces. According to the Register the following were noted:
 - 15 Land Portions did not have Asset ID Numbers.; and
 - Two (2) Land Portions did not have Land Names on the register;
- However, further audit review on the DAL Land Registry revealed that:
 - All 431 portions of land did not have their Certificates of Occupancy, Legal Status, Status of Occupancy. Further, no records were available to confirm the total funds spent on the portions of land and the revenue details received from those land portions;
 - 137 land portions did not specify their land use; and
 - 391 land portions did not have their land lease details.

HUMAN RESOURCE MANAGEMENT

Staff Establishment Register

A review of the approved restructure by the Department of Personnel Management dated 18/01/2001 against the Department’s three (3) registers under the headings one (1) “Current Structure” (undated) and two (2) “DAL FER [Functional Expenditure Review] - Proposed Structure as at September 2009” and three (3) “Position Occupancy – Form SR 3.4” (undated) noted the following matters of concern:

- Three (3) Establishment Registers compiled by the Department had different total number of positions [i.e. 278, 248 and 294]. No written evidence was sighted to substantiate any submission made to DPM for approvals on the review of the Department’s restructure;
- The “Current Structure” with 278 positions was not dated and certified by an appropriate officer. The validity of the 278 positions was uncertain as compared to DPM’s approved structure of 284 dated 18/01/2001; and
- Although “the Devolution of Power” exercise was handed down to the Departmental Head’s level by DPM, Management/CEO still had the discretion to have consultation with DPM should there be any revision or changes to be made to the organizational restructure for their final approval and updated on their computer system.

DAL had isolated itself by not complying with the relevant and statutory and legal requirements; data captured from the Staff Establishment Registers did not capture any approvals from DPM except that was approved on the 18 January 2001.

Contract Officers

According to the Senior Officers Contract Listing for 2010, the Department had 19 contract officers which made up of 18 nationals and one non-citizen. A sample of ten (10) contract officers' personal files were selected for our audit review:

- Contents of all ten (10) personal files were either not folioed or referenced correctly;
- Five (5) personal files had no Staff Performance Appraisals while the other five (5) files had Staff Performance Appraisals sighted, however, not current, (i.e. SPAs for period ending 30/06/2010);
- Eight (8) personal files had no Salary and Wages Tax Declaration forms however, rebates for dependents were claimed;
- There was no Staff Development and Training Committee to program and make decisions on relevant trainings for officers within the Department;
- No Human Resources Management and Training Policy existed in the Department to enhance the importance of appraising staff performance to focus on individual training needs relating to new challenges of both the Department and individuals in executing respective functions and responsibilities; and
- DAL was going to use the Training Plan (Logical Framework) in 2011. Such Training Plans had to be screened by a Departmental Training Committee which should have a Training Policy in place as a guideline.

Attendance Register

A sample of 35 officers from nine (9) branches based in Port Moresby were selected and confirmed against the Attendance Registers for 2010, with two (2) days each extracted from the registers for six (6) months revealed that:

- Three (3) branches, namely; (Executive, ERPPPC and CME) did not provide any attendance registers when audit made the request for them;
- Generally, officers of the Department were not fully aware of the legality and significance of signing in and signing out, in the Attendance Registers;
- One (1) branch (Finance) had signatures only without corresponding numbers or names to identify the signatures. Audit could not identify the signatures to the officers concerned;
- One branch (Science and Tech.) had three (3) of the sampled officers names not on the Attendance Register;
- One branch (AET) had records missing for the months of April and July;
- On average, more than 64% of officers did not sign in and out of the Attendance Registers; and
- Audit was unable to ascertain the officers responsible to monitor and review the usage of the Attendance Registers.

En-cashment of Sick-Leave Credits

According to the Expenditure Transaction Details downloaded on (28/09/2010), 205 payments totaling K742,815 were paid to officers who claimed to be critically ill and en-cashed their sick-leave credits in 2009 and 2010 respectively:

- 130 payments totaling K479,500, while 33 officers were paid more than once totaling K298,607 in year 2009;
- 75 payments totaling K250,315 out of which 17 officers were paid more than once totaling K123,065;
- 50 individuals were paid more than once during the two (2) years for a total of K421,672;
- No Sick Leave Encashment Register was created and maintained to record the payments made of all sick leave credits; and
- Audit was unable to ascertain whether those employees were paid cash at the actual 50% rate of their sick leave credits or may have claimed more than the approved given rate.

Scrutiny of Payment Vouchers

A sample of ten (10) payment vouchers,(5 from each year 2009 and 2010); were reviewed to validate and ascertain whether all relevant supporting medical documents were attached for the sick leave credits to be encashed. The following were noted:

- Seven (7) payment vouchers totaling K22,299 had no Commitment Clerk signature to confirm the availability of funds prior to commitments being made;
- Nine (9) payment vouchers totaling K26,919 had no copies of the payment cheques attached to them; and
- Nine (9) payments made were not related to critical medical conditions or bedridden sicknesses. The claims were made for the payments of settling outstanding medical bills.

CONTRACTUAL AGREEMENTS

Contract Security for only two properties

The review of a Contract Agreement for two properties: 1. DAL – Headquarters at Konedobu; and 2. Residence area at Gabaka Street, Gordons to be guarded during the 12 months period revealed:

- Copies of the payment vouchers sighted revealed that other branches of DAL accommodated at the Monian Tower Building Down Town-Port Moresby were provided security services by the same security firm during the 12 months contract period. Payments were not proper and unbudgeted for due to there being no valid security contract for Monian Tower. The Department continued such payments into the following year;
- One hundred payments totaling K631,065 for security services for both years 2009 and 2010 were paid from 11 different Vote Items. Due to there being no historical record of payments to the security firm, the amount of K631,065 expended on security services was due to improper payments made over Monian Tower. No accounting records were maintained to verify the actual payments made for each of the three properties, over the two (2) year period; and

- A three month claim paid for security services in 2009 totaled K113,653. Similar claims for 2009 were paid in 2010 totaling K102,209. Therefore, the overall total of K215,862 was duplicated and paid for the same period.

OTHER ISSUES– Legal Matters

External influences from outside can easily affect the control of the agency and directly impact on its operations and business practices. Management needs to evaluate the amount of risks taken when outsourcing legal services and should have in place stringent measures and means to engage, monitor and assess performance of external service providers and take prompt action to address sensitive issues at the appropriate time as and when they arise.

The following required matters were observed during our audit:

- The Department did not have a legal strategy, or any other operational manuals, policies or procedures in place regarding legal matters. Even though it had a Legal Branch its main purpose was to provide in-house legal services on issues that needed immediate attention;
- DAL had only one (1) Legal Officer, who reported directly to the Secretary. Not all legal matters including contracts were reviewed, however, legal assistance was sought from him after legal flaws had been detected. There was no training program for appropriate non-legal personnel for awareness purposes.
- As at the time of audit in October, 2010, no report was made available on the type of legal services provided and performance or outcome of any legal matters that had been handled or attended to by either the legal branch or provided by outside sources; and
- The Legal Officer described the Legal Branch as dysfunctional, as it was under-resourced, lacked information technology and other resources.

Legal Fee Payments made to Chief Internal Auditor

A court case involving the Chief Internal Auditor vs. the State of PNG ended up with a settlement paid in full to the Chief Internal Auditor. An audit review of the payments revealed the following salient matters of concern:

- In 27 payments, legal fees totaling K133,806 were paid directly to the Chief Internal Auditor. Funds from numerous Vote Items' for both 2009 and 2010 were used to pay for the legal fees, as such payments were not budgeted for in the two (2) years Appropriations (Budget Submissions);
- In 22 instances "Split Payments" were made in the settlement of the above payments by using various Vote Item numbers; and
- According to a copy of an incomplete FF3 and FF4, total payments aggregating to K78,476 were paid to a legal firm. However, the actual total payout to the Internal Auditor was K133,806 with an excess of K55,330 (i.e. $K133,806 - K78,476 = K55,330$).

Other irregularities noted from that payment include:

- The Vote Item number charged to settle this payment was not written on the payment voucher;
- No signatures of both the Financial Delegate and Section 32 Officer were sighted on FF3 and FF4 respectively; and
- No justification was made for the extra K55,330 that was paid and no authority was made by the management on the payment vouchers for the bill to be paid.

OTHER ISSUES

2KR Trust Account – Improper Payments

A review of the Expenditure Transaction Details (28/09/10), revealed that:

- Seventeen (17) payments totaling K27,876 were inappropriately utilised in 2009 and 2010 to fund other activities that were not provided for in the Trust Account Instrument. Such payments include reimbursements made for beverages, travel warrants for the Minister and Secretary, cash to officers and funds used to travel to Vanuatu.

The Trust Instrument for 2KR Trust Account issued in 1995, para.2(c) provides that expenditure from the account shall be for the procurement of:

- Appropriate farm machinery and irrigation facilities; and
- Renovation and maintenance of project assets and other related expenditure as are considered appropriate for enhancing the efficient operation of the program.

PAID ACCOUNTS

A sample of 20 payments totaling K275,698 for the 4th quarter of 2010 was selected on a random basis for our audit review which revealed the following weaknesses:

- Procurement function within the Department was decentralized where each division/section is responsible to procure and purchase goods and services for their own needs. They were expected to keep and maintain their own records;
- No Quotations Register was maintained by the Department;
- In three (3) instances, payment vouchers totaling K17,756 did not have the required three (3) quotations obtained from suppliers;
- The Instruments of Appointment of and Specimen Signatures of Financial Delegate, Section 32 Officer, Authorised Requisition Officer, Certifying Officer and their alternates were not made available for audit verification, and also the Finance Director did not have a Specimen Signatures file in place;
- Audit had difficulties in identifying signing officers' signatures and designations on the payment vouchers (i.e. FF3's and FF4's) which were unclear and not readable;
- In six (6) payment vouchers totaling K68,669 the Section 32 Officer's names, designation and their specimen signatures were not verified; and

- In two (2) payment vouchers totaling K21,200 the same officer signed as the ARO and Financial Delegate.

TRUST ACCOUNT

The Department of Agriculture and Livestock operated 8 trust accounts of which four (4) trust accounts did not have any bank reconciliations for the month of December 2010 as at the time of audit in April 2011 as noted below:

1. Lae In-service Training Centre;
2. National Agriculture Development Project (NADP);
3. Morobe and Eastern Highlands. (SSSEP New Zealand Aid Funding); and
4. Productive Partnership in Agriculture Project (PPAP).

ADVANCE MANAGEMENT

Audit review on Advances Management for years 2009 and 2010 revealed the following issues relating to use of advances to officers of the Department, as per the PGAS ledger Expenditure Transaction Details dated 28/09/2010:

- A total of 730 advances were paid out totaling K1,892,598 in 2009. All 730 advances were not recorded and acquitted by the advance holders;
- Out of the total advances, 445 were travel allowances totaling to K872,997 issued to officers but were not acquitted within the fiscal year 2009;
- There were 57 salary advances totaling K141,663 paid to officers in 2009, but were not acquitted; and
- In addition, 75 officers were paid two or more advances totaling K1,094,236 whilst their first advances were outstanding.

Issues Identified in 2010

Actual advances paid to officers as per the PGAS ledger Expenditure Transaction Details dated 20/04/2011 revealed that 698 advances totaling K1,337,170 were issued in 2010.

A review of a computerized Advance Register for cash and travel advances revealed the following discrepancies:

- Of the 280 advances issued in 2010 totaling K515,720 as at the date of the final audit in April 2011, 269 advances totaling K500,777 which constituted 96%, remained unacquitted as at April 2011;
- Verification of acquittal forms and supporting documents to ascertain the propriety of the acquittals made were not possible due to non-maintenance of an acquittals file; and
- 53 officers with outstanding advances were issued additional advances totaling K417,905.

Audit was unable to verify the recording and acquittals of the advances as the register was not kept up-to-date and data was incomplete.

DEPARTMENTAL RESPONSE

The findings were brought to the attention of the Secretary in the management letter issued. However, management failed to respond up to the time of this report in June 2012.

CONCLUSION

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

4. DEPARTMENT OF EDUCATION

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

Corporate governance is the way forward in which an organisation is controlled and managed in order to achieve its objectives. The internal control environment makes an organisation reliable in achieving its objectives within an acceptable degree of risk.

Corporate Plan and Annual Management Plans and Budget Review Reports

The management of the Education Department is commended for their effort in satisfying the statutory requirement by producing the respective reports for the smooth running of the Department.

Reports produced include the:

- i) National Education Plan (NEP) for 2005-2014 (Corporate Plan);
- ii) Annual Financial Operational Plan for 2010 (Annual Management Plan); and
- iii) Quarterly Budget Review Reports.

COMPLIANCE WITH EDUCATION ACT

Section 28 of the *Education Act* states that *"the Department is responsible for determining the standards for registration of teachers."*

The registers that are maintained by the Department in compliance of the Act are as follows:

- Register of Teachers;

- Schools Register;
- Permitted Schools Listing; and
- Master Position Listing.

Teachers Register

The alphabetical Listing of Teachers and Schools Registers were not furnished for AGO review.

Permitted and System Schools Register

The Permitted and System Schools Register was not updated at the time of audit. For instance, some Primary Schools in the Autonomous Region of Bougainville were still listed on the Register although they were closed since the Bougainville crisis in 1989.

Listing of Certified Schools

Few private schools (including college institutions) that were currently operating have not been certified by the Departmental Head who was responsible for inspection and assessment of all schools. Un-certified schools should cease to operate because it shows that the Department was not monitoring the quality of education offered in these academic institutions.

Management response

The listing and registering and teachers is to be made available during the next AGO audit visit (2011).

BUDGETARY & FUNDS CONTROL

Expenditure Analysis-TMS and PGAS Reconciliation

- A comparison of the (TMS) Main Public Account Ledger and the (PGAS) Departmental Subsidiary Ledger pertaining to Fund Allocations and Expenditure revealed significant variances resulting mainly from the non-reconciliation of the two (2) ledgers by the Department.

Variance in the TMS (DoF) and PGAS (DoE) Ledgers

Details	PGAS	TMS 90	Variances	Comment
Revised Appropriation	481,196,200	473,876,100	7,320,100	PGAS > TMS
Warrant Authority	280,756,110	425,091,010	144,334,900	PGAS < TMS
Actual Expenditure	209,375,406	210,071,838	696,432	PGAS < TMS

Note: Comparative analysis of Actual Expenditure excludes items 111 and 141 as these expenses are paid through DoF therefore, PGAS did not have any record of the amount actually spent.

- Unreconciled differences in the two (2) ledgers giving rise to the above differences also noted:
 - Payments from two (2) Vote Items (112 and 113) totaling K755,242 did not pass through PGAS as highlighted in TMS Ledger, and
 - Payments from four (4) Vote Items totaling K58,811, were not posted in the TMS Ledger.

Revenue Analysis – TMS and PGAS reconciliation

- A comparison of the revenue accounts maintained by the Department of Education (PGAS) against the Department of Finance (TMS 20) for the period ended 31 December, 2010, revealed the following differences:

	Comparison of Revenue	Postings on TMS &	PGAS Ledgers	
Rev. Head	Description	Source of Record	Balance as at 31/12/10 (K)	Comment
135-1	Payroll Commission	Educat.-Payroll Div.	776,511	Not posted in TMS & PGAS
135-2	Institutional Houses	Educat.-Payroll Div.	32,304	Not posted in TMS & PGAS
106-11	Rental Pool Houses	Educat.- Payroll Div.	652	Not posted in TMS & PGAS
106-1	Recovery former yrs	Educat.-PGAS	2,677,304	Not posted in TMS
135-99	Sundry Receipts	Finance- TMS 20	630,262	Not posted in PGAS

Audit noted that, revenue data which were maintained by the Department's Payroll Division was not captured in either the TMS 20 or the PGAS accounting system. This indicates a serious weakness in the management of revenue accounting systems.

Management Response

The Department concurred with audit findings and recommendations have been converted to Key Performance Indicators (KPIs) for implementation in 2012.

BANK RECONCILIATION

The Department of Education operated a Drawing Bank Account (A/C# 4311-6112) maintained by the Bank of PNG. In relation to this:

- The PFMA/FMM requirements on the timeframe for submitting monthly bank reconciliations to the Standard and Accounting Frameworks Branch of the Department of Finance had **not** been strictly adhered to by the Department;
- The analysis of the December 2010 Bank Reconciliation Statement revealed the following matters of concern:
 - Schedule 6 captured a total of K4,061,469 of *other items* generally consisted of unidentified journal entries as far as 2004, which should be investigated and cleared;
 - Schedule 7 captured December 2010 bank fund transfers totaling K19,623,331 from the Main Public Account was not identified and posted in the PGAS ledger prior to compiling the bank reconciliation;
 - Schedule 8 captured a total of K23,218,990 worth of unrepresented cheques for the year 2010. This figure included stale cheques totaling K4,277,392 – that should be cleared through journal entries; and

- Other items in schedule 11 included journal entries for cancelled cheques totaling K2,919,730 dated back to year 2003. All need to be investigated and cleared.

Management Response

Audit findings were noted and remedial actions will be taken to improve the system for bank reconciliation presentations.

ASSETS MANAGEMENT

- The Department was yet to centralize its Assets Management Register despite undergoing training on 'fixed asset management software' in 2009 as part of the Corporate Operational Plan for 2009;
- The Department has an Asset Manual in place called the 'National Assets Management Manual' dated June 2008, however, it was not used. Instead the Department was working on a revised assets manual;
- There was no assets policy in place as recommended in the prior year's audits. In the absence of the policy, the Corporate Service Manager had initiated some controls such as establishing fuel register book, vehicle log book and asset maintenance book. Security of all Departmental assets should be of paramount importance at all times.
- The Department purchased fuel drums for its own use instead of getting fuel from the service stations. Fuel drums were stored at the In-service College. An amount of K34,205 was spent on fuel for the period from January to June 2010, therefore security and control of the fuel was a concern.

Management Response

The Department concurred with the audit findings and attempts are being made to implement the audit recommendations.

PROCUREMENT & PAYMENT PROCEDURES

A random sample of 100 payments totaling K4,044,543 was selected and reviewed to ascertain that legitimate processes relating to procurement and payment procedures were complied with by management. Salient matters are noted below:

- There was no proper maintenance and safe keeping of payment vouchers at the Accounts Section. Also, access to the accounts area was not restricted, rather the door was open with unlimited access to the employees as well as the public;
- 18 payments totaling K1,412,372, were not verified due to the non-availability of the paid vouchers;
- Even though quotations were obtained from three different suppliers as required, purchases were made from suppliers with the higher price quotations in three (3) instances totaling K120,780. The value for money consideration was not exercised in this regard;

- Five (5) payments totaling K120,583 were made based on pro-forma invoices instead of the original Tax Invoices. Such purchases were illegal and not in the best interest of the Department;
- In 132 instances, payments totaling K218,139 for reimbursements of fuel and personal monies were claimed after six (6) to seven (7) months instead of being paid within the usual two (2) months;
- The purchases of phone cards, wireless phones and EVDO Internet modem for senior officers in six (6) instances, totaling K23,395 were made with no directives/instructions or policy guidelines relating to such purchases;
- A payment of K40,911 to a consultant for professional advice given to the Curriculum Division was made without the consultant's report attached to the payment voucher for verification and proof that the services had been provided; and
- In two (2) instances, payments totaling K143,316 for printing services were paid without the invoices being certified as correct for the services provided. Audit could not ascertain the validity of the payments.

A Contract Agreement for the security services provided to the Curriculum Development and Assessment Division revealed the following discrepancies:

- The contract term was from 1 January to 31 December, 2010, however, the agreement was signed on different dates for the contract. The contractor signed on 18 January, 2010 while the Secretary for Education signed the contract three (3) months later on, 24 March, 2010; and
- No specific man hours and rates including the handset radios and time period were agreed to in the contract, resulting in the unspecified monthly rates charged.

Management Response

Management agreed to all audit findings and have taken actions to improve the internal controls weaknesses and to comply to the PFMA on acquiring goods and services.

HUMAN RESOURCES & PAYROLL

The Department utilizes a Salary Drawing Account (# 043-116113) with the Bank of PNG. The following audit issues were noted during audit:

- The Department's payroll was processed and payments were made without the reconciliation of the standard pay against the actual pay per fortnight to vouch for the accuracy and completeness of the payroll expenses; and
- No bank reconciliations have been compiled for the Salary Drawing Account since 1994 and up to the time of audit in September 2010.

Training Plan

- The five (5) year Training Plan was not developed as required under the Public Service General Orders.

Maintenance of Employee Files

Proper record keeping and maintenance of employees personal files is an important function within Corporate Services. These records are to be properly maintained and kept to demonstrate compliance with applicable human resources statutory and regulatory requirements.

AGO checked a sample of 11 employee files and noted that:

- All 11 history cards were not kept up-to-date including salaries, recreation leave, miscellaneous leave and sick leaves. Some history cards were last updated in 2004;
- In six (6) instances, files were not in order thus making it difficult for audit to review the employee files;
- A contract officer's Contract of Employment was missing from his personal file;
- A casual employee's file was missing therefore audit could not ascertain the correctness of the salary paid; and
- Domestic Market Allowance (DMA) and other allowance authorizations were also not updated in the employees' personal files.

Safe Custody of Employee Files

Security of the confidential Employee Files was at stake especially when the Payroll Branch did not have a proper security system and in light of a break-in at the Payroll Office in October 2010.

Employee files were kept in cabinets that were not locked. Files were also noted to be lying on the floor and hanging off the shelves and access to these files were not restricted within the Payroll Division.

Management Response

Audit issues and recommendations have been taken note of therefore, actions will be taken to implement the recommendations.

ADVANCE MANAGEMENT

An examination of the Advance Register, acquittal forms and related records pertaining to advances paid to officers during the period under review, disclosed the following shortcomings:

- A total of 423 advances totaling K1,150,248 were paid during the period from January to June 2010, and of the 423 advances issued, a total of 151 advances totaling K800,832 were paid through the Paymaster. Raising payment cheques for advances to the Paymaster is a clear breach of the *Financial Management Manual* where cheques are supposed to be drawn to the individual advance holder;
- From a sample of 56 advances made directly to the advance holders, ten (10) instances totaling K18,161 were not recorded in the Register;
- In 138 instances, advances paid totaling K462,901 remained un-acquitted as at year end;

- Follow-up actions were not taken to recoup unacquitted advances from officers concern; and
- 23 officers were paid second advances totaling K199,913 while their first advances were still outstanding.

20 acquittals of cash advances totaling K27,289 were selected for audit verification and the following were noted:

- In all 20 instances, field reports were not attached as part of the acquittal to substantiate how the advances were expended;
- The acquittals were not certified to be correct by the Financial Delegate in ten (10) instances totaling K11,267; and
- Financial Delegates did not review the Advance Registers as required to make sure that all advances were acquitted regularly.

Management Response

Audit findings are noted and attempts are being made to rectify the issues or weaknesses identified in your report in relation to implementation of your audit recommendations.

TRUST ACCOUNT

Trust Account Summary

A detailed summary of the trust accounts was obtained from the Departmental records generated by the PGAS system for the year ended 31 December, 2010.

- From the 20 trust accounts recorded, ten accounts reported the same balance since 2009 hence, the data in these records have to be investigated and cleared by both Departments (Finance and Education) to reflect true and fair reports; and
- Monthly bank reconciliation statements for trust accounts with bank accounts were not promptly submitted to the Department of Finance as required.

National Education Trust Account (NETA)

Audit verification of a sample of ten (10) payments with a total value of K162,445 from the Trust Transaction Details for year 2010, revealed the following discrepancies:

- A payment of K127,160 was not verified due to the non-availability of the payment voucher;
- Five (5) payments totaling K22,896 were made based on pro-forma invoices instead of the original Tax Invoices;
- Supporting documents were not attached to justify the repair of an official vehicle totaling K4,435; and
- In two (2) instances cash advances totaling K7,000 were not acquitted.

Management Responses

The Department has taken note of your findings and concurs with the recommendations made. All attempts are being made to rectify the weaknesses:

DEPARTMENTAL RESPONSE

The Department responded to the audit findings of the management letter issued and their responses or comments were stated accordingly.

CONCLUSION

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

At present, the control activities such as delegations, authorizations, reconciliations, segregation of duties, system access and management oversight are not sufficiently robust to detect or correct errors or fraud.

5. OFFICE OF THE ELECTORAL COMMISSION

OVERVIEW

The Electoral Commission is a Constitutional Office whose structure, functions and applicable procedures are contained in the *Organic Law on National Elections*. According to this Organic Law, the main function of the Commission is to organize and conduct all elections to the Parliament.

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

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

FINDINGS

CORPORATE GOVERNANCE

Corporate Plan and Annual Management Plans

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

The Electoral Commission has in place a Corporate Plan for 2008 – 2012. However, there were no Annual Management Plans for the year 2010. Annual Management Plans are prepared based on the Corporate Plan and the budgeting approach to manage the Department's resources to meet the requirements of the budgetary cycle.

Annual Report

The Electoral Commission has prepared and submitted the 2010 Annual Performance Report to the Chief Secretary as required in the *Public Services (Management) Act*. The Commission is commended for meeting the requirement on time.

The report captured the major achievements and highlights of the Commission as linked to Key Result Areas and expectations as stated in the Corporate Plan 2008-2012.

BUDGETARY & FUNDS CONTROL

Expenditure Analysis-TMS and PGAS Reconciliation

A comparison of the Expenditure Summary for the period ended 31 December 2010 generated by the TMS report (print run date: 11/02/2011) against the Expenditure Vote Summary report (run date: 31/03/2011) through the PGAS system revealed the following unexplained variances between expenditure balances:

Comparison of TMS and PGAS balances

<u>Particulars</u>	<u>TMS 330</u>	<u>Exp.Vote Sum.</u>	<u>Difference</u>
	K	K	K
Revised Appropriation	38,498,500	28,530,500.00	9,968,000
Warrant Authority	38,498,500	27,746,000.00	10,752,500
Actual Expenditure	27,523,626	23,317,074.00	4,206,552

The table above clearly highlights the differences between the records of the Main Public Account maintained by Department of Finance (TMS) and that of the Office of Electoral Commission (PGAS). The differences in the two (2) records were derived mainly as a direct result of non-reconciliation of the two records, hence, a serious lack of monitoring and control on the cash flow management. The differences were noted from Vote Items 111, 135 and 141 respectively.

BANK RECONCILIATION

A bank reconciliation provides vital accounting information in regards to the cash position and bank balance of an organization at any given period of time.

A review of the bank reconciliation statement for the Drawing Account (# 4311-6555) for 31 December 2010 and related records revealed that unpresented cheques totaling K3,160,878 did not agree to the cheque reconciliation listing of K485,690 resulting in a significant variance of K2,675,187. This requires it to be investigated and cleared from the bank reconciliation.

A review of the bank reconciliations for the PNG Electoral Commission trust account (# 1000489658) for 31 December 2010 and related records revealed the following weaknesses:

- Unpresented cheques totaling K9,479 were not cleared appropriately;
- A dishonored cheque dated April 24 2008 and other items totaling K11,993 dating as far back as 2007 were not investigated and cleared;
- Credits in the bank account but not in Cash Book totaling K10,200 were not cleared; and
- The bank reconciliation was prepared by an officer also responsible for performing the duties related to trust accounts indicating internal control weaknesses in the segregation of duties. This was also raised in the prior year's audit report, however, no action was taken to rectify this anomaly.

ASSETS MANAGEMENT

A review of the Asset Register revealed 23 assets purchased in 2010, totaling K615,517 were not recorded in the Register thus breaching the *Public Finances (Management) Act, 1995* requirement.

PROCUREMENT & PAYMENT PROCEDURES

A total of one hundred and forty-eight (148) payments amounting to K7,901,275 were selected on a random sample basis and related payment vouchers and supporting documents reviewed to ascertain that procurement and payment procedures were complied with. Audit review revealed the following irregularities:

- A Quotations Register was not maintained to record quotations obtained from service providers prior to purchases made. This issue had been reported in our previous audit reports and still remains unresolved;
- In 41 instances paid vouchers totaling K343,922 were not sighted and hence the validity and propriety of the payments made could not be verified by audit;
- In four (4) instances payments totaling K136,893 were processed without three (3) written quotations attached to the payment vouchers as required;
- In four (4) instances payments for overtime totaling K4,655 were made without the prior approvals from the Departmental Head as required;
- In four (4) instances payments totaling K57,301 for recreational leaves were made without submission of the formal application for recreational leave as required in General Order 14.35. AGO was unable to ascertain whether proper approvals were obtained from the supervisors and the Departmental Head;
- An overseas procurement of K20,881 for the purchase of polo t-shirts for the Office was made without obtaining a Certificate of Inexpediency;
- In five (5) instances for payments totaling K148,283, the required delivery dockets were not attached to the payment vouchers to ascertain whether the goods were actually received by the Office;
- A payment totaling K2,194,135 was paid to a company for the new office fit-out. Audit noted that the *Authority to Pre-Commit (APC)* from the Department of Finance to confirm funding for the project was not obtained prior to the engagement of the contractor; and
- In 14 instances, paid vouchers totaling K94,206 were not authorized by the Financial Delegate or examined and certified as correct prior to effecting the payments.

ADVANCE MANAGEMENT

A review of the Advance Register and related records revealed the following control weaknesses:

6. In 130 instances advances totaling K124,917 remained unacquitted as at 31 December 2010; and audit noted that 18 advances totaling K39,349 were not recorded in the advance register.

DEPARTMENTAL RESPONSE

The findings were brought to the attention of the Commission in the management letter issued. However, management failed to respond up to the time of this report in June 2012.

CONCLUSION

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

7. DEPARTMENT OF FINANCE

OVERVIEW

The Department of Finance has two major programs:

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

FINDINGS

CORPORATE GOVERNANCE

Corporate Governance is the way forward in which an organisation is organized, controlled and governed in order to achieve its set objectives within a set time frame.

The Department had in place a three year period Corporate Plan for 2008 – 2010. For the year under review (2010) it being the final year as covered by the Corporate Plan, our review was to ascertain the extent to which the Department had achieved its set objectives as programmed and incorporated in the Corporate Plan.

The AGO had reported on 30/11/09 in our 2008 and 2009 Management Letter that the Department did not have in place any Annual Management Plans for the years 2008 and 2009. It was also reported that though the Corporate Services Division was responsible for coordinating the Annual Management Plans, the coordination was then done by the Deputy Secretary (Strategy) Office.

A copy of the 2010 Annual Management Plan was required in order to ascertain the progress and extent to which the three year Corporate Plan 2008 – 2010 has been achieved. The 2010 Annual Management Plan, however, was not made available for review.

Monitoring and Reviewing Obligations

A review was undertaken specifically into the area of monitoring and reviewing of bank reconciliation from the National Government Departments, Provincial and Local-Level Government Departments and the trust accounts administered by various government Departments and agencies.

National Government Departments Drawing Accounts

An audit review was performed on the status of bank reconciliations for the various National Government Departments to ascertain the extent to which the Department of Finance monitors for compliance. The review resulted in the following observations:

- As at the time of interim audit (20 September 2010) only ten (10) Departments out of the 37 (including Finance: WPA, RPM Airport and RPM FCB) have submitted their bank reconciliation statements up to 30 June 2009;
- One National Government Department has fallen behind in the submission of its bank reconciliations as the last bank reconciliations submitted were for the year 2006;
- The Department of Finance was not up-to-date in preparing the bank reconciliations for the three (3) Bank accounts that it operates namely; WPA, RPM Airport and RPM FCB. The submission date of the last bank reconciliations for the three accounts are not known; and
- The Accounting Standards and Frameworks Division at times raised concerns on unresolved issues relating to unpresented cheques and the debits and credits that were outstanding for over six months. However, no positive actions were taken by the concerned Departments to address the issues.

Provincial and Local Level Governments and District Treasuries Operating Accounts

An audit was conducted on the status of bank reconciliations for Provincial Government Main Accounts District Treasuries Operating Account and the Local Level Government Operating Account to ascertain the extent to which the Department of Finance monitors compliance with set guidelines and financial instructions.

AGO received the current status of bank reconciliations for 19 Provincial Government Main Operating Accounts which includes the Receivers of Public Monies Account, the Provincial Government Grant Account, and the Provincial Treasury Account. Examination of these bank reconciliations have resulted with the following observations:

- The Gulf Provincial Government operating account last produced their bank reconciliations in December 2002, the Provincial Treasury Account bank reconciliation in September 2004 and the Receiver of Public Monies bank reconciliation in May 2009;
- The Fly River Provincial Government last produced its bank reconciliation statements for all its four bank accounts up to July 2010. The details of these accounts are:
 - Provincial Treasury;
 - Provincial Government Operating Account;
 - Receiver of Public Monies; and
 - Provincial Government Grant.
- The East Sepik Provincial Government last submitted its bank reconciliations for the Provincial Government Grant bank account in October 2010, while Sandaun Province submitted its last bank reconciliation for the Provincial Government Operating account in May 2001;
- The Western Highlands Provincial Government submitted its last bank reconciliation statements for its Grant bank account in August 2010 and the bank reconciliation statements for its operating bank account in February 2010; and
- Southern Highlands Provincial Government submitted its last bank reconciliation statements for its Grant bank account in September 2010.

Out of the 90 District Treasuries operating accounts, AGO noted that there were some improvements in the submission of bank reconciliations except for the following observations:

- 20 District Treasuries that did not submit their bank reconciliations to Department of Finance since January 2004, have now made attempts to submit except for two (2) District treasuries that have yet to account for their funds;
- Six (6) District-Treasuries have not submitted their bank reconciliation statements since January 2004; and
- Some Local-Level Governments have only submitted their bank reconciliations since 2000.

Trust Accounts

A review of the status report on the Bank Reconciliation Statement for all the trust accounts comprising the Public Account revealed the following weaknesses:

- Not a single implementing Department or Agency was submitting its trust account bank reconciliation statements within 14 days as of the close of each month in accordance with the *Public Finances (Management) Act, 1995*; and.
- For the 287 trust accounts that were maintained and administered by various Departments and Agencies the rate at which bank reconciliations were submitted were generally very poor as shown in the table below:

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Total Bank Reconciliation submitted	46	46	32	36	36	29	36	16	22	27	8	1
Percentage	16%	16%	11%	13%	13%	10%	13%	6%	8%	9%	3%	0%

- In regards to the 89 DSIP trust accounts, the statistics below shows bank reconciliation submitted for the year 2010:

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Total Bank Reconciliation submitted	52	56	50	50	50	44	48	37	42	41	44	40
Percentage	58%	63%	56%	56%	56%	49%	54%	42%	47%	46%	49%	45%

Whilst 12 districts have submitted less than six (6) bank reconciliations during the year, 23 districts of the total of 89 districts have **not** submitted any bank reconciliations at all.

Quarterly Budget Review Reports

An audit examination conducted on budget reviews ascertained that the Department of Finance prepared quarterly budget review reports for the following budget allocations:

Division 206 - Finance and FMIP/IFMS;
 Division 207 - Finance and Treasury Miscellaneous; and
 Division 212 - Information and Communication Technology (ICTD).

Apart from budgetary figures presented quarterly, work reports/programs undertaken by various Divisions were required to be submitted. Equally important as reporting figures, work reports were vital to monitor and account for what each Division had achieved against the budget appropriation. Examinations of the 1st, 2nd and 4th Quarter reports did not contain data to account for:

- Outputs per the Corporate Plan/Annual Plan;
- Quantified the precise status of activities undertaken; and
- Extent of achievement of objectives and goals as per the performance indicator benchmarks.

As reported in the 2008/2009 Audit Report, the summary report clearly indicated that reports produced in respect of the quarterly budget review did not include reports on work programs, achievements or non-achievements and reasons for non-achievements for all the Divisions. All eight (8) Divisions did not submit their work reports in respect of the first and second quarter Budget Reviews.

It was ascertained that performance was not accounted for in the reporting phase which indicated that the reports were not utilized to highlight achievements and more importantly non-achievement of objectives.

BUDGETARY & FUNDS CONTROL

Variations in Expenditure Balances

A comparison of the Expenditure Summary for the year ending 31 December, 2010 generated by the TMS ledgers against the PGAS Expenditure Vote Summary printouts revealed a variance of K797,124. In the absence of regular reconciliations between TMS and PGAS there was no assurance that the information between the two records was correct or complete.

Over Expenditure

Audit noted that four (4) Divisions of the Department incurred expenditures in excess of Warrant Authorities as per the Fourth Quarter Budget Review Report for 2010. The Personal Emoluments had exceeded its budgeted limit in all cases. Audit noted that a total of K1,439,060 in expenditure was incurred in excess of Warrant Authorities. The comparisons of expenditure against the Warrant Authorities for the four Divisions were as follows:

No.	DIVISION	WARRANT AUTHORITY (K)	EXP (K)	DIFFERENCE (over exp) (K)
1	Corporate Services	4,367,700	5,215,836	848,136
2	Executive Branch	2,921,400	2,996,839	75,439
3	Internal Audit & Compliance	1,923,000	2,266,182	343,182
4	Accounting Frameworks & Standards	2,489,600	2,661,903	172,303
5	Total			<u>1,439,060</u>

CASH MANAGEMENT - DRAWING ACCOUNT

The Department of Finance operates a Drawing bank Account No. 4311-6167 maintained with the Bank of PNG. The verification of the latest bank reconciliation statement prepared for the month of June 2010 noted the following uncleared reconciling items:

- The credits in the bank statement not in the Cash Book of K107,922,149 represented the reimbursements for the months of May and June 2010 not journalized into the Cash Book;
- The figure of K47,888,303 shown as the total value of unpresented cheques included cheques of K24,390,265 that were not presented since 2007 while the balance of K23,390,265 represented stale cheques; and
- Further, the Cash Book printouts for period one (1) to six (6) of 2010 were not attached to the respective monthly bank reconciliation whilst copy of a bank statement was not attached to one bank reconciliation.

All the reconciling items were supposed to be cleared by journal entries but were noted to be carried forward each month.

ASSETS MANAGEMENT

A review of the management of Departmental assets and related records revealed a defect in the Assets Register in that the assets were not recorded in chronological order of the purchase date and in some cases purchase dates of the assets were not recorded.

PROCUREMENT & PAYMENT PROCEDURES

An examination of paid vouchers and related documents selected on a random sample basis along with a review of the procurement and payment procedures revealed the following:

- It was ascertained that no Quotations Register was maintained to attest that quotations were obtained prior to decisions of purchases being made;
- In seven (7) instances payments totaling K61,386 were made based on Pro-forma invoices rather than the usual Tax invoices; and
- In eight (8) instances of payments totaling K31,333 copies of the Certificate Of Incorporations of the Companies that were paid were not attached to authenticate that the companies were duly registered.

HUMAN RESOURCE & PAYROLL

A review of records maintained by the Human Resource and Payroll Management Division disclosed the following matters:

Training Plan

- The Training Plan shows deficiencies in that the following vital information were not contained:
 - A summary of the overall training objectives;
 - Significant past training achievements/short-falls and the manner in which these outcomes have impacted upon the current Training Plan;
 - A summary of training needs and priorities;
 - A statement of training priorities designed to focus on the core business, responsibilities and activities of the Department;
- The Training Plan was not prepared in conjunction with the current Corporate Plan for 2008 – 2010; and
- The Training Plan was not updated in view of the following observations:
 - Officers that were scheduled to be sent for training were still at work;
 - The names of Officers that have left the Department were still shown on the training plan; and
 - Officers that were assigned to study at certain Institutions not enrolled as confirmed by the respective institutions.

Staff Establishment Register

AGO noted that the Department had 155 funded positions of which some were vacant and not occupied. As per the 2010 Establishment Register officers were yet to be appointed to act or occupy these positions. Further, the following were noted from the examination of the Establishment Register:

- A Steno Secretary was appointed to act on a Grade 10 Position. This defeats best management practice of appointing officers on merit and qualification to occupy positions;
- An officer who occupied Grade 12 position was currently performing as caretaker on another position and at the same time was acting on a Grade 14 position. The person that occupied the substantive position was relieved of his duties however was still on the payroll with full pay;
- Four (4) positions remained vacant when the incumbents were on study leave; and
- An unattached Officer was acting on the positions of Secretary Grade 8 and at the same time was acting on higher position as Systems Administrator Grade 11.

Recreational Leave

Audit randomly selected 43 officers who were paid recreation leave entitlements in 2010 to check if they had contributed the 10% levy towards their leave fares (airfares). It was observed that 21 of these officers did not contribute the 10% through salary deductions towards the cost of fares immediately prior to proceeding on recreational leave contrary to the General Order 14.47-49.

Further, the 10% contribution towards the cost of recreation leave airfares for some Officers were rejected by the payroll system due to the standing arrangement of 50% deduction limit threshold imposed through the system (payroll).

Security of Employees Files

Audit noted that files were lying on the floor or hanging off the shelves. All employees from the Payroll and Human Resource Division had access to them. The same was noted and reported in last year's (2008/09) audit report. Audit was informed that the newly formed Records Management Division was going through the files when placed on the floor.

ADVANCE MANAGEMENT

The following was noted during the audit review conducted to ascertain the controls enforced in advance management on the Advance Register maintained for the 2010 financial year:

- The Advance Register was deficient in that vital information were omitted;
- In 33 instances, advance payments totaling K58,000 were not acquitted; and
- In 47 instances, advance payments totaling K86,000 as per the PGAS transaction detail were not recorded in the Advances Register.

MISCELLANEOUS VOTE 207

Adjustments

It was ascertained from Statement "B" of the 2010 Public Account Financial Statement originally submitted to AGO on 22/06/11 that an Original Budget fund of K522,922,000 was allocated in 2010 under Miscellaneous Vote 207 to be expended under the Recurrent Budget. An additional fund of K653,300,000 was allocated in the Additional Appropriation thus increased the total amount to K1,176,222,000. This amount was subsequently reduced to K995,298,000 through Sections 3 and 4 transfers. Also through Sections 3 and 4 transfers K3,300,000 was transferred into the Development Budget under Miscellaneous Vote 207 which had nil Appropriation in the Original Budget. All these are portrayed in the table below:

Type	Original Appropriation K	Additional Appropriation K	Section 3&4 Transfers K	Revised Appropriation K	Actual Expenditure K
Recurrent	522,922,000	653,300,000	(799,224,000)	995,298,000	986,126,000
Development	Nil	Nil	3,300,000	3,300,000	3,300,000
Total	522,922,000	653,300,000	(795,924,000)	998,598,000	989,426,000

However, the revised Statement "B" furnished to AGO on 10 August, 2011 shows that certain figures were adjusted and furnished and these are shown below:

Type	Original Appropriation K	Additional Appropriation K	Section 3&4 Transfers K	Revised Appropriation K	Actual Expenditure K
Recurrent	522,922,000	653,300,000	(180,924,000)	995,298,000	992,274,000
Development	Nil	40,000,000	(36,700,000)	3,300,000	3,300,000
Total	522,922,000	693,300,000	(217,624,000)	998,598,000	995,574,000

It is observed from the two (2) tables that the Additional Appropriations, Sections 3 and 4 transfers and the expenditure figures were adjusted by Department of Finance rather than to report the true positions of actual expenditures and funding.

Transfers from Development Budget

Examination of the Budget Movement Register records during the time of audit revealed that there were Section 3 and 4 transfers made to move funds allocated to Miscellaneous Vote 207 resulting in illegally increasing the Appropriations by K23,603,000.

The transfer of K199,905,000 from the Development Budget to Miscellaneous Vote 207 through Section 4 transfers to meet Recurrent Budget as shown above is in breach of the *Appropriation Act 2009*.

The Appropriation of K7,112,573,300 under Miscellaneous Vote 207 was illegally increased to K7,136,176,300 by the net of Section 3 and 4 transfers of K23,603,000 made from both the Recurrent and the Development Budgets.

Procurement and Payment Procedures

AGO reviewed four (4) expenditure activities that the Department of Finance administers including responsibility as paying agency. These include government office rentals, court cases, workers compensation and advance payments. The audit included reviews of existing controls and tests to ascertain whether key provisions of the *Public Finances(Management) Act, 1995* and various Finance Instructions, other acts and regulations governing the administration of the various agreed payments have been adhered to as required.

Government Office Rentals

Audit verification of a random sample of 20 Government Office Rental payments revealed the following shortcomings:

- Payment vouchers for a payment of K123,307 and K136,000 made to two (2) real estate agents were not available at the time of audit inspection. Consequently audit was unable to ascertain the correctness of the payments made;
- AGO reported in 2008 that the Department of Finance (Inspections Division) were to take legal action against a property company for receiving rental payments of over K5,000,000 for unoccupied office space. However, no legal action was taken so far as ascertained at the time of audit in March 2010. Despite the recoveries to be made from that property company, a payment of K190,000.00 was made to that company on 21/04/09 for outstanding office space rental;
- Four (4) payments amounting to K357,543 made to contractors for work carried out in office space leased by the State were made without the approval from Office Allocation Committee;
- Of the ten (10) lease agreements requested, only four (4) lease agreements were furnished for audit inspection whilst the balance of six (6) were not provided; and

- Two (2) lease agreements inspected had expired. Further, no date was stated on the two lease agreements to attest when the respective landlords have entered into a lease agreement with the State.

Court Case Payments

A sample check and vouching of 20 paid vouchers for court ordered payments made for the sum of K3,943,783 revealed the following:

- In three (3) payment vouchers for payments totaling K279,800 were not made available for audit inspection. In the absence of the paid vouchers audit was unable to confirm the correctness of payments made;
- A payment of K427,918 made to a Security Company on cheque no. 898507 dated 05/10/09 was effected without obtaining prior approval from the Assistant Secretary - Expenditure Control as evidenced in the unsigned pre-audit verification form. This attested to weaknesses that prevail in the Department's internal control system;
- Two (2) payments totaling K389,604 were not recorded in the Court Claims Register as noted in audit; and
- At the time of audit in February 2010, it was noted that all the 17 payment vouchers furnished for inspection were not properly filed and stored in a safe and orderly fashion. Audit further noted that the cheque numbers were not entered on the general expense forms (FF4's) section intended for such to be recorded.

Workers Compensation Payments

A review of the payment procedures made based on a selection of 79 payment vouchers for payments totaling K3,059,955 have noted the following irregularities:

- In 57 instances payments totaling K2,335,824 were done based on photocopied vouchers instead of originals. These payments were not registered in the cheque usage register maintained at the Office of Workers Compensation;
- In 16 instances for payments totaling K396,756 the general expenditure finance forms (FF4) were not signed by the Certifying Officer prior to making the payments;
- In three (3) instances payments totaling K165,038 were made without stating the employee file numbers;
- In five (5) instances payments totaling K284,952 were not supported with a copy of the death certificate as documental evidence to substantiate the respective payment;
- No Medical Certificates/Reports were attached to substantiate the types of injuries and the percentages of bodily harm claimed in respect of the 36 injury related cases wherein payments totaling K660,359 were made;
- Two (2) payment vouchers for payment totaling K57,742 were not sighted during the review;

- Four (4) cheques for payments totaling K153,830 were raised after long delays of three (3) to six (6) years. These evidenced the undue delay caused by officers of the Department of Finance in not settling claims on time and within the year of receipt;
- No register was maintained to record all claims that are received by the Office of Workers Compensation and to document the details of payments when made;
- A file for Financial Delegates names and their specimen signatures were not maintained by the officers in charge at the Department of Finance; and
- A review of the Cheque Register maintained at the Office of Workers Compensation revealed that it did not contain the appropriate file referencing to enable ease of tracing to source documents.

Advance Payments

The payments of cash and travel advances pertaining to the operations of the Department of Finance should be charged exclusively to the recurrent appropriations provided under Vote 206 so that all the Departmental related advance payments were accounted for intact. The practice of charging cash and travel advances to Miscellaneous Vote 207 is deemed inappropriate and needs to be justified by the Department.

A review into the records and documents pertaining to the payment and acquittal of advance payments administered by Department of Finance revealed the following matters of concern:

- Three (3) travel and cash advances payments totaling K10,742 were not registered in the Advance Register maintained;
- In 15 instances travel advance payments totaling K6,900 and in four (4) instances cash advance payments totaling K35,911 remain outstanding;
- In 14 instances payment vouchers for both travel and cash advances totaling K11,100 were not sighted in their respective files;
- No separate register was maintained for cash advances from that of travel advances;
- Columns for dates were not created in the register to record the dates when advances were given as well as the acquittal dates;
- The period the advances covered were not stated in the register to enable easy follow up on due dates for acquittals to be made;
- In most instances the officers collecting the advances neither recorded their names nor signed as acknowledgment of collections; and
- The acquittals were difficult to trace to the register in the absence of signatures signed at the time of collections of the advances to satisfy that the actual advance holders were the ones acquitting.

DEPARTMENTAL RESPONSES

AGO findings were reported to the Secretary in the Management letter issued 31 October 2011. However, the responses to the matters raised in the Management Letter had not been received up to the time of writing this report in June 2012.

CONCLUSION

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

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

8. DEPARTMENT OF FOREIGN AFFAIRS & TRADE

OVERVIEW

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

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

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

FINDINGS

BUDGETARY & FUNDS CONTROL

Variances in Budget, Allocations and Expenditure Balances

The AGO's analysis of the Expenditure Vote Summary printout produced by the Department of Foreign Affairs and Trade (DFAT) with the Expenditure Statement produced by the Department of Finance revealed significant variances between the Budget, Allocation and Expenditure balances:

Variances between Expenditure Balances

Particulars	DoF (TMS) PGK	DFA & T (PGAS) PGK	Variances PGK	Remarks
Revised Appropriation	60,951,600	63,198,000	-2,246,400	TMS < PGAS
Warrant Authorised	60,951,600	60,807,700	143,900	TMS > PGAS
Actual Expenditure	62,715,683	56,328,893	6,386,790	TMS > PGAS

Department of Foreign Affairs and Trade needs to reconcile its respective records in order to report the correct figures.

Over-Expenditures

Our audit review of the Expenditure Statement produced by the Department of Finance (TMS 330, Period 12) for year ended 31 December 2010; revealed that:

- Expenses were incurred in excess of Warrant Allocations in 17 Activities totaling K3.4 million under the Recurrent Budget; and
- Of the above excess expenditures incurred 13 of the 17 Activities totaling K3.2 million were incurred from Vote Item 111 (Salaries and Allowances) by Overseas Missions.

BANK RECONCILIATION

The Department operates a Drawing Bank Account (# 4311-6125) with the Bank of PNG. Audit verification of the bank reconciliation statement as at 31 December 2010 with the related records revealed the following:

- Unpresented cheques from 2007 and 2008 were still carried forward;
- “Debits in Bank Statement Not in Cash Book” totaling K40,172 dated 19/08/2010 were not yet cleared as at the time of audit;
- “Credits in Bank Statement Not in Cash Book” noted reimbursements from the Main Public Account totaling K3,139,011 for December 2010 were not cleared and posted in the Cash Book as at the time of audit in April 2011; and
- AGO selected two (2) months (October and December 2010) to check for the timing of the unpresented cheques that have been sitting in the account and noted that 34 unpresented cheques totaling K2.1 million from 2009 were still sitting in the account waiting to be cleared.

Further analysis revealed that 14 of the 17 unpresented cheques valued at K1.4 million that were raised in December 2009 were presented after a year (December 2010). These cheques were supposed to have been cleared by way of bank reconciliations, however, for some reason this action was not taken. Management did not provide any explanation for the delay in presenting the cheques.

ASSETS MANAGEMENT

An Assets Register was not maintained to record all the items purchased. In the absence of a Fixed Asset Register the AGO doubts the safe custody of all assets, both newly purchased and existing.

Furthermore, it was also noted that the compulsory periodic stock-take of the assets was yet to be carried out.

Asset Management controls are not robust to prevent theft and misuse of government assets by both the Headquarters and the Overseas Missions. Management in charge need to urgently improve the systems and reinforce measures to ensure safe guarding of State owned resources.

MOBILE PHONES & PREPAID CARDS

Portable and attractive assets (mobile phones) should be registered separately in an Attractive Assets register. The purchase and issue of mobile phones should be restricted to senior management only with details registered such as names of staff, designation, date issued and contact details.

However, the following matters were noted contrary to the Financial Instructions:

- The Department did not record or keep an Attractive Assets Register;
- There was no policy regarding the purchase and custody of mobile phones as well as the purchasing of recharge cards. A total of K23,155 was spent on recharge cards in 2010. There was no management policy on the purchasing, issuing, usage and custody of mobile phones management; and
- Audit also found that officers who were receiving telephone allowances were issued with mobile phones and recharge cards. This was confirmed through payroll checks for pay periods 15 and 26 of 2010.

MOTOR VEHICLES

The *Public Finances (Management) Act, 1995* Part 31 provides for purchase and replacement of motor vehicles. It also states that government vehicles should have “Z” number plates, log books, and regular maintenance programmes maintained for all vehicles:

- Audit recommendations as per the 2008/2009 audit reports were not implemented, therefore, there was no improvement in the management and record-keeping of motor vehicles for the Department for the financial year 2010;
- A total of 16 motor vehicles were registered in the Fleet Register maintained:
 - There was no data in the “Year made” column to determine the vehicle’s useful life;
 - 14 of the 16 vehicles did not have the “Purchase dates”; and
 - Nine (9) vehicles did not have “Purchase Price” to determine their trade-in values;
- Vehicle log books were not maintained by the respective custodians of the vehicles; and
- All 16 vehicles had private number plates contrary to the requirement for all State owned vehicles to have ‘Z’ number plates.

PROCUREMENT & PAYMENTS PROCEDURES

There were no improvements in the internal control systems relating to the procurement and payment of goods and services even though audit recommendations were made to strengthen control weaknesses that were identified.

Following are the on-going issues noted:

- A quotations register was still not maintained; and
- DFAT does not have a procurement plan.

AGO review of payment vouchers of transactions in 2010 showed that:

- The Finance Management Manual requirement of obtaining three (3) quotations was not strictly adhered to;
- Payments were made on pro-forma invoices rather than Original Invoices; and
- Sufficient documents were not always attached to paid vouchers to substantiate the purchases made.

HUMAN RESOURCES MANAGEMENT

The following significant Human Resource documents were not provided for audit review although requested:

- Annual Staff Training and Development Plans for both the Headquarters staff and Overseas Missions staff;
- The five (5) year Staff Development and Training Plan;
- Training Policy, (decisions regarding training were made by the senior management as a Training Committee was not in place);
- The Quarterly Man-power Review Reports for 2010;
- The Current approved Organisational Structure by DPM was not made available for audit examination. Therefore, audit could not ascertain the actual funded positions and the total staff ceiling' and
- The Staff Establishment Register

The above documents were not provided for audit examination although requested for.

FOREIGN MISSIONS FINANCIAL RETURNS

The management of the Diplomatic Missions and Overseas Posts have not responded to the AGO's previous years audit findings (2008 and 2009) in the form of a Management Response.

According to the Head of Missions/Posts listing provided the Department had 18 overseas/posts operating as following:

- There were eight (8) Ambassadors (A), seven (7) High Commissioners (HC), and three (3) Consul-Generals (CG).

As a legislative requirement each Foreign Mission/Post was required to submit a Monthly Financial Return to the Headquarters. However, a review of the Monthly Financial Return Register for all 18 missions/posts noted the following weaknesses for the year 2010:

- Beijing in China was the only office that did not submit any return at all for the whole year in 2010;
- 14 missions submitted parts of the returns but did not fully submit the whole year's reports;
- According to the Monthly Financial Returns Register all reports submitted to the Head Office were not done within the expected timeframe; and
- Internal audits were not conducted for eighteen (18) missions/posts since the year 2009, due to lack of money to fund overseas trips.

The Department failed to provide reasons for the delays in the submission of financial reports by the missions/posts.

ADVANCE MANAGEMENT

Review of the Advance Management System revealed that significant audit recommendations from 2008/2009 audit years have not been implemented. Therefore no improvements in the control break downs were identified:

- An Advance Register was still not maintained to account for all the advances issued to officers; and
- In 2010 a total of K3.8 million was paid to officers in terms of airline tickets for duty travels, travel allowances, accommodation, and vehicle hire for both overseas and domestic travels. These have not been accounted for in terms of acquittals in the absence of an Advance Register.

Management has not made any attempts to implement the AGO's audit recommendations regarding these control weaknesses in the Advance Management System and continued to ignore the *Public Finances (Management) Act, 1995* guidelines.

DEPARTMENTAL RESPONSE

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

CONCLUSION

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

The result of my audit indicates that there were notable weaknesses in the control framework. At present the control activities such as delegation, authorizations, reconciliations, data processing,

segregation of duties, management oversight and monitoring are not sufficiently robust to prevent, detect or correct errors or fraud.

9. DEPARTMENT OF HEALTH

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 ad-hoc organisations relating to the functions of the Department.

FINDINGS

CORPORATE GOVERNANCE

Corporate Strategic Plan

The Department of Health had in place a Corporate Plan for 2009-2013 as required under Public Services General Order 8.11 to coordinate and direct the Department and to facilitate the formulation of its annual budget. The Corporate Plan identified six (6) Key Result Areas of the Departmental Activities and a set of objectives and corresponding strategies as well as Key Performance Indicators which included the following: Policy and Planning; Monitoring and Evaluation; Service Improvement; Enabling Functions; Governance; and Partnership and Advocacy. An audit review highlighted that:

- There were no Management Plans and Annual Work Plans to complement the Corporate Plan sighted during the course of audit;
- There were no linkages between the Management Plan and Annual Work Plan to the budget and Corporate Plan to identify targets and indicators and to enable management to determine whether objectives were being met;
- No elements of identification was in place to use for quantitative measures of outputs in terms of how much, or how many and what unit of measurement be used; and

- No specification was in place to use as performance indicators on the timing aspect and how often or within what timeframe outputs would be produced. The management therefore was not in a position to:
 - Monitor the achievements of the Department's objectives or programs;
 - Determine areas where change was required;
 - Effect necessary changes; and
 - Amend the objectives and strategies.

Minutes of Meeting

Audit sighted a schedule showing tentative dates for the Senior Executive Meetings in the Department of Health 2010 Planner, and that one meeting was to be convened each month of the calendar for the year.

- Audit observed that the management had nine (9) meetings as at the time of audit in September, the latest was on 29 September, 2010, however, no minutes of meetings held were made available for audit inspection.

Internal Audit

The Internal Audit function was headed by a consultant (Capacity Building Services) and supported by three audit officers.

- Detailed audit programs for audit areas and extent of routine operational reviews during the year 2010 including any Internal Audit reports on audits completed were not made available for audit perusal.

Management Response

The Secretary of the Department did accept the audit findings. He further stressed that the Department of Health Corporate Plan for 2009-2013 was in place. Management will review that plan in 2012 to enhance it and link the new plan to the new National Health Plan 2011-2020 by addressing the whole health sector.

Annual Activity Plans are available, however, the quality of the plans are not considered high and Management is taking actions to improve the Annual Activity Plans processes to link them to the proposed new Corporate Plan and current National Health Plan 2011-2020.

The Secretary further stated that the current Annual Action Plans are over programmed (not linked to available budget) and not realistically matched to the capacity of the Department to implement. Therefore, the management is currently reviewing these processes and will implement the new process for 2013.

In relation to the minutes of meetings for top management, management is currently implementing a review of its governance systems and processes. Included in this review will be a single consistent process for agenda development, minute taking and tracking of resolutions.

For the SEM team minutes are now being taken and filed and the governance team within the Strategic Policy Division is now tracking resolutions.

In terms of no annual Internal Audit plans, capacity within the audit area is not optimal. Management is prioritizing recruiting staff for this critical area as part of its rollout of the Department of Health restructure. Currently, the Audit Branch is developing an audit plan for 2012 and this will be submitted to the SEM early in 2012 for endorsement.

STATUTORY REQUIREMENT

No report on the overall assessment of work performance and achievement by the Department of Health for the fiscal year 2009 was prepared and forwarded to the appropriate authorities (DPM) as at the time of audit in September 2010.

AGO was unable to ascertain whether an Annual Financial Management Report for 2010, was compiled and forwarded to Department of Finance as required.

BUDGETARY & FUNDS CONTROL

PGAS Balances vs. TMS (Main Public Accounts)

A comparison of the PGAS Expenditure Vote Summary printout produced by DoH against DoF TMS 100 for period 12 dated 04/03/2011 revealed the following variances between the Appropriations, Warrant Authorities and Expenditure balances as at 31 December 2010:

Results of Comparative Balances of TMS and PGAS at 31.12.2010

Ledger Reports	Original Appropriation	Revised Appropriation	Warrant Authority	Actual Expenditure
TMS 100	217,395,900	200,132,900	200,132,900	205,557,748
PGAS	223,847,900	226,747,400	181,111,000	178,890,527
Difference	6,452,000	26,614,500	19,021,900	26,667,221

Disparities existed in balances between the Main Public Account (TMS) and Department of Health's PGAS ledgers resulting in significant variances. Both records did not reflect any reality of movement and actual use of funds by the Department of Health during the year 2010. Such results clearly reflect the lack of reconciliation between the two (2) records.

Warrant Authorities

Analysis of the Fund Allocations by Warrant Authorities recorded on the two records by Vote Items revealed the following discrepancies:

- Item 111 Salaries total Fund Allocation of K29,908,100 was not captured in the Department's PGAS subsidiary ledger during the year 2010;
- Department of Health PGAS ledger recorded K1,212,900 less than what was captured in the Main Public Accounts ledger (TMS) for Vote Item 141; and

- In 19 Vote Items Department of Health PGAS ledger recorded K12,099,100 more funding, than what was captured at the Main Public Accounts Ledger (TMS).

Comparison of Expenditure TMS vs. PGAS

A comparison of the expenditure balances on the two ledgers of the Main Public Accounts (TMS) and the Department's (PGAS) revealed that:

- According to the Main Public Accounts (TMS), Department of Health incurred a total of K34,494,011 on salaries which was not captured on its PGAS ledger. In addition the Department incurred a total of K4,585,911 more than its allocated funds of K29,908,100 for Salaries Vote Item 111;
- In three (3) separate Vote Items PGAS did not capture a total Expenditure of K2,773,209 which was recorded at the Main Public Accounts (TMS); and
- Under Vote Item 135 Department of Health PGAS ledger recorded an over-expenditure of K10,599,999 whilst TMS only recorded an amount of K3,710,291.

Both records (TMS and PGAS) did not highlight the actual movement of funds from the Consolidated Revenue Fund to the Department and the actual expenditure incurred by the Department.

DRAWING ACCOUNT

Audit review of the Department's monthly bank reconciliation for December of 2010 with related records revealed the following salient matters:

- The Monthly Bank Reconciliation Statement for December 2010 was not signed by the Preparer and the Reviewing Officer as part of their due diligent execution of their duties;
- The Bank Reconciliation Statement for 31 December 2010 was also not dated to indicate when it was prepared;
- For a dishonoured personal cheque dated 13 October 2009 totaling K134,376 no action was taken to recover the money from the debtor;
- Two (2) payments totaling K18,510 were presented at the bank in year 2007 which was journalised and cleared. It was incorrectly shown as unpresented cheques up to the time of audit;
- Another payment totaling K2,600 was not in the Cash Book, however, the Cheque Reconciliations Listing proved that the cheque was presented at the bank in 2008;
- The Other Debits totaling of K5,942,735 were not captured on the Summary of both the Bank Account and the Cash Book; details of the amounts are noted below:
 - Two (2) cancelled cheques and wrong Journal Entries postings totaling K152,506 for year 2010 were not cleared prior to compiling the December, 2010 bank reconciliation;

- 24 journal entries raised to clear cancelled cheques with a total value of K922,554 for year 2009 were wrongly journalised instead of being debited back into the Cash Book;
- Another 24 journal entries for 2008 with a total value of K676,061 were wrongly captured also on Schedule 6;and
- Other eight (8) transactions for the year 2007 totaling K4,191,267 not cleared consisted of:
 - Four (4) over-payment cheques totaling K10,233;
 - One (1) journal entry posting error involving K1,567;
 - Write-off K4,074,051; and
 - Variances totaling K105,416 due to a computer crash.

All the above transactions had not been cleared and were outstanding;

- Another overpayment cheque made in year 2006 totaling K1,341 was yet to be cleared;
- The reimbursements received from the Main Public Account (CRF) for year 2010 totalled K341,263,003. These were not journalised and posted into the Cash Book during the year;
- The total Unpresented Cheques that was posted on the Cheque Reconciliation Listing for the month of December 2010 and a comparison of the Cheque Reconciliation Listing and Schedule 8 revealed that management had not accounted for K22,875,046 worth of unpresented cheques;and
- Despite the enormous data being captured on the various Schedules for the December 2010 bank reconciliation, the bottom line was that the Cash Book and the bank account did not reconcile meaning the two balances did not agree. The Cash Book balance was K352,546,606 and the bank account balance was nil (K0.00) as at 31.12.2010 respectively.

Other Issues

- The monthly bank reconciliation statement was prepared by an officer who also performed the duties of the accounts clerk to raise and post journal entries into PGAS. Such action reflected a break down in the internal controls in relation to segregation of duties; and
- Department of Health did not forward copies of the monthly bank reconciliation statements to the Department of Finance within the required 14 days of the preceding months as required.

ASSETS MANAGEMENT

- The functions of procurement and control of fixed assets and consumables in the Department was still decentralized as divisions/branches/sections were still responsible for their own procurements. Audit was unable to ascertain the total volume and monetary value of assets (fixed and consumable stores) for Headquarters as at 31 December 2010;

- No annual stock-take was done to physically verify the existence, custody and status of all assets;
- No committee was set up by Management to screen the purchase of assets by the individual branches/divisions to ensure consistency, quality and continued service maintenance;
- No central stock-cards were maintained by the Department or by the branches/divisions for all consumable store items;
- No stock-control over the level of consumable items needed and also the type of assets purchased, and the location of the assets purchased; and
- According to the Expenditure Transaction Details as at August 2010 41 payments for assets were purchased totaling K676,614. Of that total five (5) payments totaling K526,000 related to purchases of five (5) vehicles. All detailed information of the motor vehicles were not recorded in the Motor Vehicle Allocation List.

PROCUREMENT & PAYMENT PROCEDURES

A total of 110 payments totaling K2,210,988 were selected on random sample basis and subsequent review of the paid vouchers and related records disclosed the following weaknesses:

- In 26 instances for paid vouchers totaling K1,250,281 no verification and validation of payments were made due to the non-availability of the relevant payment vouchers and supporting documents in the file;
- In ten (10) instances totaling K124,557 claims paid for did not have original suppliers' invoices attached to payment vouchers to substantiate the payments made. Audit regards such payments as improper;
- In 14 instances totaling K329,400 goods and services were procured and paid for without obtaining the three (3) written quotations from the vendors;
- In three (3) instances totaling K21,089 claims were paid without being certified by the Certifying Officer;
- In three (3) instances totaling K18,237 payments were done based on the pro-forma invoices instead of the original invoices;
- A payment for a vehicle hire totaling K22,116 had no documentary evidence of either the PTB or Departmental head authorizing the private hire;
- In 20 instances totaling K200,249 copies of cheques paid were not attached to payment vouchers to validate claims paid;
- Six (6) senior executive officers were paid gratuity and special domestic market allowances totaling K488,603 through PGAS without the normal process via Concept Payroll System. Audit perusals of payment vouchers and related accounts and records revealed the following findings:
 - A comparison of the allowances to the contract records disclosed that the allowances were very high and beyond the required SCMC rates and approval;

- No written submission was made to SCMC for their endorsement and approval of the allowances;
- No detailed calculations and approval by Financial Delegate of amounts paid were attached to the payment vouchers; and
- Payment vouchers and payment cheques were processed on the same day for all six officers;
- For an amount of K50,000 paid to an officer for a heart operation in Manila, there was no evidence sighted relating to any recovery action of that K50,000 from the officer concerned.

HUMAN RESOURCES MANAGEMENT & PAYROLL

Audit assessment of the Human Resources Management Division revealed the following weaknesses:

- There was no evidence to show that an updated Human Resource Management Internal Policy was done to ensure that qualified applicants were employed with the right skills to ensure that Department operations were conducted efficiently and effectively;
- There was no Training Policy resulting in trainings provided on ad-hoc basis;
- Multi-skilling was not being practiced to ensure that there was more than one person that can fulfill the duties of a position or that there were alternate choices in promotional situations;
- No policy was in place on the employment of casuals on full time. As at the time of audit 145 casual employees were employed on fulltime where casuals are generally employed to do specific tasks for specific limited period of time only. Casuals employed for longer periods of time did not have their work performances appraised and reviewed by management to ascertain whether they would be terminated or employed on full time basis; and
- Monthly Payroll Reconciliations were not performed on payrolls for the Department.

ADVANCE MANAGEMENT

- According to the Paymasters record 50 advances totaling K189,106 were paid out in 2010 and still remained unacquitted as at 31 December 2010;
- The PGAS Advances Register showed that 477 advances totaling K693,241 for 2010, remained outstanding; and
- Four (4) senior officers were issued second advances totaling K22,066 whilst the first advances were still outstanding.

JOURNAL ENTRIES

According to the journal entry listing from PGAS, a total of 50 journal entries were raised by the Department in 2010. An audit review of journal entries and related records revealed the following shortcomings:

- In nine (9) instances journal entries totaling K227,683,505 were not available in the journal entries file as at the time of audit;
- In four (4) instances journal entries totaling K1,006,544 did not bear journal entries numbers;
- In six (6) instances amounts as per the Journal Entry Book differed from PGAS posted amounts resulting in a difference of K102,936. In addition the amounts did not relate to cheque numbers raised. As a consequence audit was unable to ascertain the accuracy of transactions incurred;
- In three (3) instances totaling K88,966 the original cancelled cheques were not attached to the related journal entries raised for transactions;
- Journal entries were not raised for two (2) cancelled cheques totaling K52,806 to write back the amounts into the Cash Book; and
- Journal entries were raised by an officer who was also responsible for preparing bank reconciliations and performing the examiners role.

DEPARTMENTAL RESPONSE

The findings were brought to the attention of the Secretary in the management letter issued. However, the management letter responses was not received, up to the time of this report.

CONCLUSION

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

10. INTERNAL REVENUE COMMISSION

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 movements of goods and people across the borders to protect the PNG community and to ensure PNG's laws are upheld; and
- The customs functions performed by IRC was separated from taxation that took effect as from 1 January 2010.

FINDINGS

CORPORATE GOVERNANCE

Corporate Plan

The Commission's new 2010-2012 Corporate Plan for a three (3) year period was in its final stages of design and printing during the time of audit in December 2010. This is a key management document which was intended to guide the management of IRC. It also sets out the goals and objectives as achievable targets over the specified period.

Management Response

IRC recognises the need to closely monitor all its goals, whether they are set by our Corporate Plan, or by their principal stakeholders. In the meantime management is continuing to develop the governance frameworks to better meet IRC's unique requirements.

REVENUE ANALYSIS

Net surplus of Actual Collection compared to Targeted Revenue Collection - 2010

A net surplus of **K937,360,661** was recognized per the Department of Finance's records when a comparative analysis of the actual collections for the year ended 31 December, 2010 was done as detailed below:

Total Revenue Collection	Revenue Estimates(PGK)	Surplus (PGK)
K4,967,060,661,	K4,029,700,000	K937,360,661

A detailed analysis of the collections from 13 revenue sub-heads revealed that actual collections from:

- Five (5) revenue sub-heads had shortfalls totaling **K58,113,993**; and
- Eight (8) revenue sub-heads had a total surplus of **K1,010,858,228**.

A further comparison against all revenue sub-heads between IRC and DoF revealed that:

- Ten (10) Revenue Sub-Heads per IRC's record of actual collections were more than the Main Public Account Ledger (DoF, as per TMS 21 – Period 12/2010); and
- Five (5) of the ten (10) Revenue Sub-Heads, were over-estimated thus resulting in the shortfall noted earlier.

Management Response

The TMS figures are reliant upon the collector statements from IRC and Department of Finance Records should in reality reflect IRC Actual Recorded figures.

As highlighted in the response to the AGO's prior year report, a resolution to this issue is to allow direct access to the Department of Finance through the IFMS accounting system.

BUDGETARY & FUNDS CONTROL

Variances in expenditure balances

A comparison of the Expenditure Vote Summary printout produced by IRC with the Expenditure Statement produced by the Department of Finance revealed significant variances as at 31 December 2010 between the Revised Appropriations, Warrant Allocations and Expenditure balances as follows:

Variances in Fund Allocation and Expenditure Balances as at 31 December, 2010- Period 12

Dept	Revised &WarrantAuthority (PGK)	Appropriation	Actual Expenditure (PGK)
DoF TMS		30,604,300	35,425,410
IRC (EVS)		38,328,300	35,366,800
Variances		2,276,000	58,610

It has been inconvenient for IRC to bring their PGAS expenditure reconciliation up-to-date to be consistent with that of Department of Finance Main Public Account Ledger due to the long delays in releasing the monthly TMS Reports by Department of Finance.

Management Response

Since the demerger from PNG Customs in 2010, IRC management has improved not only in its internal control and monitoring systems but also by keeping its subsidiary ledger (PGAS) up-to-date at all times. Management has addressed all issues individually and had disputed the budgeted and actual expenditure variances reported.

BANK RECONCILIATION

IRC had an Operating Drawing Bank Account # 4311-6128 with the Bank of PNG.

Audit verification of the bank reconciliation statement prepared for the month of December 2010 with the related records revealed the following:

- “Other Items (Debits)” of K60,363 were yet to be cleared and the respective Vote adjusted as reported;
- Similarly, “Other Items (Credits)” of K240,363 were yet to be cleared and the respective vote number adjusted as reported;
- A total of 162 unpresented cheques as at 31 December 2010 totaling K2,773,500 remained outstanding; and
- The Cash Book and the drawing bank account balances did not reconcile as at 31 December 2010.

Management Response

The reconciling items noted in the audit examination are acknowledged. This was the first year of Self Accounting for IRC and the area responsible was under the direction and training of staff from the Department of Finance Public Accounts Division. A Bank Reconciliation Policy has been drafted.

A lodgment register for the monthly bank reconciliations is now available to ensure that all the statements are compiled and submitted within the legally required timeframe. Finance and Budget division have commenced using the register from 1 November 2011.

ASSETS MANAGEMENT

A review of the Master Assets Register for year 2010 revealed the following:

- The Master Assets Register did not contain all details of assets owned and used by the Commission;
- The asset register was not duly up-dated and maintained;
- A comprehensive report was not maintained on details of assets on hand with details extracted from stock cards at the end of each quarter; and
- A compilation of the required Board of Survey on assets that needed to be disposed of was not done.

As a result of not having an Asset Management Policy each division did not maintain their asset registers properly as expected with no clear established roles and responsibilities.

Management Response

The IRC Master Assets Register was created in April 2011. Initially, no one was directly responsible for recording assets into the Assets Register. Procurement officers are now responsible for the maintenance of the Master Assets Register, under the supervision of the Manager Operation Support who reports to the Senior Branch Manager of Property and Facilities. This arrangement will continue until the recruitment of a full time Assets Manager.

Immediate action is required in relation to recruiting further full time staff to the Property and Facilities Section. Otherwise there is a risk that records will continue to misrepresent the true level of assets on hand in IRC.

MOTOR VEHICLES

IRC had a fleet of 24 vehicles which were recorded in the motor vehicle fleet register for 2010. A review of the management of the motor vehicle fleet register revealed that:

- No proper Vehicle Register was maintained by each division with no clear established roles and responsibilities;
- The Motor Vehicle Fleet Register was not properly maintained for details such as, depreciation value, estimate of economic useful life, preventative maintenance requirement and corrective maintenance history;
- No motor vehicle log books registration were maintained for each of the vehicles run by each division to record details of meter readings and runs made; and
- No motor vehicles maintenance program was maintained and kept for all vehicles owned and used by IRC.

Management Response

IRC agreed to audit findings and is now developing an internal motor vehicle policy guidelines to control and monitor the acquiring, allocations and usage, maintenance, replacements and disposals of the motor vehicles.

PROCUREMENT & PAYMENTS PROCEDURES

The audit of procurement and payment procedures for the Commission covered the period from January 1 to 30 November 2010. The review was based on three (3) areas, namely quotations, examination of financial documents and goods received notice (GRN) to verify the validity of each purchase and payment made during that period:

- Three (3) payments totaling K273,887 did not have any quotations:
- Only one (1) quotation totaling K56,760 was obtained from a supplier which did not match the payment made totaling K119,328 for printing of betting books:
- Three (3) payments totaling K82,440 were made to service providers without considering the cheapest quotations:

- Two (2) payments totaling K28,279 did not have the financial documents (FF3s and FF4s) and other supporting documents to validate the propriety of the payments made; and
- In 14 payments totaling K280, no Goods Received Notes (GRNs) from the suppliers were maintained, nor was any work report attached to substantiate that goods/services had been received prior to payments being made.

Management Response

A Quotations Register was not previously kept. As of this audit, IRC had created quotation registers for both verbal quotations and written quotations in accordance with the Financial Management Manual, and to record other explanatory remarks as well.

Other findings had been addressed individually. The audit recommendation is noted and will be addressed by the management of IRC.

ADVANCE MANAGEMENT

Audit noted that 413 advances totaling K1,018,471 were issued to officers of IRC during 2010. Audit noted that 42 advances totaling K101,925 were not acquitted as at 31 December 2010.

Management Response

IRC and PNG Customs Service are currently discussing how best to address the issue of the large number of PNG Customs Officers who have outstanding acquittals.

DEPARTMENTAL RESPONSES

The Department had responded to the findings in the Management Letter issued and their responses are stated correspondingly.

CONCLUSION

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

11. DEPARTMENT OF JUSTICE & ATTORNEY-GENERAL

OVERVIEW

The Department's mission is to ensure efficient and expeditious settlement of disputes through the Justice System and 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 organizations relating to the functions of the Department.

FINDINGS

STATUTORY REQUIREMENTS

The Annual Management (Performance) Report for period ending 31 December 2010 (dated March 2011) was compiled which included the Financial Report and Statements for that period. AGO received a copy of the report on the 13 December 2011 but was unable to confirm the actual date of the reports submission to the Secretary, Department of Personnel Management.

RISK MANAGEMENT

The Department of Justice and Attorney General (DJAG) does not have a Fraud Control Plan to identify possible areas for fraud so that controls can be established to mitigate the possibility of misappropriation of funds and other related risks that may adversely impact on the achievement of its objectives. AGO was informed that whilst the Department had strategic and operational plans, such plans were not supported by appropriate risk management plans.

Management Response

The Department acknowledges the finding and stated that an integrity review and report was done by a private accounting firm which the management team will study and take necessary actions to develop Risk, Fraud and Corruption Management Plans for the Department.

BUDGETARY& FUNDS CONTROL

A comparison of the 2009 Expenditure Vote Summary printout maintained by Department of Justice and Attorney-General with the Expenditure Statement on TMS 90 produced by Department of

Finance for Period 12 revealed significant variances totaling K11,523,855. The Department did not provide a reconciliation to explain the differences between the comparative records.

The Warrant Authorities expenditure variances were not posted in the PGAS Ledgers resulting in the huge variances in the two records.

The Department of Justice and Attorney-General had incurred expenditure in excess of Warrant Authorities under two (2) Vote Items totaling K214,219 in the Recurrent Budget.

ASSETS MANAGEMENT

The Department maintains a centralized Asset Register and a review of the register did not contain all the relevant particulars of the assets. In 2010 a total of 232 assets were purchased, however, particulars of these assets were not captured in the Register.

The Motor Vehicle Register and centralized asset register were not reconciled resulting in other assets not being accounted for.

Other deficiencies noted during the Assets Management review revealed the following:

- The Department confirmed that the Assets Register was never reviewed;
- No annual stock-take was carried out to ascertain the existence of assets;
- Seven (7) paid vouchers totaling K917,046 were not sighted;
- 11 payments totaling K608,823 had no evidence of goods inspected when received from suppliers and delivery dockets were not stamped to qualify that goods received were in accordance with the specifications of the goods ordered;
- 21 payments of which requisitions (FF3) were not sighted totaling K703,087;
- Four (4) motor vehicles purchased in 2009 totaling K467,275 did not have the Central Supply and Tenders Board (CSTB) approval;
- An officer of the Department who was involved in a car accident was not charged. Neither an accident report nor a police report was compiled and submitted to the appropriate authorities; and
- No contractual arrangement was made between the Department of Justice and Attorney General and the fuel distributors.

Two (2) properties costing a total of K6,900,000 were purchased by the Department in 2009. A special investigation should be conducted into the allegations over misuse and/or misappropriation of public funds by management.

Management Response

The management has noted the significant deficiencies in the audit findings with regard to Asset Management and Accountability systems and processes in the different levels of management. The

management has further noted these deficiencies and will endeavor to take necessary and appropriate remedial actions to correct these deficiencies and put in place accountability systems and processes to improve, manage and maintain its assets.

PROCUREMENT & PAYMENTS PROCEDURES

A sample of 44 payment vouchers selected on a random basis was examined and the following findings were revealed:

- In 15 instances paid vouchers totaling K293,234 were paid without obtaining quotations for goods and services;
- In 13 instances paid vouchers totaling K380,835 were not sighted or missing from the files and hence could not be vouched during audit;
- In 18 instances payment vouchers totaling K746,658 had no invoices or supporting documents attached to the payment vouchers;
- In nine (9) instances payment vouchers totaling K97,945 had no Goods Received Notes from the supplier that goods and services had been received and were in accordance with the specifications on the orders;
- In three (3) instances payment vouchers totaling K59,944 were made for maintenance and construction work on building without minor contracts agreement between the Department and the contractors;
- In two (2) instances consultancy payments totaling K55,800 were made without the consultancy steering committee approval;
- In nine (9) instances payments totaling K172,483 were paid to vendors who did not have Tax Compliance Forms to justify their GST charged on their claims;
- In eight (8) instances payment vouchers totaling K72,311 did not have Certificate of Registration to confirm if they were registered suppliers or companies were bona fide;
- In 30 instances payments totaling K201,242 were erroneously charged to incorrect Vote Items to conceal unbudgeted expenditures incurred;
- In 29 instances payments totaling K139,848 were spent on vehicle hires from private organizations and individuals while the Department had a fleet of 13 vehicles in 2009. Audit also could not ascertain the reasons for this excessive vehicles hires; and
- A payment of K535,035 was made to the Attorney General via the Paymaster dated 16 December 2009. The nature of the payment could not be established as there were no proper supporting documents.

Management Response

The management has noted the serious breaches of procurement and payment process as per the audit findings. We do endorse and agree with the implications of not complying with necessary requirements, hence allows for weaknesses in the system which the Department staff cannot be able to adhere to or comply with in carrying out these responsibilities.

The management will critically analyse these breaches and implement the audit recommendations to address each of these issues.

HUMAN RESOURCES MANAGEMENT

A review of the Management of Employees' Manual and Electronic Personal Files revealed the following discrepancies:

- Generally employees personal files were not maintained properly and kept up-to-date;
- Two (2) manual files were not made available for audit review;
- Tax Declaration forms were not sighted in ten (10) personal files;
- Annual Statement of Earnings were not sighted in four (4) personal files;
- Proper HDA application forms and approval from Departmental Head were not sighted in four (4) personal files;
- Seven (7) officers receiving HDA did not have History Cards in the manual files;
- No medical certificates were sighted in the personal files for six (6) probationary officers at the time of audit;
- No character reference reports from Police and completed Oath of Affirmations were sighted in seven (7) officers personal files;
- No reference and documentation of identity reports from the current or previous employer or latest educational institution sighted in the personal files of two (2) officers;
- Personal file for a probationary officer did not have copies of the educational certificate; and
- Personal file of a probationary officer was not made available for audit review.

Management Response

The Department noted the findings as serious concerns and will endeavor to take appropriate and necessary actions.

ADVANCE MANAGEMENT

The Advance Register for 2010 did not provide a column for the recipients signatures and advances were not recorded in the sequence of payment dates.

Examination of an audit sample of 147 advances totaling K367,656 for the period from January 2009 to June 2010 and the audit review of the management of advances revealed the following weaknesses:

- 20 advances totaling K87,744 were not recorded in the Advance Register;
- Six (6) advances totaling K25,901 indicated as acquitted were not supported by documentary evidence;
- 54 advances totaling K143,867 remained unacquitted as at the time of audit in September 2010;
- 14 acquitted advances totaling K45,093 did not have sufficient supporting documents attached to the acquittal forms.
- An overseas travel advance totaling K3,899 remained unacquitted by 70 days as at the time of audit in September 2010;
- For 31 advances totaling K49,093 in respect of domestic travels, delays in acquittals ranging from eight (8) to 223 days were noted;
- Date of acquittals not disclosed in two (2) advances totaling K20,055; and
- In 13 instances, officers were issued second advances totaling K63,422 while their first advances remained unacquitted.

Management Response

The management has noted the various issues regarding audit observations and findings and serious lack of internal control in the reviewing and monitoring of advances and acquittal across the Department. The audit is informed that management is taking zero tolerance approach in addressing these issues more seriously and to implement the audit recommendations to address these issues.

DEPARTMENTAL RESPONSES

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

CONCLUSION

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

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

12. DEPARTMENT OF LANDS & PHYSICAL PLANNING

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*, *Survey Act 1969*.

FINDINGS

CORPORATE GOVERNANCE

Annual Management Plans

The Public Service General Order No.8.11 clearly states that the Departmental Head shall have in place at all times a Corporate Plan providing the future business strategies and planned objectives for the Department over a 3 to 5 year period. Based upon the Corporate Plan, and the budgeting approach to managing the Departmental resources, the Departmental Head shall provide Annual Management Plans to meet requirements of the budgetary cycle.

The Department did not prepare Annual Management Plans for 2009 and 2010 so as to meet the requirements of the budgetary cycle based on the Corporate Plan. This was a clear breach of the General Order.

Annual Management Reports

The Department did not prepare and submit Annual Management Reports to the Secretary, Department of Personnel Management as stipulated in Division 4 Section 32 (a) of the *Public Service (Management) Act, 1995*. The last annual report that was prepared was for the year 2007. Annual reports for 2008 and 2009 were not prepared, hence the AGO 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.

BUDGETARY& FUNDS CONTROL

Expenditure Analysis-TMS and PGAS Reconciliation

A comparison of the Expenditure Summary for the year ended 31 December 2010 generated by the TMS system against the Expenditure Vote Summary through the PGAS system revealed the following unexplained variances between expenditure balances:

Particulars	PGAS (K)	TMS90 (K)	Variances (K)
Revised Appropriation	31,579,700	39,308,600	7,728,900
Warrant Authority	22,930,500	39,308,600	16,378,100
Actual Expenditure	22,927,100	29,847,824	6,920,723

Comparative analysis of actual expenditure revealed that the differences relate to items 111 and 141 where Finance was responsible but the expenditures were not updated in the PGAS record maintained by the Department.

Revenue Analysis-TMS and PGAS Reconciliation

A comparison of the revenue accounts maintained by the Lands and Physical Planning Department as against the records maintained by Finance Department generated by the TMS reporting system revealed differences aggregating to K93,659 in all 13 revenue votes for the period ended 31 December 2010.

BANK RECONCILIATION

A bank reconciliation provides vital accounting information in regards to the cash position and bank balance of an organization, at any given period of time.

A review of the bank reconciliations for the drawing account (# 4311-6131) and related records revealed the following weaknesses:

- The Department did not prepare monthly bank reconciliation statements and furnish copies to the Department Finance within 14 days at the close of each month as required by *Public Finances (Management) Act, 1995*;
- At the time of audit in December 2010, only January 2010 bank reconciliation was prepared however, a copy was yet to be submitted to Finance Department. Bank reconciliations for the months of February to December 2010 were still outstanding; and
- AGO verification of the bank reconciliation statement prepared as at 29 January 2010 revealed that there was neither a Bank Statement or a Cash Book attached to the Bank Reconciliation Statement. Audit could not verify whether the amounts showing on the bank reconciliation statements were accurate and reliable.

ASSETS MANAGEMENT

Department of Lands and Physical Planning maintain three (3) types of registers through its Corporate Services Branch. A general assets register, a vehicle register and an Information Technology register that kept a log for computers, laptops and desktops.

A review of the Asset Registers and related records disclosed the following weaknesses:

- The registers maintained were deficient and incomplete in that necessary information such as date of purchase, cost of asset, location of assets were missing from the registers that were made available to audit;

- An asset register that recorded general items was not updated as indicated in sixteen (16) instances totaling K767,325 where assets purchased were not recorded; and
- The Vehicle Register was also not updated. As noted only two (2) vehicles were recorded while the transaction from the project account revealed that five (5) vehicles were purchased in 2010.

PROCUREMENT & PAYMENT PROCEDURES

The Financial Management Manual provides the guidelines and procedures that a government organisation should be following in the procurement and payment of goods and services.

An examination of 86 paid vouchers totaling K1.9 million with related documents selected on a random basis with a view to review the procurement and payment procedures in operation revealed the following matters:

- Specimen signatures for the requisitioning officers, Section 32 Officers, and commitment clerks or examiners were not made available to audit;
- Payment vouchers were not sighted in two (2) instances totaling K33,200;
- Requisition for Expenditure forms (FF3) were not sighted in seven (7) instances totaling K8,975 therefore audit could not ascertain whether these were properly approved by the Section 32 Officer;
- In seven (7) instances totaling K125,576 three quotations were not obtained prior to the purchase of goods and services as required. In the absence of such quotations audit was unable to ascertain whether due regard to economy was considered in the purchases made;
- An overtime payment of K9,290 was made without obtaining prior approval from higher authority as required;
- A balance payment of K23,333 to a supplier for the accommodation of a senior officer was paid without the invoice from the supplier, to substantiate such payment;
- In four (4) instances payments totaling K149,737 were effected without being certified as correct by the certifying officers;
- Two (2) payments totaling K111,774 to a security firm for providing security services were made without being certified and examined as correct by the appropriate officers;
- The Manager Finance was the only officer who prepared journal entries, bank reconciliations, Advance Register, Budget Preparation and post entries into the PGAS. There was a major shortage of staff in the Accounts Section which led to various duties and responsibilities not being segregated. Non-segregation of duties was a serious breach of the procedures laid down in the Finance Management Manual and
- The Department did not have in place any procurement policy or other internal policy such as assets policy for the Department's operational use.

HUMAN RESOURCES MANGEMENT

Management of Employee Records

One of the important aspects of the 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 in respect to individual employees are vital and should be properly maintained.

All seven (7) personal files reviewed by audit disclosed that employee records were not properly maintained and updated such as the salary history cards, recreation leave records, HDA and sick leave records.

Audit observed that since the restructure in 2008 most officers were not fully performing their job responsibilities in maintaining and updating personnel records.

TRUST ACCOUNT

The Lands Development Project was the only project administered by the Department of Lands. This project was kept in the Land Administration and Development Subsidiary Account Trust Account that was held at Bank of South Pacific.

An examination of the general maintenance of the Trust Account revealed the following weaknesses:

- The trust account transactions were not processed through the PGAS system as required by the Trust Instrument;
- DL&PP did not submit bank reconciliation statements, annual estimates of receipts and payments and a statement of accounts for the proceeding year as required in Section 19 (3)(4) of the *Public Finances (Management) Act, 1995* to the Department of Finance; and
- Bank Reconciliation Statements for 2010 did not give a true presentation of the bank statement. Audit sighted the Trust Account bank reconciliations statements for January to May 2010 and in all cases, bank statements for 2009 were attached to the bank reconciliations and the amounts on the bank statements did not agree with the amounts on the bank reconciliation.

PUBLIC INVESTMENT PROGRAM (PIP) -DEVELOPMENT BUDGET

The Department of National Planning and Monitoring (DNPM) required that before all PIP budget appropriations were transferred to the Departments, each Department was required to prepare an Annual Work plan and Cash Flow and submit to DNPM. The Departments were also required to have a Project Steering Committee established and were required to meet at least twice a year to discuss the progress of the projects.

- No Annual Work Plan and Cash Flow was submitted to Department of National Planning and Monitoring as required by the Department of Lands and Physical Planning. However, it was confirmed that all draw downs have been received and payments were already made from

these funds. As such, it was not clear how the money was spent as there was no annual work-plan and cash flow report prepared;

- There was no Project Steering Committee established in the Department to monitor the progress of the projects that were carried out; and
- AGO has also noted that between January and November 2010 a total of K9,146,883 was spent on these projects and at the time of the audit no proper accountability report had been provided to the DL&PP and DNP&M on the status of the projects.

ADVANCE MANAGEMENT

A review of the Advance Register and related records revealed the following control weaknesses:

- In ten (10) instances totaling K27,560 some received second advances while their first remained outstanding. Senior management made decisions to pay second advances to officers who have not acquitted their first advances;
- A sample of ten (10) advances aggregating K25,907 that were noted as acquitted in the register were selected and checked to the acquittal files maintained which revealed that:
 - In four (4) instances totaling K9,434 there were no acquittal documents on file to substantiate proper acquittals of the advances; and
 - In six (6) instances totaling K16,473 advances were yet to be acquitted but were however recorded as acquitted indicating that the Register was not properly maintained and updated as required;
- Outstanding advances for the period under review (2010) totaled K37,108 in forty eight (48) instances; and
- The Register was not regularly updated as indicated in three (3) instances totaling K28,550 where advances paid were not registered.

Procedures in the Financial Management Manual were not adhered to such as updating of the Register, follow up of unacquitted advances, consistent maintenance of acquittal files and recovery actions such as salary deduction to recoup unacquitted advances. AGO understands that there was a shortage of staff in the accounts section of the Department which need to be seriously addressed by Management.

JOURNAL ENTRIES

The use of journal entries within an accounting system is a means of correcting or adjusting entries between ledgers and the Cash Books. This ensures the correct treatment and reflection of accounting transactions.

A total of twenty-six (26) journal entries were passed between the months of January and September 2010 of which the following irregularities were noted:

- Journal entries raised for cancellation of cheques that were raised in prior years, intending to bring back into the Cash Book and ledgers were correctly debited to the Cash Book but

the credits were posted to current year's expenditure votes instead of prior year's appropriation revenue vote. Thus has inflated the current year's expenditure vote allocations to that extent;

- Journal entries were raised without the requisite approval of the authorized senior officer in charge of accounts, and they were not always certified nor verified by an independent officer;
- Journal Entries 10 and 11 raised for cancelled cheques totaling K7,206 and K4,337,500 respectively did not have the original cheques attached to enable audit to determine the validity and propriety of the transactions; and
- The journal entries raised neither provided clear narrations of the adjustments nor bore any evidence of internal checks being made prior to posting.

DEPARTMENTAL RESPONSES

The findings were brought to the attention of the Secretary in the Management Letter issued. Management however failed to respond up to the time of this report in June, 2012.

CONCLUSION

The number and magnitude of control weaknesses identified in the course of audit indicate and that, overall, there were significant and serious weaknesses in the control framework. At present the control activities such as delegations, authorizations, reconciliation, segregation of duties and system access are not sufficiently robust to prevent, detect or correct errors or fraud.

12. NATIONAL PARLIAMENT

OVERVIEW

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

The *Parliamentary Service Act of 1997* was enacted to implement Section 132 of the *Constitution* by making provision for and in respect of a Parliamentary Service. The functions of the Parliamentary 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; and
- Such other staff and facilities as are required to ensure the efficient functioning of the Parliament.

FINDINGS

CORPORATE GOVERNANCE

Corporate Plan

It was reported in the previous audit reports (2007 and 2008) that Parliamentary Services did not have a Corporate Plan and Annual Management Plans. The AGO was advised at that time that the Service was in the process of developing a Corporate Plan for 2007 to 2011. Hence, audit noted that there was no Corporate Plan for year 2010.

Meeting Minutes of the Monitoring and Evaluation Committee

The objectives of the Monitoring and Evaluation Committee are noted below:

- Monitor and evaluate the Annual Management Plans and Activities of all line Divisions, and to report on the use of resources including manpower in meeting the approved objectives;

- Collect and analyse appropriate statistical data required to monitor the success of each plan program/activity;
- Collect and analyse the financial data through the quarterly budget reviews to monitor the progress and compare expenditure against approved plans; and
- Monitor and evaluate the implementation of the requirements under the Service and its enabling Acts to determine the implementation decisions made and assess the expected outputs (targets) against actual outcome achieved.

However, AGO noted that no Monitoring and Evaluation Committee Meeting Minutes were prepared to record meetings held and resolutions or decision made. Audit could not also ascertain if the above objectives were achieved by the said committee.

Minutes of Meetings of Senior Management Teams

It was reported in our prior years' audit (2008 and 2009) that Minutes of Meetings of the Senior Management were not prepared. The case has been the same for the year 2010 as ascertained during the audit.

The Parliament is the most prestigious and respected agency in the country and its overall management should be of the highest professional and ethical standards in order to have positive impact on its Parliamentary Services workers and the people of this nation as a whole. The management should employ acceptable management practices in maintaining appropriate records of meetings and decisions made on its operations.

INTERNAL AUDIT

Internal Audit Unit

As reported in our previous Audit Reports, the National Parliament Services had not established an Internal Audit Unit. This function was contracted to an Accounting firm namely, ANE Accountants.

Audit requested the following documents and records to be provided:

- a. Audit Reports produced during the year 2010;
- b. Contractual Agreement made between the Parliamentary Services and the Auditing firm; and
- c. Any plans for an Internal Audit Unit to be created within the Services.

As at the completion of the audit these records and documents were not furnished to audit as a result audit was unable to verify and validate the Internal Audit service engagement.

STATUTORY REQUIREMENTS

Quarterly and Annual Financial Reports

The Parliamentary Services did not furnish copies of Quarterly and Annual Financial Reports to AGO for review. It appeared that these reports were not prepared nor submitted to the Secretary for Department of Finance as required.

This was also reported in our previous Audit Reports (2007, 2008 and 2009).

Annual Management Reports

The National Parliamentary Services did not prepare and submit the following reports for the years 2007, 2008, 2009 and 2010 to the respective Departmental Heads of Treasury, Finance and Personnel Management:

- Quarterly Financial Review Reports to Department of Treasury;
- Annual Financial Report to Department of Finance;
- Staff Performance Reports (Half Yearly) to Department of Personnel Management (DPM); and
- Annual Reports on the Work and Achievements of the Parliamentary Services in relation to the Corporate and Annual Management Plans to DPM.

TRAINING PLANS & REPORTS

The National Parliamentary Services did not have a training plan/policy and was sending its Staff for training/courses without carrying out proper training need analysis.

Evidence of Staff Performance Appraisals reflecting the evaluation of training needs based on the Staff Performance Appraisal outcome were as not sighted.

These findings were reported in previous years' audits but to date there has been no improvement in this area.

RISK MANAGEMENT

The Service did not undertake any formal risk assessment that may adversely impact on its environment and on the achievement of its objectives. Also the Service did not have any appropriate Risk Management Plan. The Information Technology and Communication Division in particular should have an IT Plan that would assess the risks of its activities and on how these risks were managed to protect the Service from any unforeseen event.

Furthermore the organisation did not have a Fraud Control Plan to identify possible risk areas where controls could be established to mitigate the possibility of misappropriation of funds. Also there was no control plan over any other hazard that would impede on human lives and the Parliament House.

BUDGETARY & FUNDS CONTROL

The total funds appropriated under the *Appropriation (National Parliament 2010) Act, 2009*, was K86,292,550. This comprised of Recurrent and Development Appropriations as shown below:

Recurrent	86,018,200
Development	<u>274,350</u>
	<u>86,292,550</u>

The TMS Ledger printouts from Department of Finance stated K104,902,200 as the Revised Budget and K111,418,200 as actual expenditure whilst the Expenditure Vote Summary printouts from the Parliamentary Services show the same figure as Revised Budget but the Expenditure was stated as K104,815,027. The financial implications that had resulted from these differences when compared to the Appropriation of K86,292,550 as per the *Appropriation (National Parliament 2010) Act, 2009*, were as follows:

- An increase of K18,609,650 made to the appropriated fund of K86,292,550 as per the *Appropriation (National Parliament 2010) Act, 2009*, to state K104,902,200 as the revised budget in the TMS Ledger was deemed not legitimate; and
- Total expenditure should have been restricted to the Appropriation of K86,292,550 as per the *Appropriation (National Parliament 2010) Act, 2009*. However, an increase of K25,125,650 made in the expenditure figure of K111,418,200 compared to the appropriated fund of K86,292,550 was deemed not legitimate.

No formal documentation was furnished by the Parliamentary Services to justify the increases explained above.

Variances in 2010 Expenditure Balances

A comparison of the 2010 Expenditure Vote Summary printout from National Parliamentary Services against the Expenditure Statement (TMS 330 Report) from Department of Finance revealed a difference of K6,603,173 in the actual expenditure figure as shown below:

<u>Particulars</u>	<u>Per EVS (K)</u>	<u>Per TMS (K)</u>	<u>Difference (K)</u>
Revised Budget	104,902,200	104,902,200	0
Warrant Authority	104,902,200	104,902,200	0
Actual Expenditure	104,815,027	111,418,200	-6,603,173

In relation to the expenditure aggregating to K111,418,200 as per TMS Ledger, it confirmed that the expenditure exceeded the Appropriation of K86,292,550 as per the *Appropriation (National Parliament 2010) Act, 2009* by K25,125,650. This was in breach of the *Appropriation (National Parliament 2010) Act, 2009*.

BANK RECONCILIATION

Bank Accounts

There were five (5) bank accounts operated by the Parliamentary Services. Only three (3) accounts had reconciliations statements provided for audit.

Bank Accounts that were operated by National Parliamentary Services:

#	Account	Purposes Bank	Account Bank	Reconciliation
1	Operating	General Operations	BSP-1000062302	Yes
2	Salaries & Pensions	Salaries & Pensions	BSP-1000492904	Yes
3	Members Advance	Advances to MPs	BSP-1000492905	Yes
4	Imprest	Emergency	BSP-1000062305	No
5	Nat Parl Home Ownership	Home Ownership	BSP-1000062306	No

The bank reconciliation statements prepared as at 31 December 2010 for three (3) of the Bank Accounts revealed the following reconciling items, Cash Books and bank balances:

Balances & Reconciling item	Operating Account (K)	Salaries & Pensions (K)	Members Advance (K)
Cash Book balances 01/12/10	963,757	7,479,005	71,446
Debits & Cheques in Bank Statement not in Cash Book	4,275,433	15,436,002	535,572
Credits & Cheques in Bank Statement not in Cash Book	2,919,121	1,107,803	200,000
Unpresented Cheques	1,602,028	15,850,728	297,541
Stale Cheques	425,684	6,258,759	71,009
Cash Book balances 31/12/10	966,936	-1,802,606	650,145

The reconciling items shown in the above table are explained in detail below among which include the status of the bank reconciliations for the Imprest Emergency and the Home Ownership Scheme Bank Accounts:

Operating Bank Account

- The various transfers of funds from the Operating Account to Imprest Emergency Bank Account along with other transactions aggregating K4,275,433 and dating back to October 2007 were not cleared. All these transactions should be investigated and cleared;
- Similarly various transfer of funds from Imprest Emergency Account aggregating K2,919,121 made into the Operating Account dating back to October 2008 were not cleared. These should be investigated and cleared; and
- The un-presented cheques total of K1,602,028 includes cheques to the value of K425,684 that were presented since 2006 (first stale cheque dated 17/01/06). The stale cheques must be written back to the Cash Book immediately and replacement cheques raised when demanded by the Payees.

Salaries and Pensions Bank Account

- The various transfers of funds from the Salaries and Pensions Account to Imprest Emergency Account along with other transactions aggregating K15,436,002 and dating back to April 2007 were not cleared. All these transactions should be investigated and cleared;
- Similarly, transfer of funds from Imprest Emergency and National Parliament Home Ownership Scheme Accounts plus other transactions aggregating K1,107,803 dating back to April 2009 were not cleared. These should be investigated and cleared; and
- The un-presented cheques total of K15,850,728 includes cheques to the value of K6,258,759 that have not been presented since 2006 (first stale cheque dated 09/11/06). The stale cheques must be written back to the Cash Book immediately and replacement cheques raised when demanded by the Payees.

Members Advances Bank Account

- A transfer of K200,000 made on 30 September, 2010 to the Operating Account, nine (9) transfers of funds to Imprest Emergency Account plus two other transactions all aggregating K535,572 and dating back to July 2008 were not cleared. All these transactions should be investigated and cleared;
- A transfer of K200,000 made on 8 June, 2010 from the National Parliament Home Ownership Scheme Account into the members Advances Account was not cleared. This should be investigated and cleared; and
- The unpresented cheques total of K297,541 comprised of 11 cheques, of which four (4) cheques to the value of K71,009 were stale with the first stale cheque dated 24 July, 2008. The stale cheques must be written back to the Cash Book immediately and replacement cheques raised upon demand made by the Payees.

Imprest Emergency and Home Ownership Scheme Bank Accounts

- The opening and closing Cash Book balances of the Imprest Emergency and the Home Ownership Scheme Accounts were not ascertained during the audit as bank reconciliations were not furnished.

In the case of the Emergency Imprest Bank Account, AGO was informed at the time of the audit that, the Bank Reconciliation was not completed by the Officer in Charge, and guaranteed that it would be presented for inspection when completed. As at the completion of audit, no such reconciliation was furnished to the AGO.

In view of all the above observations and particularly the '*cheques in bank statements not in Cash Books*' needs to be investigated and cleared as it can be fraudulent cheques raised outside the system that got presented at the banks and cleared/honoured. In view of the significant amounts involved management should order for an investigation to be conducted to establish the nature of these cheques and trace them back to the Cash Book to ascertain the genuineness of these cheques. **AGO is of the view that the reason for the cheques not being cleared this far reflects the weaknesses in the system resulting from ineffective management.**

ASSETS MANAGEMENT

An asset register was furnished to AGO during the audit, however, it was noted to be deficient in that complete and vital details of the assets were not always recorded.

A sample of 18 assets purchased in 2010 were selected and traced to the asset Register to ascertain completeness and accuracy of the Asset Register. 17 of these assets purchased for the sum of K279,440 were not recorded in the Register.

There were no recordings of assets that were either written-off or disposed over the years in the Asset Registers. Also there was no Asset Management Plans in place to adequately cover the vast number of assets owned by the Parliamentary Services in terms of office equipment, catering facilities, building equipment and other important assets.

Motor Vehicle

The Building Manager was the custodian of all the "Z" plate vehicles that came under the Parliamentary Services. A review of the Vehicle Fleet Register maintained revealed that out of a total of 28 vehicles recorded in the Register five (5) were registered with private number plates due to security reasons. The custodian of these five (5) vehicles were not stated in the Register thus AGO was unable to verify the custodians of these vehicles.

There were no vehicle log books maintained by the Parliamentary Services for the entire fleet. AGO was advised that as Drivers were rotated daily to take a different fleet from that of the previous day it made it difficult to maintain a log book.

Attractive Items

It was noted that Mobile phones were purchased at will upon requests made by officers. These purchases were not recorded separately in an asset register where it would be easier to monitor and recover costs if stolen or lost where appropriate.

Firearms

Two (2) sets of Registers were maintained for the recording of firearms owned by the Service, one with the Chief of Security whilst the other with Assets Officer.

Examination of the two Registers revealed that a total of 11 firearms were owned by the Service of which the details are as follows:

NO	MAKE	SERIAL NO.	TYPE	CALIBRE	CAPACITY	STATUS
1	MOSSBERG	P521637	SPA	12G	5 RDS	In stock
2	MOSSBERG	P521645	SPA	12G	5 RDS	In stock
3	MOSSBERG	P521647	SPA	12G	5 RDS	In stock
4	MOSSBERG	P524332	SPA	12G	5 RDS	In stock
5	MOSSBERG	P524328	SPA	12G	5 RDS	Sold
6	SIGSAUER	U612657	PSA	9MM	15 RDS	Lost (29/8/05)
7	GLOCK	CYY552	PSA	9MM	15 RDS	Sold
8	GLOCK	CYY549	PSA	9MM	15 RDS	Sold
9	KAHR	AE2586	PSA	9MM	8 RDS	Damaged. Sold
10	KAHR	ADO677	PSA	9MM	8 RDS	In stock
11	KAHR	ADO946	PSA	9MM	8 RDS	In stock

AGO noted that there was no proof of sales/disposals of the firearms that were sold.

One of the firearms was said to be damaged and was beyond repair so was sold to a member of the security personnel. Again there was no proof of sale in disposing. This is questionable in view of the provisions in the *Firearms Act, 1978* that calls for all damaged firearms to be returned to the Police Firearm Division for disposal and to authorise for the issuing of a replacement.

AGO was told by the Chief of Security that these firearms were bought sometimes in the 1980s and therefore he had no documentation to furnish to the AGO apart from the register he kept stating the above details.

It was ascertained at the time of audit that there were 39 Firearms Licence Holders that were licensed to carry the Service firearms.

The physical verification conducted at the time of audit (April 2010) have sighted the remaining six (6) firearms in either the armoury or in the possession of the Security Division and under the custody of the Clerk of Parliament and these were:

- a. Four (4) Pump Action Shotguns (Mosseberg); and
- b. Two (2) Kahr Pistols 9mm (7 Rounds).

Stock-take on the entire Parliamentary Services owned assets was last performed in 2005.

Medical Supplies

The National Services runs a small clinic at the Parliament House. The clinic is operated by a nursing officer and treats patients with everyday diseases such as headache, simple cough, malaria, and other bigger diseases such as pneumonia, asthma, ulcers, diabetes, HIV/AIDS, etc.

AGO was advised on 18 April 2011 that the clinic was not recognised by the Health Department as a public facility for the reason that it serves only the Parliamentary staff and their family members. Therefore most of the clinic's drugs including ARV drugs were purchased from various pharmaceutical suppliers including private pharmacies.

The Service does not have any policy on the type of drugs to be procured and the types of relatives to be covered for treatment (whether spouse, children and siblings of Parliamentary staff) by the clinic. AGO was told that the staff sometimes request for mostly everyday drugs to take home for their relatives among which includes ARV second level drugs purchased at K1,500 for patients every time.

Furthermore, it was noted that a qualified Doctor was not on standby to serve especially during Parliamentary sessions as the insurance cover to enable that was not renewed or paid that year (2011) due to funding constraints. This funding is unclear and there is no insurance cover so who are the life of members of the Parliament Policy holders.

PROCUREMENT & PAYMENT PROCEDURES

Audit selected a sample of 30 paid vouchers for payments totaling K1 million and the following observations were made:

- The National Parliamentary Services did not maintain a Quotations Register;
- Audit examined the cheque usage reports for 2010 and noted that in some instances person signed on the Register to pick up more than one cheque which indicated the weakness of cheques being picked up by a wrong person;
- It was noted that copies of cheques drawn and paid that were supposed to be photocopied and attached to the respective paid vouchers were not attached as ascertained in all thirty instances; and

Supporting Documents

- Supporting documents were not attached to 15 instances of payments totaling K598,000 to substantiate the payments made. These supporting documents were deficient in the following manual as follows:
 - FF3 not completed with supporting documents such as school fees invoices;
 - Formal request to purchase drugs from a clinic was not attached;
 - The daily hire rate for vehicle hire was not shown on the invoice and also a vehicle was hired for two (2) months and the payment was made to an individual and not a corporate entity;
 - There was no reason given to substantiate why four (4) mobile phones were purchased for the same person;
 - A payment was made on quotation instead of an invoice;
 - A motor vehicle was hired in NCD since 2008 as per the contract signed. There was also no proper documentation apart from the letter to hire private vehicle. The hire of vehicle in NCD was a breach of the Financial Management Manual;
 - The travel itinerary, quotation and invoice from an airline company was not sighted;
 - The Holders of mobile phones and purpose of buying the phones were not disclosed; and
 - The flight itineraries and accommodation invoices were not attached to support so much money spent. AGO was unable to ascertain whether any of the amounts spent needed to be refunded to the State.

- **Requisite Approvals not duly obtained**

The established requisite approvals such as certification and examination were not duly done/obtained in 23 instances of payments totaling K826,000. The Requisitions for Expenditure (FF3) forms were not completed, claims Examiner and Certifying Officers had not signed in the respective columns.

- **Validity of Computations of Cost**

Audit was unsure of the validity of calculations performed for six (6) payments totaling K421,000 given the lack of supporting documents being provided for audit verification as detailed below:

- The daily motor vehicle hire rate was not stated on the Invoice and also a vehicle was hired for two months (January and February) at flat rates for the cost of K21,350 per month despite each month having different number of days (i.e. 31 and 28 days respectively). This indicates that due care was not exercised to ensure that the calculations were done correctly in line with the number of days;
- Travel itineraries were not attached and each destination cost of air fares were not shown on the invoice submitted by a travel agency to substantiate the amount paid to them. Audit was unsure about the validity of the calculations performed to come up with the costing submitted for settlement;
- An Invoice was not attached to substantiate a purchase;
- For an electoral visit, there was no basis used in the calculation to come up with the amount that was paid; and
- The obtaining of three (3) quotations from car dealers was not done in the purchase of vehicles. All vehicles were purchased from Ela Motors which is deemed appropriate in terms of keeping to one dealer, however economic buying practices should have been adopted in order to benefit from the lowest prices offered by other dealers.

- **Payment not in Conformity with Regulation**

Audit noted that in nine (9) instances payments totaling K351,000 were made contrary to the *Finance Management Manual* and the *Public Finances (Management) Act, 1995* and these are explained in detail below:

- A vehicle was hired for more than two (2) weeks which is in breach of Part 17, Division 1[4.3, (d)] which states that, if private hire is anticipated to extend for two (2) weeks or more approval must first be obtained from the Department of Finance, however, in the case of the National Parliament an approval for extension of hire should be sought from the Speaker in writing;
- A vehicle was hired from 30 September 2008 per the contract signed between Parliament and the hire car owner which was still under hire at the time of audit in April 2011. This long term hire in AGO's view is deemed improper and uneconomical as a decision to purchase its own vehicle should have been made at that time;

- **Payments made to Individuals rather than Companies or Organizations**

Payments to the value of K306,000 were made to individuals rather than companies or organizations. For instance a cheque of K111,166 for Air Niugini was raised in the name '*The Manager*' rather than in the name of the Airline Company '*Air Niugini*'. This had created opportunity for the cheques to be subject to abuse as it can be given to any manager of a firm.

- **Cancelled Cheques**

The originals of cancelled cheques raised for the value aggregating to K183,734 were not sighted during the audit on the 26 April 2011. These cheques (originals) should be kept intact so that it reduces the chances of being subject to abuse.

The audit observation made under Bank reconciliation on the significant number of '*cheques in bank not in Cash Book*' reported in paragraph 3.0 above leads AGO to be of the view that there was a possibility of cancelled cheques getting presented at the respective Banks and honoured/cleared in view of the originals of cancelled cheques not being made available at the time of audit inspection.

ADVANCE MANAGEMENT

AGO was verbally informed that an Advance Register was maintained but was not made available for audit review when requested.

The officer responsible advised AGO that he was currently on full-time study leave and the Register was not updated since the last audit. No attempt was made to furnish the Register though he promised to do so.

The observations made in 2009 audit report were as follows:

A review of the advance management system revealed the following weaknesses:

- *The manual advance register maintained did not include details of the advance holder in respect of the date when the cheque was paid or collected, and the signature of the pages;*
- *Large amounts of cash advances have not been acquitted properly;*
- *Second advances of cash advances were given to individuals while their previous advances remained un-acquitted; and*
- *The acquittal forms and files were not completed properly and it seemed that the same person was filling in the acquittal forms for individuals.*

AGO was of the view that there appeared to be no action taken to improve on the above reported observations.

In 2010 the Expenditure Transaction Details for Vote Item 122 (Travel) showed that the amount of K3.7 million was paid as travel and accommodation allowances (about 90% of travel were overseas

travels) as well as donations to certain groups of people made by the Speaker of the Parliament during the year.

The checks conducted into the selected payroll records to ascertain that all advances paid to the Parliamentarians were recovered through payroll deductions revealed satisfactory. It was ascertained at the time of audit that all advances paid to Parliamentarians were to be fully recovered before the end of their term of Parliament and as at September 2011 no new advances were to be processed.

DEPARTMENTAL RESPONSE

The findings were brought to the attention of the Secretary in the Management Letter issued. However, management failed to respond up to the time of writing this report in June 2012.

CONCLUSION

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

13. NATIONAL JUDICIAL & STAFF SERVICES

OVERVIEW

The Judiciary 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 *Judicial Staff Services Act* provides for the functions of the Service as follows:

- Legal, secretarial and clerical staff to enable the Courts to operate efficiently;
- Research, legal and other services for the Courts;
- An efficient Court reporting service;
- Adequate library services for the Courts; and
- Attendants, interpreters and other staff to ensure the efficient functioning of the Courts.

FINDINGS

STATUTORY REQUIREMENTS

Annual Financial Management Reports

The Annual Financial Management and Annual Management (Performance) reports were not compiled for 2010 and submitted to the Departmental Heads of Department of Finance and Department of Personnel Management as required by law.

Management Response

NJSS acknowledged the audit finding and stated that this area is now fully complied with. All reports are furnished to the Judiciary. It is incorporated into the Annual Judges Report. All monthly and quarterly reports are used as the basis for the Annual Financial and Performance Management reports.

BUDGETARY & FUNDS CONTROL

Comparison of Budget Allocation and Actual Expenditure

The comparison of the budget allocations as per Treasury Management System 330 (2010) against the actual expenditure (PNG Government Accounting Software) revealed an over-expenditure totaling K26,113,701 under 11 expenditure Vote Items.

Management Response

The Judiciary Services acknowledged the audit findings and stated that corrective measures have been taken since then. Financial year ending 2010 has been reviewed and reconciled, hence, corrections are now reflective through current financial records.

BANK RECONCILIATION

- There was no Centralized Bank Account Register maintained to record the various bank accounts maintained by NJSS and for various purposes;
- No documentary evidence from Department of Finance was sighted to substantiate and validate the authorization to close the old Drawing Account on 17 March 2011;
- AGO noted the same Signatories to a number of bank accounts. This posed high risk of manipulation of the accounts;
- No documentary evidence was sighted authorizing the opening of the Business Management Accounts and special purpose account with ANZ bank;
- Our audit perusal of December Bank Reconciliation Statement revealed an unreconciled difference of K833,280 as at 31 December 2010. ***Audit failed to understand why the “perpetual” Cash Book system which was supposed to be reconciled every week had an unreconciled difference at the end of the year (2010);*** and
- According to an explanation obtained, 18 unpresented cheques aggregating K44,879 were paid cheques presented at the bank but posted into the old drawing account and were noted as still outstanding as at the period ending 31 December 2010.

Management Response

The Judiciary Services whilst acknowledging the audit findings stated that a centralized bank account register was repetitive work, hence, records already existed and indicated a list of accounts kept.

ASSETS MANAGEMENT

- The total value of all assets owned by the Judiciary Services was unknown for 2010 due to a valuation process taking place at the time of audit in April 2011;

- Management did not do a complete annual stock-take on its assets, contrary to Finance Management Manual; and
- A Draft Asset Management Policy was in its final stages to help strengthen the management of assets for NJSS.

Management Response

The Judiciary Services whilst acknowledging the audit finding stated that the Assets Management System was installed, went live in April 2011 but still had technical issues. NJSS sought assistance from PNG-Australia Law and Justice partnership to acquire specialists to look into and accelerate the reviewing of the Asset Management System.

PROCUREMENT & PAYMENT PROCEDURES

- No Quotation Register was maintained to record both verbal and written quotations for the period under review;
- 15 paid vouchers totaling K278,127 were not made available for audit review, although requested;
- Four (4) payments with amounts over K5,000, totaling K110,718 did not have three (3) quotations attached as required;
- Three (3) paid vouchers totaling K45,826 were not certified prior to the drawing of cheques;
- 13 payments totaling K180,340 had no receipts/delivery notes attached to the payment vouchers to validate that goods/services were actually received from the suppliers;
- Five (5) payments totaling K119,226 were made on pro-forma invoices, instead of tax invoices; and
- Five (5) payments totaling K334,838 relating to former years commitments were paid from the 2010 Recurrent Budget.

Management Response

The Judicial Services whilst acknowledging the audit finding stated that necessary corrective actions have been taken to rectify the anomalies.

TRUST ACCOUNT

The following issues were noted during the review of Sheriff's and National Court Trust and Wewak Court House Project:

- No financial accounts and records including the Trust Instruments were made available for audit despite our repeated requests during the time of audit in March 2011;
- AGO was unable to ascertain the closing balances of both Trust accounts for the period ending 31 December, 2010 due to non availability of accounts and records; and

- In relation to the PIP Project Trust Account managed by NJSS, K2 million was allocated to build a court house in Wewak. This project however, was halted due to a dispute with the contractors engaged to build the court house.

Management Response

The Judiciary Services acknowledged the findings and stated that the sheriff and Registrar's trust accounts were an enactment of the National Court since the formation of the Supreme and National Courts. Their relevant Laws required the Chief Justice to authorize Audit. Future Audit request should be directed to the office of Registrar and Chief Justice.

ADVANCE MANAGEMENT

- No separate register was maintained to record salary advances issued to staff members;
- The Travel Advances Register was not updated on a regular basis and reviewed by the financial delegates; and
- In the absence of Cash Advance Register audit was unable to confirm the actual number of advances issued in 2010 and the acquittal status of those advances.

A sample of 35 travel advances totaling K78,310 were selected on a random basis from the Cheque Register and the review of related records and documents revealed the following weaknesses:

- Ten (10) paid vouchers totaling K29,399 were not made available for audit although requested;
- 11 paid vouchers totaling K27,370 had alterations made to the amounts without being initiated by an authorized financial delegates;
- Eight (8) advances paid totaling K13,090, from which the cheque amounts differed from the amounts authorized on the paid vouchers;
- Three (3) advances totaling K9,935 had different amounts posted into the PGAS system, whilst the balance in the system was understated by K2,655;
- Nine (9) advances totaling K16,995 were issued prior to the FF4s being certified for payments;
- An advance for K1,700 was made without form (FF3) requisition for expenditure;
- Two (2) acquittals totaling K6,035 were not reviewed and signed by the Advance Clerk; and
- 23 advances totaling K44,315 paid from the recurrent budget were not acquitted and remained outstanding as at 31 December 2010.

Management Response

NJSS acknowledged the audit findings and stated that most issues/weaknesses have been attended to. As per a recent review called Financial Situation Analysis and Work Plan initiated by our Development Practitioner (PACIP), our Finance division had gone through an overhaul of its process.

Recently our Financial Procedural Manual was released hence staff are now more focused and aware of the adherence to procedure matters.

DEPARTMENTAL RESPONSE

The Judiciary Services responded to the management letter issued on reported findings and their comments were stated accordingly.

CONCLUSION

In general there was no significant improvement in the system and operations of controls within the Judiciary Services compared to previous years.

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

14. OFFICE OF HIGHER EDUCATION

OVERVIEW

The Office of Higher Education (formerly known as the Commission for Higher Education) functions 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, then Commission for Higher Education, was established by the *Higher Education Act of 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 2007 – 2011

- AGO was unable to ascertain the implementation of the Corporate Plan as the Chief Executive Officer and his team were still working on the new Corporate Plan for the Office of Higher Education at the time of audit. The new Corporate Plan would incorporate the Vision 2050 goals and objectives.

National Higher Education Plan (NHEP) III

- The National Higher Education Plan III captured eight main programmes for the Office of Higher Education which was an abstract of the *Higher Education Act, 1983*. The Plan covered six (6) universities and 23 non-universities. Confirmations obtained from the Chief Executive Officer cited that; most of these universities and non-universities did not follow the programmes in the National Higher Education Plan;
- The National Higher Education Plan was approved by the National Executive Council (NEC) in 2000. The programmes in the National Higher Education Plan 2000–2004 were not implemented according to the survey carried out in year 2004. It was reported that out of 65 activities only two (2) activities were performed in 2000. The Chief Executive Officer officially took office in 2005 and decided to roll over the Plan for another five years. There has been a recent survey done on the five year National Higher Education Plan programmes and activities. The report was in final draft form as at the time of audit and was finally printed in May 2011.

Annual Management Report

Office of Higher Education did not submit any Annual Management Report either on work performance or financial operations to Department of Personnel Management and Department of Finance but only to Chief Secretary of Government.

Internal Audit Unit

The Internal Auditor's position (a funded position) has remained vacant since 2006 and up to the time of audit in 2010. Office of Higher Education should immediately make a recruitment.

Grants to Universities

- All government grants were given directly to the respective universities. During 2010, a total of K80 million was released as PIP funds comprising of K50 million for maintenance and K30 million for recapitalisation work. These funds were kept in commercial banks and managed by the respective universities.

Office of Higher Education being the only recognised agency for higher institutions, it was proper that all PIP funds come through Office of Higher Education for monitoring purposes. The Minister for Office of Higher Education in January 2009 made a submission to the government (i) to report all PIP funded programmes through the Office of Higher Education; and (ii) that in future any PIP requests for funding from donor agencies or government should also come through OHE as stipulated in Office of *Higher Education Act, 1983*. However, AGO was not provided a copy of the submission from the Minister as at the time of audit.

Information Technology (IT)

AGO noted the following matters of concern:

- The IT division did not have a Plan, its systems were not documented and there was no policy in-place to safe guard its data. Data security was a major concern and posed a very serious threat that IT should look into to avoid data going missing and to restrict unauthorised personnel from accessing its systems;
- The last two (2) IT trainings attended by IT officers were back in 2007 and the other in November 2009. IT was always changing and it was only through training either internally or externally that officers are updated; and
- Not all computer machines have licensed software.

Management Response

Office of Higher Education management acknowledged the implications and audit recommendations highlighted by AGO and will endeavour to improve on the activities under the corporate governance section in the future.

STATUTORY REQUIREMENTS

Fourth Quarterly Financial Management Report

The 4th quarterly Financial Management Report for 2010 was fairly extensive and informative and was presented in a Matrix format. The report did not include the following salient items:

- *Organizational Chart*: which should have highlighted up to the Branch level indicating Activities and Projects handled by each Branch within the Agency;
- *Internal Monthly Reviews*: Indicate whether internal monthly reviews were regularly undertaken, and the main problems highlighted including the actions taken to resolve them; and
- *Overall Assessment*: It should contain the Overall assessment of the Financial Management by the Office of Higher Education during the year including proposed steps for improvement in future and action to be taken against Accountable Officers for infringement of the *Public Finances (Management) Act, 1995*.

BUDGETARY & FUNDS CONTROL

Comparison of PGAS Budget and Expenditure vs. TMS Ledger

- A comparison of the PGAS Expenditure Vote Summary against TMS records revealed net variances totaling K10,506,930 between the budget and expenditure balances as at 31 December 2010.
- A difference of K10,690,500 was noted between Warrant Authority amount in PGAS and TMS which consisted of the following unexplained differences:

Act – Item	DoF- TMS	OHE - PGAS	Variances (-)
103-111	1,129,800	1,460,900	(331,100)
103-112	58,900	118,600	(59,700)
103-113	30,300	50,000	(19,700)
103-122	163,600	181,600	(18,000)
206-139	11,419,000	0	11,419,000
208-135	2,500,000	2,800,000	(300,000)
Total	15,301,600	4, 611,100	10,690,500

Analysis of the Expenditure between TMS and PGAS reports revealed significant differences:

- In three (3) Vote Items (111, 113 & 141) totaling K1,195,894 the amounts expended were not posted on the Office of Higher Education subsidiary ledgers during 2010;
- In nine (9) Vote Items totaling K59,855 the PGAS expended amounts were higher than what was posted in the TMS Main Public Accounts Ledger in 2010; and
- For four (4) Vote Items totaling K1,219,221 the TMS expended amounts were higher than the PGAS ledger.

Management Response

The management notes AGO audit recommendations and will implement them by:

- *Reconciling both budget and expenditure on PGAS and TMS Ledgers on a monthly basis; and*
- *Corrective measures are to be carried on differences by raising Journal Entries promptly.*

BANK RECONCILIATION

A review of bank reconciliation statements for the month of December 2010 revealed the following weaknesses:

- Manual cheques amounting to K21,598 were presented at bank without being journalised and posted into the Cash Book since 2002;
- Other Item included cancelled cheques totaling K3,859, remained uncleared;
- Reimbursements totaling K15,883,056, received from the Main Public Accounts for the months of September to December were not journalised and posted into the Cash Book.;
- Unpresented cheques totaling K988,006, remained outstanding as at year end.; and
- Office of Higher Education did not forward copies of the monthly bank reconciliation statements to the Department of Finance within 14 days of the following month as required.

Management Response

The Office of Higher Education management acknowledged the audit comments on the issues reported, clearing all reconciling Items on the bank and Cash Book including clearing the stale cheques, including the audit recommendations and will take corrective measures in year 2011.

PROCUREMENT & PAYMENT PROCEDURES

The review of procurement procedures and examination of selected paid accounts and related records disclosed the following irregularities:

- There was no procurement guideline/policy in place.
- 13 payments totaling K40,167 on “Motor Vehicle Hires” selected on a random sample basis and noted the following findings:
 - Four (4) payment vouchers totaling K13,228 for motor vehicle hire did not have Plant Transport Board approvals or the Chief Executive Officers approvals for those hires; and
 - All 13 payment vouchers did not have suppliers’ tax invoices;

- A sample of 43 payment vouchers totaling K309,407 selected on a random basis for payments over K1,000 vouched to ensure that all procurement procedures as per *Finance Management Manual and Public Finances (Management) Act, 1995*, were adhered to when acquiring goods and services from the suppliers and noted the following observations:
 - Four (4) payment vouchers totaling K33,929 had receipt copies not stamped as 'PAID' to validate their being paid already;
 - Eight (8) payment vouchers totaling K44,061 did not have three written quotes from service providers; and
 - Nine (9) payment vouchers totaling K65,648 were made without invoices to confirm actual payments to valid suppliers.

Management Response

Office of Higher Education acknowledged and took note of the audit findings. Agreed to action audit recommendations.

HUMAN RESOURCE MANAGEMENT & PAYROLL SYSTEM

A review of ten (10) officers' salary files comprising five (5) senior officers on contract and five (5) non-contract officers were selected on a random sample basis and noted that:

- Personal files of two (2) very senior officers were not provided for audit review;
- In two (2) instances, salary history cards were not sighted;
- A current contract of employment to one senior officer was not filed in the personnel file; and
- The history cards for five (5) officers were not updated with the information below:
 - Date of Engagement;
 - Date of birth;
 - Home district and province;
 - Number of dependants and their dates of birth;
 - Date made permanent; and
 - Retirement age.

Management response

Office of Higher Education took note of the audit findings and audit recommendations and will take appropriate remedial actions.

TRUST ACCOUNT

The Higher Education Sector Infrastructure Rehabilitation Trust Account was established and was effective as from 3 October 2007 as per the Trust Instrument signed by Minister for Finance and Treasury in 3 October 2007. The purpose of the account was to hold monies directly appropriated to it, in accordance with Section 16(2) of the *Public Finances (Management) Act, 1995* for the funding of rehabilitation of higher education sector infrastructure. The Trust Account was managed and administered by Office of Higher Education through Bank South Pacific at Port Moresby Branch. A review of the trust account with the related records and documents revealed the following observations:

- The operations of the “*Higher Education Sector Infrastructure Rehabilitation Trust Account*” should have ceased as at 31 December, 2010 as stipulated by the Trust Instrument; furthermore, no payments should have been made out of the Trust Account after 31 December 2010 and any monies remaining should be remitted to the Consolidated Revenue Fund (CRF);
- The closing bank balance of K11,262,421 at 31 December 2010 was still not remitted as at the time of audit in March 2011;
- No approval was sighted from Department of Finance to extend the operations of the Trust Account to year 2011;
- Office of Higher Education received K500,000 for administrative purposes from the Trust account. According to the University Vice Chancellors’ Meeting No:1/2009, the four State Universities Vice Chancellors and representatives present in the meeting gave approval for the use of K500,000 for logistics. The Director General then wrote to the Finance Secretary seeking approval as per the letter dated 30th July 2009, however AGO did not sight any responses from the Finance Secretary;
- The Office of Higher Education did not comply with the statutory requirements of Section 19 (3) of *Public Finances (Management) Act, 1995* to prepare Annual Estimates of receipts and payments for the Trust account; and
- Ten (10) payment vouchers totaling K2,490,092 selected randomly and scrutinised to ascertain if they had been processed in accordance with the requirements of the Trust Instruments revealed that in all instances the copies of the payment cheques attached were not signed by the Countersigning Officer.

Management Response

The management of Office of Higher Education took note of the issues highlighted in the audit recommendations and will take appropriate remedial actions as from year 2011.

TRANSFERS OF GRANTS TO DIVINE WORD UNIVERSITY

The National Executive Council (NEC) Decision Number 221/2003 (Meeting No. 49/2003) recognized the Divine Word University (DWU) as an Agency of Higher Education in Papua New Guinea and made the following provisions:

- i. Recognised DWU as an agency of Higher Education as defined by relevant Education and Higher Education Acts;
- ii. An annual grant of K5.8 million was to be transferred from Health and Education Departments to support the operations of the amalgamated institutions (i.e. Kaindi Teacher's College and Madang Allied Health Science College) with the Divine Word University;
- iii. The grant should be readjusted annually in accordance with Consumer Price Index (CPI) in order to support DWU's work as a co-ordinator and deliverer of relevant higher education to the people of PNG ; and
- iv. The approved grant will be allocated to DWU through the Office of Higher Education and will further administer the grant under a separate vote.

Audit examination of accounting records show that Divine Word University had received three (3) separate grants totaling K5.871 million as detailed below:

Grants - Divine Word University (DWU)

NO:	PAYEE	Description of Goods/Services	Amount (K)
1	DWU	Grant -Depart of Finance	2,987,000
2	DWU	Grants - Dept of Health	1,484,000
3	DWU	Grants - Dept of Education	1,400,000
		Total	5,871,000

The K5.871 million grant was fully acquitted by Divine Word University's 2010 through its Consolidated Financial Report. However, audit was not able to ascertain and identify how the grant was used especially in relation to Teacher and Nurse training courses.

Tertiary Education Subsidiary Assistance Scheme (TESAS)

Audit of the TESAS Scholarship accounts and records for the year 2010 revealed that; since the introduction of the TESAS in year 2000, there was no system in place to recoup all the funds disbursed as loans to students of the tertiary institutions. A total sum K30,057,000 was incurred for TESAS scholarships under Vote Item 144 as noted below:

Break –up of TESAS Scholarship Grants

Details of Expenditure	Amount (K)
Individual travel/ reimbursements	220,776
Travel agents	5,647,831
Travel paid to Institutions	1,099,986
Board & lodging / Book & Equipment Allowance	23,033,035
JE's/ Cancelled/ Reversal entries	-20,705
Advertisements (News Papers)	76,076
Grand Total	30,057,000

In reference to the above, individual travels/reimbursements was a one off payment to students, therefore, were not acquitted.

Five (5) travel agents were engaged by the government to make travel arrangement for students to travel to the tertiary institutions within the country and a review of the payment, noted the following:

- The total government grant paid to the travel Agencies for the students for the financial period ending 31 December 2010 was K5,647,831.
- Only two (2) Travel Agencies made their acquittals totaling K4,091,030 for year under review where as three (3) Travel Agencies did not make their acquittal of the travel grants totaling K1,556,802 for 2010.

Unacquitted Grants

The government school grants totaling K1,099,986 which were paid to 25 tertiary institutions for student travels in year 2010 were still unacquitted by the respective institutions as at 31 December 2010.

Boarding Lodging/ Book and Equipment Allowances

Although the acquittals were done there was no register maintained by Office of Higher Education and audit examination noted the following short comings:

- 31 institutions were paid Board Lodging/Book and Equipment allowances totaling K23,033,035 in respect of year 2010, however:
 - Five (5) institutions had not acquitted their advances totaling K736,579;
 - 15 institutions made acquittal totaling K7,686,981 with no supporting documents sighted in the grants acquittal files; and
 - 12 institutions did make acquittals totaling K1,685,038, however, no evidence were sighted from Office of Higher Education to indicate grants had been spent on the intended purposes.

Management's Response

The Office of Higher Education management acknowledged the audit issues highlighted and will take the necessary remedial actions to improve on the acquittal processes in the future.

ADVANCE MANAGEMENT

Audit review of procedures pertaining to payment, recording and acquittal of advances revealed the following shortcomings:

- In 22 instances, advances totaling K7,495 remained unacquitted as at 31 December 2010. Further, the Financial Delegate responsible for monitoring the advance register conducted no review to ensure timely acquittal of advances;
- Comparison of the PGAS print out ledger on advances against the manual register noted a difference of K82,201 between 2010 records; and
- No register was maintained to record travel advances. All travel advances were passed through the Paying Office while the payment vouchers for the travel advances were kept by the Pay Mistress.

Management Response

The Office of Higher Education management acknowledged the audit comments and audit recommendations and will take remedial actions on recouping all unacquitted advances and will also draw up a new advance register as from 2011.

DEPARTMENTAL RESPONSE

The Department responded to the audit findings of the management letter issued and their responses or comments were stated accordingly.

CONCLUSION

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

At present, the control activities such as delegations, authorizations, reconciliations, segregation of duties, system access and management oversight are not sufficiently robust to prevent, detect or correct errors or fraud.

15. OFFICE OF RURAL DEVELOPMENT

OVERVIEW

The Office of Rural Development (ORD) 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 the delivery of government services, raising the quality of life and attaining sustainable development.

Major objective of the Office of Rural Development is to facilitate the administration of National Parliament members' electoral development funds for rural infrastructure development.

FINDINGS

CORPORATE GOVERNANCE

It is a statutory requirement that the Departmental Head shall have in place at all times a Corporate Plan providing the future business strategies and planned objectives of a Department over a period of 3 to 5 years. A review of a Corporate Plan and related records disclosed the following observations:

Audit was unable to determine the following issues in respect of the year under review.

- The status of ORD's performance whether it had achieved its short and long-term goals and objectives during the period;
- How it monitored and evaluated the effectiveness of its operation(s);
- There was no reporting mechanism in place to measure the entity's progress output/outcome(s) on a timely basis;
- There was no monitoring mechanism to enhance their responsibilities and to be receptive to complying with the legal reporting requirements, Budget Appropriations Act and other related legal requirements and statutes; and
- There was no review of ORD's control environment and monitoring systems' and on how ORD management was complying with its enabling Acts and measuring its output against its expected outcomes after implementing its Annual Activity Plans.

Annual Work Plans and Performance Indicators

The Office of Rural Development confirmed that no Annual Work Plan was produced for 2010.

Consequently, audit could not make any comment on the overall performance of the ORD and whether it had performed according to its Annual Activity Plan and achieved its operational and

administrative objectives for the year. Similarly, no Annual Activity Plan was furnished for the three divisions which AGO could not ascertain the performance level of each division.

Type of Meetings and Review of Minutes of Meetings

Three types of meetings were usually conducted at ORD, namely:

- General Staff meetings;
- Management Committee Meetings; and
- Executive Committee Meetings.

However, audit noted that there were no Annual Schedules for the Meetings and no consistency in the meetings that were convened.

Management Response:

- *Disagree because all succeeding Corporate Plans have been implemented despite resource constraints ORD has been facing. Therefore disagree with Audit findings;*
- *Disagree because all ORD five year Corporate Plans target certain development goals and objectives with specific targets either they be development or its recurrent programs;*
- *Agree, as ORD did not have Monitoring and Evaluation (M&E) Unit which has been planned to be created under the Executive Division in the new Department of Implementation and Rural Development;*
- *Agree, however creating the new M&E Unit will coordinate performance of the Department quarterly for timely reporting of its performance;*
- *Agree/disagree because ORD Management generally had operated within the legal reporting and statutes e.g. compliance to PFM Act and PSM Act with its General Orders etc. Housing the Internal Legal Officer in the Department would support it on compliance concerns;*
- *Disagree with the rating of AAWP by Audit because it lacks proper consultation for in-depth data on the achievements of ORD in the reported period. Major factor that may have caused the rating was the prominence accorded to District Information Management Systems (DIMS) project in final quarter of 2010 and rest of 2011. DIMS had time limit as per EU requirement therefore many other tasks had to be shelved;*
- *Agree because inconsistency in scheduled various management meetings did occur due to matters beyond management control. Keeping of proper Minutes of meetings also faced similar fate due to staff capacity issues; and*
- *Disagree because there were three (3) General Staff Meetings scheduled annually in the beginning of the year, mid-year and final meeting before Christmas break however agree with Audit findings due to lack of Minutes of those meetings.*

STATUTORY REQUIREMENTS

Quarterly Budget Review Reports -2010

Audit observed that there were no Quarterly Budget Review Reports prepared by management for submission to the Secretary of Department of Finance for 2010.

Office of Rural Development did not meet its statutory requirements of preparing and submitting quarterly reports to the Secretary of Finance.

Management Response:

- *Agree because the 2010 Annual Report was required to be submitted to DPM & NEC through Chief Secretary to Government for compilation and be tabled in Parliament by the portfolio Minister;*
- *Agree because relevant Divisions in ORD failed to submit their reports in time and the Deputy Director who compiled the Report was too busy with his flexible learning program studies at UPNG therefore had insufficient time to ensure data accuracy; and*
- *Agree/Disagree because Annual Financial Management should have been part of the 2010 Annual Report but Quarterly Budget Reviews and Annual Management (Performance) Reports were compiled however Audit Team did not access copies.*

BUDGETARY& FUNDS CONTROL

The *Finance Management Manual* Part 7:10.3 provides the “Procedures for Issue of Warrant Authorities” and refers “Irrespective of the Agency to which warrants are issued or which makes the payments, the Department’s in whose budget the votes are included are responsible to ensure that commitment and expenditure are within authorised limits.”

Variances in DoF and ORD Expenditure Balances

A comparison of the 2010 Expenditure Vote Summary printout (run-date 22/09/2011) maintained by ORD with the Expenditure Statement on TMS 330 (run-date 14/04/2011) produced by Department of Finance for Period 13 revealed significant variances between the expenditure balances as shown on the Table below:

No.	Particulars	ORD records (PGAS) (K)	DoF records (TMS) (K)	Variance(K)
1	Revised Appropriation	5,758,000	5,725,700	32,300
2	Warrant Authorised	3,879,500	5,256,500	*(1,377,000)
3	Actual Expenditure	3,798,111	5,417,082	*(1,618,971)

Note: **The fund allocations on the Warrant Authorities were not posted on PGAS ledgers resulting on the huge variances in the Expenditure Balances on the Vote Summary printout and the Department of Finance TMS report.*

TMS Expenditure Balance More than Warrant Authorities

The Expenditure Statement per TMS report produced by Department of Finance for the year ended 31 December, 2010 (run date 14/04/2011) also revealed expenditures in excess of Warrant Authorities issued under five (5) Vote Items totaling K160,582 in the Recurrent Budget of which details are given here under:

No.	Item	Description	Warrant Authority	Actual Expenditure	Variance
1	112	Wages	214,600	233,493	-18,893
2	113	Overtime	30,500	34,833	-4,333
3	121	Travel and Subsistence Expense	436,000	436,875	-875
4	123	Office Materials & Supplies	249,000	259,000	-10,000
5	141	Retirement Benefits, Pension, Gratuity	178,000	330,029	-152,029
		Total	1,108,100	1,294,230	-186,130
Less: savings in Items 111 (K25,402), 114 (K61.00) & 127 (K85.00)					25,548
Total over-expenditures (as per TMS 330- P13/2010)					-160,582

Management Response:

- Agree because this has been an outstanding issue for DOF and ORD to have resolved yet pending and the new Department will plan to resolve it by building its own capacity as well as seeking DOF assistance.

BANK RECONCILIATION

The Office of Rural Development maintained a drawing bank account with the Bank of PNG and the audit review on the bank reconciliation statement for the month ended 31 December, 2010 revealed the following discrepancies:

- The Bank Account disclosed a nil bank balance whilst the Cash Book balance reported an overdrawn balance of K16,788,118 as at 31 December 2010; revealing unreconciling balances on the December Monthly Bank Reconciliation;
- Manual cheques presented on the bank statements, not in the Cash Book amounted to K418,452, remained uncleared and dating as far back as 2005;
- Other reconciling items reflected on the bank reconciliation statement as other debits and other credits aggregating to K2,196,789 and K1,365,018, respectively remained outstanding, which need to be identified and cleared;
- Reimbursements from the Waigani Public Account (credits in Bank not in Cash Book) totaling K3,937,271 were not reported into the Cash Book, hence, remained outstanding as at year end;
- Significant accumulated unrepresented cheques amounted to K14,103,300 as at 31 December, 2010. Included in the unrepresented cheques are the stale cheques totaling K5,683,371, and dating back as far as 2009;
- These cheques remained uncleared as at year end; and

- The authorized specimen signatories to the Departments drawing account operated with the Bank of PNG could not be verified in audit due to the file containing the specimen signatories was not made available for audit.

Management Response:

- *Agree however the onus is on DoF as their reconciliation records need improvement because ORD has up-to-date reconciled records;*
- *Agree unpresented cheques have been a major concern as it is attributable to various factors e.g. MPs failing to deliver cheques to District officials for deposit to their respective trust accounts, stale cheques due to failed contracts, etc; and*
- *Stale cheques exist due to some failed commitments with services providers e.g. delayed DSIP monitoring work from planned schedules etc.*

PROCUREMENT & PAYMENT PROCEDURES

Our audit follow-up on Management's Response from the previous audit revealed that the Office of Rural Development has not taken remedial actions and noted that the following issues **still remained outstanding** as at the time of audit in September 2011. These are:

- There was no Quotations Register maintained at all. This was further confirmed by the Administrative Officer at ORD; and
- No remedial action was taken to curb the purchase of prepaid cards for the Executive Division. Purchases of prepaid cards were made in 2010 and continued into 2011 as per table below.

Payments for Prepaid Cards

No.	Year	Payee	No. of Payments	PGK
1	2010	Theodist Pty Ltd	2	5,000
2	2011	Theodist Pty Ltd	2	4,700
		Total	4	9,700

In 58 instances payments totaling K389,800 were charged to incorrect Vote Items in 2010 as per the Expenditure Transaction Details.

Audit was unable to perform any substantive testing on the payment vouchers for 2010, due to no payment vouchers being made available for our audit testing and vouching.

There was no clear explanation received from officers responsible for the payment vouchers and the existence of those documents and records.

Management Response:

- *Agree and Management will ensure quotations are registered and kept separately to meet future Audit requirements;*

- *Agree/Disagree because ORD could not expend unbudgeted expenditure in the course of a financial year. What may have happened was the movement of funds from savings to priority expenditure e.g. aging vehicle fleet replacements;*
- *Agree as the missing paid vouchers again relates to poor record keeping due to high turnover of staff in Administration Section; and*
- *Agree and again written quotations may have been obtained however the high turnover of responsible Section staff may have displaced the documents.*

ASSETS MANAGEMENT

An asset is anything that is tangible or intangible and that is capable of being owned or controlled to produce value that is held to have positive economic importance.

Audit review of the internal controls and monitoring systems on the management of assets by ORD management revealed the salient matters:

- All assets were registered under one category, even-though some assets were not of the same nature. Assets should have been categorised according to their own nature as per the categories mentioned in Part 32, Section 2 of the Finance Management Manual; and
- Both Assets Registers were incomplete and not maintained properly. Information in columns such as Model No, Serial No, Unit Cost, Total Cost, Cheque No, Invoice No, Physical location, Custodian/Officer Responsible and Date Issued were missing or not recorded.

According to the 2010 ETD it was noted that 40 assets totaling K646,052 were purchased during the year. A 100% confirmation and verification of all the 40 assets to the Assets Register for 2010 revealed the following weaknesses:

- 23 assets totaling K315,143 were not registered in the 2010 Assets Register. Amongst them was the purchase of Work Stations for the Accounts Section costing K80,201; and
- Another six (6) assets totaling K243,954 purchased in 2010, were *incorrectly registered as being purchased in 2011 in the Main Register 2010-2011*. Assets purchased in year 2010 should have been recorded in that year and not in 2011.

Management Response:

Agree we appreciate that our assets registry is poor because of the high turnover of staff assistants. We seem to be recruiting new Administrative Assistants but losing them regularly. However plan to rectify this in 2012 and beyond.

MOTOR VEHICLES

Audit follow-up with management on previous audit issues observed indicated that issues related to the disposal of seven (7) vehicles were still outstanding. During the audit in September 2011 AGO was advised that the vehicles were purchased internally (by approved ORD staff) audit revealed that due procedures for tendering motor vehicles were not followed by ORD Management.

Hence, the following documentation were not made available for our audit review although requested for:

- Approved letter from PTB with interested staff list from ORD;
- Confirmation letter from CSTB to ORD for facilitating the tendering process of disposal;
- List of the names of officers applied, and their copies of official receipts issued by Department of Finance (under Revenue Collection Section) to ORD staff concerned for purchasing the tendered vehicles as indicated;
- Letter of confirmation from Procurement Committee Meeting for disposing the vehicles; and
- PTB Board of Survey (BOS) report for each vehicle.

In addition to the above issues, the current audit findings revealed the following weaknesses in management and disposal of motor vehicles after reviewing the Vehicle Registers are as follows:

Vehicle Registration Number Plates: BBN 230 and BBR 946

- The above vehicles Rego Nos. **(BBR 946 and BBN 230)** were under the custody of CEO and his Deputy Director respectively. These were *previously reported in the last audit report with responses received as “totally unserviceable”*;
- Our audit follow-up on these vehicles disclosed that; there was no evidence of records available to verify the purchase/sale of these two vehicles through the internal arrangement with PTB in 2010; and
- Audit concludes that there was ***no concrete evidence on the physical nature of these vehicles*** and whether they were actually disposed of completely or not and whether copies of the disposals were sent to Department of Finance and copied to AGO. ***The whereabouts of the vehicles as “State Properties”*** is questionable with no proper evidence of who are the current custodians.

Overspending of Revised Appropriation for Item 222

According to the 2010 Revised Appropriation for Item 222 (Purchase of Vehicle); ORD was allocated K119,000 only. A total of K151,000 was expended for the purchase of two (2) vehicles, Rego Nos. **(ZRD 024 and ZRD 023) being for a late arrangement made in December 2009** at the costs of K89,000 and K62,000 respectively which resulted in an unbudgeted over-expenditure of K32,000; refer details below:

Purchase of Vehicle: Item 222 – Year 2010

Budgeted Allocation –	K119,000
Total Expenditure -	<u>151,000</u>
Over- Expended -	<u>K32,000</u>

Unbudgeted Additional Costs Vehicle Registration No.CAW-871

Pertaining to the original purchase price of K100,000 for vehicle Rego # CAW 871, additional costs were also incurred totaling K53,329 when the vehicle was later returned to Ela Motors to fit in other accessories and increasing the total cost of the vehicle to K153,329.

Audit observed that such transactions carried out were unbudgeted for and was in breach of laid down financial regulations. See detail below:

Date	Payee	Type	Rego #	Chq No.	Original Cost (K)	+Accessories (K)	Total PGK
20/12/10	ELA MOTORS	TOYOTA LAND CRUSIER (5 DOOR)	CAW 871	12989	100,000	53,329	153,329

Maintenance of Vehicle Log Book Register

The vehicle log book register maintained was also not kept-up-to-date and is in breach of procedures. Similarly, there was no evidence of inspection done on the log book.

Annual Maintenance Programme and Registration Schedule

Apart from the incomplete vehicle/fleet registers, there was still no Annual Vehicle Service/Maintenance Programme and Registration schedule to remind the office as to when each vehicle would be due for service and the category rated in for service.

Management Response

- *Agree/Disagree, because of change of management responsible for vehicle fleets; CSTB and PTB's lack to adhere to ORD requests for due processes may have resulted in the anomaly.*

ADVANCE MANAGEMENT

Audit review of the payment, recording and acquittal of advances disclosed the following weaknesses:

Audit Recommendation Follow-up

A follow-up on management's response from previous audit (2009) revealed that there was still not much improvement in the control and management of advances:

- There was no Manual Advance Register maintained by the Department. The office only provided a computerized copy of the Acquittal records;
- No remedial action has been taken by the Management to create and maintain a Manual Advance Register. As a result, audit could not ascertain and confirm the validity of the total outstanding advances of K53,781 mentioned as being acquitted in the management's response for year 2009;

- A report was recently compiled and furnished upon request at the time of audit for the outstanding overseas advances of K180,203 for the Team #1 Philippines tour taken in 2009. The report only mentioned the official handover –takeover of the unaccounted funds of K18,563. There was no mention of the other K161,640; and
- From the Management’s Response and attachments for 2009/2010 audit out of the six (6) officers who travelled to Philippines, only two (2) officers, acquitted their travel advances of K6,273 each. Audit revealed that only one (1) of the acquittal forms had the Financial Delegate’s signature. The other remaining four officers did not acquit their advances.

Advance Registers 2010

The Office of Rural Development did not maintain an Advance Register for 2010.

An examination of the Expenditure Transaction Details printout for year under review revealed the following findings:

- 150 Cash and Travel Advances with a total value of K194,234 were paid in 2010. Hence, details were not recorded in the register;
- The practice of processing travel advances and cash advances for officers continued to be paid through the “**Paymaster**” even though it was raised in the previous Audit Management Report for the practice to discontinue. Management was advised to pay all advances directly to the concerned officers and register them accordingly for the monitoring of usage and acquittals;
- The Paymaster did not maintain an Advance Register for all advances that were paid under his/her title name “Paymaster”; for details of unacquitted advances totaling K39,120 paid through the Paymaster in 2010; and
- Seven (7) advances for 2010 totaling K25,659 were still unacquitted as the time of audit in September 2011.

Audit observed that the Department did not take the management of Advances seriously as similar weaknesses raised in the previous audits were repeatedly raised again which should have been minimised or avoided if regular routine checks and follow up actions were taken by the designated Financial Delegate(s).

Management Response

- *Agree as ORD recruited Internal Auditor in early 2011 and issues raised in 2009 Audit are being progressively addressed.*
- *Disagree as Electronic Cash Advance Register has been always available, what the Audit Report perhaps refers to is the keeping physical record of the advances.*
- *Agree however, Paymaster was used in urgent cases and in bigger out of Port Moresby Workshops only for convenience of operations however travel allowances are paid strictly to individual officers generally.*
- *Agree that prompt acquitting by officials of cash advances remains problem.*

RURAL DEVELOPMENT PROGRAMS

DSG/PSG Acquittals

In accordance with the Administrative Guidelines issued relating to Section 117 of the *Public Finances (Management) Act, 1995* all Members of Parliament are to comply with such provisions to facilitate the proper Administration of the District Support Grants (DSG) and Provincial Support Grants (PSG). This is to ensure proper accounting and the management of the reporting on the expenditure of the grants by the District and the Provincial Treasuries in close consultation with respective Open and Regional Members of Parliament for the electorates.

Administration of DSG/PSG Funds (Discretionary and Non-Discretionary Funds)

Our follow-up on the previous audit recommendations for 2009 revealed that there were minor improvements made. However, for the current audit, the following salient issues were noted:

- The hard copy of Cheque Payment Register for PSG/DSG for the year ended 2010 revealed that the Register was not updated and it did not have any column for:
 - Name of issuing the officer; and
 - Signature of the issuing officer, to provide the identity of the person who issues the cheque.

Management Response

- *Agree that cheque payment register was perceived by Management as the normal function of the Accounts Section but have failed and plan to rectify it.*
- *Agree that reconciling of records of Districts/Provincial Treasuries remains major concern which could only be resolved through collaborative efforts of relevant government agencies.*
- *Management made every effort to correct previous Audit Recommendations by the complete overhauling of the DSIP Administrative Guidelines and Financial Instructions in early 2011.*

DEVELOPMENT BUDGET - DSIP MONITORING

DSIP – Rural and Feeder Roads

Under the DSIP – Rural Feeder Roads, an appropriation of K178 million was allocated for the 2011 budget. According to the PGAS Expenditure Transaction Details (ETD) run date 25/09/2011; DSIP-Feeder Roads for 2011 (as at the time of audit), a total amount of K89 million had been drawn and disbursed by ORD to the respective 89 districts members with K1 million for each district.

The other remaining K89 million (or 50%) was transferred back to Department of Finance after a direction was received from the Secretary; Department of Finance.

No documentary evidence was made available for our audit perusals either from ORD or DoF on the reasoning for the transfer of the other K89 million for the DSIP – Rural Feeder Roads to DoF.

According to the Finance Manager, ORD had acted in this manner based on the telephone call received from Department of Finance. Audit was informed that the funds were deliberately removed from ORD Office and returned back to Department of Finance due to unknown reasons. The following matters of concern were noted during a discussion with the Finance Manager at the ORD office:

- About 85% of the cheque payments were made at the Parliament House without any proper cheque signing register. In addition, the cheque collections were done inappropriately at different locations;
- All the above activities were done outside of ORD Office premises since ORD was under pressure and had no control over the funds;
- No reporting and administrative guidelines were established before disbursing the DSIP Rural Feeder Roads funds to each district; and
- There was a lack of proper communication between the Department of Finance and ORD as to how best the DSIP funds were to be disbursed.

Management Response

- *Agree that cheque payment register was perceived by Management as the normal function of the Accounts Section but have failed and plan to rectify it.*
- *Agree however strict compliance guidelines exist. However nine (9) payments may have been due to political pressure or merely an oversight. Also the funds are in two components, non-discretionary and discretionary, the latter managed by Departments of Finance and Treasury thus the occurrence of the detected irregularities.*
- *Agree that reconciling of records of Districts/Provincial Treasuries remains major concern which could only be resolved through collaboration efforts of relevant government agencies.*
- *Agree however Disbursement of DSIP funds are done by Treasury and Finance Department directly to the District Treasuries, ORD has no say in determining disbursements.*

DEPARTMENTAL RESPONSE

The Department responded to the Management Letter issued on reported findings.

CONCLUSION

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

16. DEPARTMENT OF PROVINCIAL & LOCAL LEVEL GOVERNMENT AFFAIRS

OVERVIEW

The Department's mission is to optimize Government Instrumentalities to promote and foster National Identity, Self-Reliance, Popular Participation, Provision of Equal Opportunities and Basic Minimum needs through the authority conferred by the *Organic Law on Provincial Governments and Local Level Governments*.

The Department is expected to fulfill that mission in the context of various Acts and other relevant legislation as follows:

- Maintain general liaison between national and provincial-level Governments to identify problems and provide assistance;
- Provide legal and corporate advice to provincial and local-level Governments in line with the National Government policy;
- Co-ordinate and administer the Government's policy and programs for village services;
- Provide periodical inspection on financial matters relating to provincial and local level Governments, including urban and city councils as required under the Organic Law;
- Oversee and administer border development programmes and provide Refugee assistance;
- Liaise with National and Provincial Departments for 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 Autonomous Region of Bougainville;
- 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

STATUTORY REQUIREMENT

Quarterly Budget Review Reports

The AGO was furnished with the unsigned copy of the 2010 fourth Quarter Budget Review Report, however, audit could not ascertain whether the finalised copy of the report was submitted to the Secretary for Department of Treasury within the specified time frame per the Financial Management Instructions.

Annual Financial Management Report (AFRM)

Management has not prepared and submitted this report to the Secretary for Department of Finance for the 2010 financial year.

This issue has been raised in our previous years' audit management letters as well but management did not comply with the recommendations that were made.

Management has to distinguish between the Annual Financial Management Report and the Quarterly Budget Review Reports and prepare and submit the two (2) reports separately as they are two completely different reports.

The Quarterly Budget Review Reports are produced four (4) times in a year, one in each quarter (four quarters in a year) while the Annual Financial Management Reports are produced once every year on the financial management matters of the Department.

Therefore, these reports need to be produced separately.

BUDGETARY & FUNDS CONTROL

Each Government Agency is expected to reconcile their records (PGAS) on both the revenue and expenditure with the monthly records produced by the Department of Finance (TMS).

A comparison of the PGAS Expenditure Vote Summary against TMS records, revealed variances between the budget and expenditure balances as at 31 December 2010.

In addition, comparison of the allocation by Warrant Authorities recorded on the two systems show that the TMS reported figures were less than the figures on the PGAS reports.

Expenditure incurred relating to Retirement Benefits, Pensions and Gratuities (Vote Item 141) totaling K208,096 was not captured in PGAS.

The differences between the two records imply that the Department of Provincial and Local Government Affairs has not been reconciling the TMS and PGAS records on a monthly basis as required.

Management response

The Management took note of the audit recommendation for expenditure variances in Personal Emoluments and senior officers in charge of accounts have been directed to put strategies in place to avoid a repeat of such in the future.

BANK RECONCILIATION

The Department of Provincial and Local Government Affairs operated a Drawing Bank Account (#43311-6141) with the Bank of PNG. Audit verification of the bank reconciliation statement prepared for the month of September 2010 with the related records revealed the following. As at date of audit, December's Bank Reconciliation was still outstanding:

- The Bank Statement of Account received from the Bank of PNG disclosed a balance of K46,407 as at 30/09/10 whilst the Cash Book had a credit balance of K3,507,895;
- Cheques on bank statement not in Cash Book totaled K95,110;
- Other Debit Items on bank statement not in Cash Book totaled K434,891;
- Credits in bank statement not in Cash Book totaling K3,314,394 comprised of fund transfers from the Main Public Account not yet posted in the Cash Book for the months of August and September 2010;
- AGO was unable to ascertain and verify the correct figure on the unpresented cheques totaling K601,653 as the Cheques Reconciliation Listing was distorted and also included cheques paid for the month of October whereby making it difficult for audit trail; and
- The Drawing Account was reconciled by a person also performing the duties of Machinist. This issue has not been resolved in spite of our previous audit reports.

Management response

Management will liaise with DOF on issues relating to unreconciled items which are pending for write-off(s) and also senior staff have been directed to provide leadership and guide Division of Finance in managing the monthly bank reconciliation processes.

PROCUREMENT & PAYMENT PROCEDURES

Audit perusals of 27 payments totaling K2,276,370 for the fourth quarter of 2010 (for claims worth over K5,000) and related records revealed the following weaknesses:

- Six (6) payment vouchers totaling K367,788 were not furnished although requested. As such, AGO was unable to vouch the transaction details against the related paid vouchers and supporting documents;
- Five (5) payments totaling K1,621,215 were made without obtaining written quotations from service providers prior to acquiring the goods and services;

- Two (2) payments totaling K64,614 were made on pro-forma invoices instead of original tax invoices;
- Five (5) payments totaling K187,163 were made based on quotations provided by the suppliers instead of original tax invoices;
- A payment totaling K18,705 was made from PLGA expenditure vote to a consultant engaged by the Fire Service Brigade which was considered as unbudgeted expenses; and
- A total of K12,000 was incurred to purchase PLGA female officers uniform using PIP funds while another payment of K101,675 was incurred to purchase a motor vehicle also using PIP funds.

Management response

The Department took note of the audit recommendations and directed its senior staff to provide relevant accounting records to AGO in future.

TRUST ACCOUNT

The Department of Provincial and Local Government Affairs maintained a Trust Account namely *National Disaster General Trust Account (#1000583924)* with the Bank South Pacific. Audit verification of the bank reconciliation statement for the month of December, 2010 with the related records revealed the following findings:

- The closing bank balance as at 31 December, 2010 was noted as K2,731,132 while the reconciled Cash Book balance showed a credit balance of K2,642,036; and
- Seven (7) cheques totaling K89,096 were not presented at the bank.

Disaster Funds were used to cater for re-current activities and later reimbursed.

Management response

A detailed response claim as provided was not sighted.

ADVANCE MANAGEMENT

There were eight hundred and forty two (842) advances paid during the year 2010 totaling K1,206,941. Of that amount, only two hundred and eight (208) advances were acquitted totaling K303,047. New advances were issued in 121 instances totaling K150,879 whilst sixty six (66) advances totaling K117,873 were not captured in the Advance Register.

Audit randomly selected twenty (20) acquittals totaling K28,113 to test the accuracy of the acquittals made and the completeness of supporting documents attached with the acquittal forms and the following observations were noted:

- Acquittal forms were not located for 13 advances totaling K10,396;

- Supporting documents such as, boarding passes or airline tickets were not attached with the acquittal forms in three (3) instances totaling K9,775; and
- Receipts were not attached for the cash advance of K5,000 as evidence to show that the money was used for the intended purposes.

Audit review of the Salary Advance Listing as at 28 April 2011 for 2010 and other related records revealed the following anomalies:

- The Department did not maintain a proper Salary Advance Register apart from the Salary Advance Listing. Audit, therefore, was unable to ascertain the status of the previous year's salary advances that were paid to officers; and
- Total salary advances paid to Officers in 2010 equaled K20,317. Of the total only four (4) have been fully recovered while 17 salary advances totaling K18,567 were outstanding and yet to be recovered from officers concerned. In addition three (3) officers were issued additional salary advances when their first advances were still being recouped to the total of K6,567.

Management response

The Department noted your audit findings and measures are being put in place to comply with the requirements of acquittals.

JOURNAL ENTRIES

The use of journal entries within the accounting system is a means of correcting or adjusting entries between ledgers and Cash Books.

A total of 202 Journal Entries were passed in 2010 and the following observations were made:

- Blank cheques were stamped as cancelled for five (5) entries totaling K4,928; and
- Journal entries were raised by the same officer also involved in the posting of journal entries into the computer ledger. This issue was also raised in our previous audit, however, no action was taken to rectify this anomaly.

Management response

The Department responded to the Audit Management Letter issued on reported findings and their comments are stated accordingly.

DEPARTMENTAL RESPONSE

The findings were brought to the attention of the Secretary in the Management Letter issued. However, management has failed to respond up to the time of this report in June 2012.

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.

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

17. DEPARTMENT OF PRIME MINISTER & NATIONAL EXECUTIVE COUNCIL

OVERVIEW

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

FINDINGS

BUDGETARY & FUNDS CONTROL

A review of the Department's budget allocation relating to various expenditure area/accounts show that the Department does not have control over its expenditure. It had used other funds intended for other purposes when the relevant expenditure account did not have enough funds to fund the payment. For example, the repair and maintenance of motor vehicle was funded from funds allocated to cater for retirement, benefits and pensions expenditures.

The expenditure records from PM&NEC and the Department of Finance (TMS) were not reconciled at the time of this audit. This has resulted in a variance of K62,975,109 between these two records.

This variance concerns:

- Wages paid through PGAS and not concept payroll as it should be;
- Expenditures incurred in expenses account 135 were not captured in the PGAS Cash Book; and
- Expenditures incurred in eleven (11) Vote Items have not been up loaded into the TMS system as follows:

Vote	Description
203-1102-1102(111-221)	Office of Legislative Council
203-1102-1104(111-221)	Government Services
203-1102-1116(111-221)	Central Agencies Co-ordination
203-1102-1121(111-221)	APEC
203-1102-1128(143)	National Planning Committee
203- 1102-2102(111-221)	State Services
203-1102-2104(111-135)	Gove't Aircraft Operation & Maintenance
203-1102-2104(111-221)	PNG Events Secretariat
203-1102-3103-(135/143)	State Minister Assisting Prime Minister
203-2701-4101(143)	Climate Change & Environment
203-3604-2101-(111-141)	Government Printing Services

Unless the two agencies (PM&NEC and Finance) reconcile their records on a timely basis, these figures will not agree causing the Public Accounts to report on misleading figures.

Management Response:

The Department agreed that there was a lack of reconciliation between PGAS and TMS which are attributable to negligence of PM&NEC Management. However, management has actively taken steps to investigate the variance.

In relation to the issue on use of incorrect votes, the management has also taken steps to ensure proper use of votes in future

BANK RECONCILIATION

Cash Management

The Department operates a Drawing Account (No. 4311-6139') with the Bank of PNG.

A review of the bank reconciliation for the month of December, 2010 noted the following:

- The bank reconciliation statement disclosed reconciling items totaling K15,418,157 in debits and K15,008,990 in credits which needs to be investigated, cleared and adjusted in the Cash Book immediately; and
- The bank reconciliations were not signed and dated as prepared, reviewed and verified by the appropriate officers to ensure accuracy and completeness of the reconciliation process.

Management Response:

The Department agrees with the audit findings and stated, actions are now being taken to have the reconciling items cleared and adjusted from the reconciliation statements.

PROCUREMENT & PAYMENT PROCEDURES

A sample of 43 payments selected on a random sample basis were reviewed to ascertain the effectiveness of the processes of acquiring goods and services and the effectiveness of the payment processes relating to claims received from suppliers. An examination of the payment vouchers revealed the following observations:

- The availability of funds on requisition form's (FF3's) were not ascertained prior to procurement processes, in all 43 instances totaling K1,232,071;
- The certifying officer did not authorize the payment vouchers for the claims, rather they were initialed with letter 'A', in ten (10) instances of payment totaling K229,118;
- Three (3) back payments of gratuity and contract allowances totaling K107,668 was paid to an officer through PGAS rather than the Concept Payroll System. The payments were approved by the Departmental Head;

- The material requisitions form's (FF3's) were not either authorised by the Section 32 Officer nor the Commitment clerk; for the three (3) payment for PM'S assistance totaling K310,600; and
- A payment totaling K151,057 made to Government Printing Office was authorised by the financial delegate whose Financial Limit was only up to K50,000.

Management Response:

The Department agrees with the audit findings and stated that, the Department will develop an internal Procurement Policy including confirmation of applicable internal controls and delegation of authority, also consolidate responsibility for procurement within the Corporate Support Services Division.

TRUST ACCOUNTS

Audit verified ten (10) trust accounts maintained by the Department. A review of each account with the related records and documents revealed the following observations:

- Out of ten (10) trust accounts maintained by the Department, only seven (7) Trust Instruments for seven (7) trust accounts were made available for our audit review, whilst the trust instrument for the three (3) trust accounts were not provided for audit inspection;
- Six (6) of the trust accounts with bank accounts were not operating through the PGAS, system as required by the trust instrument;
- The financial status of the other five (5) trust accounts were not ascertained due to the non-availability of accounts and records, namely:
 - Central Fund Board of Management;
 - Public Sector Reform Program;
 - Bougainville Governance and Implementation Fund;
 - Commission of Enquiry (Col)- Department of Finance; and
 - National Planning committee Task Force T/A (NPC).

Management Responses:

The Department has indicated that some form of communication has been established with the Department of Finance regarding the status of trust accounts, and accountability for management and reconciliation of these accounts however, no response has been forthcoming. The Secretary further stated that, for those trust accounts managed by PM & NEC, internal instructions have been issued to ensure reconciliations are prepared as required.

ADVANCE MANAGEMENT

AGO noted that the Department's Advance Management System is not robust. Various internal control weaknesses were identified in the general acquittal process, monitoring of advances, payment and recording of advances.

Following are the audit findings related to a sample of 1980 advances tested totaling K7,305,420:

- A total of 35 advances were acquitted without sufficient supporting documents; and
- Advances totaling K6,476,840 were not acquitted as at 31 December 2010.

Management Responses

The Department agreed with the audit findings, stated that immediate changes be made to procedures affecting future advances and acquittals; following implementation of an Advances and Acquittals Management Policy as recommended, efforts will be directed towards clearing 2011 outstanding acquittals.

JOURNAL ENTRIES

A total of 125 Journal Entries were raised in 2010. Audit perusal of the Journal Entries revealed the following discrepancies:

- Four (4) journal entries were missing from the files;
- Three (3) journal entries had no supporting documents attached;
- At the time of this audit, it was noted there was no segregation of duties from the persons dealing with budgeting and payment (expenditure) controls and the ones raising journal entries; and
- Four (4) cheques to the value of K47,353 were cancelled and journalized however, the cancelled cheques were not attached with the related journal entries.

Management Response:

The Department accepted the audit findings and stated that, officers responsible for the preparation of journal entries have been reminded of the certification process and requirements for supporting documentation.

DEPARTMENTAL RESPONSES

The Department had responded to the reported findings in the Audit Management Letter issued and their responses are incorporate accordingly.

CONCLUSION

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

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

18. DEPARTMENT OF TRANSPORT

OVERVIEW

The Department's mission is to ensure the provision of transport infrastructure and services which 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

Corporate Plan

The Department of Transport had in placed a five year Corporate Plan from 2010-2015. The Corporate Plan identified six (6) Strategic Areas and these Strategic Result Areas were supposed to be linked to the Annual Work Plans. However, the Annual Work Plans were not linked to the annual budget and the Corporate Plan, therefore, the management was unable to:

- Monitor the achievements of the Department's objectives or programs;
- Effect necessary changes;
- Determine areas where change was required; and/or
- Amend the objectives and strategies.

Management Response:

- The Department always ensures as much as possible that it's given budget is linked to AWP and Corporate Plan. Current staffing constraints (95 current vacancies against 266 establishments) also contribute to not effectively achieving activities as contained in the AWP and Corporate Plan.

STATUTORY REQUIREMENTS

Annual Management Reports

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

The Annual Reports for the financial year ended 2010 covering the overall assessments on the work and achievements of the Department of Transport were still being prepared up to the time of audit in August 2011.

Management Response:

Audit is informed that due to the departure of our Financial Management Advisor provided under the TSSP (Ausaid arrangement) Annual Management Reports for 2009 and 2010 were unfortunately left “hanging”. However DOT is pleased to report that it has provided its AMR for the years ending 31 December 2011 to Chief Secretary and copies to Finance, DPM and AGO.

BUDETARY & FUNDS CONTROL

The Department, as at the time of this audit did not reconcile its records (PGAS) to the Department of Finance’s record (TMS Report) in order to achieve uniformity in the balances reported.

The PGAS reports (source listing and the Expenditure Vote Summary Reports) were submitted to the Department of Finance on a monthly/weekly basis to be up loaded into the TMS system, however, the figures did not match every time.

Following were the differences noted in the balances reported as at 31 December 2010.

Particular	Expenditure as per Departmental Records (K) PGAS	Expenditure as per Finance Records (K) TMS	Differences Deptal Records +(-) (K)	Remarks
Revised Appropriation	44,398,300	44,398,300	0	
Warrant Authorized	32,072,300	39,086,900	7,014,600	TMS is more
Actual Expenditure	21,546,737	32,648,733	<u>11,101,996</u>	PGAS is more
Net Expenditure Variance			<u>18,116,596</u>	

- AGO also noted that funds totaling K2,398,838 was expended in excess of Warrant Authorities issued as per the period 13 TMS 330 report of 2010;
- The Expenditure variances in balances reported should have been considered seriously by both reporting agencies (Transport and Finance). Timely reconciliation of the reports was needed to be done by both Departments to ensure that the records were not misleading; and

- In another instance, AGO noted that the Department maintained two (2) separate files of Cash Funds Certificates (CFC). Original files and copies file. Examination of the files showed that CFCs were not always signed by the Chief Accounting Officer and also the initials and dates of the ledgers posted were not indicated.

Management Response:

- *Attempts are always done to ensure our PGAS and TMS reconciles, however often times TMS data is in variance with PGAS on this issue which is of great concern. This matter has also been brought up during our quarterly DOT Audit committee meetings of which AGO officer is quite aware of the reasons;*
- *In fact a letter from DOT dated 01st February 2011 was addressed to Secretary Tosali of Treasury Department raising our dissatisfaction and disappointment on the discrepancies noted between the two records where over K1.8 million was reported as over expenditure against DOT by the TMS of which we disputed;*
- *As to the over expenditure of K2,398,838, the major contributor is vote 259-3501-4201-126 for PNG Infrastructure Policy Development and Review where an over expenditure of K1,727,234 has occurred on this vote alone. Audit is informed that this is a donor fund and a **non cash warrant**, hence no actual warrant was released to DOT for this particular project. Therefore DOT considers that it should not be held accountable if any expenditure has occurred except Finance Department; and*
- *As for the other expenditures, Audit is informed that this was largely due to Treasury arbitrarily transferring DOT funds to other Agencies when doing their year-end adjustments although knowing very well that expenditure has occurred against these particular items. As a result of this arbitrarily action DOT has raised their concern on this area. Issue already explained above as well as during our regular DOT Audit Committee meetings.*

BANK RECONCILIATION

Drawing Account

The Department of Transport operates a drawing bank account (# 4311-6155) with the Bank of PNG. An examination of the bank reconciliation statement for the month of December, 2010 revealed the following matters of concern:

- The bank statement received from the Bank of PNG disclosed a NIL bank balance as at 31.12.2011 whilst the reconciled Cash Book balance reported an overdrawn balance of (K10,044,604);
- Other reconciling items that needed to be adjusted and cleared were credits in bank statement not in Cash Book totaling K4,971,772 and unpresented cheques of K5,252,834;
- The total unpresented cheques included 20 stale cheques issued in 2009 totaling K201,923;
- The bank reconciliation statement was prepared by an officer who also performed the duties as the machinist;

- Seven (7) signatories to the operating account were all attached to the same division; and
- There were instances where the Signing Officer was also countersigning on the cheques.

Management Response:

- *All reconciling items were identified and cleared in early 2011 as reflected in our Reconciliation Statement for 31 December, 2011;*
- *Stale cheques as stated as of December 2010 have since been cleared on J/E # 02/2011;*
- *Due to staff shortage, Bank Reconciliation officer assists with other tasks upon management approval. In the meantime recruitment exercise is in progress to fill the vacancies;*
- *In regards to our performance on Bank Reconciliation of our Drawing Account Audit is informed that DOT has been ranked highly by Department of Finance as one of the best performing Departments; and*
- *Audit is informed that it is common practice that a signing officer can also be the countersigning officer but the same officer of course cannot sign both panels at the same time, this is the practice with all financial institutions including commercial banks. Hence a signing officer may sign as a counter signing officer only if in the absence of any of the 2 counter signing officers but the same person cannot sign both panels at the same time as the particular cheque will not be honored by Bank of PNG – hence we consider the number of our signing officers not excessive.*

PROCUREMENT & PAYMENT PROCEDURES

AGO noted the following weaknesses in the Department's procurement procedures:

- As stipulated in the Financial Management Instructions (FMI), payments are not supposed to be made on pro-forma invoices and faxed invoices (unless the original of the faxed invoice is received); however, the Department made payments contrary to the Finance Instruction in 2010. Various purchases were made on pro-forma invoice rather than the required Tax Invoice;
- Motor Vehicles were hired from private sources without the consent of the Plant and Transport Board of the Department of Works in 52 instances totaling K316,428. Payments of vehicles hires were again made on pro-forma invoices;
- A sample of 41 payments totaling K1,792,130 had been paid to contractors for various works carried out in 2010. An examination of the payment vouchers with the related documents revealed the following discrepancies:
 - The details of the contract agreements entered into between the Department and the contractors were not sighted;
 - Some payments were made based on the quotations provided by the contractors instead of the tax invoices;

- Work completion certificates were issued by the officers involved in awarding contracts and not by an independent officer; and
- A payment of K977,570 was made to purchase building materials to build Kit Offices (National Weather Offices) in various provinces. However, audit was informed that only two (2) provinces had their building materials purchased and delivered whilst the rest were awaiting for clearance from the Secretary of the Department;
- A total of K807,176 was spent to purchase eight (8) vehicles during the year (2010). Examination of the payment vouchers revealed that written submissions stating the reasons from the requesting divisions, approval from the Mechanical Engineering Branch of the Department of Works and if it was for the replacement, information such as the trade in value details were not sighted to support these payments. It was also noted that two out of eight vehicles were charged to other expenditure vote (143 and 135) instead of Vote Item 222 which is the Motor Vehicle Vote as required; and
- Payment for various consultancy work provided to the Department amounted to K780,656 in 2010. However, the consultancy steering committee approval, tenders board (if required), the scope of work to be performed and contract agreement entered into between the state and the consultancy firms were not provided to substantiate the payment.

Management Response:

- *Audit is informed that currently Secretary is the only Section 32 Officer;*
- *Most companies these days insist on actual payment (cheque) before they can issue actual invoice, hence, payments are made on pro-forma invoice/quotation. However, audit is informed that cheque is not released until full certification of receipt of good/services are done via the delivery dockets;*
- *All payment vouchers are consecutively in order of abstracts and cheque #: numbers;*
- *PTB external hire approval is not sought due to last minute travels; and*
- *Audit is informed that DOT is quite mindful of the tender and procurement requirements*

Hence, DOT has conformed to these requirements when engaging and paying the 13 contractors as stated. In this regard three (3) quotes were obtained for all payments up to K50,000, a Minor Contract was put in place for any expenditure between K50,000 to K300,000 and an APC, CSTB approval and Legal clearance was obtained for any expenditure over K300,000.

- *Approval from the Technical advisory Group (TAG) of PTB for the purchase of the vehicles; and*
- *As for Consultancy payments, Audit comments have been noted.*

HUMAN RESOURCES AND PAYROLL

Audit assessment of the human resources management revealed the following:

- Trainings were provided to staff on ad-hoc basis. However, the trainings provided were not captured in staff appraisals where staff development matters should be recorded;
- Multi-skilling was not being practiced to ensure that there were more than one person that can fulfill the duties of a position or that there were alternate choices in promotional situations. This can be easily achieved through structured relief through higher duties when personnel were on leave; and
- There were approximately 53 fulltime casual employees employed with the Department with no clear defined policies in place in relation to their employment. Therefore, this practice had caused significant budgetary problems.

Management Responses:

- *Training is encouraged depending on the area of activity where the officer is attached as this we consider is an investment to the Department; and*
- *Most casuals that are employed are mainly the **Community Based Inspectors** and are attached to the Traffic Enforcement Unit within the Land Transport Division. Their primary role is to ensure compliance of traffic rules mainly by the PMVs and Taxi operators. Their services will be terminated once improvement is achieved in this area.*

ADVANCE MANAGEMENT- (Travel Allowances and Goods/ Services)

The following were noted of the Department's Advance Management System:

- The Advance Register was incomplete. Salient information such as the acquittal by date column was not included in the register. This made monitoring and timely acquittal of travel advance difficult;
- The financial delegates were not reviewing the register of advances to make sure that all advances were being acquitted regularly as required;
- Follow up actions were not taken to remind officers to acquit their advances and recovery actions were not taken by way of salary deduction for officers who did not acquit;
- The acquittals were not referenced to ensure a proper audit trail;
- Unacquitted advances during the years 2004 to 2010 amounted to K800,318;
- A sample of 13 officers were issued second advances when their first advances remained unacquitted totaling K160,056;

- 20 travel advances totaling K101,936 were indicated as acquitted in the register however, related acquittal forms with the supporting documents were not sighted during the course of audit;
- Delays in acquittal of both travel allowance and Goods and Services ranging from 1 to 94 days were noted contrary to financial regulations;
- Substantial amounts of cash advances had been paid to the Paymaster in 2010. These cheques were cashed and paid to officers of the Department for various purposes including those officers who had outstanding unacquitted first advances. Audit was concerned that issuing of “Cash” in this manner would lead to misuse of public money;
- There were instances identified where officers had resigned without acquitting the advances; and
- Acquittals of vehicle hire and accommodation charges were not supported by genuine statement of accounts.

In spite of the above management responses AGO maintains that there were fundamental weaknesses in the management of advances.

Management Response:

- *We would like to inform AGO that DOT takes all attempts in its endeavour to ensure Advances and acquittals are managed including reminders sent and recovery taken through salary deductions;*
- *DOT wish to advise AGO that attempts by DOT to manage advances have been noted, acknowledged and commended by the DOT audit Committee in its various meetings. In its meeting (ie. 01st/2012) DOT reported that a substantial reduction was made in the outstanding acquittals of which the committee commended; and*
- *DOT is committed in continuing to following up on the unacquitted advances.*

JOURNAL ENTRIES

The use of Journal Entries within an accounting system is a means of correcting or adjusting entries between ledgers and the Cash Books. Thus ensures the correct treatment and reflection of accounting transactions.

A total of 111 journal entries were passed during 2010. The observations made were as follows:

- Only the cancelled cheques were kept in the Journal Entries files while the original cancelled cheques were kept elsewhere making audit work cumbersome; and
- Journal entries were raised without the requisite approval of the authorized senior officer in charge of accounts and also were not always certified by a competent officer.

Management Response:

- *Audit is informed that the following files are maintained:*
- *A separate file for **original cancelled cheques** has been maintained over the years; and*
- *On the other hand cancelled cheques such as damaged/ruined cheques by the printer or for non-alignment) do not require posting on journal entry and are maintained in a separate file.*

To ensure accuracy and completeness all Journal Entries are always certified by either AS (Finance) or Accountant Expenditure before passing through PGAS.

*Audit recommendations were noted, **original** cancelled cheques will be now attached to respective Journal Entries.*

DEPARTMENTAL RESPONSES

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

CONCLUSIONS

The results of my audit and a number of control weakness identified indicate and that, overall, there are significant weaknesses in the control framework. At present, the control activities, such as delegations, authorizations activities, reconciliations, management oversight and monitoring are not sufficiently robust to prevent, detect or correct errors or fraud.

19. ACKNOWLEDGEMENT

I would like to acknowledge the professionalism and commitment of my staff in undertaking the audit work that is reflected in this report. Their 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 is also acknowledged.

Finally, I would also like to thank the Chairman and the members of the Public Accounts Committee for their continued interest and support for my Office.



PHILIP NAUGA
Auditor-General

20. SUMMARY OF RECONCILIATION OF DEPARTMENTS NOT AUDITED

No	Name of Department	AUDIT YEARS	
		(2010)	(2011)
1	Agriculture and Livestock	✓	✓
2	Attorney General	✓	✓
3	Commerce and Industry	x	✓
4	Community Development	✓	✓
5	Correctional Services	✓	✓
6	Defence	x	✓
7	Education	✓	✓
8	Electoral Commission	✓	✓
9	Environmental and Conversation	x	x
10	Finance	✓	✓
11	Foreign Affairs and Trade	✓	✓
12	Governor General	x	x
13	Health	✓	✓
14	Higher Education	✓	✓
15	IRC – Taxation	✓	✓
16	Lands and Physical Planning	✓	✓
17	Labour & Industrial Relations	x	x
18	Magisterial Services	x	✓
19	National Judiciary Services	✓	✓
20	National Parliament	✓	✓
21	National Planning & Monitoring	x	✓
22	National Statistics Office	x	✓
23	Office of Public Solicitor	x	✓
24	Office of Rural Development	✓	✓
25	Office of Workers Compensation	x	x
26	Personnel Management	x	✓
27	Petroleum and Energy	x	✓
28	PNG – Bureau of Customs	x	x
29	Police	x	✓
30	Prime Minister & NEC	✓	✓
31	Provincial & LL Government Affairs	✓	SUSPENDED
32	Public Services Commission	x	x
33	Mineral Policy and Geo Hazard	x	x
34	Transport	✓	✓
35	Treasury	x	x
36	Works & Implementation	x	✓
	TOTAL	18/36	27/36

Key:

Departments Audited	✓
Departments Not Audited	x

* The AGO was unable to complete all its assigned audits in 2010 and 2011 due to serious resources constraints. However, you will note that there was an improvement from 18 audits completed in 2010 compared to 27 in 2011.