



Service Delivery Performance in the Provinces of New Ireland and Milne Bay - 1 January 2013 to 31 December 2014



Auditor-General's Office of Papua New Guinea

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Audit review to determine if the Provincial and District Administrations expended PSIP and DSIP funding and Function Grants in compliance with the PF(M)A and Finance Instructions and to improve service delivery within the province and district. Specifically, the assessment of the PSIP and DSIP on:

- **The total amount of PSIP and DSIP funds received by the Province and District and the total amount spent during the period under review;**
- **Whether expenditure incurred was on items permitted by relevant Finance Instructions and was within the respective key sectors; and**
- **Compliance with the requirements of the Finance Instructions and the PF(M)A.**

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OFFICE OF THE AUDITOR-GENERAL

30 June 2015

The Honourable Theodore Zurenuoc, MP

Speaker of the National Parliament

Parliament House

WAIGANI

National Capital District

Dear Mr Speaker,

In accordance with the provisions of Section 214 of the Constitution of the Independent State of Papua New Guinea, and the Audit Act 1989 (as amended), I have undertaken an audit review to determine if the Provincial and District Administrations expended PSIP and DSIP funding and Function Grants in compliance with the PF(M)A and Finance Instructions and to improve service delivery within the province and district, specifically, the assessment of the PSIP and DSIP.

I submit the report of this audit and the report is titled **“Service Delivery Performance in the Provinces of New Ireland and Milne Bay - 1 January 2013 to 31 December 2014.”**

Following its tabling in Parliament, the report will be placed on the Auditor-General's Office Homepage-<http://www.ago.gov.pg>

Thank you,

Philip Nauga

Auditor- General

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Acronyms and Definitions

Acronym	Definition
COI	Certificate of Inexpediency
DDA	District Development Authority
DDP	District Development Program
DIRD	Department of Implementation and Rural Development
DPMT	District Project Management Team
DoF	Department of Finance
DoT	Department of Treasury
DSIP	District Services Improvement Program
FYDP	Five Year Development Plan
JDP&BPC	Joint District Planning and Budget Priority Committee
JPP&BPC	Joint Provincial Planning and Budget Priority Committee
LLG	Local-level Government
MPA	Minimum Priority Activities funded by the Function Grants
NEFC	National Economic and Fiscal Commission
OLPG&LLG	Organic Law on Provincial Government and Local-level Government
PF(M)A	Public Finance (Management) Act 1995
PGAS	PNG Government Computerised Accounting System
PSIP	Provincial Services Improvement Program
PSTB	Provincial Supply and Tender Board
PWU	Provincial Works Unit

Executive Summary

1. In 2007 the PNG National Government allocated K10 million to each of the Districts to be managed through a District Services Improvement Program (DSIP). The funding has continued at this rate each year since then, although not all Districts have received their full entitlement each year. Subsequently, the National Government established the Provincial Services Improvement Program (PSIP) in 2013 with the allocation to each Province of an additional K5 million for each District within the Province. Function Grants are also allocated to each province on an annual basis to enable the provinces to provide basic services, in health, education, transport, primary production and village courts.
2. Initially, the objectives of the PSIP and DSIP were to provide minimum service delivery standards through the re-establishment of basic infrastructure and facilities in the areas of health, education, law and justice, water quality and sanitation, transport, communication and rural electrification. In October 2012, the government directed that the services improvement funds would be broken down into six sectors, allocated in proportions with 30 per cent devoted to Infrastructure, 20 per cent each to Health and Education, with the remaining 30 per cent divided equally between Law and Justice, the Economic Sector and Administration.
3. The Auditor-General's Office is conducting a review of Service Delivery Performance in the Provinces of PNG, focussing on the provision of services under the Provincial Services Improvement Program (PSIP), the District Services Improvement Program (DSIP) and the various Function Grants. This is the first in a planned series of reports which examined PSIP, DSIP and Function Grants disbursements during 2013 in the New Ireland and Milne Bay Provinces totalling K80 million in SIP allocations
4. The Organic Law on Provincial Governments and Local-level Governments (OLPGLLG) provides the overarching framework for the planning and budgeting of local project delivery. Within this broad framework, a detailed set of cascading plans and budgets are required to be produced, including rolling Five Year Development Plans (FYDPs). The Joint District and Joint Provincial Planning and Budget Priority Committees (JDP/JPP&BPC) are responsible for overseeing all aspects of planning and budgeting for each District and Province.
5. The conduct of the review was significantly influenced by some of the findings set out in this report. In particular, the supporting documentation available to the AGO has not been of a standard that adequately supports accountability for project management and implementation. To address this, the AGO sought to reconstruct events wherever possible including in one instance taking oral evidence from key parties involved. Taking these constraints into account, the available evidence shows that in 2013, more than K21 million was expended on SIP projects that were either unauthorised by the proper authorities, or in breach of the procurement rules. The review also identified a large number of irregular transactions which will be passed to relevant authorities for further investigation.
6. The report makes six recommendations to improve service delivery, including that finance instructions be strengthened to provide clearer guidance to Provincial and District Administrators and Treasurers and the need for proper recordkeeping and accountability in districts and provinces.

Key Findings

Lack of transparency in funding sources

7. While the administrations of all districts and both Provinces stated that the full allocation of SIP funds had been received, only the Alotau District Treasury could provide a PGAS generated report on DSIP and PSIP revenue. One of the District Treasurers admitted that funds deposited in the operating account over K1 million were assumed to be DSIP and no further checks were conducted.

8. This lack of transparency makes the monitoring of expenditure of DSIP or PSIP extremely difficult and generates uncertainty as to how much funding has been received. From an audit perspective it is difficult to align DSIP or PSIP expenditure with the relevant sectors if evidence of receipt of the funding is not provided.

Allocation of DSIP funding

9. Function grants are allocated to a Province using a formula that takes into account the cost of delivery of MPAs in the Province and the Province's ability to generate its own internal revenue. PSIP funding is allocated to a Province at a rate of K5 million per District in the Province. However DSIP is set at a specific amount for all Districts. In 2013 all Districts were allocated and received K10 million. The same allocation is made regardless of the cost of building and maintaining infrastructure in different Districts.

10. However, the cost of construction and maintenance of infrastructure is greater in the more remote Districts and therefore remote Districts will not be able to deliver the same level of services as other Districts for the same level of funding.

Timing of DSIP and Function Grant funding

11. All district administrations expressed concern over the timing of the release of DSIP and Function Grant funding. Delay in the receipt of DSIP funding is often used as an excuse for poor performance with regard to DSIP expenditure. Ideally, a significant proportion of DSIP funds should be received by the Districts in the first quarter of the year. In most Districts this does not occur.

Lack of rolling Five Year Development Plan

12. No province or district reviewed had a rolling FYDP. The concept of a rolling FYDP is that it is reviewed and updated each year by the JPP/JDP&BPC so that the province or district at all times has a FYDP in place. A FYDP allows the updating of the development plans to reflect changing conditions or priorities within the province or district.

13. A rolling FYDP also sets out the detail of the development needed by the province or district which is then further assessed and prioritised by the JPP&BPC or JDP&BPC and assessed annually for continued suitability. The lack of a rolling FYDP goes some way to explaining why there is often little connection between the projects described in the development plan and the projects actually authorised by the JPP&BPC or JDP&BPC.

Non-closure of DSIP Trust Accounts

14. The review found that PSIP and DSIP grants were managed in accordance with Finance Instruction 1A/2013. However, old DSIP Trust Accounts have not been closed. District Treasurers advised that they have not been instructed by the Department of Finance to close the old DSIP Trust Accounts. All districts reviewed still have a DSIP Trust Account open often with funds available. DoF should issue an instruction to close all DSIP Trust

Accounts.

Inappropriate use of funding

15. With the exception of Alotau District, the review identified a large number of payments for purposes that were not consistent with the intent of the funding. The payment of wages and allowances from DSIP funds was common in all Districts and included examples of payments for casual office staff, drivers and reserve police officers for Christmas and New Year operations. These wages should be paid from the recurrent budget and not SIP funds. The review also noted instances where function grants were used for purposes such as contributing to funeral expenses for former teachers including new clothes for relatives.

16. Most of the Districts reviewed showed evidence of DSIP funding being used for expenditure that should have been funded from the Open Member's Discretionary Budget. A contributing factor to the inappropriate use of PSIP and DSIP funding is a lack of explicit instructions concerning the type of expenditure considered appropriate. The spending of SIP and Function Grant funding on inappropriate expenditure has a direct impact on the level of services delivered at provincial and district level.

Lack of co-ordination with National Agencies in the provision of infrastructure

17. The review identified cases where SIP funds had been expended on the construction of service delivery infrastructure in the form of a police station and a health centre. However, these facilities were not operational because the relevant Department had not provided staff. The value of these two projects alone is almost K1 million. In these circumstances, there had been failure to reach prior agreement between the provincial and district administrations and the relevant agency, concerning resourcing issues prior to the construction of the facility.

18. In these cases, K1 million of SIP funding has not achieved value for money. Project costs should be assessed over a reasonable whole of life cost, and demonstrate how people will benefit from the investment.

Missing documentation

19. With the exception of Alotau District, Provincial and District Treasuries were unable to produce the supporting documentation for all transactions requested. In the Kavieng District, the Treasurer was unable to produce any documentation for payments made from the DSIP Trust Account.

20. The absence of financial documentation means that auditors are unable to verify the details of transactions. It is also a breach of Section 68(1) of the PF(M)A. The inability to produce key documents such as development plans and minutes of important meetings indicate that insufficient importance is placed on accountability in the decision making process.

Recommendations

21. The review of service delivery in selected provinces has identified that there is an urgent need for improvement in key administration practices. The AGO's recommendations relate to the findings presented above and if implemented fully, are intended to improve the quality of service delivery at sub-national level.

Recommendation No.1

22. The AGO recommends that Provincial Administrators clearly identify the purpose of funds deposited into the relevant District Treasury Operating Account. This will ensure that Funding such as Function Grants are identified separately from other grants and Districts are aware of the purpose of these funds.

Recommendation No.2

23. The AGO recommends that JPP&BPCs and JDP&BPCs (now DDA Boards) develop Rolling Five Year Development Plans and monitor achievements against these plans annually. This will ensure that an up to date is in place each year that is focused on the current needs of the Province or District.

Recommendation No.3

24. The AGO recommends that the Department of Finance

- (a) issue guidance for Open Member's and Governors on the proper use of funds allocated under DSIP and PSIP, to ensure that these funds are used for their intended purposes, and
- (b) develop and implement a cost-effective, systematic, risk based approach to verifying payment data to test compliance with funding purposes.

Recommendation No.4

25. The AGO recommends that Treasury informs Districts Administrations when DSIP funds are received so that payments made late in the year can be carried over and ensure continuity of projects in the following year.

Recommendation No.5

26. The AGO recommends that the Department of Finance issue an instruction that all DSIP Trust Accounts be closed and that funds remaining in the account be returned to Consolidated Revenue.

Recommendation No.6

27. The AGO recommends that, to meet legal and other accountability requirements, District and Provincial Administrations develop and implement recordkeeping standards and practices that addresses their recordkeeping responsibilities.

1. Introduction

Background

1.1 Since the 1980s, the Government of PNG has allocated funding to MPs to spend in their electorates, initially through the Electoral Development Fund (EDF) and, more recently, through the District Services Improvement Program (DSIP). In the 2013 budget (and again in the 2014 budget) PNG's 89 open electorates (normally made up of one or two districts) were allocated K10 million each, more than double the previous average annual allocations under the EDF from 2007-2012. The fact that DSIP has been increased by this amount increases the risks associated with its expenditure

1.2 In addition, K5 million is allocated to each electorate on an annual basis through the Provincial Services Improvement Program (PSIP). The PSIP (K445 million total) is more than the amount the provinces receive through function grants (K398 million in 2013). Adding these amounts to the DSIP gives a total amount of more than K1 billion, for these programs every year from 2013 onwards under a combined Services Improvement Program (SIP).

1.3 The governance arrangements in place for these three funds place decision making in the hands of committees in which politicians have significant influence on spending decisions. The Joint District Planning Budget Priorities Committee (JDPBPC) is the decision-making body for the DSIP. It is chaired by the MP of the district (or electorate) and also includes Local Level Government (LLG) presidents and community members. The District Administrator is the chair of the JDPBPC. The PSIP is managed through the Joint Provincial Planning Budget Priority Committee (JPPBPC), which is normally chaired by governors of the provinces, and also includes constituency or open MPs.

1.4 Although these committees have ultimate responsibility for deciding how the funds will be spent, the rules established by Government make clear that SIP funds are not a discretionary account for MPs, but are intended to finance basic infrastructure, and to improve service delivery. According to administrative guidelines for spending SIP funds issued by the Department of Implementation and Rural Development (DIRD) in 2013, 40 per cent of funding under all three programs is to be spent on services improvement in the areas of health and education. This is a significant amount (more than K400 million) and is more than four times the amount that provinces also receive through function grants for health and education.

1.5 In 2014 the Auditor-General's Office responded to concerns about the state of service delivery in PNG by commencing a review of Service Delivery Performance in the Provinces. In view of the level of funding involved, the AGO review focuses on the provision of services under the Provincial Services Improvement Program (PSIP), the District Services Improvement Program (DSIP) and the Function Grants. These three sources of funding are all intended to contribute to the delivery of services within the province whether delivery occurs at provincial or district level. It should be noted that although services are also provided by LLGs, there are no clearly established mechanisms for service delivery spending at that level and as a result, funds expended by LLGs have been excluded from the review.

1.6 For the purposes of assessment, 2013 was chosen as the period under review. The methodology for the review has been trialed in the New Ireland and Milne Bay Provinces

and this is the first in a planned series of reports on the findings of the review. The Districts of Kirawina/Goodenough, Samarai Murua and Alotau were reviewed in Milne Bay Province and Kavieng and Namatanai in New Ireland Province.

Review Objective

1.7 The objective of the review was to determine if the Provincial and District Administrations expended PSIP and DSIP funding and Function Grants in compliance with the PF(M)A and Finance Instructions and to improve service delivery within the province and district. Specifically, the assessment of the PSIP and DSIP examined:

- The total amount of PSIP and DSIP funds received by the Province and District and the total amount spent during the period under review;
- Whether expenditure incurred was on items permitted by relevant Finance Instructions and was within the respective key sectors; and
- Compliance with the requirements of the Finance Instructions and the PF(M)A.

Review Scope, Approach and Methodology

1.8 Expenditure of PSIP and DSIP funds allocated in 2013 were examined for compliance with Finance Instruction 01/2013 of 1 January 2013, Finance Instruction 1A/2013 of 14 June 2013, and Finance Instruction 2/2013 of 20 May 2013. The PSIP, DSIP and LLGSIP Administrative Guidelines dated 1 January 2013, endorsed jointly by the Secretary, Department of Finance and the Acting Secretary of DIRD and issued by the Chief Secretary to Government are also relevant and were taken into consideration.

1.9 Copies of Five Year Development Plans (FYDPs) were examined and individual projects were identified. Minutes of JPPBPC and JDPBPC meetings were obtained where available and attempts were made to identify linkages between projects found in the FYDP and the projects assessed, prioritised and approved by those Committees. Expenditure under PSIP and DSIP was also examined to determine whether the projects identified in the FYDP and the meeting minutes were actually implemented and where possible, attempts were made to inspect projects. Interviews were held with key staff of the Provincial Administrations and the District Administrations to determine the governance framework within which PSIP and DSIP was allocated and expended, and the capacity of the Administration to manage the funds.

1.10 A number of transactions were selected from the PGAS Expenditure Transaction Details report and examined in detail. This involved obtaining payment vouchers for each selected transaction and examining these together with all supporting documentation to ascertain compliance with the PF(M)A and the Finance Instructions. Analysis of the expenditure was also carried out to determine the extent to which Function Grants were directly expended on Minimum Priority Activities (MPAs).¹

1.11 The review findings were communicated to the Provinces and Districts in Management Letters. Provincial and District Administrators were given the opportunity to respond to the Management Letters to provide additional information to clarify the opinion offered by the AGO. The only response received to the Management Letters was from Alotau District which noted and agreed with all findings.

¹ MPAs are discussed in more detail in Paragraph 1.20

1.12 The conduct of the review has been significantly influenced by some of the findings set out in this report. In particular;

- None of the districts within Milne Bay or New Ireland Provinces identified Function Grant funding in the allocations received from the Provincial Administrations. For this reason the expenditure of Function Grants for Milne Bay and New Ireland Provinces was examined only at Provincial level;
- In many instances documentation was not produced to the review team. Changes in leadership within the districts often resulted in an inability to produce minutes of JDPBPC meetings. At provincial level technical problems with computers meant that minutes of the JPPBPCs could not be produced.
- There was an inability of District and Provincial Treasuries to produce adequate financial records. The review team attempted to examine a sample of financial transactions based on specific selection criteria. In all District and Provincial Treasuries some items of documentation to support the financial transactions were missing. In Kavieng District this included financial documentation to support all transactions from the DSIP Trust Account in 2013. In many cases District Treasuries could not provide PGAS reports on DSIP revenue for 2013.
- The District Administrator (DA) Namatanai and key staff of the administration declined to be present for the review. The DA was subsequently summonsed to a hearing by the Auditor General in Kavieng in July 2015 at which a number of questions arising from the examination of financial reports were raised. However, the current DA was not employed in the district during 2013 so was not in a position to comment on many of the transactions. Although the DA was able to confirm that significant items paid for in 2013 from DSIP funds had not been delivered.

1.13 Travel to Esa'ala District was not possible due to safety concerns regarding travelling off-shore by banana boat. The District Treasurer and District Administrator Esa'ala District had produced a large amount of documentation for examination by the review team during a visit to Alotau early in 2015 but Esa'ala officials declined to travel to Alotau again for the review, therefore the district was not included in the review.

Governance Arrangements

Provincial and District Services Improvement Programs

1.14 The key principles of PSIP and DSIP are: greater ownership, affordability, value adding, sustainability, leadership and optimum resource utilization. Underpinning the key principles is the Government's Policy of *"Achieving National Equity in Development through the Strengthening of Basic Service Infrastructure"*. The theme of the policy encapsulates the spirit of the PSIP, DSIP and LLGSIP and is directly related to the Ten Principles of the Medium Term Development Plan (MTDP 2010-2015), DSP (2010-2030) and Vision 2050.

1. The original objective of the PSIP and DSIP was to provide minimum service delivery standards through the re-establishment of basic infrastructure and facilities in the areas of health, education, law and justice, quality water and sanitation, transport, communication and rural electrification. In October 2012, NEC Decision NG 102/2012 directed that the SIP funds would be broken down into six sectors with the following allocation of SIP funds: 30% to Infrastructure Services Support
2. 20% Health Services Improvement
3. 20% Education Services Support
4. 10% Law and Justice Services
5. 10% Economic Sector Support
6. 10% Administration, broken down into 3% for general administration support including JPP/JDPBPCs and the Project Management Teams, 3% for project related travel by the Chairpersons JPP/JDPBPCs or their delegates and 4% project scoping and mobilization costs.

1.15 All Provinces and Districts are required to have a rolling FYDP which provides the direction for development based on the sectoral key priority areas of the National Government. From this plan PSIP and DSIP projects are to be identified, assessed, prioritized and approved for implementation by the JPP/JDPBPC and a list of approved projects forwarded to DIRD together with the relevant Project Formulation Documents.

1.16 The expenditure of PSIP and DSIP funds is governed by the Provincial or District Management Team under the leadership of the elected Member of Parliament as chairperson of the JPP/JDPBPC while the actual expenditure of the funds is monitored by the Provincial or District Administrator and facilitated and reported by the Provincial or District Treasurer. PSIP and DSIP funds are to be expended within the framework provided by the PF(M)A and Finance Instructions and are to comply with all policies and procedures, including procurement procedures, and to ensure value for money.

1.17 Up until June 2013 a trust account was used for DSIP funds. From June 2013 the Provincial Treasury Operating Account has been used for PSIP funds and the District Treasury Operating Account used for DSIP funds. Financial Instruction 1A/2013 dated 14 June 2013 documents the PGAS chart of accounts which is to be used by the Treasuries for PSIP and DSIP transactions. During 2013 (the period under review) funds could be moved from one sector to another (except the 10% administration component) provided that the reallocation was approved by the JPP/JDPBPC and justified in a letter to and approved by the Minister for Planning in consultation with DIRD and the Secretary Department of Finance.

Function Grants and Minimum Priority Activities

- Provinces also receive Function Grants with which to deliver MPAs. The Function Grants are calculated using a formula which takes into account the estimated recurrent cost in each Province of providing a defined set of service delivery functions including administration, less the anticipated revenue of the Province. There are five Function Grants each with specific deliverables noted below:
 - Health Function Grant
 - Operation of rural health facilities
 - Drug distribution
 - Integrated health outreach patrols
 - **Education Function Grant**
 - Provision of school materials
 - Supervision by Provincial/District Officers
 - Operation of District Education Offices
 - **Transport Maintenance**
 - Road and bridge maintenance
 - Airstrip maintenance
 - Wharves and jetties maintenance
 - **Agriculture**
 - Extension activities for agriculture, fisheries and forestry
 - **Village Courts**
 - Operations of village courts

1.20 These are the minimum activities that must be funded from the Function Grants each financial year. Function grants can be used for funding other recurrent goods and services within each functional area. The National Economic and Fiscal Commission (NEFC) reports each year on its assessment of the allocation of Function Grants against key performance indicators (KPIs) for each Function Grant. The NEFC reports indicate that no province has delivered 100 per cent of the function grant allocated against the KPIs.

Roles and Responsibilities

1.21 Service delivery in PNG has been affected by the progressive devolution of powers from the national to subnational governments after independence. In 1977 the Organic Law on Provincial Government (OLPG) was passed, which provided authority for sub-national governments to provide and administer services. The OLPG attempted to decentralize responsibility for delivery of services, but it didn't clearly allocate responsibilities between the levels of government. Further decentralization came in 1995 with the enactment of the Organic Law on Provincial Governments and Local Level Governments (OLPGLLG), which was a significant administrative change and was an attempt to clarify the responsibilities of provincial and local level governments. The 2013 District Authority Act was an amendment to the OLPGLLG and further decentralized administrative functions to the district level.

1.22 As a result, service delivery in PNG is complex, with all levels of Government

contributing to varying degrees. For example in the Health sector there are hospitals which are funded and managed by the National Department of Health and others that are managed by the Provincial Administrations. Health centres are often managed and resourced by the Districts while the LLGs manage aid posts. Generally speaking the Department of Health is responsible for staffing but the sub-national authorities are responsible for infrastructure, equipment and supplies using funding from a number of sources. In the education sector, the National Department of Education is responsible for developing, implementing and coordinating national education plans and policies. Provincial and local level governments are responsible for developing and operating schools and most school infrastructure development is carried out at the provincial level.

1.23 For the 2013 year, SIP Guidelines described the JPP/JDP&BPC as playing the central role in the development of the Five Year Rolling Development Plan, the key development document within the Province or District. On a regular basis the JPP/JDP&BPC is to assess, evaluate and prioritise the development projects documented in the Development Plan. This should provide the basis of an Annual Plan. The SIP Guidelines and Finance Instructions specify that the Development Plan is to be a rolling FYDP. This means that on an annual basis the FYDP should be assessed for continued suitability, updated if required and extended for a further year to ensure that the Province or District has in place at all times a plan which recognizes the sometimes changing need of the Province or District.

1.24 With regard to the Function Grants, Provincial and District Administrations have established Sector heads which are responsible for the management of respective Function Grants. The way in which Function Grants are administered differs from Province to Province. In some Provinces parts of the Function Grants are distributed to District Administrations while in other Provinces the Districts are bypassed and funding is distributed directly to Local-level Governments.

Payment of Funds to Recipients

1.25 Not all Provinces or Districts receive their full SIP funding each year. Similarly, Provinces and Districts may receive their allocations at different times of the year. The allocation of SIP and Function Grant funding depends on the availability of funds and the National Government's cash flow. With careful management the timing of the allocation of the SIPs should not be an issue for the Provinces or Districts as funding received late in the year can be carried over to the following year so projects should continue without undue delay.

1.26 It may however be a problem for the delivery of MPAs under the Function Grants where progress is monitored and reported annually. In addition to this no Province receives 100% of the funding necessary to carry out all MPAs which means that Provinces are required to provide additional funding into MPAs. The extent to which this occurs varies from Province to Province.

2. Assessment of Service Delivery by Province

Milne Bay Province

2.1 Milne Bay was one of the two Provinces chosen for the trial of the Service Delivery Performance Review. The purpose of selecting Milne Bay Province was to determine whether the methodology could be equally applied to Provinces that are perceived to have different standards of service delivery. Milne Bay Province is generally considered by National Agencies such as DoF, DoT and AGO to perform fairly well.

2.2 In Milne Bay Province the Health Function Grant is passed directly to the Provincial Health Authority which appears to be well managed and resourced and the hospital is well maintained. However the hospitals and clinics in the more remote Districts are not adequately maintained. For example on Kiriwina the hospital is in very poor condition. The same can be said of education where the Sector Head for Education at the Provincial Administration reported that the more remote schools are not inspected regularly so the level of education services reported to be delivered in remote areas cannot be verified at provincial level.

2.3 The Province appears to perform well in transport infrastructure. The roads and bridges around Alotau are well maintained. Many of the roads around Alotau are paved with bitumen and the main roads out of Alotau such as the road to East Cape are graded regularly. In Kiriwina/Goodenough and Samarai Murua Districts roads are reasonably well maintained though not paved. The standard of roads in the Districts is adequate for the volume and type of traffic.

2.4 Alotau and the other Districts in the Province have no road access for goods and all supplies are delivered by sea. As a result, there is a greater emphasis on facilities such as wharves and boat ramps within Milne Bay Province with priority given to the construction and maintenance of wharves, jetties and boat ramps. The location of Kiriwina/Goodenough and Samarai Murau Districts also meant that the cost of delivering services is much higher due to the need to have goods brought in from Alotau or other major ports by sea.

2.5 In terms of administration basic documents such as a FYDP and minutes of the JPP&BPC meetings could not be produced for review. This indicates a weakness in the capacity of the administration to carry out basic functions such as centralised records management.

2.6 The district that performed best in terms of the delivery of services was Alotau. The level of services delivered by Alotau District was good and decisions concerning expenditure were generally sound. The fact that Alotau town is also the administrative centre of Milne Bay Province no doubt contributed to the services available. For example the Provincial Health Authority contributes greatly to the availability of health services and there are many educational institutions within Alotau to cater for the District's educational needs.

2.7 However the review team found that Alotau District also managed its resources in a manner that contributed favourably to the availability of facilities within the District. An

example is the construction of the informal market which was managed by the District Administration using casual labour and DSIP funding.

2.8 The difference between Alotau District Administration and other administrations both in Milne Bay Province and in New Ireland Province was that it was possible to observe linkages between projects identified in the FYDP, the analysis, assessment and prioritisation of those projects by the JDP&BPC and DSIP expenditure. This meant that the District had a clear direction for infrastructure planning and it was the projects highlighted in the FYDP that were actually analysed, prioritised, approved and implemented. The review team found that in Alotau District DSIP funding was expended in accordance with the PF(M)A and Finance Instructions and that there were very few transactions which did not comply with the intent of DSIP funding.

2.9 Samarai Murau District is centred around the island of Misima. Roads are of gravel construction, but appear to be adequate for the volume and type of traffic. Privately owned generators are used extensively to provide power to the few businesses on the island.

2.10 The major infrastructure project during the period covered by the review was the provision of subsidised roofing iron to households within the District under the Healthy Island Living Concept project. Documentation concerning the project used a recent drought as the driving force and the provision of roofing iron and water tanks was meant to capture rainwater. At the time of the review there was evidence of roofing iron being used extensively on Misima but no water tanks had been purchased.

2.11 The District Administrator advised that the provision of roofing iron was the first step in the project and that this would at least provide shelter for the people. Presumably the provision of water tanks, in line with the intent of the project, will follow at a later date. A more efficient use of the funding would have been to spend some of the allocation on water tanks to be supplied with the roofing iron thereby allowing the conservation of water by collecting rainwater.

2.12 The main priorities of the District according to the current FYDP (2011-2015) were health and education. The plan highlighted that Samarai Murua has a young population with 41% of people under the age of 15 years which will place additional demands on health and education services in the years ahead. One long-term goal for the District is to reduce the population growth rate from 2.3% in 2000 to 2.2% in 2015 and 2.0% in 2030.

2.13 When examining expenditure transactions the review team noted that there were some very large expenditure items referring to a very small number of projects. For example the only infrastructure project during 2013 was the supply of roofing iron and ridge capping with expenditure of K937,835. There was also expenditure of more than K700,000 on school desks and chairs which appears to be excessive and K495,000 on solar lamps which was forecast in the FYDP. The review team noted that just one JDP&BPC meeting was held during 2013. JDP&BPC meetings are supposed to be held at least once each quarter with additional meetings held as needed. One JDP&BPC meeting per year may not be sufficient to adequately assess, prioritise and approve projects.

2.14 Kiriwina/Goodenough is another island District of Milne Bay Province. The District Administration is located on Kiriwina Island. Facilities on the island are very basic. Initiatives that have been noted in other Districts such as rural electrification and the development of industries have not been pursued in Kiriwina/Goodenough and almost half a million kina of

DSIP expenditure in 2013 consisted of hand-outs of funding from the Open Member to churches and schools as 'member's commitment' and hand-outs of food to the general population.

2.15 There are numerous trade stores selling basic food items on the island but very little opportunity for most people to generate additional income. The review noted three transactions totalling K125,000 described as funding for sawmills which were difficult to reconcile with the lack of suitable timber on the island.

2.16 The District appears to have suffered from a lack of planning and poor financial governance resulting in poor service delivery. For example, it has become the practice for community groups to conduct basic road maintenance. In 2013 K70,000 was paid to community groups for this purpose. However this is done totally without planning by the Administration. A group of people decide to do a bit of maintenance and then present an invoice for payment. It appears to be the same groups that are maintaining small sections of roads in and around their villages while road maintenance is badly needed in other areas. The use of community groups for this purpose could be an efficient use of resources and a way to provide additional income for communities if planned and monitored by the District Administration.

2.17 The review team noted expenditure on two infrastructure projects during 2013. Both projects were for the construction of classrooms for two schools at a total cost of K450,000. The District Administration did not manage these projects but paid the funds directly to the schools to manage the projects themselves. The largest expenditure item, other than the school classroom projects, was for K2 million spent on pest control.

2.18 The review team noted three payments of K38, 042 on one cheque made payable to Bank of South Pacific Limited. Supporting documentation included a letter from the bank concerning a missing amount of K152, 170. K114, 127 was paid to the bank from DSIP funds so that the bank would open the agency again on the island.

New Ireland Province

2.19 New Ireland Province is comprised of Kavieng and Namatanai Districts and the Provincial Administration and Kavieng District Administration are both located in Kavieng town. This is a similar arrangement to Milne Bay Provincial Administration and Alotau District Administration being co-located.

2.20 Kavieng is a small town of pot-holed roads which functions on half a day of power each day. Part of the town receives power in the morning and the other part of the town in the afternoon. Disruptions to basic functions occur each day because of the power sharing arrangements. There is a considerable amount of noise produced by the use of generators by some businesses. Roads, even those in the middle of town, are generally in poor condition.

2.21 The Province does not have a FYDP and minutes of JPP&BPC meetings were not produced for review so it is not possible to comment on any links between planning, prioritising, approving and implementing projects by the JPP&BPC.

2.22 According to information that was provided to the AGO, the 2013 budget listed 15 projects under the various sectors. However, during 2013 the Provincial Administration had just two infrastructure projects underway which had been started but were incomplete.

One was the construction in Kavieng town of a Governor's Residence and the other was the construction of Government Haus in Namatanai. Neither of these projects was reflected in any planning documents, nor do they satisfy the criteria for funding under the DSIP, the PSIP or Function Grants.

2.23 The review was unable to form an opinion on the delivery of Minimum Priority Activities (MPAs) due to the lack of information available at the time of the review. Most Provinces report annually on the delivery of MPAs under the various function grants however the Provincial Administration could not provide a report or any relevant information on the MPAs due to staff absences, including the Provincial Administrator. The inability of staff within the Administration to access information for the review team is an indication of weaknesses within the Administration.

2.24 Examination of PGAS transactions reveals that significant sums of DSIP funding have not been spent on the maintenance or construction of infrastructure but on other expenditure including:

- K594,926 of K650,000 allocated for the construction of the Namatanai Technical College was used to pay school fees for selected students.
- K35,200 paid for the retrenchment of public servants.
- Over K100,000 paid to consultants for feasibility studies and other services which by 2015 had not resulted in any projects actually starting.
- K22,450 in potentially fraudulent payments were noted.

2.25 Kavieng District Administration is located in Kavieng town. Whilst there appears to be some benefit to the co-location of the provincial and district administration in Milne Bay Province this is not apparent in New Ireland. A full review of Kavieng District's expenditure under DSIP was not possible as the District Treasury was unable to produce any documentation for transactions from the DSIP Trust Account. This amounts to all transactions for the first six months of 2013.

2.26 The review noted that contractors and consultants were appointed on the recommendation of the Member or through an expression of interest. These include funding of K300,000 to a private company to bring their earthmoving equipment to Kavieng from Simbu (an additional payment of K50,000 to the company was also noted); a contract with a company worth K300,000 per year to audit project funds, formulate project documentation, secure funds through donors and the Department of National Planning and conduct feasibility studies; appointment of a company as project manager/coordinator of a Project Development Unit with funding of K200,000; and payment of K154,704 to an architect for the construction of a police station (these are very basic buildings and usually prefabricated or built to a basic design).

2.27 The review also found over K30,000 paid in advance to a company for fuel in amounts of K2,000, K4,000 or K6,000 per transaction, an amount of K60,000 paid to a local trading company described as repayment of money borrowed and K212,510 paid to educational institutions for school fees for individual students.

2.28 The other District in New Ireland Province is Namatanai which is located 258 kilometres from Kavieng. A bitumen road begins a few kilometres north of the town and ends a few kilometres south, which bypasses Namatanai town. This is the main road which

was constructed by the National Government. The roads around Namatanai town are dirt and generally in poor condition. Some power is provided by generator but it is unreliable and most businesses operate their own generators. At one time the town was powered by a hydro power plant but it fell into disrepair and was replaced by generators.

2.29 The District Administrator was informed by letter of the dates that the review would take place however the administrator and key members of the administration were not in attendance on the days that the team conducted the review. The review team was able to obtain PGAS reports and sight payment vouchers at the District Treasury and this was the basis of the review.

2.30 The District Administrator was subsequently summonsed to a hearing in Kavieng by the Auditor-General using his powers under the Audit Act. The District Administrator attended the hearing and co-operated fully. However, as he was not the District Administrator during the period under review the information he was able to provide was limited. Key documents such as the FYDP and minutes of JDP&BPC meetings (if any were held) could not be produced.

2.31 This is an indication of poor record keeping within the District Administration. Key documents should be kept on file and hard copies should be available for reference by staff to assist with planning and monitoring of DSIP expenditure.

Conclusion

2.32 In summary Milne Bay Province, in particular Alotau District performed best of the entities reviewed. Though a lack of compliance with Finance Instructions and DSIP, PSIP and LLGSIP Guidelines was noted there was no evidence of fraudulent transactions in either administration. Evidence of fraud or irregular transactions possibly suggesting fraud was observed at all other entities reviewed. A summary of findings is provided at Appendix 1 and further details of irregular transactions are at Appendix 2.

2.33 Poor planning and poor decision making by New Ireland Province and the other Districts impacted significantly on the quality of service delivery. Particularly in New Ireland Province there were many non-compliant or irregular transactions. SIP funding is intended to improve service delivery through the construction or maintenance of infrastructure. In all locations except Alotau (at both province and district level) it was very difficult to see any positive outcome for service delivery despite the millions of kina received annually specifically for this purpose.

2.34 Both Provinces and all Districts reported that they had received their full allocation of funds however Alotau was the only entity reviewed that could produce a PGAS revenue report as evidence showing the dates and amount of DSIP funding. Other entities could show Appropriations and Cash Fund Certificate Authorisations on PGAS reports but these figures are simply entered into PGAS and do not in themselves provide evidence that the funds were received. This is most likely an error within the District Treasuries. The Department of Finance has been approached on a number of occasions to provide financial data on funding allocated to the provinces and districts but to date this has not occurred.

2.35 Expenditure was noted in both provinces and all districts that were inconsistent with the purpose of the funding. For example travel allowances were paid that could not be shown to be related to DSIP projects and all entities reviewed showed the payment of school fees for individuals from SIP funds which should be used to improve the delivery of

services through the construction or maintenance of infrastructure. There were similar inconsistencies with Function Grant expenditure.

2.36 The inability to produce FYDPs and minutes of JPP/JDP&BPC meetings is a significant failure of accountability. Documenting decisions and the basis on which they are made, is essential in any organisation's corporate governance and critical to accountability. Proper records also help the organisation to deal positively with legal risks and should be available both electronically and in hard copy for easy reference. Similarly, missing financial documents are the responsibility of the head of a department (in this case the Administration or Treasury) under the PF(M)A (S5(1)(b)) specifically the requirement that all accounts and records relating to the functions and operations of the department are properly maintained. All entities reviewed were unable to produce all financial documents requested by the review team. In the case of Kavieng District this included payment vouchers and supporting documentation for all transactions from the DSIP Trust Account, that is, key financial records for the first six months of 2013.

2.37 A high level of compliance with the PF(M)A was observed at Alotau District. However, all other entities exhibited very low levels of compliance with the PF(M)A particularly in the area of procurement. There were examples of splitting invoices to avoid going to tender, appointing a preferred supplier while failing to obtain written quotations for significant purchases and falsely claiming a sole supplier status to avoid going to tender. The purpose of obtaining quotations and going to open tender is to ensure value for money by allowing the market place to set the price.

2.38 The review identified several transactions which suggested potential fraud and these have been referred for further investigation by the AGO's Forensic Audit Unit. These included a number of transactions totaling just under K20,000 over a period of months suggesting systemic fraud and K500,000 in one transaction. It is unlikely that this review has identified all potential cases of fraud that may have occurred, but what has been identified to date is most likely an indication of persistent and wide-spread abuse of DSIP, PSIP and Function Grant funds.

Appendix 1: Overview of Findings

Issue	Milne Bay Province	Alotau District	Kirawina/ Goodenough	Samarai/ Murua	New Ireland Province	Kavieng	Namatanai
SIP Funding Allocation	20 Million Kina	10 Million Kina	10 Million Kina	10 Million Kina	10 Million Kina	10 Million Kina	10 Million Kina
Rolling 5 Year Development Plan	No	No	No	No	No	No	No
Availability of Documents	No	Yes	No	No	No	No	No
Compliance with PF(M)A	No	No	No	No	No	No	No
Potential Fraud	No	No	Yes	Yes	Yes	Yes	Yes
Value of Irregular Transactions	K2.3m	K1.7m	K2.0m	K4.5m	K3m	K1.8m	K3.7m

Appendix 2: Detail of Irregular Transactions

Milne Bay Provincial Administration

Payment to the Department of Works (Alotau Branch) for the Construction of a Foot Path in Alotau

The Department of Works (Alotau Branch) entered into a contact with the Works Supervision Unit of the Milne Bay Provincial Government for the construction of a foot path in Alotau town. Although the actual contract was not sighted, the project was identified as the construction of a 2 meter wide foot path, covering a distance of 2.9 kilometres from Goilanai to Cameroon. Payment vouchers and correspondences indicate that the initial cost of the project was estimated at K100,000 but subsequently increased to K490,000 through a letter of variation.

A brief acquittal report dated 3 October, 2013 was provided by the Department of Works to the Milne Bay Provincial Works Supervision Unit on the expenditure of the initial K100,000 and also to request additional funding for the project. However, the report failed to adequately account for the expenses already incurred, including payments to Community Base Contractors which represented more than 80% of the project expenses. Furthermore, it appears that Works Unit failed to properly assess the status of the project before allocating further funding.

Also, as the project was expected to cost more than K50,000, three written quotations should have been obtained to select the most suitable contractor. However, the Works Unit did not obtain the required number of quotes. The failure to obtain three written quotations for expenditure over K50,000 amounts to a breach of Finance Instructions and the PF(M)A.

Furthermore, the lack of proper acquittal of project funds indicates poor accountability and transparency by the Department of Works. Also, the absence of a monitoring and evaluation report, suggests that the Works Unit had failed to properly monitor the implementation of the project and did not conduct a proper assessment for additional funding.

Purchase of Earth Moving Machinery from UMW Niugini for K1,358,500

The Milne Bay Provincial Administration purchased a Dozer and 1 Excavator from UMW Niugini at a total cost of K1,358,500. The acquisition of the earth moving machines was approved by the Provincial Supplies and Tender Board during its meeting number 5/2013 held on 24 September, 2013. The purchase of the machines was also supported by an Authority to Pre-Commit signed by the Provincial Administrator in accordance with the Finance Instructions and the PF(M)A.

However, it could not be ascertained if other suppliers were invited to participate in the bidding process for supply of the machinery. Furthermore, the contract between the Milne Bay Provincial Administration and UMW Niugini for the supply of the machines was not sighted and ownership documents were not provided for review and examination. Therefore, in the absence of ownership documents it was not possible to establish the

ownership of the machines or to ascertain whether the machines had been recorded in an asset register.

Moreover, the absence of a contract between UMW Niugini and the Milne Bay Provincial Administration for acquisition of earth moving machinery worth K1,358,500 is also in breach of the Finance Instructions and the PF(M)A since payments over K500,000 must be facilitated through a Contractual Agreement between the concerned parties.

Contract between Delta Timber Limited and the Works Supervision Unit for the construction of 3km of track from Poi to Nunumai Section Road

Delta Timber Limited was contracted by the Works Supervision Unit to construct a track, linking Poi to Nunumai section road at a total cost of K300,000. Records indicate that the company was registered with the Investment Promotions Authority (IPA) but it did not have a valid Certificate of Compliance (COC) in respect of year 2013. However, there was a lack of information to confirm whether or not a minimum of three written quotations were obtained as required by Finance Instructions and the PF(M)A.

Missing Payment Vouchers

Out of the expenditure transactions selected for testing, payments totalling more than K928,000 were not provided for verification. Details are provided in the table below;.

Cheque Number	Payee	Date	Amount K
3037 (missing digit)	NEW Engineering Surveys	27 May 2013	17,714
30343	CCT	27 May 2013	1,968
30747	NWS Engineering Surveys	12 June 2013	17,714
30738	CCT	12 June 2013	1,968
35912	Falstaff Limited	17 October 2013	25,000
32546	Samarai Murua Exports	7 August 2013	100,000
30615	Catholic Diocese of Alotau	4 June 2013	300,000
40191	AAM Brisbane	15 December 2013	150,000
36522	Masurina Ltd	7 November 2013	297,793
36953	Green Agro Technology	22 November 2013	8,683
37946	Leslie Lavong	14 December 2013	8,000
Total			928,840

The absence of the payment vouchers and the supporting documents meant that it was not possible to verify the authenticity of the payments referred to in the Table . Furthermore, the loss or misplacement of financial documents and information raises concerns about the safe keeping of the financial records by the Milne Bay Provincial Treasury . .

Education Functional Grants for Equipment Used for Other Expenses

Expenditure transaction details ledger for the Education Function Grant for 2013 showed an amount of K80,000 allocated for purchase of equipment. However, a total expenditure of K77,649 was spent on the hire of sea vessels and boats and recorded as other operational expenses. Under the government chart of accounts, hire of ships or boats are classed as expenditure for transport and fuel.

Furthermore re-allocation of funds from one vote to another must be approved by the JPB & BPC or by the Minister responsible for National Planning, Implementation and Monitoring where his or her authority is required. In this case, the hire of the marine vessels from funds allocated for purchase of equipment was not authorised, and should be further investigated by the relevant authority.

Payment to MV Matos Shipping K10,000

On 17 May 2013, an amount of K10,000 was paid to MV Martos Shipping for the charter of a boat to repatriate a teacher at Salamo High School. The cost of the charter covered the route from Alotau to Salamo High School then to Losuia as the teacher was residing in Alotau . However, it was observed that the payment made was the highest quotation whilst the lowest was for K7,500 by another boat company. The rationale for selecting the highest quote was not explained.

Payment to MV Aurora K46,200

On 31 December 2013, an amount of K46,200 was paid to the operators of MV Aurora. The purpose of the payment was for the charter of a boat for teachers' deployment and transportation of school materials. However, the payment was made despite the lowest quotation of K36,000 provided by another shipping company.

The PF(M)A is very clear on engaging suppliers with the lowest quotation to ensure affordability and economy, and to avoid waste of public funds. In the two instances noted above, the payments made did not comply with the PF(M)A, as they were the highest quotations..

Payment of K50,000 advanced to an Officer

On 31 December 2013, an amount of K50,000 was paid to an officer in the Department of Agriculture and Livestock to purchase and resell coffee on behalf of the Milne Bay Provincial Government. Whilst it was a good initiative to explore other means of raising internal revenue for the government, it was not possible to ascertain if the money spent achieved its purpose, as there was no acquittal report from the officer .

Alotau District

Expenditure Under DSIP Project Mobilisation

An examination of the PGAS Expenditure Transaction Details report showed that K93,817 out of an appropriation of K400,000 under Project Mobilisation was expended on travel allowances and accommodation. The review was unable to ascertain if the travel was directly related to project mobilisation. A payment of K69,500 for a land survey was noted

however most of the expenditure was on operational expenses such as office furniture, printing and sign writing. There was a payment of K15,000 with a description 'support police ops'. While little appears to have been expended on project related activities from this allocation the review noted a payment of K11,570 for site clearance from DSIP Education.

Out of a total allocation of K400,000 almost 25 per cent has been expended on items that do not appear to be legitimate expenses connected to project mobilisation. Expenditure that would have been expected from this allocation includes feasibility studies or project scoping. This means that legitimate expenses connected to project initiation such as the site clearance mentioned above may be being funded from another DSIP sector which can cause funding constraints in other areas.

Higher Education Tuition

The review noted an expenditure of K250,000 on higher education tuition from DSIP Education. This does not fit with the primary objective of DSIP which is to improve minimum service delivery standards through the re-establishment of basic infrastructure and facilities. Activities consistent with the intent of DSIP funding would be the construction of class rooms or teacher housing under the Education sector as this would have a lasting benefit.

The payment of tuition fees for a relatively small number of students is not an economical, effective or efficient way to improve education for the entire District as the payments benefit the select group of people whose tuition is funded without providing ongoing benefits to the District.

Payment of Wages and/or Overtime from DSIP Funding

The review noted that a total amount of K33,766 of DSIP funds was expended on wages or overtime payments. K28,660 of this amount was expended by the Open Member's Office.

As previously stated the primary purpose of DSIP funding is to provide minimum service delivery standards through the re-establishment of basic infrastructure and facilities, including socio-economic activities for essential services such as health, education, law and justice, quality water and sanitation, transport (air, sea and land), communication and rural electrification.

The allocation of DSIP funds to wages and/or overtime payments reduces the amount of funding available for the improvement of service delivery. An exception to this is an amount of approximately K100,000 used to fund casual wages for the construction of the informal markets.

This project was adequately managed by the District Administration and the markets were constructed within the allocated timeframe and budget. The alternative would have been to obtain three written quotations and hire a contractor to do the work. This would most likely have cost more and would have taken longer to achieve and on this basis, the District Administration's decision to manage the project themselves appears to have been sound.

Payment to Digicel

On 24 December 2013 K1 million was paid to Digicel (PNG) for the purpose of construction/installation of a mobile phone tower. This is consistent with the Five Year Integrated Development Plan.

Discussions with the District Administrator and senior officers revealed that the Administration had reached an agreement with Digicel under which the Administration financed mobile phone towers in the District for the sole use of Digicel. In return Digicel provided small hand-held tablets and internet access to Year 12 students within the District. Digicel had also agreed to provide one handset with K10 credit to each household in the District. While this initiative provided mobile phone coverage to certain areas within the District it also provided a commercial advantage to a single private company and guaranteed a revenue stream for the term of the agreement.

The improvement of communications is clearly a priority for the District and is identified as a legitimate use of DSIP funds. However it would have been better if the costs, benefits and risks of entering into an agreement with a single supplier had been identified. Other options, such as the construction of a tower that could have been leased to Digicel or any mobile phone carrier should have been explored.

Expenditure Under Law and Order

According to the PGAS Expenditure Transaction Details report K920,292 of the K1.5 million appropriated to DSIP Law and Order was expended. Of this amount over K500,000 was allocated to games and the provision of sporting equipment. The only significant item of expenditure that comes within the guidelines of DSIP was K349,280 allocated to a roofing project. However this should not have been expended under the Law and Order sector.

Whilst it can be argued that the provision of sporting equipment and the staging of games and competition can provide a healthy diversion for the District's youth these activity should not be financed from DSIP funds which should be applied to the replacement or refurbishment of infrastructure and the socio-economic activities described above.

Samarai/Murua

Payments to Karridale Limited

At the first JDP&BPC meeting of 2011 it was resolved to purchase 40,000 sheets of roofing iron under the Healthy Island Living Concept Program. Quotations were received from three companies; one for K2,465,991, another for K3,864,960 and the successful bidder Karridale, for K2,344,000.

Procurement of this value is supposed to be facilitated through open tender managed by the Provincial Supply and Tender Board. However, on 3 February 2013 K1.3 million was paid to Karridale Limited, with the payment divided between five separate invoices which were virtually identical to each other. Splitting a single procurement into multiple invoices to avoid review or competitive selection, can be a strong indicator of corruption.

Good Success Limited

The review noted a number of payments to Good Success Limited. One was part payment for roofing iron with a total amount of K204,270. While procurement of this amount normally requires three written quotations and a pro-forma contract, in this case payments were split to avoid competitive selection processes.

There were other payments to Good Success Limited relating to the purchase of desks and chairs for schools. A letter from the District Treasurer to the District Administrator dated 11 December 2012 refers to three separate claims raised for Good Success Limited amounting to K699,960 and advises the District Administrator that the claims should be combined as

one to comply with procurement procedures which for this amount would necessitate an open tender process managed by the Provincial Supply and Tender Board. However, the payments were split over three smaller amounts. These payments represent a clear breach of procurement procedures.

Counterpart Funding for Fishery Activities

On 12 August 2013, five cheques of K60,000 each, were issued as counterpart funding for fishery activities. Each one of the payments was made following submissions from individuals in the community to the office of the Open Member. Some of the submissions were seeking financial assistance and others appeared to be on behalf of companies for items supplied, however the supporting documentation is either incomplete or unrelated to the payments that were made.

These payments are inappropriate as fishery activities were not approved projects under the 2013 DSIP Budget. The items in question appear to be matters that should have been settled from the Member's Discretionary Budget and should not be financed from DSIP funds.

Payment of Individuals wages

On 23 December 2013 K3,000 was paid to an individual for services rendered. The supporting documentation explains the reason for engaging the individual was 'to do logistics for administration and Member's Office from October to December 2013'. Services rendered include assisting the Member's Executive Officer and Project Officer to distribute Healthy Island Living Concept equipment to wards, assisting the Member's Executive Officer to do education data validation and assisting the Member's Executive Officer and Project Officer to do logistics for the Member's patrol with the District Administrator to Murua LLG.

However, wages should not be financed through DSIP funds which should be allocated to infrastructure projects.

Payments to Misima Island Trader

On 4 October 2013 K17,727 was paid to Misima Island Trader Ltd. Included in this amount was a payment of K5,000 on a separate invoice also dated 4 October 2013. The purpose of the payment was for general stationery and groceries supplied for teachers in service. The review found that there are no itemised lists of the goods provided for the amount, nor a record of delivery or receipt of the goods.

On 25 June 2013 K53,600 was paid to Misima Island Trader. Included in this payment was an amount of K48,900 for vehicle maintenance. However, there are no detailed invoices showing the maintenance carried out or identification of the vehicles maintained.

Payments to Iwaky's Agro Consultancy Service

Between 13 August 2013 and 15 December 2013 payments totalling K29,500 were made to Iwaky Agro Consultancy or Kata Iwaky. The purpose of the payments was project mobilization for updating agriculture data in Louisiade Rural LLG. The supporting documentation included Contract Agreement between Iwaky's Agro Consultancy Services and the Division of Agriculture and Livestock, a copy of the 2013 DSIP Budget showing an allocation of K50,000 for a data survey and a letter from the Deputy Rural Development

Officer to the District Treasurer informing the Treasurer that the consultancy service is being contracted to Iwaky Agro Consultancy Services.

The document also revealed there was a copy of a letter to the District Administrator from the Examiner stating that three quotations are required and requesting evidence of the District Project Management Team (DPMT) awarding the contract. The Acting Rural Development Officer has answered the letter stating that three quotations are not required as it is payment for project mobilization (30%) and that there hadn't been a meeting of the DPMT since 2012.

An examination of documentation by the review team shows that whilst an amount of K50,000 has been allocated to the data survey the requirements for procurement of this amount is for three written quotations to be obtained. In addition, the review notes that despite no Certificate of Compliance being provided tax was withheld only from the final payment of K5,000 and not the payments of K15,000 and K10,000.

Payment of individual's rent expenses

On 14 August 2013 K5,400 was paid to an individual. The purpose of the payment is for outstanding rental for March to August 2013. Examination of the supporting documentation shows that the rental is for a property rented by the Health Extension Officer (HEO) Samuari.

In a letter to the Open Member the HEO explains that the arrangement was endorsed by the District Administration. However there is documentation attached to the payment that acknowledges that the officer is not entitled to rental assistance. There is also a notation on the Requisition for Expenditure stating that the officer is not entitled to rental and instructing that a check should be made with the Provincial Health Authority to determine the HEO's conditions of employment. It is clear from the supporting documentation that the HEO is not entitled to have rental paid. In any event, this is not an appropriate use of DSIP funds.

Payments to Kingstown Holdings Limited

On 18 December 2013 K368,940 was also paid to Kingstown Holdings Limited for ridge capping. Two quotations were included in the supporting documentation for this payment. On 19 December 2013 K423,860 was paid to Kingstown Holdings Limited for roofing iron. This project is consistent with the FYDP and the 2013 DSIP Budget. However procurement of this amount requires three written quotations.

On 25 November 2013, K347,000 was also paid to Kingstown Holdings Limited for the purchase of solar lamps for lighting under the Healthy Island Living Concept Program. This project was not part of the FYDP but was included in the 2013 DSIP Budget which was approved by the JDP&BPC. The amount of the invoice was K495,000 and an additional payment of K148,000 was subsequently paid on 20 December 2013.

All payments are a breach of procurement requirements in that procurement up to K500,000 requires three written quotations. The payments for the solar lights were supported by only two written quotations.

It has also been noted that as the ridge capping is necessary for the successful application of the roofing iron, the purchases are related and should have been managed as one

procurement item. In that case the value is more than K800,000 so the procurement should have been facilitated by open tender managed by the Provincial Supply and Tender Board. Splitting the procurement into two parts gives the appearance of attempting to circumvent established procurement procedures.

Samarai-Murua District Investment Limited

The review found a number of payments to the company related to maintenance of the barge MV Samarai-Murua and for funding to pay for the repatriation of patients transferred to Alotau for medical treatment. Examination of documents revealed that Samarai-Murua District Investment Limited is a company established by the District Administration for the purpose of operating the MV Samarai-Murua.

The review noted an initial allocation of K300,000 of which K150,000 was paid in June 2013, a further payment of K171,834 (both for repairs and maintenance of the MV Samarai-Murua) and a payment of K25,000 for medical repatriation also paid in September 2013. These are significant expenses which may benefit the community, but should not be paid from DSIP funding which is intended to provide minimum service delivery standards through the re-establishment of basic infrastructure and facilities.

Water Supply Feasibility Study

On 25 June 2013 K10,000 was paid to an individual and this was followed by a further payment of K18,000 on 14 August 2013. The purpose of the payments was for a water supply feasibility study. A water supply feasibility study was not included in the FYDP but had been included in the 2013 DSIP Budget and approved by the JDP&BPC.

The document Background Justification and Relevance of the Project indicates that only two quotations were received. Procurement of this value requires three written quotations. Neither quotation was attached to the payment. Awarding of a contract of this value without the appropriate written quotations is a breach of procurement requirements.

Repatriation of a Deceased Body

On 4 October 2013, K15,000 was paid to MV Tama Shipping Services for the repatriation of a deceased body. The review notes that Samarai-Murua District Investments Limited receives an annual budget to cater for medical repatriation.

Expenditure of this value requires three written quotations. The payment of this invoice without obtaining three written quotations is a breach of procurement requirements. The repatriation of the body of a deceased person should not be funded by DSIP.

Kirawina/Goodenough District

Payment to PNG Pest Control

On 15 October 2013 K340,000 was paid to PNG Pest Control. There are two documents supporting this payment. One states that the payment is for pest control management and spray of white ants for Losuia Health Centre whilst the other states that the payment is for 'pest control management and spraying of Losuia station for all staff houses, offices, schools and health centre, police station and etc'. Both documents quote invoice 02745 which states that the service provided was the initial treatment for control of subterranean termites for the hospital building.

The Examiner has queried the payment stating that two cheques, one for K165,000 made payable to PNG Fumigation Services and one for K201,300 made payable to PNG Pest Control were written on 11 April 2013 and collected the same day. The first cheque was in payment for treatment for the Kiriwina High School and health centres and the second cheque was in payment for treatment for the Kiriwina High School.

On 9 December 2013 a further cheque for K615,000 was also made payable to PNG Pest Control for fumigation work done at Losuia to the District Office, Treasury, Council Chamber, Airport Terminal and houses. The amount was made up of three invoices, for termite treatment for the hospital building (exactly the same description of the service provided as invoice 02745 described above), and a second invoice number 02745 but with a different date and description.

These payments require further explanation. The same invoice number has been used twice and two separate invoices for different amounts show the same description. Given the total value of the payments (over K1 million) this matter should have been managed by open tender by the Provincial Supply and Tender Board. Payments for pest control were raised in the Management Letter sent by the AGO to the District Administrator of Kiriwina Goodenough however no response was received.

Diodio Elementary School

On 23 August 2013 K10,000 was paid to the DioDio Elementary School. PGAS records describe the payment as 'member's commitment'. A note handwritten on the supporting documentation states that the amount is to be reimbursed from Education Sector funds when funds are available. This is not an appropriate use of DSIP funds and there is no evidence that the payment was reimbursed.

Payments for Sawmill

On 20 December 2013 two payments each of K42,057 were made, one to an individual and one to a company related to the individual for a Lucas Saw Mill and accessories. Approval had been given to pay K84,115 to North Kiriwina Timber Mill Omarakana at the JDP&BPC meeting held on 19 November 2012.

While the payment was approved by the JDP&BPC for the purpose of establishing a sawmill, it is not part of the FYDP. There are no records to suggest that the alternate use of the funding was considered or approved by the JDP&BPC. The review team considers the original approval of funding for a sawmill for Kiriwina lacks sound reasoning given the lack of mill-able timber on the island. Furthermore the review team visited the site where Mr Pulayasi was to establish the facility and noted a very small, incomplete structure which does not reflect an investment of K84,115 of DSIP funding.

Payment to Kiriwina High School Canteen

On 20 December 2013 K25,390 was paid to Kiriwina High School Canteen. The supporting documentation shows that goods were supplied by the Canteen for a variety of reasons however there are several instances of cash or cheques being obtained by the staff of the Open Member.

The supporting documentation includes a letter dated 30 November 2013 from the Headmaster of the Kiriwina High School acknowledging that he had breached the PF(M)A by

providing the funds to staff of the Open Member and requesting that the money be repaid as the Internal Auditor had given him until the end of December to rectify the matter.

The circumstances surrounding the obtaining of cash and cheques from the Canteen by staff of the Open Member require further explanation. No explanation was received from the District Administrator.

Payment to Bolubolu Vocational Training Centre

On 20 December 2013, K250,000 was paid to Bolubolu Vocational Training Centre for the construction of a double classroom. The supporting documentation includes a letter from the Open Member to the District Administrator dated 14 December 2013 instructing that a number of payments be made from DSIP funding.

The construction of the classroom for Bolubolu Vocational Training Centre is not a project under the FYDP, nor was it approved at the JDP&BPC meeting 01/2012 for implementation in 2013. The review team noted that no infrastructure projects were actually managed by the District Administration but instead sums of money were paid directly to a school or church for them to manage the construction.

There needs to be greater linkages between the initiatives included in the Five Year Integrated Development Plan and DSIP expenditure. The District Administration should pay an active role in the implementation of infrastructure projects to ensure value for money and that the projects are delivered as planned.

Payment to Moratau Circuit United Church

On 22 May 2013 K20,000 was paid to Moratau Circuit United Church – Goodenough as the Member's Commitment to the church as host of the Papuan Island Regional Synod. There is a note on file that the money is to be reimbursed by the Member, however the District Administrator informed the review that this did not happen. A number of instances were noted where the Member has committed money which was subsequently paid from DSIP funds to be reimbursed at a later date, but the reimbursements did not occur.

These payments do not come within the guidelines for the use of DSIP funds. The Open Member receives a discretionary budget which should be used for this type of expenditure. DSIP funds should only be used for projects identified in the FYDP and approved by the JDP&BPC.

Payment of K10,000 to Salona Trading Losuia

This cheque is actually for the Losuia Police Station as payment for fuel, rations and allowances for police to carry out Christmas and New Year operations. This payment is one of several made to business entities as a means of providing cash for various reasons. This is necessary as the bank agency often does not have cash and requires several days to clear cheques. Presumably payees can obtain cash quickly by cashing a cheque through a trade store.

Using a business entity as a means of cashing a cheque does not contribute to transparency in financial transactions and is to be discouraged. Furthermore police operations should not be financed by DSIP funds.

Payments to JJ Tiarere Construction

Two payments totalling K14,000 were made for maintenance of the magistrate's house in Losuia in November and December 2013. The supporting documentation consists of a copy of the one page contract agreement which details the conditions of the contract but fails to specify the services that will be performed as part of the contract.

Procurement of this value requires three written quotations. There is no supporting documentation to indicate compliance with procurement procedures as specified in the PF(M)A and Finance Instructions.

Payment to Kauteyava Trading and Salona Trading

On 20 August 2013 K23,000 was made payable to Kauteyava Trading for 'food stuff' for distribution to various communities for an Easter Program as instructed by the Open Member. A note on file states that the money is to be reimbursed from the Open Member's DSG funding. The record shows that the money was not reimbursed. On 21 August 2013 a similar payment of K36,583 was made to Salona Trading as part payment for the same Easter Program.

The documentation included with the payment of K23,000 to Kauteyava Trading and the payment of K36,583 to Salona Trading indicates that K95,000 was spent on food to be distributed by the Open Member to villages in the District. This is not appropriate expenditure under DSIP.

Payment to an Individual

On 18 October 2015 cheque number 241507 for K10,000 was made payable to an individual in payment of artefacts obtained by the Open Member. The supporting documentation includes an invoice/statement number 12 itemising the artefacts supplied and a letter stating that they were used for decoration of the hall used for fundraising for Team Milne Bay at the Holiday Inn on 30 October 2012.

The price of K10,000 for the items purchased is excessive and is not reasonable value for money. This is not a suitable activity to be financed by DSIP funds.

Purchase of Computers

On 15 October 2013 K24,791 was paid to Daltron. Enquiries revealed that this was for the purchase of five lap top computers for the District Treasury staff. Three written quotations were obtained for the lap tops however the supplier was not the lowest quotation.

The resourcing of District Treasuries is the responsibility of the Department of Finance. All equipment required by the District Treasury should be provided by the Department of Finance. This is an inappropriate allocation of DSIP funds.

Payment to Bank of South Pacific Limited

On 20 August 2013 three payments of K38,042 were paid to the Bank of South Pacific Limited. Supporting documentation includes a letter from BSP concerning a missing amount of K152,170. This suggests that there was a fourth payment of K38,042 to make up the full amount however this was not financed from DSIP funds.

Enquiries with District Treasury staff revealed that there was a BSP agency located within the District Treasury and staffed by District Treasury Officers. An audit and subsequent

investigation by BSP revealed the missing funds. BSP closed the agency and would not reopen until all money was reimbursed. This is the only bank presence on the island and caused much inconvenience to residents. All missing money was reimbursed by the District Administration and the agency reopened.

District Treasury staff were of the opinion that the matter was investigated by the Provincial Treasury but that it had not been referred to the police for criminal investigation. However, the missing BSP funds appears prima facie to be illegal and should have been referred to police for full investigation. The reimbursement to BSP is not an appropriate use of DSIP funds.

Payment to Dapaldy Limited

On 03 September 2013 K39,491 was paid to Dapaldy Limited for the purchase of mobile phones and lap tops. There is no supporting documentation apart from the invoice for the goods. Three written quotations should have been obtained for procurement of this value.

Payment to Hessed Trading

On 17 December 2013 K10,000 was paid to Hessed Trading. The PGAS Expenditure Transaction Details report gives the description of goods/services as 'Member's commitment'. A file record states that the payment is for the maintenance of three dinghies and three 40hp engines in Alotau. There is a notation that the dinghies are personal and not the responsibility of the District Administration.

Supporting documentation includes a memo from the District Treasurer stating that a number of claims had been paid on instructions from the Open Member's office and that the payments had never been endorsed by the JDP&BPC. The memo refers to continuous pressure from the Member to process the claims. There are also comments from the Examiner requesting instructions from the Member as the payment is not related to DSIP.

This appears to be an example of the Member using his influence to have inappropriate payments made from DSIP funds. No comment on this issue was received from the District Administration.

Payment to Oyabia/Orabesi Sunday School

On 1 October 2013 K25,000 was paid to Oyabia/ Orabesi Sunday School for the purchase of Sunday School uniforms. This had been approved by the JDP&BPC under resolution number 19/2012 at meeting number 01/2012. No information was given in the supporting documentation regarding the number of uniforms to be purchased or the unit price of the uniforms.

The primary objective of DSIP funding is to provide minimum service delivery standards through the re-establishment of basic infrastructure and facilities. This is not an appropriate use of DSIP funds.

Payments to Community Groups for Road Maintenance

The review found that nearly K70,000 had been paid to various community groups for road maintenance in 2013. Staff of the District Treasury explained that this is not a planned activity but when community groups are so inclined they carry out some road maintenance and submit an invoice for payment. As a general rule the roads on Kiriwina are adequate

and the review considers that having maintenance carried out by community groups is beneficial to the island. However the maintenance should be planned and monitored to ensure that the work is carried out when necessary to a pre-determined standard.

Having community groups carry out road maintenance whenever they wish is not an efficient way to provide this service. Road maintenance should be pre-planned according to where maintenance is required. An agreement should then be formalized with community groups and the work inspected prior to payment. This is an appropriate use of DSIP funds but should be better managed.

Payment to DOME KRB Ltd

On 3 December 2013 K100,000 was paid to DOME KRB Ltd as payment for water supply and sanitation scoping for Kiriwina. There is a notation on the documentation by the District Treasurer indicating that there was a lack of proper documentation supporting the claim but that due to continuous pressure from the District Administrator's office he had no choice but to process the payment.

Supporting documentation includes an invoice and a letter from the company to the Open Member expressing interest in carrying out the scoping. The Financial Management Manual states that expressions of interest are not to be used for procurement purposes but merely for obtaining an indication of the cost. Procurement of this value requires three written quotations. The appointment of this company on the basis of an expression of interest is a breach of the PF(M)A.

Purchase of Pharmaceuticals

On 12 December 2012 K170,000 was paid to Toitop Pharmaceuticals Ltd for the purchase of medical supplies for Losuia and Goodenough Health Centres. The basis for the purchase was a letter of recommendation from a Rotary Project Medical Officer who had been approached by Toitop Pharmaceuticals regarding the establishment of an alternative or supplementary system for medical supplies. Policy Submission number 16/2012 resulting from JDP&BPC meeting number 01/2012 held on 19 November 2012 shows that the matter had been discussed and approved at that meeting.

In January 2013 K170,000 had been paid to Toitop Pharmaceuticals Ltd and although some items were received in February 2013. Attempts to communicate with the company were unsuccessful. A further order was placed with the company on 14 March 2013 but no medical supplies were received. It appears that no action was taken to recover the money from Toitop Pharmaceuticals Ltd. and that this matter has not been pursued.

Procurement of this value requires three written quotations. The supply of drugs is a Minimum Priority Activity under the Health Function Grant and not an appropriate use of DSIP funds.

Payments to Kidron Land Conveyance Services

On 21 and 30 September 2013 K90,000 was paid to Kidron Land Conveyance Services for services involved in the identification of the rightful owners of Boli Point and Kaibola Beach, two sites at which a wharf and jetty were to be constructed. Supporting documentation includes minutes of JDP&BPC meeting number 01/2012 held on the 19 November 2012 which refers to a submission to engage the company and a contract dated 6 January 2013

for land conveyancing appointing the company for the investigation and conveyancing of selected wharf construction sites on Kiriwin Island for a fee of K165,000.

There is no indication in the supporting documentation that three written quotations were received prior to the submission to appoint the company being passed at the JDP&BPC meeting. A notation on the supporting documentation states that the claim was paid due to pressure from the office of the District Administrator. This is a breach of procurement procedures. The FYDP makes provision for the construction of a jetty on Kiriwina during 2013. There is no mention of a wharf.

Purchase of Solar Lighting Kits

On 14 October 2013 K50,000 was paid to SES Limited as part payment for the purchase of solar lighting kits for Kiriwina Goodenough for distribution to all villages in the electorate. Supporting documentation includes Policy Submission number 09/2012 from JDP&BPC meeting number 01/2012 held on 19 November 2012 endorsing the project. The total value of the project was K280,000. The submission states that two quotations were received.

Procurement of this value requires three written quotations. A unit price of K850 plus GST appears to be excessive for a product of this type. This is a breach of procurement procedures and represents poor value for money.

Construction of Double Classroom at Watuluma Secondary School

On 15 December 2013, K200,000 was paid to Watuluma Secondary School as part payment of K350,000 for the construction of a double classroom. The review noted a number of instances where large sums of money were paid to schools or churches for infrastructure projects.

DSIP projects should be managed by the District Administration so that sound financial governance can be maintained. Handing over large sums of money to schools or churches carries risks that the projects will not be delivered to standard.

New Ireland Provincial Administration

Construction of Government Haus in Namatanai and Governor's Residence in Kavieng

A Contract Agreement was executed by the New Ireland Provincial Government with C&C Group Limited for the design and construction of Government Haus in Namatanai and the Governor's residence in Kavieng. A signed but undated copy of the Agreement showed that each project was to have been constructed at a cost of K1.96 m, resulting in a total cost of K3.92 m. A requirement of the Finance Instruction 01/2013, was that expenditure over K3 m was subject to the approval processes and procedures of the Central Supplies and Tender Board (CSTB).

However, it was observed that the projects were not forwarded to the CSTB for approval, nor was there a FYDP. Also, there was no other documentation that set out the selection criteria for this funding and as a result, there were no records to explain the administration's assessment of the benefits that these projects would contribute to service delivery. Furthermore, JPP&BPC meeting minutes were not made available for review to ascertain whether the projects were approved through a proper process. Under these circumstances, it is difficult to see how the construction of Government Haus in Namatanai and the Governor's residence in Kavieng would improve service delivery, or benefit the people who reside within the Province.

Both projects were managed by Public Works New Ireland Limited, under an arrangement whereby all claims of the C&C Group were invoiced to the project management company, which in turn would invoice the New Ireland Provincial Administration.

Although not all relevant payment vouchers were provided for review, financial and other records show that at the end of 2013, more than K2 m had been paid to Public Works New Ireland Limited for building materials and design costs incurred by the C & C Group on the two projects.

It was noted, that the last payment was made in November 2012 and at the time of the review, no significant progress had been made on either building with only concrete reinforcing on site. Discussions with senior staff of the New Ireland Provincial Administration revealed that materials purchased for use on the construction of both projects were of poor quality and rejected as unsuitable for use in the construction of the buildings.

Notwithstanding the delivery of sub-standard materials, and the lack of progress with construction, progress payments continued to be made, and in some cases instalments were paid that exceeded the requirements of the contract schedule. Advice was received that representatives of the administration had travelled to the C & C Group Head Office in China but failed to revive the projects or recover the losses from the contractor. The parent company in China had indicated that the C & C Group was no longer operating in PNG and that the person who had managed its operations in PNG had disappeared with the funds that had been paid out under the contract. Furthermore, the actual payments to the C & C Group for project from inception through to the end of 2013 could not be verified due to the absence of financial records.

The expenditure and lack of progress on the projects to date represents a significant loss to the Provincial Government and acute mismanagement by Public Works New Ireland Limited in its inability to properly control, monitor and supervise the project for the amount spent. It seems likely that the Provincial Government will incur additional costs to revive the project, which will mean funding to other programs under DSIP will be reduced.

Payments to Aloga No 42 Limited

On 16 May 2013 K18,081 was paid Aloga No. 42 Limited under the Transport Infrastructure Function Grant for road works. This was followed on 13 June 2013 by another payment of K55,193, of which K29,309 was also from the Transport Infrastructure Function Grant.

Supporting documentation includes a letter from a manager of the company requesting payment and stating that road works were completed urgently on 22 August 2012 at the request of the New Ireland Provincial Governor because Members were going to drive past the area on their way to a meeting with the Governor.

These payments indicate a breach of the procurement process. Expenditure of this value requires three written quotations. The need to have the roads around town maintained should have been identified in a FYDP, assessed, prioritised and approved by the JPP&BPC and implemented accordingly.

Namatanai Technical College

Funds totalling K650,000 were allocated to Namatanai Technical College in the year 2013 from which a total amount of K594,926 was used to pay for school fees of New Ireland students attending various educational institutions around the country. JPP&BPC meeting

minutes were not made available to confirm whether approval was given by the committee or the appropriate authority for the re-allocation of funds from the Technical College to the payment of school fees. Payment of school fees is not an appropriate use of PSIP funds as it benefits a select few individuals and does not improve service delivery to the Province.

When funds allocated for a particular project are used on other expenditure, the timely implementation of the project is adversely affected. In this instance the expenditure of PSIP funds for non-PSIP related expenditure reduces the financial ability of the Province to deliver Infrastructure developments that will serve the wider population for years to come.

Irregular Payments to Primary Schools

Several instances were noted where cheques were raised under the Education Function Grant to a number of schools for “repayment of funds borrowed” from these schools by the Division of Education or payment to service providers of the schools. The refund payments to the schools and payments to service providers are shown below.

School/Payee	Date of Payment	Purpose of Payment	Amount of Payment
Individual 1	30 May, 2013	Services include pruning of tree & Flowers, cutting down of tree and mowing at Rawal Primary School	K1,000
Rawal Primary	20 May, 2013	Lawn mowing at Division area	K300
Enuk Community	4 June, 2013	Repayment of funds borrowed for salary officers trip to Port Moresby	K4,500
Maiom Primary	30 June, 2013	Repayment of funds borrowed for salary officers trip to Port Moresby	K5,000
Rawal Primary	20 June, 2013	Repayment of funds borrowed for contribution towards funeral expenses	K3,000
Amba Primary	4 June, 2013	Repayment of funds borrowed for contribution towards funeral expenses	K3,000
Rawal Primary	20 June, 2013	Repayment of funds borrowed for contribution towards funeral expenses	K3,000
Individual 2	4 June, 2013	Re-imbursement of repatriation expense for wife	K2,650

Verification of the payments included the examination of the payment vouchers and supporting documentation and interviews with two of the schools. This revealed that no funds had been lent to the Education Division and that no repayments had been received by the schools. However, the cheques were cashed.

The invoices that were raised in support of these payments suggest the existence of a scam involving individuals and public servants in the New Ireland Province to defraud the Provincial Government through bogus claims. These are cases that were uncovered during the review of expenditure for 2013 and it is recommended that an investigation be carried out for years 2013 to 2015 to determine the extent of the bogus claims.

Fraudulent activities such as this adversely affect the PSIP projects and programs resulting in a decline in service delivery to the Province.

Retrenchment of Public Servants

An allocation was made for the retrenchment program of public servants in the New Ireland Province in 2013. The actual expenditure for the program during the year under review

amounted to K35,200. Although the amount expended may seem immaterial, expenditures for retrenchment programs are not service delivery related expenses. Moreover, it could not be ascertained if the funding for such expenditure was approved by JPP&PBC in the absence of meeting minutes.

Retrenchment program expenses are not appropriate under PSIP as they should be funded through the recurrent budget of the Provincial Government. Service delivery to the Province is affected when funds are spent on non-PSIP related expenses.

Rural Health Staff Incentive

The New Ireland Provincial Administration experienced a shortage of health workers particularly in remote and rural areas. In an effort to recruit and retain staff the Provincial Administration decided to make incentive payments of K1,734 to 179 health workers from PSIP funds. The total amount expended was K299,999. The absence of JPP&BPC meeting minutes means that it is not possible to determine if the initiative was approved by the JPP&BPC.

This is an inappropriate use of PSIP funding and effectively reduces the amount of infrastructure projects that can be implemented to improve services to the Province. PSIP funding is to be used for the same purpose as DSIP funding, that is the re-establishment of basic infrastructure and facilities.

Kavieng District

LIMS Construction Limited

The minutes of the JDP&BPC meeting held on 5 November 2012 mentioned the engagement of LIMS Engineering Ltd to undertake all District infrastructure development projects. The minutes of the first JDP&BPC meeting of 2013 showed the endorsement of a submission requesting K300,000 to bring earthmoving equipment from Simbu to Kavieng via Lae.

On 27 March 2013 a further payment of K50,000 was made to LIMS described as additional payment. There is no mention in the JDP&BPC minutes provided of approval for the additional expenditure though the 2013 Annual Plan and Budget makes an allocation of K350,000 to LIMS Construction. This is a clear indication of disconnection between the FYDP, the Annual Plan and Budget and JDP&BPC prioritization and approval.

This arrangement is not consistent with the requirements of the PF(M)A in general or any Finance Instructions pertaining to DSIP or to documented procurement procedures.

Sons Survey and Project Systems

The minutes of a special JDP&BPC meeting dated 3 October 2012 state that an expression of interest was considered from Sons Surveys and Project Systems who offered services to work with the Kavieng JDP&BPC in the area of audit of project funds, formulating project documentation, securing of funds through donors and the Department of National Planning and conducting feasibility studies on potential areas for project development.

At another special JDP&BPC meeting on 15 October 2012 it was resolved that the Administration continue dialogue with Sons Survey and Project Systems. Later that year it was decided that the proposal would be considered when funds became available.

The first payment to Sons Surveys and Project Systems was made in June 2013 for K18,000, described as 'consultancy'. This payment was made through the DSIP Trust Account,

however all payment vouchers and supporting documentation for transactions through this account are missing. As a result, the purpose of the consultancy, and the basis of the payment cannot be determined.

The PGAS Expenditure Transaction Details report shows a subsequent payment of K49,500 on 6 August 2013 to Sons Surveys and Project Systems. Examination of the supporting documentation indicates that a Memorandum of Understanding between Kavieng District and Sons Surveys and Projects Systems for district projects consultancies services was signed on 30 July 2013. However there appears to be no approval of the proposal by the JDP&BPC. It is possible that approval was given at a meeting the minutes of which have not been provided for review.

As the MOU between Kavieng District and Sons Surveys and Project Systems was not signed until 30 July 2013 and there is no supporting documentation for the first payment made on 28 June 2013 the review cannot determine the rationale for the payment. However the MOU which is part of the supporting documentation for the second payment made on 31 July 2013 states that a monthly administration fee of K20,000 is to be paid together with K30,000 for acquitting and reporting expenditure for the past six months and K20,000 for project management training for District staff. Provision is also made for a fee for project management of not exceeding 30% of the total funding.

The MOU was to be reviewed after one year. A fee of K20,000 per month plus the fee for the additional items adds up to more than K300,000. The requirement for procurement of this value is three written quotations. If it was anticipated that the company would actually administer and manage projects the amount could very easily reach K500,000 in which case public tender would be required.

The appointment of Sons Surveys and Project Systems based on an expression of interest represents a breach of the PF(M)A and the relevant Finance Instructions.

Quattro Developments

On 11 July 2013, K140,000 was paid to Quattro Developments. However, supporting documentation for the transaction is incomplete. A JDP&BPC resolution approved the appointment of Quattro Development PNG Ltd as project manager/coordinator of the Project Development Unit (PDU) with funding of K200,000 to finance the operations of the PDU.

The initial payment to Quattro Development for the amount of K140,000 was described as a progress claim for work on three initiatives for Murat LLG. However the total cost of the three projects stated on the invoice is K580,000.

Procurement of services to this value should have been by tender managed by the Provincial Supply and Tender Board. There is no evidence to suggest that this procurement was managed in accordance with the requirements of the PF(M)A and Finance Instructions.

Payment for Epo Police Station

Three cheques were drawn in November 2013 for the amount of K154,704. No documentation was able to be provided to support any of the cheque payments. From the PGAS Expenditure Transaction Details report, it appears that the second cheque was a replacement for the first one, which was subsequently replaced by the third cheque. The purpose of the original cheque was for the Epo Police Station.

A review of the FYDP shows that police stations were planned for Kavieng Urban, Taskul (Lavongai), Lakurumau (Tikana) and Panapai (Kavieng Urban). However, no police station was planned for Epo. There is no prioritization or approval of the expenditure in the JDP&BPC minutes provided to the review.

Procurement of this value requires three written quotations. Clarification of the purpose of this transaction was requested in the Management Letter however no response was received. This transaction indicates a lack of co-ordination between the FYDP, the Annual Plan and Budget and the actions of the JDP&BPC and a failure to comply with established procurement processes and procedures.

2M Transport

On 30 August 2013 K16,200 was paid to 2M Transport for the installation of solar energy at Tasigina and Taskul Health Centres. An examination of the FYDP, the 2013 Annual Plan and Budget and the minutes of the JDP&BPC meetings do not indicate that solar energy installation at the health centres was a prioritized initiative.

In addition to this three quotations are required for procurement of this value. Copies of the valuations should be attached to the documentation supporting the transaction.

Fujianabure Limited

On 05 April 2013 K90,000 was paid to Fujianabure Ltd in payment for a training program. This payment was made from the DSIP Trust Account and no supporting documentation has been presented for any transactions from this account.

There is no justification of the expenditure in the JDP&BPC minutes which have been provided. Further information regarding this transaction was requested in the Management Letter but has not been produced.

Purchase of Fishing Vessel

On 19 April 2013 K400,000 was paid to Kidu Kidu Ltd for the purchase of a fishing vessel. An additional K90,000 was subsequently drawn to pay for delivery of the vessel.

Improvement of fisheries was an initiative of the FYDP and fishing vessel operations was nominated as an activity in the 2013 Annual Plan and Budget. Purchase of three vessels was mentioned in minutes of the JDP&BPC during 2012.

As the transaction was made from the DSIP Trust Account no supporting documentation was made available for examination. Further information to support this transaction and to ensure that procurement was managed in the appropriate manner was requested in the Management Letter but was not provided.

Country Legal

On 22 April 2013 K54,000 was paid to Country Legal. As this transaction was made from the DSIP Trust Account no supporting information is available. Further information is required to ensure the validity of the payment.

Niu Ailan Fisheries

On 24 June 2013 K100,000 was paid to Niu Ailan Fisheries for MV Blue Marlin. As this transaction was made from the DSIP Trust Account no supporting documentation is available. Further information is required to ensure the validity of the payment.

Traffic Island Ltd

During 2013 over K30,000 was paid to Traffic Island Ltd for fuel. The majority of the payments were for amounts of K4,000, K6,000 or K2,000. The invoices which accompany the payment records show simply 'being for fuel'. At the same time nearly K50,000 was paid to Islands Petrol. However the payments for Island Petrol were supported by invoices showing the amount purchased and the rate per litre. This information was lacking on the invoices from Traffic Island Ltd.

The payments to Traffic Island Ltd are irregular transactions, in that the actual amount of fuel purchased and the rate for litre for the fuel is not stated. Payments of this sort show a lack of accountability and transparency.

Piggery Project

The JDP&BPC approved funding of K40,000 for a piggery project (decision number 72/2013 of meeting number 08/2013 held on 8 October 2013). This decision was ratified by the District Project Management Team in October 2013. The FYDP and the 2013 Annual Plan and Budget do not make provision for payments to piggeries.

Department of Finance, Finance Instruction 1A/2013 dated 14 June 2013 states in S6.2 that *'DSIP projects will be identified, selected and approved by the JDP&BPC with the Open Member of Parliament as Chairman. The selection must also be consistent with the existing Five Year Rolling Development plan for the District and the Sectoral Key Priority areas stipulated by the National Government'*.

The investment in a piggery in Kavieng District suggests that the JDP&BPC is deciding how DSIP funds will be expended without reference to the FYDP, as required by the rules.

Bisi Trading Ltd

The PGAS Expenditure Transaction Details report for 2013 shows several payments totalling more than K80,000 to Bisi Trading Ltd. Two of these payments, totalling K60,000 were described in the report as 'money borrowed'. The supporting documentation indicates that these funds were payment for monies borrowed towards the NBC Celebrating 40th Anniversary in Kavieng. However, there is no itemized list of goods provided.

Procurement exceeding K5,000 in value requires three written quotations. Further investigation of these payments is required.

Allocation of K500,000 from DSIP Education for Tertiary Fees

At the JDP&BPC meeting held on 18 February 2013, it was resolved to allocate K500,000 from the DSIP Education funds to meet tertiary fees for students of the District and that the Chairman would approve the list of recipients. On 17 May 2013 a total of K212,510 was paid to various educational institutions from the DSIP Trust Account for the purpose of payment of school fees.

The primary objective of DSIP funding is to provide minimum service delivery standards through the re-establishment of basic infrastructure and facilities, including socio-economic activities for essential services such as health, education, law and justice, quality water and sanitation, transport (air, sea and land), communication and rural electrification. The payment of tuition fees benefits the select group of people whose tuition is funded without providing ongoing benefits to the District.

Namatanai District

Purchase of GPS Units from Panasoa Limited

On 29 November 2013 K900,000 was paid to Panasoa Limited for the purchase of GPS units for vessels in Namatanai. Authorised officials endorsed the documentation with a note to the effect that they been pressured by the administrator to pay this claim.

The invoice for Panasoa Limited dated 27 October 2013 for K900,000 which accompanied the payment was for a total of K340,850 for two types of GPS units, K50,150 for monitoring centre costs, K9,000 for training, K150,000 for logistics described at vehicles, boat and power engines, K100,000 for miscellaneous described as fuel, utility costs, NOC, finance and management consultancy and mobilisation and K250,000 for professional services described as configuration and setup and resource training.

Ultimately, it was found that the GPS units for which a quote had been given were unsuitable for the purpose. The company subsequently provided suitable GPS units which used satellite positioning, installed the units and monitored the units for a period of 12 months at a total cost of K400,000.

The payment of K900,000 to Panasoa Limited represents a probable fraud of K500,000 which appears to have originated from the Provincial Administration. This matter will be referred for further investigation by the Auditor-General's Office.

Payments to Namatanai Supermarket

On 30 August 2013 K6,000 was paid to Namatanai Supermarket. The purpose of the payment was for diesel fuel so that LLG members could be transported for swearing in ceremonies.

Supporting documentation shows that some forms were overwritten to reflect higher amounts than originally intended. However some details and signatures are illegible. The invoices showing the number of litres purchased do not square with the amounts paid. Overall, an amount of K7,344 was expended for diesel fuel for the swearing in ceremonies of LLG members.

The payment to Namatanai Supermarket requires further investigation. Moreover, the purchase of fuel for swearing in ceremonies of LLG members is not an appropriate use of DSIP funds.

The review also identified that in 2013 over K100,000 was paid to Namatanai Supermarket for fuel. The payments were for amounts ranging from K2,000 to K10,000 per payment and all payments were made in advance of supply of the fuel. However, no acquittal was produced to account for the fuel usage, the rate of supply or the cost per litre of the fuel. These payments also require further investigation.

Garden Enterprises Ltd.

In December 2013, over K400,000 was paid to Garden Enterprises Ltd and a significant proportion of this amount was for rations for distribution by the Member. This is not an appropriate use of DSIP funds and will be referred for further investigation by the Auditor-General's Office.

Payment to Mcjan Limited

On 30 October 2013 K200,000 was paid to Mcjan Limited in payment of various projects for the Youths Economic Project Sector. Supporting documentation includes an Expression of Interest from Mcjan Limited dated 23 September 2013. Procurement of goods or services of this value requires three written quotations. The Financial Management Manual clearly states that Expressions of Interest are not acceptable for procurement purposes. This payment has not been made in accordance with the requirements of the PF(M)A.

Payment to DEMAA Ltd.

On 14 November 2013 K50,000 was paid to DEMAA Ltd. The Project Formulation Document which accompanies the payment states that the total value of the project is K50,000 however the Contract Agreement which is not numbered states that 50% of the contract amount of K100,000 is to be paid as a lump sum. The contract and the invoice accompanying the payment both state that the payment is a part payment for works on the Nabumai teacher's house. The Project Formulation Document gives the total project cost as K50,000 whilst the contract and invoice indicate that the project cost was K100,000. However, the District Administrator was unable to explain the difference in costs.

Payment to Buenas Trading Ltd.

On 8 May 2013 K270,000 was paid to Buenas Trading Ltd in payment of a master plan for Namatanai Town Plaza. However, the minutes of a JDP&BPC meeting on 22 February 2013 refers to the allocation of an amount of K600,000 for the Namatanai Town Plan. Procurement of this value should be managed by public tender through the Provincial Supply and Tender Board.

Supporting documentation includes a document entitled Town Plaza images which show images of a proposed future development within Namatanai District. The District Administrator is not aware of any development referred to in this document having taken place in Namatanai since this master plan was developed. The District Administrator is also unaware of any such development being planned for the District.

Appendix 3: Minimum Priority Activities and Performance Indicators

MPA	Performance Indicator
Health Function Grant	
Operation of rural health facilities	Total number and names of health facilities Number of health facilities open and staffed Health facilities with access to running water in the labour ward
Drug distribution	Number of months health facilities were stocked with essential supplies
Integrated health outreach patrols	Total number of health patrols conducted including: <ul style="list-style-type: none"> • Number of administrative supervision patrols to health facilities • Number of patrols with specialist medical officers to health facilities • Number of maternity child health patrols to health facilities
Education Function Grant	
Provision of school materials	Total number of schools by type Percentage of schools that received basic school supplies before 30 April
Supervision by Provincial/District Officers	Number of schools visited by District or Provincial education officers
Operation of District Education Offices	Number of District Education Offices that provided quarterly performance reports
Transport Maintenance	
Road and bridge maintenance	Names and approximate lengths of Provincial roads maintained Names of bridges maintained
Airstrip maintenance	Names of rural airstrips maintained
Wharves and jetties maintenance	Names of wharves, jetties and landing ramps maintained
Agriculture	
Extension activities for agriculture, fisheries and forestry	Number of extension patrols conducted by Provincial government staff Number of people who attended extension sessions
Village Courts	
Operations of village courts	Number of village courts in active operation Number of village courts supplied with operational materials Number of inspections to village courts