



REPORT *of the* **AUDITOR-GENERAL**

PART II – 2014-2013

National Government Departments and Agencies

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



REPORT

of the

AUDITOR-GENERAL

2014-2013

**On the control of and on transactions
with or concerning the public monies and
property of Papua New Guinea**

Part II National Government Departments & Agencies



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30 September, 2015

The Honourable Theo Zurenuoc, MP
Speaker of the National Parliament
Parliament House
WAIGANI
National Capital District

Dear Mr. Speaker,

In accordance with the provisions of *Section 214* of the *Constitution of the Independent State of Papua New Guinea*, and the *Audit Act, 1989 (as amended)*, I have the honor to transmit to the National Parliament the Part II of my Reports for the years ended 31 December, 2014 and 2013.

The combined Report deals with National Government Departments and Agencies on the control environment and on transactions with or concerning the public monies and properties of the State of Papua New Guinea in 2014 and 2013.

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

Yours faithfully,

PHILIP NAUGA
Auditor-General

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LIST OF ACRONYMS

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

FOREWORD

My Report to the National Parliament for the years ended 31 December, 2014 and 2013 is presented in four parts:

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

Part II (this Part) of the Report deals with National Government Departments and their Agencies;

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

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

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

- **Summary results of audits of 2013 and 2014 accounts** are used to support the audit of the Public Accounts for the years ended 31 December, 2013 and 2014. In order to assess the reliability and accuracy of the reported expenditure and revenue of the 2013 and 2014 Public Accounts, 16 and 15 Departments respectively with significant budgetary appropriation were selected and their results evaluated; and
- **The control and transaction audits in 2013 and 2014 of each Department's** examined controls surrounding procurement and payments, asset management, human resource management, management of advances, bank accounts and budgetary controls. Management letters were sent to Departmental Heads to improve on the control weaknesses. Results of these are detailed under the individual Department and Agency included in this Report (*Part 2*).

ROLE OF THE AUDITOR-GENERAL – Introduction

Authority to Audit

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

Section 3, Sub-section (4) of the *Audit Act, 1989 (as amended)*, states that: “the Auditor General shall in such manner and at such times as he thinks proper, inspect and audit all accounts that relate directly or indirectly to:-

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

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

Audit Coverage

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

- **Audit of 2013 and 2014 accounts** - to examine statutory reporting, cash management practices, budgetary appropriations and in particular erroneous charges to itemized expenditure and year end processes. To support the audit of the Public Accounts for 2013 and 2014, 16 and 15 Departments respectively have been selected on the basis of significant funding in the 2013 and 2014 budgeted recurrent and development expenditure.
- **The control environment in 2013 and 2014** - to examine, controls surrounding procurement and payments, asset management, human resource management, management of advances, cash management and budgetary controls. Individual reports/management letters were sent to Departmental Heads to improve on the processes of the 2013 and 2014 control weaknesses. The results of these audits are detailed under the individual agencies included in this Report.

Responsibilities of Management

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

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

Responsibilities of the Auditor-General

Section 3 of the Audit Act, 1989 (as amended) requires me to satisfy myself that:-

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

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

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

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

Regrettably, the findings in this Report do not vary much from the findings in my previous audit reports. I am concerned about the lack of progress in improving financial management practices within Government Departments and Agencies. In recent PAC hearings the PAC Chairman spoke of the need for Departments to take positive action to rectify these recurring issues. He also stated that, my Office needed to take a stronger stance on ensuring that Agencies comply with financial management policy and guidelines.

CONTROLS ENVIRONMENT – Summary Results

Introduction

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

Control Environment – Sets the tone for an organisation. Provides discipline and structure and strongly influences the control consciousness of its people. Key factors: integrity, ethical values and competence of its personnel.

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

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

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

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

The Audit of Internal Controls

The audits of 2013 and 2014 controls were designed to assess the reliability of control structures to produce complete, accurate and valid information for financial reporting purposes.

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

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

The audits were not required to search specifically for fraud and therefore the audits cannot be relied upon to disclose all such matters. However, the audits were planned and executed so that I can have a

reasonable expectation of detecting material misstatements resulting from irregularities, including fraud.

Corporate Governance

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

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

Corporate Plan and Annual Plan

As stipulated in the *National Public Service General Orders 8.11* “the Departmental Head shall have in place at all times a Corporate Plan providing the future business strategies and planned objectives of his/her Department over a three to five year period. Based upon the Corporate Plan, and the programmed budgeting approach to managing his/her Departmental resources, the Department Head shall provide Annual Management Plans to meet requirements of the Budgetary cycle”.

However, the result of the audits indicated that out of the 31 Departments that I reviewed in 2013 and 2014, only 7 and 5 respectively did not prepare Annual Plans. Corporate and Business Plans are important as they set the targets and performance indicators to assist with monitoring of achievements and taking corrective actions. Departments without these plans have difficulty in measuring performance which in turn leads to ineffective and inefficient service delivery.

Internal Audit Committee

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

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

In that respect only one agency out of the six Departments that I reviewed in 2014, had no audit plan and in 2013 an Agency did not have an Internal Audit function established and an Audit plan to set out the scope of audit coverage. For the ten Departments that had Internal Audit, there was no Audit Charter in two Agencies to set out the mandate for the Internal Audit Unit. In the majority of cases there was insufficient capacity in trained staff and funding for Internal Audit to carry out its duties during the year.

Audit Committees have an important role to play in reviewing and advising on important components of corporate governance. An effective committee has the potential to strengthen the agency’s control structure and to assist the Chief Executive/Secretary to foster and maintain an appropriate control

culture. Ten out of 15 Departments and 16 out of 16 Departments covered in 2014 and 2013 respectively, had established Audit Committee functions.

Statutory Reporting

Quarterly and Annual Financial Reports

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

Six out of 15 Departments and 7 out of 16 Department respectively in 2014 and 2013 financial years that were audited, did not comply.

Annual Management Reports

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

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

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

Of the 15 Departments checked, only five had submitted these reports for 2014 to the Department of Personnel Management. In 2013, only one out of 16 Departments checked did not submit this report as required. Moreover, DPM had not acted on this non-compliance or had undertaken any follow up action.

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

Budgetary and Fund Controls

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

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

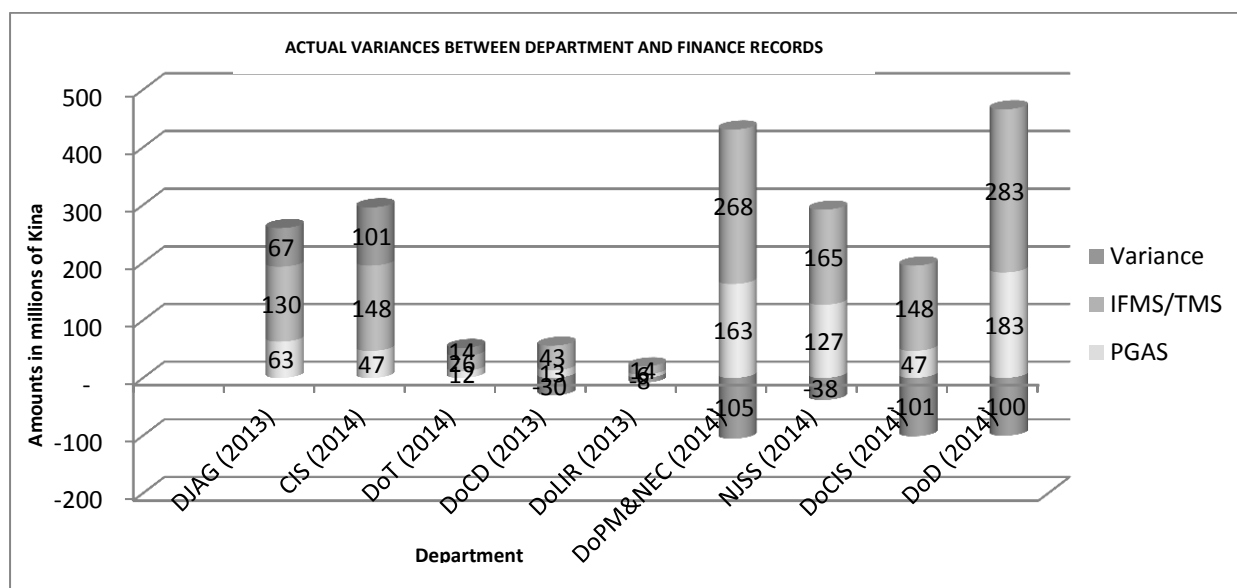
My audits indicated that controls in Agencies relating to the funds management and budgetary controls were generally inadequate. Weaknesses noted related to:-

- A lack of monitoring of expenditure in all 15 Departments in 2014 and 16 in 2013. Departments did not prepare cash flows statements on a regular basis to report on significant anticipated shortfalls or surpluses and to enable the Head of Department to make informed financial decisions. All Departments that were checked indicated non-reconciliation of their monthly PGAS report against the TMS/IFMS General Ledger maintained by Department of Finance. Massive variances were noted at year end for 2014 and 2013 in the revised budget, WA and actual expenditure as noted in the table below:

AGGREGATE VARIANCES FROM DEPARTMENTS AND FINANCE (DOF) RECORDS		
Particulars	31 December 2014 (12 Agencies)	31 December 2013 (14 Agencies)
Revised Appropriation	(K97,634,894)	K74,505,448
Warrant Authority	K1,281,484,482	K19,905,248
Actual Expenditure	K723,815,271	(K2,106,542)

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

- Incorrectly expenditures were charged to Vote Items for which funds were not appropriated, either through use of incorrect expenditure codes or through journal entries. There were also instances of funds being transferred between Divisions and functions as at 31 December, 2014 and 2013, contrary to the *2013* and *2012 Appropriation Act*;
- A lack of reconciliation between the PGAS and the TMS/IFMS which captures all the financial transactions processed through the PNG Government Main Public Accounting System.
- Each Government agency is expected to reconcile their records (PGAS) on both revenue and expenditure with the monthly records produced by the Department of Finance (TMS). If there are any differences between the two records, journal entries are required to be raised by the Departments to make the necessary adjustments ensuring that both records have the same information on their respective ledgers.
- Material variances in actual expenditure were noted in several agencies, however variances in three Departments in 2014 and four Departments in 2013 are shown in the graphs below:



- The non-performance of this very important control mechanism, reconciliation has a significant impact in the balancing of the General Ledger of the Public Account of PNG. What is captured on the main Public Account may not be a true and fair representation of the information being generated and processed during the financial year at the various Agencies.

Bank Reconciliations

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

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

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

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

- Bank reconciliations were current in only six out of 15 Departments in 2014 and nine out of 16 Departments in 2013. However, even in those entities, significant un-reconciled items were carried over for long period of time. In both years, two Departments had not performed any bank reconciliation for the year under review.
- In a number of Departments, the officers responsible for preparation of the bank reconciliations were not qualified and sufficiently trained.

- Not all Departments were submitting their bank reconciliation statements to Department of Finance within 14 days after the close of each month as stated in the *PFM Act*.
- Reconciling items on the respective reconciliation statements were not perused and cleared on a timely basis and of serious concern were the clearance of stale and un-presented cheques which continue to remain at the end of each fiscal year. K135,682,661 and K90,089,661 in 2014 and 2013 respectively were not verified and cleared.
- Stale Cheques totaling K4,625,396 and K4,494,658 for three Departments in 2014 and 2013 respectively were not cleared and written back to the respective cashbooks of the Departments and Agencies.

Assets Management

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

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

From the asset records of the 15 (2014) and 16 (2013) Departments audited, it was evident that:

- Asset Registers were either non-existent or they were not maintained properly in all Agencies. The lack of register exposes the entity to the risk that assets may not be utilized effectively, protected from physical deterioration or maintained properly;
- Periodic stocktakes were not conducted to determine the accuracy of assets on hand in all Agencies. In most cases the physical condition and durability of assets held were not properly ascertained. The risk of assets being removed without authority or through theft was high in Agencies that did not conduct periodic stocktakes;
- From the vouchers selected for testing, in excess of K16.8 million in 2014 and K7.4 million in 2013, I identified that payment details of unrecorded assets could not be traced to asset recordings, both resulting from lack of a register or simply not being recorded by any means; and
- Controls surrounding management of vehicle fleets were nonexistent. Custodianship of vehicles were not documented and identified to officers in possession, nor any review conducted on the custodial arrangements to ensure that the vehicles existed.

Procurement and Payment Procedures

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

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

During my audits, I noted that in most cases there was an extremely high rate of non-compliance with procurement and payment procedures. In the majority of Agencies there were no procurement plans or Quotation Registers maintained. Most importantly, monitoring of quality and quantity of goods and services received was not performed.

Other significant issues were:

- Payment vouchers were not examined for completeness and certified correct prior to processing for payment. These were noted in nine entities aggregating K2.7 million in 2014 and nine Agencies in 2013 amounting to K6.9 million;
- In 2014 and 2013 where detail testings were undertaken, missing vouchers were in excess of K291 million in 14 Departments and K12.9 million in 12 Departments respectively;
- Payments to suppliers were often made on pro-forma invoices and without required quotations. A number of agencies were making payments through this process; and
- In 2014 and 2013, payments made without approval from the Gazetted *Section 32 Officers* amounted to K132,000 in three Departments and K9.7 million in six Departments respectively.

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

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

Human Resource Management

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

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

Common weaknesses identified across the Agencies were:-

- Although payroll is processed centrally by the Information Technology Division (ITD) of the Department of Finance for public servants, it is the responsibility of the Departmental Head to ensure the Department's payroll is accurate and complete. I observed that there were no payroll reconciliations performed by HR throughout 2014 in six Departments and six Departments in 2013 that were checked. Previous audits indicate also that not many agencies

perform such reconciliations. The agencies did not maintain their own PGAS or Alesco ledger records but relied on the Department of Finance records. The lack of this key control can facilitate fraudulent payroll activities where payments processed outside the system such as manual cheques could not be easily detected in the absence of independent records and reconciliation;

- One of the important aspects of the HR function is to maintain records that demonstrate compliance with applicable human resource statutory and regulatory requirements, agency policy and agreements with other parties. Up to date records in respect of individual employees are vital and should be properly maintained. Testing of a sample of employee files in all Departments in 2014 and 2013 indicated that salary history cards were not updated on a regular basis with recreational leave, higher duties allowance, sick leave or tax declaration forms on dependents claimed;
- In some Departments, personnel files were generally not kept in a satisfactory manner. The files were left lying around on the floor area and not in a secure environment. There was a risk of loss of payroll, personal information or documents, damage to the files and also unauthorised access to payroll and personal information;
- It was a practice in some agencies where rental accommodation for contract officers were paid to real estate agencies in excess of the respective contractual entitlements; and
- Audit also noted that in some agencies where mobile phones and prepaid cards were purchased for contract officer's use, the officers were also receiving Telephone allowances as well.

Trust Account Management

Government agencies (or the Heads of Departments) are responsible for the maintenance of Trust Accounts. To ensure proper accountability of trust moneys, *Part 3* of the *PFM Act* requires the maintenance of adequate records and that collection of receipts and payments from Trust Accounts is done in accordance with the Trust Instruments and submission of periodic reports including monthly bank reconciliations to Department of Finance.

Consistent with the findings from previous years, the Departments were unable to ensure that the collection of receipts and the payments of trust money were in accordance with the Trust Instruments.

Further, I noted other issues including:-

- The existence of six Trust Accounts and four Trust Accounts in 2014 and 2013 respectively that were not operating under the Department's PGAS accounting system. As records are not properly maintained, monitoring of expenditure and compliance are not effectively performed;
- In most of the Departments with Trust Accounts, payments were made contrary to the Trust Instruments. These Agencies have also not submitted monthly reconciliations and statements of receipts and payment to the Department of Finance in respect of the Trust; and
- Surplus funds available in the Trust Accounts were not invested in line with the *PFM Act*. This was evident for most of the Trust Accounts administered by agencies.

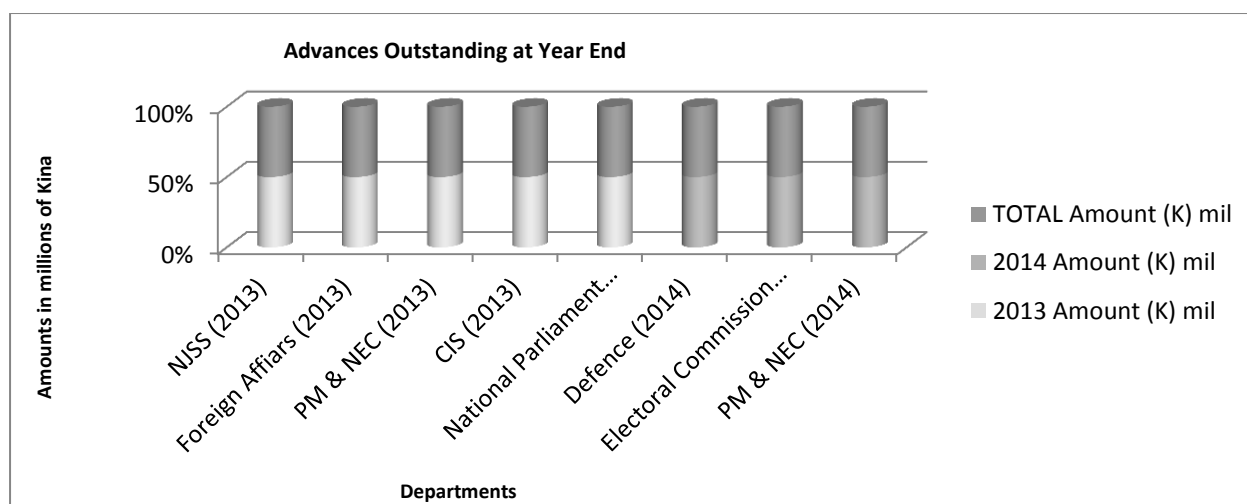
Advance Management

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

In addition, no second advance is to be made when the first advance is outstanding. Furthermore, the Financial Delegates should be reviewing the Register of Advances to make sure that all advances are being acquitted regularly as required and the advances should be used for the purposes intended.

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

- Unacquitted advances as at 31 December, 2014 and 2013 were in excess of K24.4 million in 2014 under 14 Departments and K5.0 million in 2013 under 14 Departments respectively. It was observed that most of these agencies issued further advances to officers whilst their previous advances remained outstanding;
- I observed the practice of Agencies paying significant amounts of cash to the Paymaster as cash advances was highly irregular. The cheques were cashed by the Paymaster/Paymistress and paid to officers of the Departments for various purposes. Such practice may have led to fraud as there was lack of documentation for an audit trail. These payments were noted in five Departments in excess of K8.1 million in 2014 and in excess of K2.5 million in 2013. Material advances were noted in several Departments. Examples are shown in the graph below for 2014 and 2013:



- Management of advances was very poor and there was no assurance over the completeness of the recorded balances. I identified K5.3 million unrecorded advances in 12 Departments and K1.6 million in 9 Departments in 2014 and 2013 respectively.

Conclusion

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

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

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

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

Unfortunately the results of the testing of accounts and controls in 2014 and 2013 revealed weaknesses of such magnitude and that material error could have been processed or misappropriation and fraud could have occurred. The results of my audits indicate that the systems of internal control within Agencies were ineffective, contributing to further decline in the level and quality of services provided. The senior management of most agencies reported in this Report had failed to exercise their financial management responsibilities well.

A broad range of internal control issues were raised with Agencies as part of this audit. In general, the results of the testing of controls in 2014 and 2013 were reflective of my Report for previous years and conclude that, overall, there continued to be significant weaknesses in Agencies' control environments. While a few Agencies have taken appropriate action to address reported audit issues, most Agencies have not made any attempts to address issues that have been outstanding for many years. Fundamental control activities, such as delegations, authorisation, reconciliations, management oversight and monitoring, were not sufficiently robust to prevent, detect or correct errors or fraud. Consequently, there is significant uncertainty over the reliability, accuracy and legitimacy of the reported financial information for most Agencies.

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

The content of this Report expound in summary the results of the audits of the 18 Departments in 2014 and 16 Departments in 2013 respectively. The individual audit observations and the appropriate recommendations were provided to each Department and Agency for their Management comments and corrective actions where necessary. For those Departments and Agencies that have responded, their comments have been included in this Report.

**DETAILS
of the
AUDIT FINDINGS
of
DEPARTMENTS AND AGENCIES.**

1. DEPARTMENT OF PRIME MINISTER & NATIONAL EXECUTIVE COUNCIL 2014

OVERVIEW

The Department's mission is to ensure that issues and concerns related to people are gathered, addressed and articulated through politically endorsed National Objectives, through which Department's Missions and Program Specifications are formulated and implemented. The major programs within the Department are:-

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

AUDIT FINDINGS

CORPORATE GOVERNANCE

- The Department has a Corporate Plan for the period 2011-2015 as required in *GO 8.11*;
- Annual Plan for year 2014 was prepared as required including Annual Management Report for year 2014; and
- The Department did not hold any Senior Management Meetings during the year 2014.

Management Response

"Your recognition (and commendation) of the significant improvements in having up-to-date strategic and operational plans and meeting timeframes for submission of quarterly and annual performance reports is appreciated. Your findings and recommendation with regards Senior Management Meetings is noted and accepted."

BUDGETARY CONTROL

Variances in Expenditure Balances from IFMS and PGAS records.

A comparison of the 2014 Expenditure Vote Summary print out produced by the Department of Prime Minister & NEC (PGAS) against the Expenditure Statement produced by the Department of Finance [IFMS 2157] indicated the following variances in the expenditure balances:

Variances of Expenditure Balances between IFMS and PGAS

Particulars	DoF :IFMS 2157 (TMS 100) (K)	DPM & NEC PGAS Record (K)	Variance +(-) (K)
Revised Appropriations	243,566,515	209,244,501	34,322,014
Warrant Issued	243,566,715	162,742,455	80,824,260
Actual Expenditure	268,302,771	162,703,455	105,599,316

I noted that variances in the expenditure balances was a recurring issue. Proper reconciliations should be done between the DoF and Prime Minister & NEC. The figures must be reconciled to reflect a true and fair value of public money spent.

Records maintained by Finance Department through the IFMS report revealed over expenditure by K41,553,538 in all the vote items under recurrent budget except for three vote items.

Expenditure incurred under economic item 219 (Unidentified Alesco) totalling K9,399 did not have a warrant authority.

Management Response

“As noted in your findings, this has been a long term, ongoing problem. PM & NEC fully reconciled its PGAS accounts, and has attempted to work with DoF to reconcile PGAS (and Alesco) with IFMS reports. Reconciliation and corrections in IFMS are the responsibility of DoF and beyond the control of PM & NEC. We stand by our PGAS reconciliations, which have been provided to DoF and acknowledged as accurate by DoF to our Internal Audit Committee. However, with the implementation of IFMS at PM & NEC in 2015, this problem will no longer be an issue. PM & NEC reconciled its 2014 PGAS closing balances, established reconciled balances in IFMS, and now fully operates its drawing account within IFMS. PM & NEC reconciles its drawing account in IFMS on a monthly basis. IFMS is now used as the single source for financial reporting by both PM & NEC and DoF.”

CASH MANAGEMENT

The Department of Prime Minister & NEC maintained a Drawing Bank Account (Account No. 4311-6139) with BPNG.

Audit verification of the documents and related schedules for the 31 December, 2014 bank reconciliation stated unpresented cheques of K21,972,793 as major reconciling item.

- Included in the Un-presented cheques of K21,972,793 were stale cheques of K11,551 dating back to September, 2012. A variance of K24,286,178 was noted in the total un-presented cheques between the Cheque Reconciliation Listing (after) and the bank reconciliation.

Management Response

The management accepted my findings and recommendations and promised to rectify the anomalies noted.

ADVANCE MANAGEMENT

My audit reviewed the Electronic Advance Register maintained by the Department for the year 2014 and related records and documents and I noted the following discrepancies:

- Advances payments totalling K18,421,228 were paid out in 2014. However, K10,885,895 was outstanding as at 31 December, 2014;
- A sum of advance payment totalling K1,797,696 did not indicate the “names” of Advance Holders, instead the record showed payee as “various” which was contrary to the *FMM*;
- 398 payments were made through the Paymaster totalling K6,407,171 during the year 2014. I advised Management that the practice of using the general name “*Paymaster and Pay mistress*” should not be entertained as all advances paid should be paid to the officers concerned for acquittal purposes;
- Ten payments totalling K1,230,551 were paid through the Paymaster during the “*close of accounts 2014*” for reasons being *cash advances for other contingencies and shutdown period*. Audit verified that payments were charged against unused funds/Items with Item 141 having the highest expenditure of K1,107,858. These funds were unused funds and were not refunded to CRF as per *FMM*; and
- A similar case was reported in the previous year 2013 when an amount of K500,000 as one-off payment was paid under the Paymaster for reasons as ‘*close of account and shutdown period payment*’, however no evidence of how the money was expended or acquitted was ascertained.

Management Response

“We accept your findings and the recommendations and have taken steps to improve in Management of advance payments. This is an ongoing problem that has been raised in your previous audits, particularly advances related to support for the Prime Minister’s travel and support for national events. Whilst it is disappointing that poor advances management continues to plague the department I would note that we have taken steps to improve in this area of our operations, including reviewing and updating the Cash Advances Management Policy, establishing a centralized advances register that confirms to the requirements of FMM Part 20, and imitating standard hastening letter and recoveries. Recoveries of Unacquitted advances for 2014 are being coordinated through the Departments Internal Audit Committee, and whilst recovery action is in its early stages progress is being made.”

ASSET MANAGEMENT

The Audit examination of the Asset Register and related records and documents revealed the following discrepancies:

- The Department maintained an acceptable Asset Register with improvements made to the previous audit report; however, as per *FMM Part 32*, separate Asset Registers must be maintained for each of the categories.

Examination of the Maintenance Schedule revealed that the Department operated a fleet of 45 motor vehicles as at time of audit in April, 2015:

- From the schedule verified, 32 vehicles were in running condition with one of the vehicles, under the custodian of a former staff. I was not able to ascertain reasons for such as there was insufficient information provided. Nevertheless, this was a State Property and should have been returned to the Department; and
- A total of K4,073,264 was expended on repair and maintenance of vehicles. With the huge amount spent, there was no proper control in place to monitor vehicles going in for service. Further, I noted that there were no schedule or plan sighted to serve as control measures for each vehicle's service plan.
- No log books were maintained to control and monitor daily use of the vehicles.

Management Response

"PM & NEC has invested in a centralised IT-based Asset Management System (AMS), which confirms to the requirement of the FMM Part 32. Unfortunately, we have experienced software problems with the system's implementation; however, these are being corrected. Aligned with the AMS is a Vehicle Management System (VMS) that will record all service and maintenance history for the department's vehicles. As with the AMS, system bugs are being corrected and the system should be fully operational in the last quarter of 2015."

PROCUREMENT & PAYMENT PROCEDURES

A review of 72 paid vouchers totalling K18,047,905 revealed the following weaknesses:

- A Computerized Quotations Register was maintained by the Department, however, a copy was not furnished to AGO for verification;
- Seven paid vouchers totalling K1,296,654 were not provided for audit examination;
- Two payments totalling K800,000 for legal fees were not examined and certified;
- *19 payments totalling K3,635,126 were made without obtaining three quotations;*
- *A reimbursement payment of K120,000 did not have any supporting documents to substantiate the payment;*
- Audit noted that 25 minor contracts were not sighted for significant payments made between K100,000 to K400,000 for suppliers totalling K5,422,375; and
- During the year, 2014, 602 hire of vehicle payments totalling K11,463,396 were made for the engagement of 118 Hire Car companies:

- Included in the total of K11,463,396, were 151 payments of outstanding vehicle hires for totalling K4,539,557 which was about 41% of the total car hire payments. These payments were unbudgeted expenditures; and
- A further review of the paid vouchers for "*outstanding vehicle hires*" revealed that eight payments were settlements made for the previous *Political Impasse period backdated totalling K1,669,109 in 2011/2012*. No specific budget appropriation was made for the settlement.

120 consultancy and Legal fee payments totalling K3,657,025 were made during the year. Out of these payments, consultancy and legal agreement files for 11 payees, totalling K1,498,986 were not provided for audit examination.

A reimbursement payment of K24,000 made for school fees payment by an officer was an overpayment of K8,000 as the original invoice was K16,000.

Seven payments amounting to K5,755,035 for renovations during the year, 2014 were incorrectly charged to *Vote Items 124, 128 and 135* instead of the correct *Vote Item 225* for Construction, Renovation & Improvement. I noted that this was a case of misappropriation.

Management Response

"We accept your findings and the need to take strong action to improve the Department's procurement and payment systems and processes. We have prepared a Centralized Procurement Policy, which aims to strengthen internal controls by preventing officers in Branches/Divisions from committing the Department to expenditure without the appropriate approvals and procurement processes being completed. Successful implementation of this policy hinges on the effective implementation and use of IFMS, which has strengthened system controls, and alignment of F&A roles with IFMS work flows."

HUMAN RESOURCE AND PAYROLL

Payroll reconciliation

- A review of the year end totals for Personnel Emoluments recorded under Department of PM & NEC - Pay no. 26 of 2014 as against the Department of Finance - IFMS 2365 under Personal Emoluments revealed that variances in expenditures balances was more under IFMS than Alesco Payroll. The non-reconciliation between IFMS Reports and Alesco Payrolls has been on-going issue and was not rectified.

Contract Officers

A review of the Contract Officers listing furnished to my audit revealed that the Department of PM & NEC had 71 contract positions available. I noted further that;

- 18 contract officers had their contracts expired and the Department was yet to make decisions for reappointment. The *General Order 9.66 (b)* specifically stated that the contract of the unattached officer shall be automatically extended for up to three months, pending confirmation in an unchanged or revised substantive position. Audit noted that most of the officers had their contracts expired in 2011 and a decision was still pending in March 2015, date of *Circular Instruction 1/2015*. This is in contrary to *GO 9.66 (5)*.

- Seven non-contract officers were noted acting on contract positions ranging from five months to three years.

Casual Employees

- The Expenditure Transaction Details – 2014, revealed that in 104 instances, payments totalling K165,547 were paid through the Paymaster for staff salaries contrary to GO 7.4 and 7.5 which states all casuals and part time employee shall be paid through government payroll.
- The Paymaster did not maintain a schedule of all payments made under the Paymaster to verify and reconcile that payments made were received by the authentic officers contrary to FMM Part 19 under Procedures for payment of Salaries, Wages and Overtime.

Management Response

“We accept your findings, and agree with your recommendations, in principle. Unfortunately, the ‘realities’ of operational management preclude the department from strictly complying with General Orders. This is particularly the case where organizational restructures, delegations to modify positions, the authority to ‘load’ officers against positions in IFMS, etc. rest with other agencies, e.g. DPM. Navigation through the inter-departmental processes can at times be quite time consuming, and alternative methods of paying officers their entitlements have to be entertained until Alesco is updated with the necessary information.

Similarly, many activities, such as National Events, are coordinated and funded through PM & NEC accounts; however, payments may relate to GoPNG employees from other agencies, e.g. Police, defence, etc. It is therefore not possible to make these payments through Alesco.”

TRUST FUND MANAGEMENT

The Department of Prime Minister & NEC administered a total of six Trust Accounts:

- Periodic reviews were not performed to monitor the Trust Accounts. Apart from the National Security Trust Account, there was no evidence of reports to prove that the Trust Accounts were reviewed for proper management; and
- Only one Trust Account was maintained through the PGAS system while the other five were maintained outside of the system contrary to the Trust Instrument.

Payments – National Planning Committee Task Force Trust Account.

Audit examination of the payments totalling K55,997,426 together with a review of the internal control procedures surrounding the procurement and payment procedures revealed the following discrepancies:

- Out of a total of 39 payment vouchers totalling K1,468,501 requested, only four were provided with a total of K183,165 while 35 were not provided aggregating to K1,285,335, therefore, the authenticity and propriety of the payments made were not ascertained in audit;

- The Department did not maintain a register to keep track of advances issued for acquittal purposes. Cash advances and travel allowances issued totalling K771,624 were not recorded and acquitted;
- Three amounts raised on the Cheques were more than the Approved Requisition Amounts. The cheques were raised as pay "CASH" with a total of K192,305 and the total requisitions were K157,632 resulting in an unapproved over payment of K34,673;
- A total of over K3.8 million was spent on consultancy engagements without prior approval from the Consultancy Steering Committee. Furthermore, evidence of work performed or reports on work performed were not attached together with the paid vouchers to support the respective claims made;
- Taxes were not calculated and deducted from individual Consultants that provided consultancy services. Service Agreements were under personal names and not existing consultancy firms therefore, taxes were not deducted according to IRC tax rates;
- Asset purchased to the value of K114,234 were not recorded due to non-maintenance of Asset Register to record assets purchased from the trust account; and
- The *Finance Forms 3 & 4* were not fully authorized by the Claims Examiner, Certifying Officer and the Commitment Clerk before payments were processed for all the payments made.

Payments – National Security Trust Account

Audit examination of the payments totalling K14,456,319 together with a review of the internal control procedures surrounding the procurement and payment procedures revealed the following discrepancies:

- Two payment vouchers totalling K294,300 were not provided for audit review;
- Documents relating to the acquittal of a payment of K102,900 was not sighted together with the paid voucher;
- Payments for vehicle hires totalling K3,384,016 did not have three quotations and minor contract prior to processing the payments as required;
- In addition, payments for Troops Accommodation during the year totaled K2,865,799. Since these guest houses or motels have been used for troops accommodation every time, it qualifies for a minor contract to be executed between the service provider and PM & NEC however, this was not the case; and
- The Requisition Forms (*FF3*) & General Expense Forms (*FF4*) were not fully authorized by the Claims Examiner, Certifying Officer and the Commitment Clerk before payments were processed.

Management Response

"We accept the majority of the findings and recommendations; however, note the following exception that is other than Operating Trust Accounts outside of PGAS, we comply with the requirements of each Trust Account Instrument."

DEPARTMENTAL RESPONSE

The audit findings were brought to the attention of the Secretary in the Management Letter issued and the responses are incorporated accordingly under the respective audit issues.

CONCLUSION

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

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

However, the Management Letter has assured me that appropriate action will be taken of the audit recommendation to improve the weakness noted.

2. DEPARTMENT OF TREASURY 2014

OVERVIEW

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

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

AUDIT FINDINGS

BANK RECONCILIATION

During my review and audit examination of the period (*Jan-June 2014*) I observed that no monthly bank reconciliations were prepared for the months covering (*Jan-June*) and copies forwarded to the Department of Finance as required by the *FMM Part 3 Section 4.7*. This issue remained unresolved by the Management dating back to 2011.

ASSET MANAGEMENT

Asset Register

- No centralized Asset Register was maintained by the Department to record all assets purchased, lost or disposed. This issue remained unresolved as reported in 2013 Audit Report. Each Division procured their own assets and maintained their own registers;
- There were no improvements in the Asset Registers maintained by each Division. The Registers lacked vital information such as; barcodes or labels not shown; custodian and location of assets not identified and state or condition of assets were not stated.
- Assets worth K442,666 purchased in 2013 were unrecorded as at the time of audit in October, 2014.

Motor Vehicle Fleet Register

- The Fleet Register maintained was not complete and vital motor vehicles information were not incorporated;
- A vehicle purchased in 2013 as replacement at a cost of K85,000 remained unaccounted for at the time of audit, in October, 2014.

ADVANCE MANAGEMENT

Audit examination of the Advance Register and other related documents revealed the following discrepancies for the period under review (*Jan – June, 2014*):

- Four advance payments totalling K2,941 were not recorded in the Advance Register and remain un-acquitted at the time of audit;
- 293 outstanding advance payments totalling K1,629,513 for the financial year 2013 were not acquitted at the time of audit:
- 69 advances issued for period under review (*Jan - June, 2014*) totalling K282,534 remained outstanding at the time of audit: and
- Audit noted that the Financial Delegate failed to regularly review the Advance Register as required by the *FMM*.

PAID ACCOUNTS – RECURRENT EXPENDITURE

Audit examination of 27 selected payments totalling K18,448,428 and a review of internal controls revealed the following discrepancies.

Legal Service Fees

- No proper contract agreement was sighted for payment of K1.6 million paid to a Law Firm for legal services provided.
- Tender processes and CSTB agreement were not sighted for contracts above K0.5 million made with a Law Firm.

Consultancy Fees

- No contractual agreement was attached to a payment of K4,523,766 to a Consulting Firm for work done in 2010;
- Scope of work/Terms of reference done were not attached to two Consultancy Firms amounting to K66,667 and K50,000 respectively;
- Though GST was charged on a payment of K66,667, no valid Certificate of Compliance (*COC*) was attached to one of the payments.

Fuel Expenses

- A total of K78,718 was paid to a fuel supplier in six installments.
- From these, audit selected two payment vouchers totalling K52,389 and noted that there was no contractual agreement in place. Since the company was a sole supplier of fuel to the Department, there was no minor/major contract agreement between the supplier and the Department.

Vehicle Hire

- Four payments totalling K296,100 were made on pro-forma invoices instead of tax invoices.
- Three written Quotations were not attached for five payments totalling K308,700 as required.
- Three payments totalling K292,600, did not have endorsement/approval from Department of Works –PTB for External Hire as required.
- A Hire Car Company was paid more than K100,000 in two instances for regular use of hire cars by the Department Acting Secretary. This was a continuous use of same hire car company since 2013 of which a total of K123,200 was paid. A minor contract agreement with the supplier was not sighted contrary to *Finance Instruction No. 2/2013*.

Service and Maintenance

- A payment made to a Construction Company totalling K75,000, was authorised by a Section 32 Officer whose authorised limit was only up to K50,000.
- Three quotations were not obtained prior to a payment of K19,430 made to Company engaged to provide maintenance to the Department fleet.

DEPARTMENTAL RESPONSE

The reported audit findings were brought to the attention of the Secretary through a Management Letter delivered on 18 May, 2015, however, no responses were received at the time of preparing this Report in September, 2015.

CONCLUSION

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

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

3. DEPARTMENT OF CORRECTIVE INSTITUTIONAL SERVICES 2014

OVERVIEW

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

The Department is expected to fulfill that mission in the context of the *Correctional Service Act, 1995*, and through its exercise of the following functions:-

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

AUDIT FINDINGS

CORPORATE GOVERNANCE

- A Corporate Plan was in place for period 2011 to 2020 as required by *General Order 8.13*.
- Annual Work Plans for the Department for the year 2014 were not made available for audit review.
- Senior Management Meeting Minutes were not made available during audit. Effective meetings and the maintenance of quality records are key governance functions; however, in the absence of meeting minutes, I was not able to ascertain the meetings held and the resolutions made.

REPORTING REQUIREMENT

- No report on the work and achievements of Department of Correctional Services in relation to the Corporate and Annual Management Plans was submitted to the Central Agency Coordination Committee (CACC) of Department of Prime Minister & National Executive Council and Department of Personnel Management as required in *GO 8.12*.
- No Quarterly and Annual Financial Management Reports including the overall assessment of the Department were prepared and submitted to Department of Finance as required in the *PFM Act, Part 32, Section 5* and *FMM, Part 2, Section 17*.
- Quarterly Budget Review Reports for Recurrent and Development Budget if prepared and submitted to Treasury Department were not provided to audit when requested. Audit therefore, could not ascertain whether these Reports were prepared and submitted as required in *FMM, Part 7, Division 7*.

BUDGETARY CONTROL

Variances in Expenditure Balances

A comparison of the Expenditure Vote Summary for the year ending 31 December, 2014 (*PGAS*) by the Service against the Department of Finance indicated the following variances in the expenditure balances:

Particulars	Variance in PGAS/IFMS(K)
Revised Appropriations	4,473,924
Warrant Issued	69,567,601
Actual Expenditure	100,973,615

There was no proper reconciliation of the expenditure balances between the two Departments (*DCIS & Finance*) as the figures per the *IFMS* Reports are the ones that will be reported in the Public Accounts of PNG for the year ended 31 December, 2014.

Internal Transfers without Approval

Internal transfers of funds were made under the recurrent budget during the year under review without seeking prior approval from the Secretary Department of Treasury. Seven Journal Entries totalling K949,107 were raised for transfer of funds from different economic items into the same legacy code (*item no*) of another Vote Number.

Audit noted that no supporting memorandum was attached to the journal entries to confirm approval from the *Departmental Head* to justify that these were genuine transfers.

BANK RECONCILIATION

Audit verification of the documents and related schedules for the bank reconciliation for the Department of Correctional Services for the year 2014 revealed the following observations.

- The latest Bank Reconciliation prepared was for the month of August, 2014. The Bank Statement Balance stated as at 31 August, 2014 was -K230,618 and the Cash Book Closing Balance as at the same date was -K27,588,359;
- Unpresented cheques totaling K4,526,741 included 270 stale cheques totalling K830,743 dating back to 2011. This has not been journalized and cleared from the Cash Receipt Ledger and debited back in to the cashbook;
- All bank reconciliations for January to August, 2014 were *prepared and checked on 19 November, 2014*;
- No cover letter was attached to the prepared bank reconciliations for the months January to August, 2014 as a proof of statements being furnished to the Department of Finance as required; and
- Monthly bank reconciliations from September to December were not prepared

ASSET MANAGEMENT

- There was no Asset Register maintained as reported in the 2013 Audit Report.
- 85 assets totalling K873,024 purchased during the year, 2014 were not accounted for due to non-maintenance of Asset register.
- Similarly assets purchased in 2013 and 2012 amounting to K1,931,640 and K5,269,624 respectively were not accounted for.
- The Motor Vehicle Fleet Register was incomplete and not updated as indicated with the eight new vehicles purchased totalling K1,122,663.
- There was no consolidated/Master Fleet Register for the Department. Each Provinces/Centers kept their own records including Head Office.

PROCUREMENT & PAYMENT PROCEDURES

Audit examination of 129 selected paid vouchers totalling K1,338,212 and a review of the procurement and payment procedures revealed the following irregularities:

- The Department did not maintain any Quotations Register for both verbal and written quotations as required;
- Seven payments totalling K120,427, were processed without obtaining three written quotations as required;
- No copies of cheques were sighted for 22 payments totalling K503,709;
- Expenditures incurred totalling K13,395 were not related to the nature of work under Correctional Services and were unbudgeted expenditure; and

- There was no Specimen Signature file maintained except for the signatures to the Department of CIS Drawing Account No. 4311-6108 which also needed to be updated.

HUMAN RESOURCE AND PAYROLL MANAGEMENT

Payroll

- Payroll No's 03/2014, 06/2014 and 24/2014 were requested for audit verification; however, these payrolls were not provided to audit. Further, audit test was not possible.
- I noted that payroll reconciliation was not performed by the HR Manager during the year to ascertain the completeness of the payroll expense.

TRUST ACCOUNT

Bank Reconciliations

Bank reconciliations for the Trust Account maintained were prepared for the months from January to December, 2014. However, I noted the following:-

- The Bank Statement Balance showed as at 31 December, 2014 was K618,916 and the Cash Book Closing Balance as at the same date was K618,914; and
- As per the *Trust Instrument*, bank reconciliations were to be furnished to the First Assistant Secretary (Public Accounts) of the Department of Finance as required. However, no cover letter was sighted as proof of the statement being forwarded to the Department of Finance and also no signature of the preparer and reviewer of the bank reconciliations were done during the year.

ADVANCE MANAGEMENT

The Audit review of the Advances Accounts and records for the year 2014 revealed the following discrepancies:-

- The Department of Correctional Services did not have an Advance Policy in place as an internal control mechanism to set out the roles and responsibilities to be performed by the Paymaster/Paymistress, Advance holders and the Financial Delegates in issuing, recording, acquitting, and monitoring of advances;
- Advances outstanding as at 31 December, 2014 remains at K842,330 in 796 instances representing 98% of my total advances issued during the year; *and*
- 56 payments totalling K980,940 were made under the "Paymaster's Name" which is contrary to the *FMM*

DEPARTMENTAL RESPONSE

The audit findings reported were brought to the attention of the Commissioner in the Management Letter issued, on the 15 June, 2015, however, the Management did not respond up to the time of preparing this Report in September, 2015.

CONCLUSION

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

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

4. OFFICE OF THE ELECTORAL COMMISSION 2014

OVERVIEW

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

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

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

AUDIT FINDINGS

BUDGETARY CONTROLS

The comparison of the 2014 Expenditure Vote Summary maintained by the *Electoral Commission* with the Expenditure Statement on IFMS 2159 produced by the Department of Finance for the Period ended 31 December, 2014 revealed significant variances between the statement balances as shown in the Table below:

Variance in Budget Warrant Authority and Expenditures balances

Particulars	Variances (PGK)	Remarks
Revised Appropriation	-12,370,000	IFMS>PGAS
Warrant Authority	-12,370,000	IFMS>PGAS
Actual Expenditure	-4,397,662	IFMS>PGAS

In addition, the expenditure statement TMS 100 (IFMS 2157) produced by the Department of Finance for the year ended 31 December, 2014 revealed expenditures in excess of warrant authorities issued for 17 Vote Items totalling K6,803,444 in the Recurrent Budget.

Management Response

The management perused the variances and advised that monthly reconciliation were not done during the year as staff lacked training in the use of IFMS. However, I have been assured that adequate budgetary controls and efficiencies in accounting procedures will be maintained in future.

BANK RECONCILIATION – Drawing Account

Bank reconciliations were prepared up to the month of October, 2014. This indicated that the Commission was in arrears in the reconciliation of the *Electoral Commission's Drawing Account – No. 4311-6555* held with the Bank of Papua New Guinea;

During my examination of monthly bank reconciliation and other related records, I noted the following discrepancies.

- The reconciliation statements were not certified and signed off by a senior accountable officer within the *Commission* to vouch for accuracy and correctness of bank reconciliations.
- Reconciliation statements disclosed unpresented Cheques as at 30 September, 2014 as K1,830,985. These reconciling items were not cleared to reflect the correct and true cashbook balance as 31 October, 2014:

Management Response

The management concurred with my observations and assured me that bank reconciliations will be done properly and periodically in future. Further, I observed that in May, 2015 the Commission had submitted the relevant reconciliations up to March, 2015.

ASSET MANAGEMENT

Review of Asset Register

The *Commission* purchased assets during the year totalling more than K1.4 million. In my review of the Asset Register, I noted that the *Electoral Commission* maintained an updated Asset Register. However, I made the following observations;

Motor Vehicle

The Motor Vehicle Register did not disclose the full descriptions for the vehicles owned including the colour, chassis, engine numbers and purchase price of vehicles.

Furniture and Fittings

The following details were missing from the Register including serial numbers, date purchased and the purchase price and;

- Furniture's purchased totalling more than K249,000 were not registered.
- the office equipment's purchased totalling more than K19,000 were not registered.
- Computer equipment's purchased totalling more than K140,000 were not registered
- the laptops' purchased totalling more than K121,000 during 2014 were not registered.

Stock-Take Report and Loss & Deficiency Report

There was no stock-take done for the year and there was no Loss and Deficiency Report maintained.

Management Response

The management concurred and advised that after the recruitment of the Procurement and Assets Officer, the Assets Register was updated and a stock take was conducted. I will vouch these in my 2015 audit of the Commission.

PROCUREMENT AND PAYMENTS

Procurement Plan

The *Commission* did not have a Procurement Plan or Strategy to ensure; better value for money, compliance with legislative requirements, efficient procurement and availability of procurement funds.

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

- *Electoral Commission* maintained a Quotation Registers to record quotes obtained from services providers. However, I noted that this Register was not regularly updated to record all the quotes obtained.
- Nine payments totalling more than K298,000 did not have the usual three quotations attached as required by *FMM Part 12 Division 3*;
- Paid vouchers for 13 payments amounting to more than K3.0 million for outstanding individuals, hires cars and accommodations were not provided for audit verification;
- The *Electoral Commission* was settling outstanding payments relating to the 2012 National Election during the year. Funding allocated during General Election was budgeted for by the National Government to cover all costs involved. However, after two years the outstanding claims amounting to more than K7.0 million was paid for hire cars, accommodations', catering, transport services and facilities hire;
- A business name (Izae Hire Cars) registered in November, 2014 was paid a 2012 outstanding claim of K456,000. This may have been improper and fraudulent in nature;
- The records relating to other outstanding payments, were not provided for audit verifications, consequently, I will review the relevant documents and records in my 2015 audit;
- I noted in the review of Internal Auditors Investigation Reports that some Senior Officers within the *Commission* were hiring cars when there was no need for hire, or these motor vehicles were not hired for official duties;
- The 2014 and 2013 outstanding legal bills settled was significant, however, these claims were not vetted as more than K8.1 million were paid to four different legal firms; and
- The records relating to the legal fees outstanding as well as the 2014 payments were not provided for audit verifications and tests.

Management Response

The management concurred and advised that remedial actions would be taken in future. However, I was not provided a copy of the cancelled cheque 102960 for K228,400 and other supporting documentation as evidence of the suspected fraud that may have occurred. I will also pursue this in my 2015 audit.

ADVANCE MANAGEMENT

In my review of the Advance Register and other related documents, I noted the following anomalies:-

Register of Advances

- Cash Advance and travelling allowances were paid during the year, however, there were no Cash Advance Register and acquittal files maintained. I also noted that all travelling allowances were paid through the Paymaster.
- The Advance Register was not up to date, incomplete and had not captured all travelling allowances paid out during the year.
- Overseas travel advances for 2014 totalling K9,717, remained un-acquitted in April, 2014.
- The domestic travel advances paid during the year amounted to K478,393, of which K425,753 was outstanding and not acquitted.
- Nine accommodation payments totalling K35,055 were raised in the officer's names instead of relevant service providers, consequently, a breach of the conditions outlined in *PFMM Part 20, Division 12.1*.

Cash Advances and Advances paid to Paymaster

- Cash Advance totalling K160,656 was paid through Paymaster, however, these cash advances were not captured in the Advance Register.

I further noted that travel allowances were paid through the Paymaster system totalling K230,000, however, there were no records maintained to capture the officers signing off to receive their travel allowance as well as the acquittals after the travels.

Acquittals & Un-acquitted Advance

- 39 Acquittals totalling K40,050 did not have the relevant supporting documents including accommodation receipts, booking passes and hire car receipts attached to the paid vouchers; and
- Acquittal files were not filed correctly and travel advances were not filed in a chronological order of disbursement and Divisions;

Second or more Advance Payments

Second or more advances were made despite the first or second totalling more than K242,000 remained outstanding;

- 132 first advances totalling K92,477 were not acquitted;
- Further, 64 Advances totalling K40,627 were made as second advances whilst the first advance remained unacquitted or were outstanding;
- 38 third advance totalling K35,973, were made to the respective officers whilst the first and second advances remained unacquitted; and
- 72 advances totalling K73,261 were made as fourth advances whilst first three advances remained un-acquitted during the year.

Management Response

I was advised by management that Advance Management had been a challenge and it is currently implementing a Computerized Advance Acquittal System acquired to rectify the anomalies noted.

HUMAN RESOURCE MANAGEMENT AND PAYROLL

The review of records maintained by the Human Resource and Payroll Management Division disclosed the following anomalies:-

- Certification of Payroll was not done by the Divisional Heads to ensure control over payment of salaries and wages before it was processed at the Department of Finance systematically each fortnight;
- The required *Finance Form 10 (FF10)* was not used in compilation of its pays (salaries & wages) for its officers as required under *Section 18* of the *Finance Management Manual* paragraph 23 to 27; and
- There were no Work and Time Report for the *Commission's* employees as to track and keep account of each individual staff during official work hours.

Employment of Casual Staff

- I was unable to review the employment of casuals as I was not provided the respective records and registers;
- The following number of casuals were employed with *Commission* during the relevant years; 2004-one , 2008-one , 2010-13, 2012- six , 2013-10, 2014-28 and 2015-16; however, I noted that these casuals were working for a number of years since 2004; and
- According to the Staff Establishment Register, there were two funded positions vacant at the time of audit in April, 2015 and seven Acting appointments were made during the year.

Recreation Leave Entitlements

- 16 recreational leave entitlement totalling more than K153,000 did not have any legal documents including marriage, birth and adoption certificates to substantiate the dependents claimed.
- An officer's recreational leave entitlement totalling more than K16,000 was paid, however, the claimed dependents did not have birth certificates.
- An officer's recreational leave entitlement amounted to more than K15,895. He claimed three dependents whose ages were over of 19 years. According to the leave application, the defendant's ages were 24, 22 and 19 years respectively and were past the legally allowed ages for recreational leave eligibility. The payment of the respective recreational leave fares were an abuse of the *General Orders*.

Gratuity Payments

- Gratuity payments out of PGAS system was an abuse of the payroll system as it was not paid through the Concept payroll system. Further, the payments may have been improper and illegal; and
- Further, I noted that a former Commissioner was paid gratuity entitlement dating back 2012; however, I was not able to verify this payment as supporting documents and records were not provided for audit verification.

Management Response

I was advised by management that it was taking corrective actions to rectify the anomalies noted. However, I will pursue the payment of pension to the former Commissioner in my next audit as supporting documentation was not provided for my verification.

TRUST ACCOUNTS

Payments not in line with the Trust Instruments

In my review, I noted that all payments made out from the Trust Account and noted that 13 payments totalling K40,100, were not in line with the Instruments for the disbursement of funds from the Trust Account.

Bank Reconciliations

The copies of monthly bank reconciliation for the *Electoral Commission* Trust Account was provided for audit and the following anomalies were noted in regard to the monthly bank reconciliations;

- Bank Reconciliation for August, September and October 2014 were not provided for audit verifications.
- Reconciliation statements stating the following reconciling items which were not cleared to

reflect the correct and true cashbook balance as at 31 December, 2014:

- Debits in the bank statement not in cash book were stated as K4,966 and these were not identified and cleared in the Cash Book as the cheques were for the years 2007 and 2008.
- Credits in the bank statement not in the cash book was stated as K4,300 and were not identified and cleared in the Cash Book.
- The list of unpresented Cheques as at 31/12/2014 amounted to K323,926

Management Response

I was provided a copy of the Trust Instruments and was advised that the expenses were legitimately incurred for the purposes stated and I concur. Further, I noted that the management lacked capacity to fully comply with the requirements of the Trust Account's Bank reconciliations.

DEPARTMENTAL RESPONSE

The reported findings were brought to the attention of the Commissioner and he has responded accordingly. I have included the respective comments in this Report (*Part 2*).

CONCLUSION

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

The Management is commented and encouraged to keep up with the efforts made.

5. DEPARTMENT OF DEFENCE 2014

OVERVIEW

The Mission of the Department of Defence is to ensure that it is ready and able to defend the Nation and protect the People.

The Department is to fulfill that Mission in the context of the *Defence Act, 1974* and other relevant legislations and through the exercise of those functions as follows:

- Assist in the development of Defence Policy and its implementation in planning Defence Force development and the use of the Defence Force;
- Provide investigation, research, executive, administrative, financial management and other services to the Defence Force in the discharge of its functions under *Constitutional Laws* and *Acts of Parliament*; and
- Provide services to standing or ad hoc organisations in relation to the functions of the Department.

AUDIT FINDINGS

CORPORATE GOVERNANCE

Internal Audit

My audit reviewed the operations of the Internal Audit Unit (IAU) of the Department and the following observations were made:

- The Internal Audit Unit was established quite a number of years ago and functions effectively. Amongst other reports, I sighted comprehensive Internal Audit Reports on *Trust Accounts* and *PIP* Projects coordinated by the Department.
- According to the Staff Establishment Register, the IAU Division recruited four auditors and was moving in the right direction. However, two funded positions were vacant.
- The Department had an Audit Committee established and was functioning actively. The control weaknesses highlighted over the year (2011-2014) were gradually being addressed by the Department.
- There was no contract sighted for the engagement of a Consultant within the Internal Audit Division. Audit noted that the engagements had no contractual basis.

REPORTING REQUIREMENT

Quarterly Budget Review, Annual Management and Financial Reports for 2014

- The Department did not prepare Annual Reports for the prior years as well as the current year 2014. The Annual Reports on the work and achievements of the Department were not submitted to the Department of Personnel Management as required.
- The Quarterly, Annual Management and Financial Reports of the Department were also not provided. In the absence of these important reports, it was difficult to ascertain whether the Department had achieved its set objectives for the reporting period.
- Audit noted that no Annual Financial Management reports were produced by the Department and provided to Department of Personal Management since the fiscal year 2012–2014 consecutively as required.

BUDGETARY CONTROLS

A comparison of the 2014 Expenditure Vote Summary maintained by the *Department of Defence* with the Expenditure Statement on IFMS 2222 produced by the Department of Finance for period ended 31 December, 2014 revealed significant variances between statement balances:

<i>Particulars</i>	<i>Variances (PGK) IFMS/PGAS</i>
Revised Appropriation	-16,722,833
Warrant Authority	72,238,467
Actual Expenditure	-100,872,603

In addition, the expenditures statement produced by the Department of Finance for the year ended 31 December, 2014 revealed expenditures in excess of warrant authorities issued under six Vote Items totalling K21,894,000 in the recurrent budget.

BANK RECONCILIATION – Drawing Account

My audit review noted the following discrepancies in regard to the Department's Drawing Account – No. 4311-6110 held with the Bank of Papua New Guinea:

- Bank reconciliations were not done on a monthly and timely manner as required. The November, 2014 bank reconciliation was signed off as prepared on 08/01/2015 and it was prepared two months late;
- There was no cash book attached to the bank reconciliation to support the balances on the bank reconciliation statement;
- The reconciliation statements were not certified and signed off by an Accountable Officer within the Department for accuracy and correctness of the bank reconciliations; and
- There was no evidence that monthly Bank Reconciliations for the Department were furnished to Accounting & Framework branch at the Department of Finance and a copy to my Office by the 14 day of the succeeding month.

ASSET MANAGEMENT

Review of Asset Register

The audit and examination of the Assets Register and related records revealed the following anomalies:

- The Department did not have a consolidated Assets Register and there were no stock takes done during the year under review and the prior years;
- The issue of Assets Register not properly maintained by the Department was highlighted since 2011, through Management Letters to the Department:
- Assets worth more than K21.3 million purchased under the different categories of assets were not recorded in the Register;
- Mobile phones, laptops, cameras, flash drives, hard drives, etc; were purchased upon requests by officers. These items were not recorded separately in a Loan Register where it would be easier for monitoring purposes; and
- A total of 24 vehicles totalling K2,578,865 purchased in 2014 were not verified to any Vehicle Fleet Register, as the Department did not maintain one.

PROCUREMENT AND PAYMENTS

My audit randomly selected a sample of 26 paid vouchers totalling K31 million to ascertain whether proper procurement procedures were complied with and the following discrepancies were noted:

- Six cheques totalling K19.9 million were printed after the close of Accounts. This was contrary to the *Department of Finance Instructions*;
- In 2013, K1.0 million was transferred into Paymaster Imprest Account and payment was made to a contractor, as there was no Contract Approval from CSTB as K1.0 million was over the Department's Secretary's delegated limits. There were no records to state that this contractor was engaged on the project during 2013;
- However, during 2014 a variation was made for the Goldie Barrack Re-Roofing Project totaling K1.9 million. There were no progressive report provided for audit, therefore, the bases for this variation was not verified and confirmed;
- Payments totalling K11.2 million may have been fraudulently made by the Department to two contractors who were less reputable companies; and
- The Department engaged the service of nine Contractors to render various Construction, Maintenance, Electrical, Plumbing and other services to the Department totalling more than

K33 million. The following anomalies were noted and documents & records were also not furnished with regard to the engagement of these Contractors;

- Six of the nine Contractors engaged, had no company profile attached to the paid vouchers sighted, and as a result, the audit was unable to determine whether these companies had the expertise to deliver the services required.
- For six contractors there were no Completion Certificate's attached to the paid vouchers sighted, and as a result, I was unable to determine whether these companies had completed the task as required by the Department.
- Five out of the nine Contractors, there were no contract sighted for either from CSTB or Short Term contract to engage these contractors as required.
- A Construction Company was paid over K350,000 during the year under review, however, according to the paid voucher, this company was engaged to supply water treatment chemicals to Goldie Barrack.
- A Plumbing Company was paid over K415,000, but was registered as a business name which expired on 17 May, 2013, and the company submitted a hand written document requesting to render plumbing services. The hand written document reflected low quality, manner and the type of companies engaged by the Department in the procurements of their services.
- According to the paid vouchers, the Plumbing Company was awarded a contract of K148,423. However, the Department made payments totalling K417,836. The difference of K269,413 was an additional unsolicited contract price.
- A Company was paid over K400,000 during the year under review for electrical services. I observed that the company submitted a hand written document to render Electrical services. The company's hand written document reflected the quality, manner and the type of companies engaged by the Department in the procurements of their services. The short term contract was for K197,400. However, the Department paid over K202,600 which was beyond the Contract price.
- A Construction Company was paid over K10.6 million during the year under review, however, there were no completion certificates attached to the paid vouchers for the work done at the Murray Barracks to substantiate the processed claims.
- The Defence Secretary queried outstanding payments made to a Construction Company for K450,000 during the year. The Secretary wanted to ensure that minor works contract was contracted through him. In this case, I noted that proper and due processes were not followed in the engagement of this company by the Department.
- A company was paid over K937,000 during the year for maintenance. The Defence Secretary queried on 24 October, 2014, for his prior approval before engaging the service of the company. However, this company was engaged without due process as a letter requesting settlement of work done dated 04 November, 2014 was addressed to the Secretary for his approval and settlement of the claim.

- The contractors were engaged without proper approvals before their engagement costing the Department K937,596. These were serious issues as anyone in the Department would be able to engage the service of a contractor and submit invoice in spite of whether work was done or not.

I requested for the Annual Procurement Plan of the Department, however, the Acting Assistant Secretary verbally advised me that the Department did not have an Annual Procurement Plan. This was later confirmed in writing by the Acting Corporate Services Director.

- Department did not have a Procurement Plan or Strategy to ensure; *better value for money, compliance with legislative requirements, fast procurement and availability of procurement funds.*
- The Department did not maintain any specimen signatures of Seniors Officers' and their delegation limits for the procurement of Goods and Services by respective Divisions within the Department. Consequently, the Department's operation during the 2014 financial year was without a written gazetted Financial Delegates specimen signature listing.
- According to responses received, the Department did not maintain any "Quotation Registers" to record quotes obtained from service providers of the Department.

HUMAN RESOURCE MANAGEMENT AND PAYROLL

My review of the Human Resource Management process and payroll controls revealed the following anomalies and discrepancies:

- Certification of Payroll was not done by the Divisional Head to ensure control over payment of salaries and wages before it was processed at the Department of Finance systematically each fortnight;
- The required *Finance Form 10 (FF10)* was not used in the compilation of its pays (*salaries & wages*) for officers as required under *Section 18* of the *Finance Management Manual, paragraphs 23 to 27*; and
- There were no *Work and Time Reports* for the Department's employees to track and keep account of each individual staff's level of productivity and attendance.

Contract Officers & Salaries Payments

- According to contracts sighted, four payments totalling more than K59,000 were paid to officers whose contracts had expired during the year;
- Two contracts sighted were not signed as legitimate and binding upon the parties involved;
- Two Contract files requested were not provided for audit verifications;
- The above observations related to contract officers of the Department and were paid through the PGAS system instead of Allesco or Concept Payroll; and

- The Department paid more than K11.5 million as recreational leave entitlements. A sample of 29 payments over K10,000 totalling K1.0 million was selected to test whether all requirements were met before the entitlements were paid. However, the following anomalies were noted:
 - 22 recreational leaves entitlement totalling more than K590,000, did not have supporting legal documentation such as marriage, birth and adoption certificates to substantiate the dependents claimed;
 - Six dependents claimed were over the age of 19 and cost the Department K14,605; and
 - Four paid vouchers, paid to Landmark Tour & Consultancy totalling more than K320,000 for 2014 outstanding annual recreational leave entitlements were not provided for audit.
- There were no proper approvals granted for the payment of nine overtime totalling more than K48,000. In addition, the over-time sheets were not approved by the responsible managers for the time claimed by the respective officers; and
- The overtime payments were paid out from different Vote Items including 135, 141 and 121 to meet the expenses and not from the appropriated Vote 213. This payment was classified as misappropriation.

TRUST FUNDS AND ACCOUNTS

Documents and records pertaining to the Department's entire Trust Accounts were not properly maintained and kept as required.

- According to documents provided to audit the Department requested in writing to the Finance Department to establish seven different Trust Accounts. However, the Department of Finance approved the establishment of two new Trust Accounts and re-establish another two as listed below;
 - a) *PNGDF Military Bases Relocation Trust Account (Established)*
 - b) *PNGDF Engineering Battalion Civic Action Trust Account (Re-established)*
 - c) *PNGDF Commercial Support Program Trust Account (Re-established)*
 - d) *PNGF Ex-Services men Trust Account(Established)*

The main reason for not establishing the seven requested Trust Accounts was that, due to non-compliance issues and on-going investigations into misappropriation of funds previously appropriated Trust Funds to the Department in 2012.

- I noted that all other Trust Accounts not approved by the Department of Finance were operated within the Department and this was a serious breach as it was misappropriation of Public Funds by Department during the year as unused funds from the Recurrent Budget were transferred into these Trust Accounts. I have highlighted these issues over the years (2011-2013) and the Management did not take corrective actions.

- The Department provided three bank reconciliations for three Trust Accounts. The latest bank reconciliations were prepared and kept in the files;

a) *Defence Force Commercial Support Trust Account was up to 31 December, 2014.*

The unrepresented cheques was stated as K1,421,780 and the reconciliation balance for cashbook did not agree with the Cashbook balance.

b) *International Obligation Trust Account up to as at 31 December, 2014.*

c) *Civic Action Project Trust Account up to as at 30 December, 2014.*

I was unable to review the operations of all other Trust Accounts as highlighted above, because, accountable records and documents pertaining to these Trust Accounts were not provided for audit verification. These issues were common in the previous audits, however, my reports were not considered and remedial corrective actions taken accordingly.

Paymaster Imprest Account – Murray Barracks

In my review of Internal Audit Report on the operation of the Paymaster Imprest Account, I noted the following discrepancies and observed that relevant documents & records were also not provided:

- In 1995, the Imprest Account functions and activities were said to be closed off by the Department of Finance through amendments of the *Public Finance (Management) Act, 1995*. However, this Imprest Account continued to operate after it was said to be closed;
- During 2014, the Department of Finance rejected the Departments request to establish this Account again. However, the Department of Defence continued to operate the Paymaster Imprest Account at Murray Barracks despite Finance Minister's disapproval of the Operation of this Trust Account;
- As the name denotes, the account should operate as Imprest and monies expended should be reimbursed on production of appropriate documents and reimbursed after checking the correctness of the expenditure incurred. This was not the case with this Account;
- The Department of Defence over the years (2011-2013) did not obtain the required approval from Department of Finance and has been transferring unused funds into the Imprest Account. The operations of these funds transferred over the years were not reviewed as records & documents were not provided for my audit. In the absence of documents pertaining to the operation of this Imprest Account, it was likely that misappropriations of fund and fraud may occur;
- I could not ascertain the closing balance in relation to this Account as documents requested were not provided for audit verification;
- Since this was not used as a Trust Account, a proper cash book should have been maintained to disclose brought forward balance, carried forward balance, as well as detailed listing of individual receipts and payments; and

- No audit work was carried out into the payments as there was a lack of documentary evidence.

ADVANCE MANAGEMENT

The audit review of the payments, recording & acquittal of advances revealed the following anomalies:

- 3,024 unregistered advances totalling K3,797,373 were issued but were not captured in the Advance Register;
- 3,691 advances totalling K5,789,330 remained un-acquitted as at 31 December, 2014;
- 172 officers had second and third advances totalling K1,580,556; and
- 48 advances totalling K301,139, were raised to Paymaster rather than to the respective persons.

Advances paid in form of Mileage Allowance

Audit observed that 13 officers living in Port Moresby were paid mileage allowance totalling K79,681.

- There were no vehicle log books maintained to ascertain whether allowances were indeed being used for the intended purpose;
- 21 Cash Advances totalling K116,369, were made for Accommodation purposes. This practice was in violation of the *PFMM Part 20, paragraph 12.1; and*
- Financial delegates did not review and sign off the acquittals. Consequently, I was unable to verify whether cash advances were recouped through salary deduction because the dates of repayment were not recorded in the Register provided.

DEVELOPMENT BUDGET EXPENDITURE

- The Department was not closely monitoring the Development Budget Projects as millions of kina were spent every year. There were no corrective actions taken where necessary and Senior Management was not updated on the progress on a quarterly basis.
- The Internal Audit Division of the Department provided a copy of their Site Inspection Report on the Baiyer & Kerowil road. However, the site inspection report did not disclose the stretch of the road which was worth K40 million.
- There were no documents and records for the Development Budget Expenditures.
- In addition, there was a common issue every year with the Department since 2011-2014 as the important records or documents relating to Development Expenditures were not

provided for me to verify as millions of kina were spent every year on these projects. The list of vital and important records that were not provided are as listed below;

- a) *Annual work programs.*
 - b) *Individual Project Plan & Cash flows Statements.*
 - c) *Progressive Reports for each project.*
 - d) *Photographs and stages of completion.*
 - e) *Quarterly & Annual Reports on the project.*
 - f) *Bank Statement & closing balances as at 31 December of each year.*
- The Department was allocated more than K38.0 million under the 2014 Development Budgets. However, I noted that there were on-going projects carried over from previous years of which several companies were engaged costing the Department more than K33.6 million.
 - I requested for the Contract Documents from CSTB, Company profiles and Completion Certificates for these companies for audit verification, but they were not provided. Furthermore, the officers at the Department refused to sign the Local Audit Queries and the respective Audit Certificates for the usage of the (K33.6 million).
- a) I noted the following anomalies in relation to payments made to MAKRO Limited for the Re- Roofing Projects;
 - According to documents obtained the contract was awarded by CSTB to AU NAMONA Ltd. However, the Defence Council later hijacked the process and awarded the contract to Makro Limited who appears to be a less reputable company. There were no reasons stated why the Council had to change the contract awarded to the company.
 - In the 2013 PNGDF PIP Project Report, the Department misled the Department of Finance, National Planning & Monitoring, myself and other stakeholders that AU NAMONA Limited was doing the re-roofing when the payments according to the expenditure report were paid to Makro Limited.
 - There were no Company profile of this particular Company (*Makro Limited*) as no report on the scope of work, no progressive report on project, and no completion certificates were provided for audit verification.
 - The Payments according to records obtained stated that Makro Limited was engaged on the re-roofing project, however site inspection done at Goldie Barrack confirmed otherwise and it was done by the Defence Force based at the barrack. Consequently, I noted that the company privately owned as the project was not executed by Makro Limited.
 - b) During 2014, due processes were not followed and the Department awarded another contract totalling K8.9 million to the same company Makro Limited to supply white goods to the Department. This may be a fraud case as the following important due processes were not followed:
 - This project valuing more than K8.9 million did not go through CSTB. I was not provided any documentation of the projects successful tender.

- There was no Company profile sighted, or whether it had the capacity to supply the white goods to the Department.
- This Company (*Makro Limited*) be referred to Fraud Squad for further investigation as more than K4.5 million was paid for the re-roofing without any company profile, and its capacity to deliver the project which leads me to question the nature of the payment..
- The Department has now made it a tradition that all funds allocated for Development Budget were deposited into the Paymasters Imprest Account. Audit has constantly made recommendations for this practice to be ceased as this was in breach of the *Public Finance (Management) Act, 1995*. This practice appears to be a deliberate ploy by the Department to circumvent the lapsing of funding.
- Most of the payments noted in the expenditure transaction details printout related to the Development Projects of the Department. However, the Project Steering Committee within the Department did not approve those payments.

DEPARTMENTAL RESPONSE

The reported audit findings were brought to the attention of the Secretary through a Management Letter date 06 August, 2015, however, no responses were received at the time of writing this Report in September, 2015.

CONCLUSION

In general, there were no significant improvements in the system and operation of controls within the Department compared to the previous years. The shortcomings noted in the past audits continued to exist and indicate that the Management had not taken any action to correct the deficiencies reported. However, I have been advised that remedial actions are now taking place, which I have yet to vouch.

6. DEPARTMENT OF HEALTH 2014

OVERVIEW

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

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

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

AUDIT FINDINGS

REPORTING REQUIREMENT

Annual Management Reports

- The Department had prepared an Annual Management Report for the year, 2013 on the work and achievements of the Department. During the course of my audit in April, 2015, I noted that the 2014 Annual Management Report was in draft form.

The 2014 Annual Management Report had been finalized at the time of writing the Report in September, 2015 and will be submitted to NEC shortly.

BUDGETARY CONTROL

Variance between Health Department and Finance Records

A comparison of the Expenditure Vote Summary generated by the IFMS 2157 /TMS 100 against the Expenditure Vote Summary of the PGAS system I noted the following variances between expenditure balances for the year, 2014.

Details	Variance Recurrent (IFMS/PGAS (K)	Variance Development (IFMS/PGAS) (K)
Revised Appropriation	(359,586,400)	334,658,000
Warrant Authority	22,318,700	339,658,000
Actual Expenditure	386,258,983	110,521,070

The Tables above clearly highlights the differences between the records of the Main Public Accounts maintained by Department of Finance (IFMS/TMS) and that of Health Department (PGAS). The differences in the two records derived mainly as a direct result of non - reconciliation of the two records, consequently, a serious lack of monitoring and control on the Cash Flow Management of the Department.

Over – Expenditure in various Votes

IFMS 2159 (TMS 330) Report for period 12,2014 generated by Department of Finance stated a total of K361,383,162 as over expenditures arising from Expenditure Vote Items 433.

Management Response

The Management concurred with me and advised that due to non reconciliation and Donor funding drawn directly from Treasury Department these expenditures were not taken up in PGAS.

BANK RECONCILIATION

The Department of Health operates a Drawing Account with the Bank of Papua New Guinea A/C # 4311-6129. Audit verification of the bank reconciliation statement and other related supporting records and documents for the financial year, 2014 revealed the following anomalies:

- Timely submission to Finance Department no later than 14 days of the close of each month as required by FMM was not adhered; and
- The bank reconciliation statement for the month ended 31 December, 2014, disclosed numerous outstanding reconciling items which were not investigated cleared, and adjusted in the cash book in order to reflect an accurate cash book balance periodically.

Particulars	Amount (K)
Bank Balance (31.12.2014)	0.00
Unidentified JEs	372,134,862
Credits in Bank Statements not in Cash Book	109,459,758
Un-presented cheques	53,443,154
Mismatches	18,537
Other Items	224,244,420
Cash Book Balance (31. 12.2014)	14,993,933

Management Response

The Management concurred with my observations and stated that no timely submission of bank reconciliation as BPNG was not releasing bank statements on time; and the Department has sought assistance from Finance Department to investigate and clear outstanding items.

ADVANCE MANAGEMENT

An audit examination of the Advance Register and other related records for the financial year, 2014 revealed the following discrepancies:

- In the absence of a Salary Advance Register records of salary advances paid through PGAS remain unaccounted;
- The Advance Register maintained lacked vital information (s) as required by the *FMM* including; *Date advance was issued, FF4 reference number and date, signature of the recipient; and date of acquittal;*
- 33 advance payments totalling K65,177 were not captured in the Advance Register and remain unaccounted;
- 328 un-acquitted advances totalling K482,469 included unrecorded advances as at 31 December, 2014; and
- 31 officers were issued second advances as their first advances remained outstanding and were in breach of *FMM Part 20 Para: 12.11*. The practice indicated that Financial Delegate failed to review the Advance Register to ensure compliance with *FMM*.

Management Response

Management concurred with the audit findings and had taken corrective actions.

ASSET MANAGEMENT

An audit examination of the Assets Register and other related records revealed the following discrepancies:

- The Fixed Asset Register maintained by the Department lacked vital information required by the *FMM* including date of purchase, total cost, cheque numbers, estimate of economic life, preventative maintenance requirement and corrective maintenance history;
- Due to the incomplete Asset Register, I was not able to verify whether assets purchased totalling K1,363,972 and K1,939,313 in 2013 and 2014 were recorded respectively;
- Annual stock take was not undertaken for the year, 2014 including previous years. This has been a recurring issue reported annually by AGO;

Management Response

Management concurred and advised that necessary actions would be taken to improve weaknesses noted.

PROCUREMENT AND PAYMENT PROCEDURES

An audit examination of 32 selected payments totalling K23,873,024 and other relevant documents for the year ended 31 December, 2014 revealed the following discrepancies:

- The Department did not maintain a Quotation Register in accordance with *Part 12* of the *FMM*;
- 14 paid vouchers totalling K21,109,149 (84%) were not validated as the payment vouchers were not made available for audit. The issue of missing paid vouchers was also reported in my 2013 Audit Report;
- Three written quotations were not obtained for two payments totalling K60,309 from reputable suppliers as required by *FMM* and *Finance Instruction 2/2013*;
- Seven payments totalling K658,452 were paid without a tax invoice. Payments were made either from quotations and pro-forma invoices contrary to *FMM Part 12, Division 7*;
- Six paid vouchers totalling K381,125 were not certified correct by the Certifying Officer prior to effecting of payments; and
- Four payments totalling K323,851 were not approved by the Government Printer prior to engaging private printing suppliers in abeyance of *FMM Part 17 Division 2.8* and *Part 11, Division 4 para: 23*.

Medical Supplies Procurement & Distribution

- 18 payment vouchers totalling K2,390,318 were not provided for audit. I noted that these vouchers were misplaced or misfiled after the files were removed by the private external auditors.
- As required in the check list, photographs of the Health Centres and Aid Posts, where the Medical Kits were delivered were not attached for audit verification.

Management Response

Management concurred with my audit observations and were taking necessary actions to rectify issues identified.

HUMAN RESOURCE & PAYROLL MANAGEMENT

Audit examination of records and documents relating to the management of Human Resource and Payroll revealed the following irregularities:

- The Department of Health did not submit an Annual Training Plan to the Department of Personnel Management as required. This issue remained unresolved by management as reported in my last audit (2013). However, a five year Plan has been developed and a copy was provided to me;

- The payroll reconciliations for the third and fourth quarter for 2014 were not completed and reviewed. Furthermore, payroll downloads 1, 13 and 26 for the year under review, were not provided for my audit review;
- I was not able to confirm the number of casuals employed by the Department and whether the casuals had a valid contract as this information was not provided;
- A payment of K17,090 included a dependent over 19 years of age and was in breach of *General Order 14.41*; and
- Two officers who received overtime payments totalling K10,905 were not eligible as per *General Order 13.67*.

Management Response

Management concurred with my observations.

GRANTS

Audit examination of the Deeds of Agreements and other related records for the Susu Mamas Incorporated and St John's Ambulance revealed the following discrepancies:

- The Department of Health paid K3,000,000 as grants to Susu Mamas Incorporated and K6,199,744 to St. John's Ambulance in 2014 financial years. However:
 - There were no quarterly acquittal reports from Susu Mamas Incorporation for the grants received in 2014 except for first quarter grant of K909,375;
 - Acquittal reports for the first three quarters of 2014 for the St John's Ambulance were not properly supported by copies of receipts, etc. to substantiate the acquittal figures.;
 - Susu Mama Incorporated provided 2014 Annual Report of the K3,000,000 funds received from the Department of Health in compliance with *Part 3.1* of the Deed of Agreement, while St John's Ambulance did not provided any for the funding of K6,199,744 for 2014; and
 - Audited financial statements for Susu Mama Incorporated and St John's Ambulance for year 2014 were not provided. The respective Reports for 2013 were not made available which was contrary to the *Deed of Agreement* for both agencies.

Audit examination of 13 payments totalling K9,199,744 for both agencies revealed the following internal control weaknesses:

- Two payment vouchers totalling K1,931,486, were not provided for audit verification;
- The Department did not register the claims for three payments totalling K1,699,744;
- The Department issued four grants totalling K3,304,259 without proper checks and balances; and

- Six grant payments totalling K5,804,259 were made without being certified as true and correct by the accountable officers.

Management Response

Management concurred with my findings and promised to take appropriate remedial action.

DEVELOPMENT BUDGET

GoPNG funded Projects transferred into HSIPTA

The Department's Commercial Support Services Branch (CSSB) managed all the projects implemented under the National Department of Health.

The National Department of Health (Division 240) was appropriated K349.7 million in 2014 for eight Projects under the Department budget. Included in this funding was a project of K10 million funded by the Government of PNG while others were donor funded.

During my review of the GoPNG funded project, I noted that only K5 million was received out of the K10 million budgeted for the Training Institute Rehabilitation & Support Project. This amount was transferred into the Health Sector Improvement Project Trust Account (HSIPTA).

I out sourced the audit of HSIP Trust Account to a private auditor, and the results of this audit will be reported shortly.

Management Response

"We do not agree and advice that a total of K20 million was transferred under Division 240 to the HSIP Trust Account. This included the K15 million for the rebuilding of the Angau Hospital. Other funds transferred included new Noga Hospital for K20 million and Boram General Hospital Redevelopment for K15 million totalling K55 million."

DEPARTMENTAL RESPONSE

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

CONCLUSION

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

7. DEPARTMENT OF WORKS AND IMPLEMENTATION 2014

OVERVIEW

Main programs of the *Department of Works and Implementation* are:

- Construction Coordination – deals with provision of services in support of the Department's programs; construction, supervision, quality control and revitalization of existing machinery to cut costs;
- Regional and Provincial Works Officers to carry out minor works relating to development projects in the provinces; and
- Mechanical Engineering Branch (PTB) – Carry out replacement, maintenance and fully operate about 3,000 units of government owned vehicles and plants nationwide. This program was formerly funded through the PTB Trust Account.

AUDIT FINDINGS

CORPORATE GOVERNANCE

Corporate Plan & Annual Management Plan

The Department has a Corporate Plan in place for period 2011 – 2015 and an Annual Work Plan for the year 2014 as required by *General Order 8.11*.

Senior Management Meetings

Effective meetings and maintenance of quality records are key governance functions, however in the absence of meetings minutes and schedules for planned management meetings, audit was not able to ascertain the effectiveness of the key governance functions of the Department during the year.

Internal Audit Unit

During my review of the Reports produced by the Internal Audits Division, Audit Schedule and other related documents, I noted the following anomalies:

- Only two Audit Committee Meetings were held in 2014 instead of four as required;
- Internal Audit Unit planned a total of 24 audits for the year, however, it was able to produce five reports and these reports were not tabled in the Audit Committee Meetings held during the year; and
- The Department did not submit a Losses and Deficiencies Report to Department of Treasury for 2014 as required.

REPORTING REQUIREMENTS

Annual Management (Performance) Report

- The Annual Management Report was in draft form at the time of audit in March, 2015.

BUDGETARY CONTROL

The Department of Works and Implementation had its own accounting and financial management systems – ORACLE and was linked to all the 19 Provincial Offices including Boroko HQ.

A comparison of the Expenditure Summary for the period ending 31 December, 2014 generated by the IFMS 2365/ 2368 for Re-current and Development Budgets respectively by the Department of Finance and the Report by Department of Works and Implementation through ORACLE system dated 11 April, 2014 revealed the following variances:

<i>Variances IFMS/Oracle</i>		
Particulars	Recurrent (K)	Development (K)
Revised Appropriation	(10,557,800)	(-108,651,000)
Warrant Authorities	18,885,425	326,931,212
Actual Expenditure.	378	24,183,659

- The difference noted between the records for Recurrent and Development Budgets indicated that there were no reconciliations between the two records, consequently, a serious lack of monitoring and control on the Cash Flow Management; and
- The Department reported over expenditure in both recurrent and development budget by K27,309,047 and K86,642,553 respectively while Finance Department reported over expenditure only under the recurrent budget by K8,424,000.

BANK RECONCILIATION – CASH MANAGEMENT

The Department of Works and Implementation (DoWI) operated a Drawing Account (#4311-6145) with the Bank of PNG. This account was referred to as DoW-Sub Appropriation Ledger (SAL) Reimbursement Account. The Main Drawing Account acted as a channel in which budgeted funds for the Department flow in the way of statement of expenditure and flow out by way of reimbursements of expenditure to the 20 operating accounts. The Department had 21 Drawing Bank Accounts. The Drawing Accounts comprised of a Reimbursement Account and 20 Operating Accounts including Boroko, Head Quarter. Provincial Offices operated separate bank accounts.

I reviewed the operating accounts and related records and documents maintained by the Head Office and noted the following:

DOW-SAL Reimbursement Drawing A/C (#4311-6145).

- Bank reconciliations for the DoW-SAL Reimbursement Account were done for the respective months including 31 December, 2014 and were submitted to DoF as required; and

- BPNG Bank statement balance as at December 31, 2014 was nil and the General Ledger balance was (K310,672,303).

Provincial Operating Accounts Bank Reconciliation status for 2014

- According to the Provincial bank reconciliation status prepared by the Department, I noted that only two Provinces had prepared their bank reconciliation in respect to their Operating Accounts up to 31 December, 2014. The Provinces with up to date records were Boroko (Head Office) and Lorengau while Lae did not prepare the year 2014, 2013 and 2012 reconciliations; and
- Delays in preparing and submitting the bank reconciliation for the various Provincial Operating Accounts ranged from six years to 'none' up to 31 December, 2014.

DOW Drawing Account - Boroko Operating Account-(Head Office).

- The bank reconciliation was manually produced and not from the system by the Finance Management System (ORACLE software); and
- Monthly bank reconciliation for the Boroko Operating Account were prepared up to 31 December, 2014 with significant unreconciled items as follows:
 - Included in the unpresented cheques totalling K92,055,949 were stale cheques amounting to K28,672,644. Stale cheques consisted of four 2001 cheques totalling K11,516 and 2013 cheques from May to December totalling K28,661,128;
 - K1,031,277,893 was Deposits not in General Ledger and this included K276,414,899 from May to November, 2013 and K754,862,994 from January to December, 2014;
 - Other unreconciled in the bank reconciliation for 2013 and 2014 were K489,679,487 and K887,219,408 respectively;
 - However, unreconciled items for others which were deducted in the bank reconciliation for 2013 and 2014 were K230,752,612 and K223,088,206 respectively; and
 - However, bank balance as at 31 December, 2014 was K58,447,581 and the cashbook balance was (K41,723,155).

ASSET MANAGEMENT

Audit examination of the assets purchased during the year and a review of the control procedures in place revealed the following irregularities:

- The Department did not have any policy for General Office Assets apart from Information Technology (IT) in draft form and the approved Vehicle Management Policy for the Plant and Transport Division (PTD);
- The creation of a Consolidated Register for the Department in a central location for proper accountability and administration was in progress at the time of audit;

- There were no Procurement Committee established for purchase of other categories of assets apart from motor vehicles and plant;
- Assets were procured through divisions/branches and there were no controls over the recording of these assets, its custodianship and policy regarding the accountability and safeguarding of the respective assets owned by the Department. This was evident with the Department only maintaining Registers of Assets in regard to Information Technology and Plant and Transport and non-maintenance of registers in respect to other asset categories such as Buildings; Furniture and Fittings, Office Equipment; and Roads and Bridges;
- In the absence of the Asset Registers for office furniture and equipment purchases during the year worth K1,037,017 were unaccounted for;
- 40 purchases of computers, laptops, mobiles, printers and related IT consumable items totalling K328,384 were not registered;
- Of the 10 vehicle purchased at the value of K2,861,979, five vehicles amounting to K1,116,131 were not registered in the Vehicle Register maintained by PTD & Contract Branch;
- Board of Survey Report for the year 2014 prepared by IT Division was incomplete and lacked vital information such as the method of disposal and the purchase price; and
- The Department had not undertaken any annual stock take as required regarding all its various assets due to the non-maintenance of a Consolidated Asset Register.

PROCUREMENT AND PAYMENT PROCEDURES

Audit examination of 360 transactions totalling K454,868,408 with related records and documents revealed the following discrepancies:

- 40 payments totalling K257,601,991 were not provided for audit examination;
- 15 payments totalling K539,067 for outstanding claims from prior years 2008 to 2013, were unbudgeted expenditures; and
- A total of K40,728 was paid to individuals for medical and other financial assistance. The Department did not have a policy in place for financial assistance. Without proper policies and guidelines in place, these payments were unbudgeted expenditures.

TRUST ACCOUNT

Audit examination of the Main Trust Bank Account Reconciliations Status Report and related records and documents revealed the following discrepancies.

Bank Reconciliation

A total of 17 Trust Accounts were listed in the summary report provided, however, four accounts were closed and 13 were active:

- Four Trust Accounts were reported closed, however, I did not verify revoked documents from Finance Department for three of the closed accounts; and
- Out of a total of 13 active Trust Accounts, five Trust Accounts had a number of subsidiary accounts in different provinces. Delays were noted in the preparation of various provincial Trust Accounts maintained. A summary of Provinces with Subsidiary Trust Accounts are details below:

Name of Trust Account	No. of Provinces with subsidiary accounts	Provinces with Bank reconciliation up to December, 2014	Latest Provincial Bank Reconciliation submitted
WSOOTA	20	Lorengau, Rabaul	Central July - 2012
PTBTA	20	Boroko, Rabaul & Kimbe	Mt Hagen - June 2011
AusAID TSSP	11	Boroko, Alotau, Madang, Rabaul & Kimbe	Central & Goroka - June 2014
ADB HRM 1709	6	Boroko	Kundiawa - Feb, 2012
WB: RMRP Provincial Drawing Account	4	None	Central - Nil

Procurement & Payment Procedures

Examination of 75 paid vouchers totalling K4,813,632 from six Trust Accounts administered by the Department together with related records and documents revealed the following discrepancies:

- 11 payments totalling K972,486 (20%) were not provided for audit examination;
- 22 payments totalling K1,286,703 (27%) were effected without obtaining three quotations to ascertain value for money;
- 12 payments totalling K706,187, were paid on quotations and proforma invoices instead of original invoices as required;
- There were no approved documents by Consulting Steering Committee for engagement of consultants by the Department for eight payments totalling K504,377; and
- Cash Books for six Trust Accounts administered by the Department were not provided as a result, I was not able to verify the receipts made in 2014.

ADVANCE MANAGEMENT

Audit examination of the Advance Register maintained together with related records and documents revealed the following irregularities:

- The Advance Register maintained was not updated to include the 2013 advances paid and acquitted. A follow up of advances paid in 2013 to the value of K1,336,190 to ascertain acquittals was not practically possible during audit;
- 38 travel advances issued totalling K52,529 were not recorded in the Advance Register maintained;
- There were 42 outstanding advances totalling K66,796 as at 31 December, 2014;

- The financial delegate failed to review the Advance Register regularly, as required;
- The Advance Register did not include a column for advance holder to sign when receiving the payment;
- Total of K33,575 of travelling allowances was given as second advances without officers acquitting their first advances; and
- Four out of 15 acquitted advances did not have sufficient documents to substantiate the advances paid.

DEVELOPMENT EXPENDITURE

Highlands Highway Road Maintenance

From 2013 to 2014, GoPNG budgeted a total of K230 million for the Highlands Highway Road Maintenance program with K80 million in 2013 and K150 million in 2014.

Summary of expenditures for the Highlands Highway Road Maintenance:

Year	Revised Appro. (K)	Warrant Authority (K)	Actual Expenditure (K)	Over Expenditure (K)
2014	150,000,000	139,000,000	139,731,051	2,281,312
2013	80,000,000	80,141,541	86,948,884	141,541

However, I noted that;

- Funds were over committed in year 2013 and 2014 by K141,541 and K2,281,312 respectively;
- All funds for both years were expended; however, there were no progress reports provided for the year 2013; and
- I reviewed the 2014 Annual Report and performed further audit tests on four selected provinces as noted in the table below.

Summary of Status for Provinces selected for further audit tests

	Province	Road Section	Total Contract Amount Paid (K)
1	Southern Highlands	Highlands Highway - SHP	48,513,067
2	Eastern Highlands & Simbu	Highlands Highway – EHP & Simbu	17,677,180
3	Western Highlands	Highlands Highway - WHP	21,366,000
4	Enga	Highlands Highway - Enga	21,686,653
			21,686,653

However, I noted that the following discrepancies;

- Documents and records relating to current status reports, completion certificates of projects that were completed and contract documents for the above projects were not provided. I was informed that these documents were kept in the respective Provinces by the Provincial Works Managers;

Lae City Roads

The Lae City Road Project started in 2009; however, a lot of controversy regarding funding as well as management derailed the progress of Stages 1 & 2. The project was managed by Department of Finance through NME Consultants as Project Manager. However, Department of Works took over the project management responsibility of Stage 2 in 2012.

- From 2012 to 2014, GoPNG budgeted a total of K228.7 million for the Lae City Road Project with a total warrant of K161.95 million for both years 2013 and 2014.

Lae City Roads

Year	Revised Appropriation (K)	Warrant Received (K)	Actual Expenditure (K)
2014	100,000,000	75,000,000	74,403,079
2013	100,000,000	86,950,000	86,948,854
2012	28,700,000	0	0
TOTAL	200,000,000	161,950,000	161,351,933

- I noted that in 2014, an additional funding of K13.5 million was also transferred to Lae City Roads from Highlands Highway Road Maintenance Budget. This had accumulated the actual expenditure to K174,851,933 in the last two years.
- However, Certificate of completion and contract documents for the completed contracts through the Provincial Project Manager, were not made available as all documents were kept in the Province.

DEPARTMENTAL RESPONSE

The Management had acknowledged receipt of the Management Letter for the year 2014 and have agreed with the audit findings and are taking corrective measures to implement the audit recommendation.

CONCLUSION

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

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

8. DEPARTMENT OF TRANSPORT 2014

OVERVIEW

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

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

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

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

AUDIT FINDINGS

CORPORATE GOVERNANCE

Corporate & Annual Plans

- The Department has a five year Corporate Plan (2010 – 2015), however, an approved Annual Activity Plan (AAP) if any for 2014 was not made available for my audit and verification.

REPORTING REQUIREMENT

Annual Performance/Management Report

- The Department did not prepare an Annual Performance/Management Report on the work and achievements of the Department of Transport in relation to the Corporate and Annual Management/Activity Plans for the years ending 31 December, 2012, 2013 and 2014.

BUDGETARY CONTROL

Variances in Expenditure Balances

A comparison of the Expenditure Vote Summary generated by the IFMS 2157 (TMS 100) and the Expenditure Vote Summary through PGAS system revealed the following discrepancies between expenditure balances for the year, 2014.

Recurrent Expenditure Reports (IFMS/PGAS)

Particulars	Variance in IFMS/PGAS (K)
Revised Appropriation	344,722
Warrant Authority	443,758
Actual Expenditure	13,805,189

The differences in the two records were as a result of non-reconciliation of the two records, consequently, a serious lack of monitoring and control on the Cash Flow Management by the Department.

Over Expenditures in various Vote Items

IFMS 2159 (TMS 330) Report for period 12, 2014 generated from Department of Finance stated a total of K3,252,350 over – expenditure arising from various Expenditure Vote Items per recurrent budget.

BANK RECONCILIATION

The Department of Transport operated a Drawing Account with the Bank of Papua New Guinea A/C # 4311-6155. Audit verification of the bank reconciliation statement and other related supporting records and documents for the financial year, 2014 uncovered the following discrepancies:

- The last bank reconciliation prepared, reviewed and submitted was for the month of August, 2014; however, was not acknowledged by DoF and as such I was not able to ascertain timely submission; and
- During my audit, I noted that the bank reconciliation for the months of September to December, 2014 were prepared, however, they were not reviewed and submitted to Department of Finance as required by *FMM*;

ADVANCE MANAGEMENT

An examination of the Advance Register, acquittal forms, and Expenditure Details pertaining to advances paid to officers during the year under review, revealed the following weaknesses:

- There were 60 un-recorded advances totalling K132,252 during the year;
- 35 Advances totalling K118,075 remained outstanding as at 31 December, 2014;
- The Financial Delegate did not review the Advance Register to ensure that advances were acquitted as required by legislation;

- Five advances totalling K46,866 did not have cheque copies attached to substantiate advance amounts against acquittal; and
- Three acquittals totalling K61,508, did not have itineraries attached to substantiate acquittals made.

HUMAN RESOURCE AND PAYROLL MANAGEMENT

Payroll Reconciliation

- Monthly payroll expenditure reconciliation were not done and the Department was in breach of *FMM Part 18.1*. Further, fortnightly payrolls were not certified by the Divisional Heads before being sent to Department of Finance for data input in the concept payroll;

Senior Contract Officer

I selected 15 Senior Officers (from Grade 13 to 20) to ascertain whether allowances were calculated correctly and paid. However, I noted that;

- Only two of the 15 contract officers received housing allowances fortnightly and one received a one off payment. 12 officers were not receiving housing allowances as per their respective contract categories as per *GO 9.46*; and
- Three senior officers from the 15 were paid overtime through Concept payroll system contrary to *GO 13.67*.

Payment of Overtime

The Department paid 66 overtime allowances totalling K205,966 to officers in various Divisions and incorrectly charged item 135 and not item 113 as budgeted.

Further, a sample of eight payments totalling K94,644 were selected to check whether proper controls were in place and whether all required supporting documents were attached to substantiate these payments.

- In all eight payments totalling K94,644, no approval for overtime were obtained from the respective supervisors as required prior to processing the payments; and
- Two payments totalling K9,474 were paid to Senior contract officers for overtime through PGAS who were not eligible as stipulated in *General Order 13.67*.

Payment of Recreational Leave Fares

The Department incurred a total of K939,252 on 246 recreational leaves and sick leaves. However, I noted that a total of K418,974 was charged to wrong vote items instead of item 114.

Further, 18 payments totalling K177,311 were vouched to ascertain correctness of payment and the following discrepancies were noted:

- 16 birth certificates and tax declarations forms were not attached to verify the ages of dependents claimed for recreation leave payments;
- Two payments totalling K30,681 were paid as sick leave to a very senior officer;
- No cheque copies were attached to 17 payment vouchers to verify the correctness of the amounts paid;
- For all the recreation leaves paid, the 10% leave fare contributions to the State was not deducted, contrary to *GO 14.47*; and
- The Department did not maintain a Recreational Leave Roster in accordance with *GO 14.34*.

Training Plan

The Department did not have a Training Plan in place as required by *GO 5.34 - 5.35*. However, despite not having a Plan, the Department made 40 payments totalling K194,347 during the year for training related purposes.

PAID ACCOUNTS

Audit examination of 41 payments totalling K765,125 revealed the following discrepancies:

- A payment voucher totalling K60,685 was not provided for audit verification and tests;
- 33 payment totaling K608,112 comprising; 79% of the claims examined did not comply with the requirements in the justification forms as approvals from respective officers were not obtained;
- Furthermore, three payments totalling K38,700 did not have the justification forms attached to validate payments;
- Two payment vouchers totalling K38,862 were processed without an ILPOC form. ILPOC as an accountable form and was legal binding instrument between the supplier and the Department;
- Three payments totalling K41,300 did not have the Requisition Form (FF3) attached. The FF3 Form is used to initialize the payment process. In the absence of such forms, I was not able ascertain the approval sought from the Authorized Requisition Officer, Financial Delegate, Section 32 Officer and Commitment clerk;
- 13 payments totalling K326,821, were made without obtaining three written quotations which reduced the goal of achieving the five principles of the GoPNG procurement system; and
- 34 payments totalling K465,500 were not paid based on Tax Invoices as required.

Further, I reviewed 18 payments totalling K329,181 in relation to construction work and I noted the following discrepancies:

- Eight payments totalling K102,708 had no scope of work was attached; and

- Five payments totalling K106,022 did not have a work completion report attached to justify payments made.

Excessive payments were noted in regard to payment of stationaries. In 2014, the Department spent over K1.6 million and in 2015 was K500,000 while K1.5 million was spent in 2012.

- Further verification of companies paid in 2014 revealed that eight companies were not registered with IPA out of the 19 that were supplying stationaries. Total payments to these companies aggregated to K1,037,259 which represented 65% of the total amount of K1,605,681.
- Further, I noted that a total of K148,140 was paid after “close of accounts” for purchase of stationaries. Included in the total of K148,140 was a sum of K60,326 which were paid to two unregistered companies.

ASSET MANAGEMENT

An audit examination of the Asset Register maintained and other related documents revealed the following discrepancies;

Asset Register

- The Master Asset Register lacked vital information as required by the *FMM* including Unit Cost, Estimate of Economic Life, Preventative Maintenance Requirement and Corrective Maintenance History. Furthermore, the assets were not classified in categories required by the *FMM*;
- As the Master Asset Register was incomplete and was not updated, 55 purchases made in 2014 totalling K356,505 remain unaccounted;
- Purchases of laptops and computers were made without any endorsed policy or guidelines in place; hence, there was a high risk of misuse and abuse of attractive items;
- There was no Asset Policy or guideline in place for efficient management and safe guarding of State assets; and
- Annual stock take was noted as a recurring audit issues due to the absence of Asset Register over the years.

Motor Vehicle Fleet Register

- The Motor Vehicle Fleet was deficient in that the following vital information as required by *FMM* was lacking such as unit cost, total cost, estimate economic life, preventative maintenance requirement, corrective maintenance history and physical location. Furthermore, for reference purposes, cheque numbers should also be indicated in the Register;
- I noted that the Register was not updated to reflect the current status of the vehicles;

- Four vehicles (excluding the Departmental Head) had private number plates which was contrary to *Finance Instructions*;
- The Department did not maintain a Maintenance Register but operated on an adhoc basis resulting in a total of K497,045 expended on maintenance of vehicles with the highest payment to a service provider for K321,982;
- Four vehicles that received services totalling K10,514 were not recorded in the Fleet Register maintained. The risk of private vehicles benefitting from State funding and misuse of funds was cultivated;
- The issue of non-maintenance of logbooks raised remained unresolved by management over the years; and
- I was not able to trace the three vehicles purchased in 2013 due to differences in Fleet Register.

Fleet Inspection Report

During my fleet inspection of selected vehicles I noted that:

- A Vehicle purchased in 2014 breached *Circular 15/2012* as it was tinted;
- Another vehicle which had its front plate number missing was alleged stolen, however, no Police Report was provided for my verification;
- A vehicle was noted to be in an accident in October 2013 and had been in the workshop since. It was under the custody of a very senior officer, however, no Police Report was furnished to audit;
- Another vehicle was involved in an accident in 2014 under the custody of a very senior officer, however, no Police Report provided; and
- Both instances mentioned above breached the Department's Driver's Declaration and Vehicle Policy as the bills paid by the Department indicated weaknesses in internal controls as Senior Management were overriding controls.

REVENUE MANAGEMENT

An audit examination of receipts, collector statements and other related documents and records for the year ended 31 December, 2014 maintained by the Department revealed the following weaknesses:

- The comparison of IFMS 1001 (TMS 20) against 4th Quarterly Budget Review Report as at 31 December, 2014 revealed that the Finance Department overstated revenue collection by K1,002,344. The Department of Finance reported revenue collection of K9,916,644 whilst Department of Transport reported K8,914,300 as at year end;
- No temporary appointment of Collector of Public Moneys after the officer was granted leave on medical grounds; and

- Cash collection were kept in cabinets and not in a safe as required and posed a great risk of misuse and cash going missing or stolen.

A review of 78 Collectors Statement totalling K438,194 for months of January, June and December, 2014 had delays in banking ranging from 3 days to 142 days and posed a high risk of cash stolen or misappropriated for other purposes.

DEPARTMENTAL RESPONSE

These issues were brought to the attention of the Secretary through the management letter, and at the time of finalizing this report, I was informed formally that the management acknowledge receipt of the management letter and was in the process of providing the responses to the audit observations.

CONCLUSION

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

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

9. DEPARTMENT OF HIGHER EDUCATION, RESEARCH, SCIENCE & TECHNOLOGY 2014-2013

OVERVIEW

The *Department of Higher Education, Research, Science & Technology (HERST)* function, as mandated by legislation is to provide services to *Higher Education*. The Office's mission is to foster, enhance, and promote quality higher education for social, economic and technological development of Papua New Guinea.

The *Department (formerly Office of Higher Education OHE)* was established by the *Higher Education Act, 1983*. The main functions of the Office, in terms of the Act are:

- To advise the Minister, on all matters concerning higher education that are referred to it, and make recommendations on a National Plan for *Higher Education* covering broad areas of responsibility and objectives which should be assigned to various declared institutions; and
- To advise on general policies in relation to academic programmes, buildings and equipment, staffing and other related matters in declared institutions.

AUDIT FINDINGS

CORPORATE GOVERNANCE

Corporate Plan and Annual Management Plan

The Department did not have a Corporate Plan for the years ended 31 December, 2014 and 2013. The Annual Plan for 2014 was presented in July, 2015, however the Annual Management work plan compiled and made available was incomplete with inconsistent budget figures. In 2013, the Department advised that the 2014 Annual Plan would be available for the 2014 audit, however, no Annual Plan was provided at the time of writing this Report.

Senior Management Meeting Minutes

I was not provided the Meeting minutes for the top management meetings held during the years 2014 and 2013. Consequently, I was unable to review the Meeting Minutes and the resolutions passed.

Internal Audit

- There was no review and consultation performed by the Internal Auditor during the year.
- The Department's Internal Audit Unit operated without an Annual Audit Activity Plan during the years 2014 and 2013.

- Despite its upgrade of status as Department, formerly OHE, the DHERST Internal Audit Unit was maintained by only one Officer as the Internal Auditor. The Audit Committee meeting in 2013 requested two more auditors; however, this resolution was not carried.

BUDGETARY CONTROLS

Variances in Expenditure Balances

The comparison of the Expenditure Summary for the years ending 31 December, 2014 and 2013 from Department of Finance and the HERST (PGAS) revealed the following unexplained variances between expenditure statements. The summary of Total Expenditures – Comparison of IFMS 2222 and PGAS Balances are shown in the table below.

Particulars Recurrent Budget	Variance 2014 (K)	Variance 2013 (K)
Revised Appropriation	104,752,000	4,185,500
Warrant Authority	107,603,266	1,599,500
Actual Expenditure	8,708,685	1,666,700

- The differences noted between the two records indicated that there were no periodic reconciliation between the two records, hence, a serious lack of monitoring and control on the Cash Flow Management by the Department;
- The review of the Department's 2014 actual expenditure indicated that items 211, 255, 252, 227, 224, 213 and 276 had significant amount of variances. Subsequently, the comparative analysis indicated that the variances of expenditure was K11,235,170 as there was no reconciling of the items between IFMS and PGAS; Further, in 2013 Department's actual expenditure Items 211, 213, 227 and 215 had significant variances between the two records totalling K1,747,700; and
- Cash Fund Certificates for 2014 were not made available and sighted therefore, I was unable to perform additional audit procedures to ascertain its correctness.

CASH MANAGEMENT

I noted that the latest bank reconciliation compiled was for the month of January, 2014 and there were no bank reconciliations for the months from February to December, 2014.

However, in my review of the Bank Reconciliation Statements for December, 2013 and related records I noted the following short comings:

- The Cash Book stated an overdrawn balance of K37,248,036 as at 31 December, 2013. The Cash Book was not properly reconciled in a timely manner;
- Credits in Bank Statement not in Cash Book totalling K36,424,637 as at 31 December, 2013 included, reimbursements received and not posted in the Cash book;
- Un-presented cheques as at 31 December, 2013 were stated as K810,866; and

- Other items (credits) totalling K22,676 represented mostly cancelled cheques. They were not journalized and cleared from the Cash Book.

PROCUREMENT AND PAYMENTS PROCEDURES

In 2014, I randomly selected 90 paid vouchers totalling K4,228,710 to test the correctness of the procurement and payment procedures. During my examination and review of procurement and the payment vouchers, I noted the following discrepancies:

- Quotations register was not maintained as reported in the 2013 audit report;
- 20 payment vouchers totalling K1,799,365 and related documents were not provided and as a result, I was not able to ascertain the validity of these payments;
- Eight payments totalling K96,675 were made without acquiring the required three written quotations ;
- Four payments totalling K39,051 were made without the approval of the *Section 32 Officer*;
- 16 payments totalling K388,844 were made without the approval of the Financial delegate, certification by the Certifying officer and approval by the respective Requisitioning officer; and
- 11 payments totalling K636,290 relating to minor purchases were made without any supporting documents including minor contract agreement, certificate of compliance and acquittals, consequently, I was not able to ascertain whether the service providers were genuine and existed.

Further, in my 2013 examination of 69 paid vouchers totalling K1,495,447 and related documents and a review of the procurement and payment procedures, I noted the following discrepancies:

- Two payments totalling K61,842 did not have three quotations prior to purchase of goods and services;
- Three payments to suppliers totalling K50,413 did not have the approval from the respective Equipment & Furniture Procurement Committee (E&FPC) prior to making payments. Furthermore, the payment on cheque 23824 totalling K50,413 was expended without the approval of *Section 32 Officer*;
- Six payments totalling K271,048 were not signed by the Financial Delegate;
- Seven payments totalling K73,697 were made without certification by the Certifying Officer; and
- Four payments totalling K691,554 were not examined by the Examining Officer prior to payments being made to suppliers.

ASSET MANAGEMENT

In my audit and examination of the Assets Register and other related records and documentation, I noted the following anomalies:

- 51 Assets valuing K1,933,120 were purchased during the year were not recorded in their respective Assets Register. The Assets Register was not kept up to date and was not maintained in accordance with Statutory Requirements and Procedures; and
- Motor vehicle register for 2014 was not maintained, consequently, I was not able to verify eight new vehicles purchased in 2014 totalling K973,790.
- Motor vehicles purchased totalling K1,080,367 were done outside of the budget and was unbudgeted.
- 13 office equipment's purchased during the year 2013 totalling K194,690 were not recorded in the Registers;
- The *Office of Higher Education* recorded six purchases totalling K206,394, however, these purchases were not sighted in the Expenditure Transaction Listing for 2013;
- In most instances, cheque numbers of asset payments were not recorded in the Assets Register; and
- There was no stock take conducted in 2013.

ADVANCE MANAGEMENT

During my audit and examination of the Advance Register, acquittals and other related records and documentation, I noted the following weaknesses and irregularities:

- 626 travel advances totalling K656,574 were paid during the year 2014, however, 432 advances totalling K486,974 remained outstanding as at 31 December, 2014;
- 29 advance payments totalling K91,159 had four advance payments totalling K14,467 were not recorded in the Advance Register;
- 65 officers received second or more advances whilst their first advances remained un-acquitted during the year;
- 349 advance payments totalling K426,326 were incorrectly charged to other vote items, and not the designated vote item 121;
- 11 acquitted advances totalling K9,826 were not sighted in the acquittal file; and
- 23 acquittal forms totalling K21,524 were not certified by the financial delegates.
- 127 advance payments totalling K135,542 paid during the year remained outstanding as at 31 December, 2013;

Further, in 2013 I noted these anomalies;

- 25 advance payments totalling K88,184 were not recorded in the Advance Register;
- 27 officers received second or more advances whilst their first advances remained un-acquitted during the year totalling K98,838;
- 18 acquittals totalling K16,172 were not made within the required timeframe for both overseas and domestic travels;
- 23 advance payments totalling K106,714 were made to the Paymaster for various items; and
- The Advance Register provided for audit was poorly maintained. The Register did not record important details such as cheque numbers, travel details, travel dates, etc.

HUMAN RESOURCE AND PAYROLL

During the year 2014, the Department maintained two sets of files for payroll and personnel matters respectively. I selected 12 employees and reviewed their respective files and the following anomalies were noted:

- Six completed Tax declaration forms were not sighted in the respective employee files;
- 11 personal files did not have the Statement of Earnings in the respective employee's files;
- Five employee's personal files did not have their Salary History Cards in their respective files;
- Four personal files did not have the Salary History Cards updated;
- Four employee's personal files did not have their recreation leave cards updated and properly maintained on file;
- Three employee's personal files did not have their HDA cards updated;
- Proper applications for HDA on *Form O&ER 13.1* in four employee's personal files were not sighted;
- The Staff Establishment Register stated a total of 13 casual employees were paid K100,866 as salaries and wages during the year. However, no indication that proper clearance was sought from the Department of Personnel Management prior to engagement of the 12 casuals;
- 12 casual employees' position numbers were not held against each casual employee prior to engagement;
- The 12 casual employees were paid cheque payments fortnightly and not thru the Government payroll system. Further, there was no indication that casuals were issued staff payroll numbers by the Secretary for the Department of Personnel Management;

- The Department Staff Establishment Register provided for audit did not indicate whether it was approved by the Department of Personnel Management (DPM); and
- Monthly payroll reconciliations for January to December, 2014 were done; however, I noted that there was no information on who prepared the payroll reconciliations and whether the reconciliations were checked by a senior accountable officer for verification and confirmation purposes.

I also noted these discrepancies during my examination of Payroll records, reports and other related documents;

Training

- The Office of Higher Education (OHE) did not furnish for audit the *Five (5) Year Training Plan* and the *Annual Training Reports*.

Management of Employee files

- 25 Payroll files and personnel files relating to recreational leave, compassionate, sick leave, etc, were not updated;
- Leave application forms for two officers were not sighted in their respective files;
- Four birth certificates for dependents claimed were not sighted in their respective files; and
- Three payments for overtime were paid to officers who were not eligible for overtime payments as their position were above Grade 10.

DEVELOPMENT BUDGET

The Department of Higher Education, Research, Science & Technology had a total of five projects funded through the Development Budget. Four of these projects were funded wholly by the Government of PNG while one of the project was co-funded, namely West Pacific University. All the five projects were funded through the Recurrent Budget. However, the following discrepancies were noted:

Audit was not furnished The Annual Work Plan, Cash Flow Statement and Projections for the Western Pacific University were not provided for audit verification and test.

- The Bank Reconciliations for the months of January to December, 2014 were not made available for audit verification. Consequently, I was not able to confirm and verify the bank account balances and the adjustments that may have occurred during the year in relation to the Project;
- I was unable to determine the progress of the project and also determine whether objectives and goals were achieved during the year as the Annual Report and Quarterly Budget Review Reports were not made available;

- The following discrepancies were noted from 28 payment vouchers totalling K9,621,171.
 - Four payment vouchers totalling K305,100 were not furnished for audit verification.
 - 13 payments totalling K768,620 were made to suppliers based on less than three quotations.
 - Five payments totalling K148,538 were processed and paid based on pro-forma invoices.
 - Three payment vouchers totalling K8,029,900 were not certified by the respective accountable officer(s).
 - Six payment vouchers totalling K8,308,585 were not examined by the examining officer.
 - 11 payments made to suppliers for goods and services totalling K859,992 did not have FF4 attached to the claims.
 - 12 payments totalling K8,443,394 did not have the FF3 forms attached to the claims.
 - Four payments totalling K123,313 were made to suppliers of goods and services without invoices.

Project 2: Trade Skills Scholarship

The audit examination of records and documents relating to the Trade Skills Scholarship Trust Account revealed the following:

- Reports such as Progressive Reports or Quarterly Review Reports were not made available for audit. In the absence of Annual and Quarterly Budget Review Reports, I was unable to determine the progress of the Project and also determine whether objectives and goals were achieved.

Bank Reconciliation

The review of the bank reconciliation statement for the month ending 31 December, 2014 and other related records relating to the Trade Skills Scholarship Trust Account revealed the following anomalies:

- The statement of account received from the Bank of Papua New Guinea disclosed a bank balance of K8,917,691 as at 31 December, 2014. However, the reconciled cash book balance reported a balance of K26,012,720. This resulted in an un-reconciled difference of K17,095,029;
- The bank reconciliation statement for the month of December, 2014 had reconciling items which needed to be investigated, cleared and adjusted in the cash book immediately to establish the accurate cash book balance;

- Debits on Bank Statement not in Cash book were stated as K872. This consisted of bank fees for the months of September, October, November and December, 2014;
- Cheques on Bank statement not in Cash Book totalled K3,719,483. This balance featured two bank cheque payments totalling K719,483 for visa and airfares and one cheque of K3,000,000 was for funds transferred to BPNG;
- *Other Items (Debits) K19,109,917*
Schedule 6 consisted of variance, un-reconciled variance and refunds and deposits journalized;
- *Credits in Bank Statement not in Cash Book K5,073,354*
This total included Grants received from Department of National Planning & Monitoring; and
- *Un-presented Cheques – K644,121*
The amount was related to cheques raised and issued since May 2013 to 31 December, 2014.

However, I noted these discrepancies in relation to the 2013 Trade Skill Scholarship Project.

- I was not furnished the Annual Work Plan and the Cash Flow Statement for the Trade Skills Scholarship Project.
- There was no confirmation from OHE as to whether the Department had established a Project Steering Committee.

The review and examination of the bank reconciliation statement for the month of 31 December, 2013 and other related records relating to the *Trade Skills Scholarship Trust Account* revealed the following anomalies:

- The Statement of Account received from the Bank of Papua New Guinea disclosed a credit bank balance of K3,515,163 as at 31 December, 2013 whilst the reconciled cash book balance reported a balance of K22,412,747;
- Reconciling items outstanding of K19,105,965 in debits were not investigated, cleared and adjusted in the Cashbook; and
- Unpresented cheques totalling K208,572 related to cheques that were raised and issued since May, 2013.

GRANTS TO INSTITUTIONS

Payment of Grants

There were 31 accredited and recognized Higher Education institutions in PNG which received a total grants payment of K34,161,828.

As per the instruction issued by National Planning Department & DERST, all acquittals should reach the Department by the 31 December each year and an enrolment list by two weeks after enrolment. However, no acquittals for 2014 were furnished for audit verification & tests.

DEPARTMENTAL RESPONSE

The Department had not responded to the audit issues reported in my management letter up to the time of writing this Report in September, 2015.

CONCLUSION

The results of the audit indicate that overall, there were significant and serious weaknesses in the control framework. I noted that there were weaknesses in Procurement, Advance Management, Procurement and Human Resources and Payroll. The control activities such as delegations, authorisations, reconciliations, segregation of duties, system access and management were not sufficiently robust to prevent, detect or correct errors or fraud.

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

10. PNG CUSTOMS 2014-2013

OVERVIEW

PNG Customs Service derives its powers from the *Customs Act, 1951* to control, supervise and authorise inward and outward entry of all forms of conveyances, persons and goods. It is also empowered to impose and collect duties for all goods imported and exported subject to exemptions granted in accordance with Customs to deal with breaches of the principal Act itself or other allied Acts and regulations to *PNG Customs* is empowered under the *Excise Tariff Acts, 1956* to charge and collect excise duties and taxes. The *Goods and Services Act, 2003* authorises *PNG Customs Service* to collect Goods and Services Tax ("GST") on all goods imported. Collection of these duties and taxes are subject to exemptions and reductions granted in accordance with and under the Customs Laws.

AUDIT FINDINGS

CORPORATE GOVERNANCE

Annual Management Reports

The draft Annual Management report for *PNG Customs Service* was provided for audit and the *Acting Assistant Commissioner* mentioned that the final draft of the Annual Management Reports should have been ready by June, 2015. However, the *PNG Customs Service* did not prepare Annual Management Reports and submit on a timely basis as required under *Division 4 Section 32 (a)* of *Public Service (Management) Act, 2014*.

Management Response

I was advised by management that the Report was in print and would be presented to Parliament in November, 2015.

However, I reviewed the Annual Report for the year 2013 in line with the *Five (5) year Corporate Plan* and noted the following discrepancies;

- There were manpower shortages, and
- There was a downfall of revenue collection by 3% (revenue collection was down by K63 million against budget projection of K2.41bil).

I noted that the overall achievement of the *PNG Customs Service* was 78% and this needed improvement to achieve all its goals and objectives.

Internal Audit Unit

The Internal Audit Unit submitted five completed audit reports for the year ended 31 December, 2013. The Unit carried out special investigation on revenue collection, human resource management and systems and procedures. There were no work related to Management of Assets, Procurement Procedures, and Advance Management. Furthermore, I noted that there was no Annual Audit Plan for the year ended 31 December, 2013.

BUDGETARY CONTROLS

In my comparison of the 2014 Expenditure Vote Summary maintained by *PNG Customs Service* with the Expenditure Statement (IFMS 2222) produced by the Department of Finance for Period 12, 2014, I observed that there were significant variances between statement balances.

The Expenditures Statement (IFMS 2222) produced by the Department of Finance for the year ended 31 December, 2014, revealed expenditures in excess of warrant authorities issued under one Vote Item totalling K9,000 in the recurrent budget.

Management Response

“The management concurred with my observations and advised that an officer would be assigned for the monthly reconciliations.

Expenditure Summary & Expenditure Statement (IFMS2365)

Further, during my comparison of the 2013 Expenditure Vote Summary maintained by the *PNG Customs Service* with the Expenditure Statement (IFMS 2365) produced by the Department of Finance for Period 12, 2013, I also observed significant variances between statement balances.

Particulars	DoF IFMS2365 (PGK)	Customs PGAS(PGK)	Variances(PGK)
Revised Appropriation	32,868,000	44,500,000	-11,632,000
Warrant Authority	31,895,000	32,840,800	-945,800
Actual Expenditure	23,312,000	28,159,763	4,847,763
Total	-8,583,000	4,681,037	-3,901,963

I noted that the actual expenditures were in excess of the warrant authority issued by K3,901,963 and no monthly reconciliation was done between PGAS Reports and the IFMS expenditure statement.

The expenditures statement (*IFMS 2222*) produced by the Department of Finance for the year ended 31 December, 2013 revealed expenditures in excess of warrant authorities issued under three vote items totalling K853,000 in the recurrent budget.

BANK RECONCILIATION - DRAWING ACCOUNT

The *PNG Customs Service* complied its monthly bank reconciliations in respect of its Drawing Accounts up to September, 2014.

The *Service* did not prepare the October to December 2014, Bank Reconciliations as bank statement obtained from Bank of Papua New Guinea (BPNG) stated an error figure of K1.0 million under October's credit column. This indicated that *PNG Customs Service* committed beyond funds available/budgeted for.

The reconciliation statements revealed the following reconciling items which were not cleared to reflect the correct and true Cashbook balance as at 30 September, 2014:

- Credits in the bank statement not in cash book totalled K33,657,286 (Sept, 2014) and this was not identified and cleared in the Cash Book;
- The list of un-presented Cheques as at 30 September, 2014 amounted to K730,430; and
- The cash book revealed an overdrawn ending balance of K35,082,732 as at September, 2014

Management Response

The management also concurred with my observations and advised that an officer would be assigned for the monthly reconciliations.

I reviewed the December Bank Reconciliation for the year ended 31 December, 2013 and the following anomalies were noted:

- Credits in the bank statement not in cash book were stated as K26,752,551 (Dec, 2013) and this amount was not identified and cleared in the cashbook;
- Unpresented Cheques as at 31 December, 2013 amounted to K11,167,760;
- The unpresented cheques (2012) that had been stale for over one year amounted to K108,126; and
- The cash book stated an overdrawn ending balance of K37,944,441 for the year ended 31 December, 2013.

PROCUREMENT AND PAYMENT PROCEDURES

I reviewed and examined 51 paid voucher totaling more than K1.8 million for the year ended 31 December, 2014 and other related documentation and noted the following discrepancies;

- *PNG Customs Service* did not have a Procurement Plan or Strategy to ensure; *better value for money, compliance with legislative requirements, fast procurement and availability of procurement funds*;
- The *Service* did not maintain a Quotation Register to record quotes obtained from services providers;
- Four paid vouchers totalling more than K160,000, were not provided for audit verification;
- Three payments totalling K21,056, were not certified by the certifying officer as valid and correct;
- 32 payments totalling more than K730,000, were made without three quotations attached for the procurement of goods and services as required by *FMM Part 12 Division 3*;
- There was no work report /contract agreement attached for the work done to substantiate 10 payments amounting to more than K649,000;

- More than K10,000 was paid to two hire car companies engaged within National Capital District. This practice was contrary to the *PFMA* where all government agencies were not allowed to use hire car in NCD; and
- Two payments totalling K29,000 were cancelled on the payment vouchers, however, these cheques were not cancelled on the PGAS system.

Management Response

The management also concurred with my observations and advised that remedial actions were being taken accordingly.

There was no Policy established relating to the procurement of goods and services as required by the *Finance Management Manual* during the year 2013. However, I noted the following anomalies;

- Quotation Register was not kept as required by the *Financial Management Manual*;
- I selected 64 transactions totalling K2,482,714 and tested for control weakness in the procurement and payment procedures and I noted the following discrepancies:
 - 13 payment vouchers amounting to K475,887 were not provided for audit verification;
 - Supporting documents were not attached as payments were made;
 - 16 expenses amounting to K701,737 did not have three quotations as required;
 - 18 expenses amounting to K821,466 did not have contract agreements signed between the Service and the Contractors or the agents;
 - 15 payments amounting to K643,201 that were made without the approval from the Procurement Committee; and
 - Nine payments totalling to K156,965 were made to private hire companies which were used within the National Capital District. This action was contradictory to the *PFMA* and the *Finance Instructions* where all government agencies were not allowed to use hire car in NCD.

HUMAN RESOURCE AND PAYROLL MANAGEMENT

Employment of Casual Staff

I noted the following anomalies in my review of the engagement of casual staff by *PNG Customs Service*:

- 92 new recruits were paid wages out of CUSTA (*Customs User Pay Trust A/c*). This practice was improper as all employee related payments were to come from the Allesco Payroll system of the government; and
- I was unable to verify whether the casual employees were for short or long term engagement as appropriate documentation was not provided.

- According to the Staff Establishment Register obtained, there were 158 funded positions vacant at the time of audit in March, 2015

Recreation Leave Entitlements

- 28 recreational leaves entitlement totalling more than K225,000, did not have tax declaration forms or other legal documents such as marriage, birth and adoption certificates to substantiate the dependents claimed;
- Seven recreational leave paid vouchers totalling more than K61,000 were not provided for audit verification; and
- The observations above were made based on the paid vouchers selected as samples, however, the supporting legal documentation were not attached in the application lodged for recreational leave entitlements.

Overtime Payments

- I did not sight any signed *work time sheets* attached to confirm hours worked by each of the respective five officers who were paid more than K19,000 in overtime allowances;
- Nine over time paid vouchers totalling more than K38,000 were not provided for audit verifications. Therefore, I was not able to confirm the validity of these payments.

Management Response

The management concurred with my observations and advised that remedial actions were taken accordingly.

Further, during my review of the 2013 Human Resource management of the *Service*, I noted these discrepancies;

Certification of Payroll

- Certification of payroll was not done by the Divisional Heads to ensure that there were controls over payment of salaries/wages and other related allowances.

Recreational Leave

I observed that *Customs* paid out more than K400,000 as recreational leaves entitlements during the year. I obtained 13 samples of expenditure of more than K6,000 totalling K130,527 to test whether all requirements were met before the entitlements were paid. However, I noted that:

- 13 recreational leaves entitlement totalling more than K130,000 were not supported by legal documents including marriage, birth or adoption certificates to substantiate the legitimacy of the dependents claimed;
- There were no birth certificates attached to the recreational leave application. Consequently, I was unable to determine the actual age of dependents claimed for children whose ages were more than 17 years old; and

- A paid voucher totalling more than K7,000 paid as recreational leave entitlements was not provided for audit verification.

Employment of Casual Staff

The PNG Customs Service engaged a total of 27 casuals in 2013 and were put under two different systems for payment of their wages;

During an analytical review of the engagement of casuals, I noted that;

- 27 casuals were paid thru PGAS and furthermore, these 27 casuals on PGAS did not have proper files and employee numbers. Their basis of recruitment was not ascertained.

ADVANCE MANAGEMENT

During my audit and examination of the Cash and Travel Advance Register, acquittal forms and related records for advances paid to officers during the year, I noted the following weaknesses:-

Register of Advances

- 71 officers did not acquit their advances totalling K129,072;
- From these 71 instances, nine officers had more than one advance acquittal outstanding amounting to K24,546;
- There were 25 officers who failed to acquit their first advance totalling K60,734 but were given second advances; and
- I noted that, correctives actions were taken to address the on-going issues related to the non-acquittal of advances.

Acquitted Advances

- A Travel Advance for an officer amounting to K2,435 was to be refunded as trip was cut short but instead the officer requested to have it recouped from *anticipated future travel*;
- 13 acquitted advances totalling K92,000 did not have relevant supporting documents for duty travel as acquittals were made:
 - Two advances totalling K6,592, did not have boarding passes attached;
 - There were no cheque butts attached for two advances totalling K7,832; and
 - Five accommodation receipts totalling K9,841, were not attached.

Management Response

The management concurred with my observations and advised that remedial actions were taken accordingly.

Further, during my review of the 2013 Advances Management, I noted these discrepancies;

Register of Advances

- The Advance Register was not updated on a regular basis;
- 28 officers did not acquit their previous advance totalling K28,261 as required and were further allowed second advances;
- A travelling advance totalling K20,513 was not reimbursed as travel was cancelled;
- An officer did not acquit all the advances paid to him totalling K10,285 for the year 2013; and
- 20 officers had more than one advance acquittal outstanding.

ASSET MANAGEMENT

The examination of Asset Register and other related records revealed the following discrepancies;

Asset Register

- The Asset Register was not drawn in accordance with information required by the *FMM* hence, an audit trail was difficult. Furthermore, the Assets Register information was incomplete as the full details of the assets were not captured.
- Most assets purchased, especially office assets were not properly categorized under each asset category to enhance ease and proper management of the assets owned. The Assets were registered under one heading as Office Equipment/ Assets.
- I noted that of the 13 vehicles purchased in 2014, only eight were purchased as per the PGAS transaction details.
- The List of motor vehicles allocation did not contain relevant particulars such as:
 - Cheque No/Reference No;
 - Registration Expiry Date;
 - Purchase Price; (incomplete)
 - Supplier Name;
 - Depreciation Details; and
 - Warrant Period;
- The *Services* breached the government policies and Instructions as 12 vehicles were using private plated registration numbers.

Technical Equipment

13 payments for Technical Equipment's costing K8,473,526 were not recorded on the Asset Register.

Loss & Deficiency Report

Loss and Deficiency Report for the Assets either lost/stolen or damaged were made available however, I was not able to further verify whether these items were actually stolen or damaged as no report for each item was provided for my audit verification.

Land & Building

A payment of K170,000 for a housing project in Buka was not registered on the Properties Register that was provided for audit. The *Service* did not have legal title over these properties.

Firearms

A firearm costing K11,035 was not registered in the Firearm Register and remain unaccounted for.

Management Response

The management accepted my recommendations and advised that remedial actions will be taken accordingly.

During my review and audit examination of the Asset Register and other related records for the year ended 31 December, 2013, I noted the following discrepancies;

Fixed Asset Register

- I selected 34 assets payments totalling K2,868,655, however, I was unable to trace these payments to the Asset Register as the relevant supporting documentation was not provided for audit verification.
- I was not able to establish an audit trail as the Asset Register was not drawn in accordance with the information required by the *FMM*. Furthermore, the Asset Register information was incomplete in capturing the full details of the assets as such;
 - Cheque Numbers,
 - Purchasing Date (incomplete),
 - Supplier name,
 - Estimated economic life,
 - Purchasing officer,
 - Warrant period, and
 - Source of funds,
- There was no stock take done for the year 2013 due to manpower issues;
- All assets purchased were not properly categorized under each Class of Assets category to enhance easier and proper management of the assets;
- *Motor Vehicle Fleet*; and
- The *Service* operated a fleet of 75 motor vehicles during August, 2014. However, I noted that two vehicles were wrecked and 19 vehicles were recommended to be disposed in the years

2014 and 2015. Further, I noted from the transport records that the list of motor vehicles allocation did not contain relevant particulars such as:

- Cheque No/Reference No;
 - Registration Expiry Date;
 - Purchase Price (incomplete);
 - Supplier Name;
 - Depreciation Detail;
 - Warrant Period;
 - Source of Funds.
- The Motor Vehicle Maintenance File or records were not made available for audit.
 - 11 vehicles used private registration numbers, resulting in breaches of government policies and Instructions as state owned vehicles were to be fitted with 'Z' Plate;

Plant, Equipment & Machinery

- 10 vehicles purchased for K1,316,535 were not captured in the Asset Register;

Loss & Deficiency Report

- Loss and Deficiency Report for the Assets either lost/stolen or damaged were not made available for my verification; and

Lands & Building

- A piece of land was purchased from *Unitech Development & Consultancy Ltd* on an installment basis with first down payment of K1,000,000 made in 2013. I noted that there was no development in 2014. The area was fenced but the fencing was incomplete.

TRUST FUNDS AND ACCOUNTS

Bank Reconciliations

The National Road Authority Trust Bank reconciliation balances from prior years (2010, 2012 and 2013) were on the bank statement. These balances were identified under *Schedule 7 – Credits in bank statement not in cashbook*. Some of these balances were wrongly credited to the Trust Account and should have been identified and cleared from the bank account in the cashbook accordingly.

I noted that the Customs Technology Infrastructure Development Trust Account (CTIDTA) reconciliations for the months of January and March did not have supporting bank statement from BPNG.

PNG Customs Service did not provide the following Revenue Trust Accounts monthly bank reconciliations. The inaction breached *Part 16* of the *FSM*;

- a) Customs User Pay Service Trust Account
- b) Customs Revenue Admin Trust Account (CRATA)

Trust Account maintained manually outside of the PGAS system.

The Director Accounts – verbally confirmed that all the Trust Accounts maintained by *PNG Customs Service* were maintained manually and were outside of the PGAS system. This inaction was a breach of the *Trust Instruments* or *Deeds* that required the Service to maintain the Trust Accounts with any commercial banks, but must be linked to the PGAS system.

Management Response

The management accepted my recommendations and advised that remedial actions will be taken accordingly.

In 2013 the *PNG Customs Services* maintained a total of six Trust Accounts and I was provided all the relevant Trust Instruments. However, I requested documentation for these Trust accounts and only the following were noted:

- Cash Book for four Trust Accounts maintained were not provided for audit, except for Customs User-Pay Service Trust a/c [CUSTA] and PNG Customs Technology Infrastructure Development Trust Account;
- Monthly Bank Reconciliation for five of these Trust Accounts were not prepared for the year under review and preceding years which was directly in breach of all the respective Trust Instruments;
- Bank balance and statements for five Trust Accounts were not provided for audit, therefore I was unable to verify the balances and monies allocated to these Trust Accounts and the movement of funds if any; and
- All these Trust Accounts were maintained, outside of the PGAS system and the risk of funds being misused through fraud and abuse was high.

DEVELOPMENT BUDGET

26 transactions totalling more than K29 million (64.2% of the total *Development Expenditure*) were tested for control weakness in the major procurement and payments. The following anomalies were noted under each project;

Scanning & Identification Equipment

Four payments made to an overseas Company for the purchase of the above equipment totalled K1,865,814, However, I noted that all four payments were made without status or work reports to verify whether these equipment were actually installed and were operational.

Project Drawing & Design

The following issues were noted from payments made for the above project carried out in Lae costing *PNG Customs Service* K500,000;

- *There was no contract documents/ agreement sighted.*
- *No tender documents were attached or sighted for the project,*

- *No Status Report attached to verify whether the project had been completed, and*
- *No Certificate of Completion was provided to confirm whether the project has been completed.*

Gerehu 4 Units Property

The following issues were noted from the payment made for the purchase of property at Gerehu totalling K5.25 million;

- Payment of K5.25 million had exceeded the quantity surveyor's report as the agreed amount was K2.5 million;
- The K2.5 million was cancelled as per the payment voucher, however, PGAS had only K2.25 million as cancelled, The amount was not agreed and needed further investigation,
- No contract agreement was sighted for the transfer of ownership.

Buka Housing Project

The payment for the housing project in Buka cost K1,200,589. However, I noted that:

- The building materials purchased for the housing projects cost more than K860,000. There was no payment voucher provided for the payment made for the building materials.

The price was beyond the Commissioner's limits of K500,000 and it did not go through the normal tender process.

During my physical inspection of housing project site; I noted that:

- The purchased and shipped materials from Lae were all at the project site;
- Clearing of the land by a Contractor had cost the Service K340,000, and
- No actual construction of the building 1 x 2 story duplex had commenced.

Tokua Land Acquisition

I noted that the 50% down payment of K210,000 was made for the purchase of land, however, I observed the following discrepancies during the initial projection inspection made at Tokua, Kokopo, ENB;

- No contract documents and agreement for the sale of the land purchased was provided.
- There was no development on the land, a plantation block/land, and
- No sketch of this land was provided for audit inspection; therefore, I was not able to verify the hectares of the land purchase.
- There was no signage at the adjacent roadside to show that the specified land was acquired for PNG Customs Service Housing Project.

Management Response

The management accepted my recommendations and advised that it has a governance framework that ensures accountability in all its decisions and use of Public Funds.

DEPARTMENTAL RESPONSE

The Service had responded to my 2014 audit findings and their comments have been incorporated accordingly in this Report. However, the management did not respond to my 2013 management letter and consequently, I am unable to incorporate their responses in this Report (*Part 2*).

CONCLUSION

The results of my audit indicate that there were some improvements in the operations of the internal controls compared to previous years. This was evident in the Revenue collection, assets and advance management. However, overall, there were weaknesses noted in the control framework

11. INTERNAL REVENUE COMMISSION 2014-2013

OVERVIEW

The main objectives of the *Internal Revenue Commission (IRC)* are to:

- Assess and collect income tax, GST, group tax and excise tax;
- To provide tax education and awareness campaigns and to propose tax administration reform measures; and
- Facilitate trade and manage the movement of goods and people across the borders to protect the PNG community and to ensure PNG's laws are upheld.
- The customs functions performed by IRC were separated from taxation that took effect as from 1 January, 2010.

AUDIT FINDINGS

BUDGETARY CONTROLS

Variance in Expenditures Balances

A comparison of the 2013 Expenditure Vote Summary printout maintained by the Internal Revenue Commission with the Expenditure Statement on IFMS 2365 produced by the Department of Finance for Period 12, 2013 stated a net variance in actual expenditure of K407,319.

The Expenditure Statement per IFMS 2222 produced by Department of Finance for the year ended 31 December, 2013 revealed expenditures in excess of warrant authorities issued for 12 vote items totaling K21,499,312 in the Recurrent Budget.

Management Response

IRC did not agree that funds were expended in excess of the Warrant Authorisation, nor does IRC agree that there have been "serious breaches of the Appropriation Act or the Public Finances Management Act 1995".

Any variance between IFMS and PGAS records would need to be confirmed by the Department of Finance. As noted earlier in this response IFMS figures are sourced from Department of Finance IFMS system, and efforts to obtain these details from the Department of Finance have not resulted in figures being forthcoming."

BANK RECONCILIATIONS – DRAWING ACCOUNT

I audited the period from 01 January to 17 September, 2014 for compliance purposes as IRC was going through its transition period of becoming an Authority (under their new Act) from October onwards.

The Bank reconciliation for September, 2014 was submitted to Finance Department on the 23 January, 2015 which was four months in arrears and was contrary to the required time of fourteen (14) days after end of each month.

The Department compiled monthly bank reconciliations for the Drawing Account up to 31 December, 2013.

- The December, 2013 bank reconciliations had Un-presented cheques totalling K5,032,599 which included five stale cheques dated back to 2012.

Management Response

“The bank reconciliation officer will continue to issue reminder notices for IRC cheques to be banked in a reasonable timeframe so that IRC Drawing Account will be debited on a timely basis.”

ADVANCE MANAGEMENT

Audit review of the Advance Register, acquittal files, and related documents in 2014 revealed that the advance payments were properly kept and maintained accordingly to *FMM Part 20*.

In my audit examination of Advances issued in 2013 and a review of the *Travelling Allowance* Register, I noted the following observations:

- Second and third advances totalling K4,277 were issued to three officers when their first advances were outstanding contrary to *FMM, Part 20*; and
- 12 travelling advances totalling K13,728 remained outstanding as at 31 December, 2013.

Management Response

I was advised by management that; the three officers concerned had since acquitted their advances while two other officers did not acquit their travel advances.

ASSET MANAGEMENT

During my review of the IRC Master Asset Register, I noted the following shortcomings:-

- No stock take was done in 2012 and 2013. However, a plan was in place for a stock take to be conducted commencing in July 2014;
- Ten purchases totalling K59,622 were not recorded from a purchase of K253,200 worth of attractive items;

- 29 furniture and fittings purchased during the year worth K166,559 were also not recorded; and
- The Department purchased properties, land and renovated rundown properties totaling K2,967,315. The values were not recorded in the Master Asset Register or any separate Land and Building Registers created for IRC to keep record of the Department's capital assets.

Management Response

The management advised that actions had been taken to do stock take which includes the IRC Regional Offices.

PROCUREMENT AND PAYMENT PROCEDURES

The *General Order* requirements were not adhered to when engaging a Consultancy totalling K841,240 where approval sought from Consultancy Steering Committee (CSC) was not sighted in 2014.

Management Response

"Vanguard International

The engagement of Vanguard International was not for the provision of consulting services but to recruit temporary staff on contracts of employment up to three months. These engagements were required to assist IRC to clear backlogs. The amount has surpassed K300,000 as there were several rounds of recruitment over an eight month period.

It has been the view of the IRC that the Organisation is able to procure the services of consultants in the same manner as any other services. If this is not the case, IRC would request that the AGO provide IRC with the relevant information confirming this is the case."

The review of 16 paid vouchers in 2013 totalling K2,454,617 revealed that a Consultant engaged for K82,500 did not have progressive reports attached to the paid vouchers to substantiate the scope of consultancy services.

Management Response

"Merit Enterprises Ltd was selected as the most qualified and value for money to provide services that IRC sought on HR advice and to undertake the necessary dialogue with DPM because of the principle of the company connections with DPM and expertise in the PNG employment matters including the drafting of the HR administrative orders pursuant to the terms of the agreement as provided."

HUMAN RESOURCE AND PAYROLL

Audit examination of the payroll records and related documents revealed the following irregularities in 2014:

- Three personal files were not provided for review and verification;
- Seven SDMA forms were incomplete and not adequate for individuals;

- Audit noted that an Officer's Salary Grade was PS12 but the recommended SDMA was at PS13 "minimum". The appropriate SDMA forms were also incomplete as the two Commissioners did not approve the SDMA;
 - A total of 29 officers occupying contract positions were not compensated with benefits that were tied to the position such as gratuity since there was no employment contract in place;
 - There was an over payment of gratuity totalling K11,260 to two Senior Officers during Pay 22 of 2013; and
 - The 10% deductions towards cost of airfares were not confirmed and deducted for six officers totalling K3,724. There were no evidence in the form of PVAs in the personal files confirming whether the deductions had been made.
- Supporting documents such as birth certificates were also not found in employee personal files in six payments totalling K 46,371.

Management Response

Management concurred with the issues reported and had advised to improve their records and processes.

Audit examination of payroll records and other related documents revealed the following irregularities in 2013:

- Four Payrolls were requested in writing for audit review for fortnightly pay run no's. 06/2013, 12/2013, 18/2013 and 24/2013 but were not provided, except for a pay summary dated 25 June, 2014. However, audit was not able to verify whether it was checked or reviewed by a Senior Management Staff.
- According to the casuals listing provided, casuals were only engaged between 2013 and 2014. However, I was uncertain as to whether Nambawan super contributions made for casuals from 2009-2012 were for these casual employees.
- A review of the recreational leave entitlements noted that IRC paid more than K600,000 during the year. Further, during my review of 12 payments above K10,000 and totalling K198,519, I noted that 10 recreational leave entitlements totalling K138,000 did not have any legal documents including marriage, birth and adoption certificates to substantiate the dependents claimed.

Management Response

IRC agreed that Divisional Heads be delegated the responsibility to ensure their Divisional establishment names correspond with payroll data on a fortnightly basis. IRC had five (5) casual staff in early 2012. The five received Conditional Offers towards the end of the year 2011 and became probationary officers pending DPM releasing file numbers. The probationary officers were providing urgent and essential services in their appointed roles up until Pay 7 of 2012 when DPM released file numbers and were put on the payroll. A circular will be drafted and circulated to all IRC staff regarding updating details of all dependents through HRM.

TRUST ACCOUNT

IRC maintains a total of five Trust Accounts. The review of the two Trust Accounts and related bank reconciliations together with other records and documents revealed the following observations and findings:

National GST Trust Account (NGST)

The purpose of this Trust Account per the Trust Instrument was to hold all monies received from collecting revenue under the then VAT legislation which was applicable as the Trust Instrument was not revised for the change of VAT to GST. Transfers were only made to the WPA, GST refund account and the Provincial GST Trust Accounts accordingly to the administration policy of the Trust.

I noted these issues in the preparation of the bank reconciliations:

- Funds totalling K28,863,978 were in transit and were unaccounted collections for January, February, March, April and August, 2014;
- All Collections stated as "Yet to be Transferred" under "Summary of Collections - Cleared and Outstanding" shown in the following bank reconciliations did not appear in subsequent months; and
- Timely transfer was a factor affecting the Trust Account. Monies were not transferred on a monthly basis as it was supposed to be instead transfers were delayed ranging from one year to two years.

Management Response

"National GST Trust Account

- *In transit figures of K28,863,978.33 are those Import GST Revenue not processed during the reconciliation period but are likely to be processed in the following months. Transposition errors by Customs, Collection input delays by Customs and Processing delays are on –going and need to be addressed by Customs.*
- *Collectors Statements have never been provided to IRC by Customs. The Collectors Statement issue has been on-going since the de-merger between Customs/IRC and a hindrance to our bank reconciliations. Monthly meetings between Customs/IRC still maintained but the issue is best taken up with Customs by the Auditor General.*
- *The lengthy days are experienced due to delays in information from Customs.*
- *There are twenty two PGST Trust Accounts to reconcile and new format by Department of Finance to be reviewed and used towards the end of 2015."*

Provincial GST Trust Accounts (PGST)

There were 21 Provincial GST Trust Accounts maintained by the Commission. My review of these Trust Accounts revealed the following discrepancies:

- The format of bank reconciliations for the past Trust Accounts vary from Province to Province. There was no uniformity in the templates used for respective bank reconciliations;

- The break- up of the various amounts should be disclosed in schedules for proper documentation;
- The signature of the officer who prepared and of the person reviewing were not identified and shown. Signature on the bank statements did not clearly indicate and identify the person who signed off; and
- Supporting documents including summary of Collector Statements were not attached together with bank reconciliations in all the Bank reconciliations.

DEVELOPMENT BUDGET

The IRC administered three projects under the 2014 Development Budget funded by GoPNG. I reviewed two projects.

Regional Manager's Institutional Housing

- The second quarter of 2014 records stated that land and properties valued at more than K2 million were purchased in 2013. In 2014 total expenditure of K117,000 was incurred to facilitate the project.

Evidence of the properties acquired and under negotiation as stated was not provided during the audit such as snap-shots of properties and Land Titles for properties purchased. However, all these evidence of snap shorts and legal documents were provided together with management responses and were noted to be satisfactory.

Revenue Raising Initiative

- The project valuing K5 million was put on hold for one year due to the lengthy procurement process.

Management Response

Management concurred with my audit observations.

The Commission managed two projects under the 2013 Development Budget Programme. The projects were the *Revenue Accounting System II (RAS II)* and the *Regional Manager Institutional Housing project*. The Regional Manager Institutional Housing project was aimed to build houses throughout regional offices in the country to accommodate its Regional Managers. The following issues were noted in regards to the project.

- *Land & Building Register (s)* was not created to keep records of properties owned and newly purchased in 2013;
- An additional fund of K0.5 million was spent to upgrade fencing, drive way and ground floor slab, and supply of white goods for two properties already acquired at Gerehu; and

- Two properties purchased in Goroka incurred additional expenditures of K601,930 for renovations when the actual cost of the properties was valued at K1,080,145 which was not disclosed.

Management Response

I was advised by management that the Properties purchased in 2013 that were not recorded in the Master Asset Register costing IRC K2,967,315 has now been recorded in the newly created separate Land & Building Register.

DEPARTMENTAL RESPONSE

The Commission had responded to the audit findings reported in the management letter and their comments have been considered and included accordingly in this Report (Part 2).

CONCLUSION

Audit results indicate that there were some improvements in the operations of the internal controls compared to previous years. This was evident in all areas except for Human Resource Management & Payroll where significant weaknesses were noted in the control framework.

The controls activities, such as delegations, authorisations, reconciliations, data processing, segregation of duties and system access were not sufficiently robust to prevent defect or correct errors or fraud.

12. DEPARTMENT OF PERSONNEL MANAGEMENT 2014-2013

OVERVIEW

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

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

AUDIT FINDINGS

CORPORATE GOVERNANCE

Internal Audit Plan

The draft Annual Work Plan and internal audit reports for the year under review were submitted to the *Secretary - Department of Personal Management* for approval, however, I was advised that it would be tabled in the Executive Management Team Meeting before any audits can commence.

I observed that there was a great need to increase the manpower at the IAU so that it can better execute its mandated responsibility of doing daily check and balances and to ensure that internal controls were working effectively as required.

Internal Audit

- The Internal Audit Unit of the Department did not furnish any *Annual Audit Plan* and reports for audits done in the year, 2013. However, I was provided the *Approved Audit Plan* for the year, 2014. I noted that three separate audit reports were produced during the year covering; the *Financial Reporting Requirements*, *Drawing Account Expenditure*, and *Payroll Reconciliation*.
- The manpower in the Internal Audit Unit was insufficient to cater for the audit needs of the Department.

Senior Management Meeting Minutes

Senior management meeting minute's files for the year (2014) under review were not provided for my audit and verification.

REPORTING REQUIREMENT

Quarterly Financial and Annual Management Reports

Section 5 of the *Public Finance (Management) Act, 1995* requires, the Department to prepare and submit a report on the financial management quarterly, after end of each quarter and an Annual Report, including overall assessment of the Department to Department of Treasury and Finance for the years ended 31 December, 2014 and 2013. However, the respective *Annual Financial Management Reports* were not prepared.

BUDGETARY CONTROLS

A comparison of the 2014 Expenditure Vote Summary maintained by the Department of Personal Management with the Expenditure Statement on IFMS 2159 produced by the Department of Finance for Period 12, 2014 revealed significant variances between the statement balances.

Variance in Budget Warrant Authority and Expenditures balances

Particulars	2014 Variances (PGK)	2013 Variances (PGK)
Revised Appropriation	-99,305,819	NA
Warrant Authority	71,252,730	68,254,750
Actual Expenditure	24,861,887	20,368,521

The expenditures statement (IFMS 2157) produced by the Department of Finance for the years ended 31 December, 2014 and 2013 revealed expenditures in excess of warrant authorities issued for 20 and seven votes items totaling K8,331,162 and K6,629,910 respectively in the Recurrent Budget.

BANK RECONCILIATION - DRAWING ACCOUNT

The *Department of Personnel Management* maintained a Drawing Account (No. 4311-6135) with BPNG. Audit verification of the documents and related schedules for the December, 2014 and 2013 bank reconciliation revealed the following discrepancies:

- Credits in the bank statement not in cash book totalling K16,938,630 (Dec, 2014) and K4,064,958 (Dec, 2013) were not identified and cleared in the Cash Book.
- The list of unpresented Cheques as at 31 December, 2014 and 2013 amounted to K14,659,414 and K5,638,725 respectively. These cheques as reported in *Schedule 8* of the bank reconciliation were not investigated, cleared and adjusted in the cash book and stale cheques written back.
- Cheques on bank statement not in Cash Book were stated as K269,000 in December, 2014. This balance featured a cheque numbered 22034309 that was manually raised and issued on the 26 November, 2003 but was not captured in the cash book.
- Other Items (credits) K2,074,862 and (Debits) K692,801 were reported in 2014 and 2013 respectively. These represented cancelled cheques, without journal entries being raised to clear from the cash book.

PROCUREMENT AND PAYMENT PROCEDURES

157 payments totalling K9.3 million were selected and a review of the paid vouchers and other related records /documents revealed the following irregularities:

- The Department did not have an Annual Procurement Plan;
- The Department did not maintain a Quotations Register to record quotes obtained from services providers;
- Copies of the specimen signatures and the delegation limits were not provided for audit verification;
- 37 paid vouchers totalling more than K1.9 million were not provided for audit;
- 124 payments totalling more than K1.0 million, made to service providers after the close of account was in violation of the *Instruction* issued by the Secretary, Department of Finance for the year 2014;
- Four payments totalling K62,210, were not authorized by the respective designated Requisition Officer prior to the signed off FF3;
- Eight payments totalling K300,000, did not have the Commitment Clerk signature on the FF3 form indicating that the claim was committed into the system;
- Two payments totalling K16,000, did not have the Financial Delegate signature on the FF3 form; and
- Five different Contractors were engaged for various constructions, renovations & improvements within the Department costing more than K6.3 million. The following observations were made with regards to the engagement of these contractors;
 - The Department made payments in small instalments to these contractors, so that they fell within the Departments' Secretary Delegation limit to bypass the normal GoPNG procurement process. The cumulative total paid to each contractor was beyond the Secretary's Delegation Limits.
 - Five minor contracts were not sighted, as there were no scope of works attached to all the paid vouchers relating to the renovations, constructions and improvements done within the Department. All these contractors were engaged to do the same work on the same location within the Department as specified on the expenditure transactions details. Consequently, I noted that, there was duplication of work that cost the Department more than K6.3 million.
 - As per the Investment Promotion Authority (IPA) records, the other two quotations obtained from the relevant contractors were not registered with IPA and were ghost companies or quotations.

- A company was paid in excess of K5.4 million for renovations work done on the first and second floor of the Department's building. The following anomalies were noted during my site inspection of the project.
- The work done was minor works and the K5.4 million paid was excessive.
- 14 payments totalling more than K4,710,489 were illegally and suspicious in nature as the payments were made to the company within the month of December (between the 5–17 December, 2014):
 - A minor contract was awarded to the company by the Secretary after the Departments Procurement Committee (DPC) meeting; however, there were no supporting documents attached, including DPC meeting minutes, scope of works, and company profiles of the bidding firms/contractors. I provide hereunder are the details of the occurrences;
 - The minor contract notice indicated that the firm had a good financial standing, but no bank statements or bank records were attached to confirm the same;
 - The accumulative payments made to this company was more than K5.4 million and this exceeded the minor procurement payment limits set out in *Finance Instruction 2 of 2013*. This contract was not put through the normal CSTB process as required; and
 - Six paid vouchers totalling more than K890,000 were not provided for audit verifications and test.
- I requested the contractor to provide documentation that were not attached for all paid vouchers for payments made, however, the Department did not query before or during the payments. The contractor did not provide me documentation such as the Company profile and the IPA Certificates of incorporation.
 - There was no Certificate of Compliance attached to each of the paid vouchers sighted as the firm was charging GST. The company made a total of K5.4 million during the year and the tax component of K0.54 million should have been remitted to the IRC as Withholding taxes. I have sent a copy of the documents to IRC to verify whether the company was registered for tax purpose and have paid IRC the relevant amount of tax as required.

Further, in 2013 I noted these anomalies

- 11 payment vouchers totalling K1,593,219 were missing and were not provided for audit.
- Three payments totalling K174,032 were made from incomplete expenditure/accountable forms as there was no authorizing Financial Delegate to validate the financial transaction.
- The sum of the payments made out to three separate companies for various services rendered for the period under review had exceeded the *Section 32* approval ceiling. Furthermore, I noted that a payment of K74,580 was paid to National Enterprise (PNG) Ltd for the installation of a TV entertainment system comprising of Wall flat screen TV, Surround Sound system, DVD player and PlayStation gaming console for the Secretary's Office.

HUMAN RESOURCE AND PAYROLL MANAGEMENT

A review of records maintained by Human Resource and Payroll Management Division revealed the following anomalies:

- Certification of Payroll was not done by the Divisional Head to ensure validation over payment of salaries and wages before it was processed at the Department of Finance systematically each fortnight. This was highlighted in my 2013 audit of the Department and to date, no corrective actions were taken.
- The required *Finance Form 10 (FF10)* was not used in compilation of its pays (salaries & wages) for its officers as required under *Section 18* of the *Finance Management Manual paragraph 23 to 27*.
- There were no Work and Time Reports produced by individual staff of the Department to track and keep account of the work done on a fortnightly or monthly basis.

Employment of Casual Staff

- There were no vacation casuals listing provided for me to verify payments totaling more than K44,000 paid through the Paymaster;
- Six short term contract casual officers were not given staff file numbers. It was also not stated on the documents obtained as to whether the respective contracts had expired; and
- The Staff Establishment Register obtained disclosed a total of 107 fully funded position either vacant or were on acting appointment.

Recreation Leave Entitlements

- 24 Paid vouchers, relating to recreational leave fare entitlement totalling more than K172,000, were not provided for audit;
- Four recreational leave entitlements totalling more than K37,000, were paid for dependents over the required age of 18 years; and
- Four recreational leave fares totalling more than K18,000 did not have check list done by HRM.

Overtime Payments

- Three payments for overtime totalling K3,000 did not have signed work time sheets and overtime shift allowance statements attached to confirm the overtime hours claimed by each officers;
- 11 overtime paid vouchers totalling more than K13,000 were not provided for audit verification; and
- 19 overtime payments totalling more than K9,000 were raised from vote item 114. This vote item was intended for leave fares and I noted that the payments were misapplied.

Training Plan

- I noted that that more than K664,000, paid for various training during the year was paid under vote item 136 ;
- 29 payments totalling more than K0.5 million were made for various training courses and workshops which were not captured in the Department's Learning and Development Plan; and
- Eight Travel and Subsistence expenditures totalling more than K24,760 were raised directly from vote item 136.

In 2013 I noted these anomalies;

Recreational Leave

- 11 recreational leave entitlements totalling more than K150,000 did not have a tax declaration form attached to support and substantiate the dependents claimed.
- Further, seven birth certificates were not attached to the recreational leave applications therefore; I was unable to determine the actual age of dependents claimed. These dependents were over the age of 19 years.
- A paid voucher for expenses of more than K10,000 paid as recreational leave entitlements was not provided for audit. This claim was paid twice under two different cheque numbers.

ADVANCE MANAGEMENT

The examination of the Cash and Travel Advance Register, acquittal forms and related records for advances paid to officers during the year revealed the following weaknesses:

Register of Advances

- The Advance Register maintained did not include particulars such as, Date of advance (specific); FF4 reference No. and date; Designation of the officer receiving the Advance; Signature of recipient (Advance Holder); and Remarks This was also the case for the year ended 31 December, 2013;
- The Register maintained was incomplete and not maintained as required under *Part 20* of the *Financial Management Manual*; and
- There were no separate Registers maintained for each different class of advances including Travelling Allowance - Domestic & Overseas, Cash Advances through Paymaster.

Acquittals and Un-acquitted Advance

- A total of K210,620 was not acquitted. This indicated that 52.25% of the advance remained as outstanding acquittals;
- There were delays of more than one month noted in acquittal of advances;

- An acquittal was submitted without a boarding pass; and
- No payment receipts were attached to verify that accommodation or hire-car services were rendered to the advance holders in 10 acquittals.

Second Advances

- 23 officers were paid second advances when their first advances amounting to K161,000 were outstanding.

Cash Advance paid through Paymaster

- No Cash Advance Register was maintained, though cash advances totalling more than K70,000 were paid through paymaster;
- Two payments made through paymaster totaling more than K44,580 were paid as cash advances for six Human Resource trainees and seven casual trainees' wages. However, the supporting documentation were not provided to verify these payments; and
- Two payments were made for hire of Bands at a total cost of K6,000. I was not able to verify whether these Bands were registered businesses providing service as sufficient and appropriate documentation were not provided.

However, I further noted these in my review of the 2013 Advances

- 24 travel advances totalling K21,185 were erroneously charged to various expenditure vote items including 135 and 136 instead of the appropriated item 121 for travel and subsistence expense.

Acquittals of Advances

- Seven advances totalling K7,266 were not acquitted within the seven days prescribed acquittal time period;
- Four advances acquittals totalling K3,446, had no travel itinerary attached and were not confirmed or certified by the Financial delegate;
- Ten advances and allowances totalling K28,437 were un-acquitted at the time of audit in December, 2014. I noted that advances paid to the Minister and Senior Officers of the Department were not acquitted; and
- The Advance Register was not regularly reviewed by the Financial Delegate.

ASSET MANAGEMENT

The *Department of Personal Management* purchased assets totalling more than K1.6 million and K60,740 in 2014 and 2013 respectively. I obtained a copy of an Asset Register to verify, whether all the assets purchased over the years were recorded in the values stated. However, I noted the following anomalies during my review:

- The Asset Register was not maintained as required under *The Financial Management Manual, Part 32, Section 1-5*. The following vital information were noted missing;
 - The custodians and its locations within the Department were not disclosed;
 - There were no stock take done over the years on the assets owned by the Department, its conditions and whether it was in use were also not verified;
 - There were no Registers maintained to record attractive items purchased like digital and Video cameras, and laptops during the year;
 - Computers and consumables purchased were not registered; and
 - Furniture and fittings purchased were also not recorded as required.

Motor Vehicle Fleet Register

There was no motor vehicle or fleet register maintained in line with *the Financial Management Manual, Part 32 Section 2*.

The Department purchased vehicles worth more than K1.1 million and these values and the motor vehicles were not registered in the Fixed Assets Register. I was advised by the Administration manager that the Department had purchased a total of nine motor vehicles during the year, 2014.

During my 2013 review, I noted the following irregularities from the Motor Vehicles Register;

- The Register was incomplete as it did not contain record of purchase, as a result, it was difficult for me to verify three vehicles that were purchased in 2013 from three reputable suppliers;
- No annual stock take of vehicles were done in 2013; and
- A Honda CRV vehicle (registration BCA 864) was reportedly stolen in 2012. However, there was no loss report and/or Police report furnished for audit verification in the 2012 and 2013 audits respectively.
- No report was provided for the vehicle loss.

TRUST FUNDS AND ACCOUNTS

Bank Reconciliations

The *Department* provided for audit, copies of the monthly bank reconciliations for the Public Sector Work Force Development (PSWDP) Trust Accounts maintained. However, the following discrepancies were noted from my review of the bank reconciliations;

- The bank reconciliations for the PSWDP Trust Account were not prepared at the end of each month which was in breach of the normal Departmental *Trust Instrument*.

- Other cheques shown on the January, 2014 Bank reconciliations totalling more than K21,000 did not state the dates. Therefore, I was able to verify when these cheques were printed.
- The *Trust Instruments* were not provided for the year ended 31 December, 2013 as the Trust Account was maintained in another office outside DPM. Therefore, I was not able to verify whether the payments made out of the Trust Account were in line with the *Trust Deeds/Instruments*.

Expenditures Incurred and Accountable Records.

I was unable to review the operations of the Trust Accounts as highlighted above especially its expenditures whether they were in line with Trust Instruments, as accountable records and documents pertaining to these Trust Accounts were not provided for audit.

PGAS monthly cash book print-out was attached to the monthly bank reconciliations. However, I was un able to confirm whether these payments made out of the PSWDP Trust Account were in line with the Trust Instrument as required.

DEPARTMENTAL RESPONSE

The above matters were reported to the Secretary of the Department and the responses were not received at the time of writing this Report in September, 2015.

CONCLUSION

In general, there were no marked improvements in the system and operation of controls within the Department as compared to the previous years. The results of my audit indicate that overall, there were significant weaknesses in the control framework. The control activities such as delegations, authorisations, reconciliations, segregation of duties, data processing, records keeping, management and monitoring were not sufficient.

13. NATIONAL JUDICIAL STAFF SERVICES 2014-2013

OVERVIEW

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

Section 3 of the National Judicial Staff Services Act, 1987 provides for the functions of the Service as follows:-

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

AUDIT FINDINGS

CORPORATE GOVERNANCE

I have reviewed the way in which this organization was controlled and governed to achieve its objectives. During my review, I noted these anomalies:

- A signed copy of the *2014 Annual Plan* for NJSS was furnished for audit; however, the 2013 Plan was also not signed as authentic;
- Only five Senior Management Meeting Minutes for 2014 and 2013 were provided for audit, contrary to the required number of meetings stated in the *2013 Annual Plan*. Furthermore, these Meeting Minutes were not signed by the Minute taker and the Secretary;
- The *2014* and *2013 Internal Audit Annual Plan* if any was not provided for my review & validation; and
- Other Internal Audit Reports prepared during the year were not made available for my review.

STATUTORY REPORTING

Part 2 Section 5 of the Public Finance (Management) Act, 1995 and Division 4, Section 32(a) of the Public Service Management Act urges the Department to prepare the respective reports. However, during my review, I noted the Annual Management Report and the 2014 Annual Financial Report & Quarterly Budgetary Review Reports were not made available for my review & audit.

The 2013 Judges Annual Report was not made available for audit and examination. I was advised that the Report was recently presented to the Head of State to be tabled in Parliament. Further, the 2013 Annual Financial Report & Quarterly Budget Review Reports were not made available for my review.

I recommended the management to comply with Statutory Reporting obligations

BUDGETARY CONTROLS

The comparison of the Expenditure Summary Report for the years ending 31 December, 2014 and 2013 from Department of Finance and the Department's PGAS records revealed the following variances:

Variances in Expenditures

Particulars	Variance 2014 IFMS/PGAS (K)	Variance 2013 IFMS/PGAS (K)
Revised Appropriation	35,544,600	3,358,500
Warrant Authority	164,539,000	78,475,000
Actual Expenditure	37,089,921	16,398,509

The Table above states the differences between the records of the Main Public Accounts maintained by the Department of Finance (IFMS) and that of the *National Judicial Staff Services* (PGAS). In 2013 the *Service* had had incurred expenditure in excess of K11,104,000. I noted that there was no reconciliation between the two records

BANK RECONCILIATION

The *National Judicial Staff Services* operated a Drawing Account – No: 1001658860 with the Bank of South Pacific. During my review and audit, I noted the following anomalies:

- Bank reconciliation were not checked & approved by the duly authorized officers;
- Bank Statement for 31 December, 2014 disclosed an overdrawn balance of K282,794;
- Cashbook balance reported an overdrawn year-end balance of K15,499,101; and
- The Statement of account received from the Bank disclosed a credit Bank Balance of K385,113 as at 31 December, 2013, and the Cash book balance reported an overdrawn balance of K2,569,592;
- The Bank reconciliation were not duly checked and verified by authorized officers to attest for accuracy; and

- Un-presented and stale cheques totaling K2,768,782 and K1,609,055 in 2014 and 2013 respectively remained outstanding and were not investigated and cleared at year end.

PROCUREMENT AND PAYMENT PROCEDURES

During my audit, I conducted tests & audit procedures to assess whether the acquisition for goods & services were in accordance with relevant and applicable legislation and established procedures & policies. I obtained 64 payment vouchers for 2014 totalling K10,885,000 and related documents and ascertained compliance. However, I noted the following discrepancies;

- Eight payment vouchers totalling K847,510 were not provided for audit;
- 12 payments totalling K890,800 were processed and paid based on pro-forma invoices. Original invoices were not used for purposes of effecting payments as required;
- The *Service* did not maintain a Quotations Register;
- Five payments totalling K2,707,896 were made for prior year's outstanding claims;
- A payment of K29,376 made to a hotel for accommodation on cheque Number 31637, was not examined and certified by the respective Officers; and
- An advance payment for accommodation allowance totalling K111,115 was paid direct to a Senior Officer whose entitlements were stated in the *SRC Determination*. The purpose of the advance was to assist the officer repay a bank loan. However, I noted that this officer was also paid housing advance totalling K74,077 in 2013. This was contrary to the *SRC Determination GO07-04(4)(b)*.

Further, I reviewed 78 payment vouchers for 2013 totalling K12,571,919 and their related documentation and I noted the following discrepancies:

- 12 payment vouchers totalling K1,384,432 were not provided for my audit and examination to ascertain the validity of payments made;
- 11 payments totalling K507,698 were processed and paid based on pro-forma invoices;
- *NJSS* did not maintain a Quotations Register. In the absence of this record, I was unable to ascertain whether due regard to economy was taken into consideration for purchases made;
- 118 payments totalling K7,843,963 were paid for outstanding claims. These claims were unbudgeted payments;
- Two payment vouchers totalling K163,287 were not examined by the Examining Officer;
- Seven payment vouchers totalling K558,151 were not certified by the Certifying Officer;
- A security allowance of K30,000 paid to a judge was not approved by the *Section 32 Officer* nor were there supporting documentation to substantiate the payment made;

- An advance payment for accommodation allowance totalling K74,077, was paid directly to a Senior Officer whose entitlements were stated in the *SRC Determination*. The Determination stated clearly that under no circumstance can the advance be paid directly to the recipient for purchase of houses; and
- Minor contract Agreement documents were not made available for audit verification.

HUMAN RESOURCE & PAYROLL MANAGEMENT

One aspect of Human Resource Management is to maintain records that demonstrate compliance with applicable Human Resource Statutory & regulatory requirements, Agency policy and agreements with other parties. Hence, up to date records in respect of individual employees are vital & should be properly maintained. However, during my review, I noted these anomalies:

- Five year Training Plan and the 2014 and 2013 Annual Training Plans were not provided for audit;
- 150 funded positions were vacant during the year;
- Nine employees were paid K173,506 recreation leave fares in 2012, 2013 and 2014; *NJSS* contrary to *NJSS* financial procedural which states that recreation leave fares shall be granted only after he/she has served a continuous period of two years.
- Six employees were paid recreation leave fares more than once in 2014 costing the Department more than K47,936 in recreational leave fares. Each officer's leave fares were paid to travel agents or to the officers at different times ranging from 1-3 months apart from their first approved date of travel; and
- Five officers were paid 50% sick leave credits more than once either in 2012, 2013 and/or 2014 totalling K91,152.

Management of Employees Files

I reviewed 30 employees files for a pay period in 2013 and I noted the following discrepancies:

- Six employee files were not made available for audit verifications and tests;
- 21 completed Tax Declaration forms were not signed at each of the employees files;
- 24 files did not have the Statement Of Earnings;
- 19 files did not have State Declarations;
- 18 files did not have Salary History Cards updated;
- Proper application for HDA was not documented in six employee's files; and
- Four officers were paid HDA at Grade 12 level whilst their substantive positions were at Grade 8. These officers were receiving contract benefits four level above their substantive positions. This was contrary to the *General Orders*.

Contract Officers

In my review of the Contract Officers personal files against their personal files, I noted the following discrepancies:

- Three contract of employment documentation for the respective officers were not provided for my audit and verification;
- Two Contract officers continued to receive contract benefits after the expiry date of their contracts. Furthermore, I did not sight the two officer's performance review reports in their respective personnel files; and
- The Executive Officer's position which was a class *NJSS12* position under contract *Category B* was receiving contractual benefits equivalent to contract *Category A*. This was contrary to the approved position of Executive officer as stated in the Staff Establishment Register.

Organizational Structure

- The Staff Establishment Register provided for audit did not state whether it was approved by DPM.
- The Establishment Register did not disclose a summary of:-
 - Total number of positions approved;
 - Total number of casuals; and
 - Total number of unattached officers, and total vacant positions.
- 61 funded positions were vacant during the year.

Recreation Leave

According to the 2013 Expenditure Transaction Detail, 186 employees of the *Service* were paid recreation leave fares amounting to K1,074,251. However, I noted the following anomalies:

- 23 officers who were paid recreation leave fares in 2012 and also in 2013 totalling to K297,403;
- In 2013, 14 employees were paid recreation leave fares more than once totalling K171,709. Furthermore, each officer's leave fares were paid to travel agents at different times ranging from 1- 9 months apart from their first approved date of travel; and
- Four recreation leave fare payments totalling K41,401 were paid to an employee to travel from his place of work in Lae to his home province in Wabag via Port Moresby. This was contrary to the *NJSS Manual*.

Sick leave

- 78 employees were paid 50% sick leave credits totalling to K400,464 based on the *New Administration Order* which was in draft form in 2013.
- Six officers were paid 50% sick leave credits in 2012 and 2013 totalling K81,896.

ASSET MANAGEMENT

The review of the 2014 and 2013 *NJSS* Asset Management System (AMS) database and other related records revealed the following discrepancies:

- The Asset Management System (AMS) database was not updated for the year 2014 and 2013. Consequently, assets totalling K10,189,262 and K2,418,055 acquired in 2014 and 2013 respectively were not registered and accounted for;
- Five payment vouchers totalling K306,786 were not located in the file;
- Four *Requisition Committee Approval* for assets purchased totalling K438,547 were not sighted;
- Five assets purchased totalling K464,644 each with asset value greater than K10,000 were not approved by the Chief Justice as required;
- 24 motor vehicles in 2014 and two in 2013 totalling K2,913,362 and K253,657 respectively were not registered in the Fleet register in the main AMS database;
- The Register did not contain columns for Preventative Maintenance Requirement and Corrective Maintenance History;
- There were incomplete details on various columns of the Register such as the Amount Purchased, Date Purchased, Registration Expiry Date, Safety Sticker Expiry Date and Life Span.
- No annual stock take was done in 2014 and 2013.

Further, in 2013 I noted the following anomalies:

- The AMS database did not provide information for each class of asset such as:
 - Quantity;
 - Estimate of Economic Life;
 - Preventative Maintenance Requirement; and
 - Corrective Maintenance History.
- I noted that 21 payments totalling K1,335,793 had the following discrepancies:
 - Six Paid vouchers totalling K486,277 were missing from their respective files;
 - The Requisition Committee's approval for four assets purchased totalling K270,243 were not provided for audit; and
 - Five assets purchased totalling K216,751 with each asset values greater than K10,000 were not approved by the Chief Justice.
- Paid vouchers totalling K378,545 for three vehicles purchased were not sighted;

- The Fleet register did not contain columns for Preventative Maintenance and Corrective Maintenance History; and

A Board of Survey sale of assets was conducted in 2013. However; I noted the following anomalies;

- It was not sanctioned by the Board of Survey;
- Receipts for deposit of the proceeds into NJSS account was not attached to the final report of the auction to the management;

ADVANCE MANAGEMENT

Audit examination of the Advance Register and the test performed on advance payment records in 2014 and 2013, revealed the following weaknesses and irregularities:

- 825 and 727 advance payments totalling K953,845 and K1,143,325 for the years 2014 and 2013 respectively, were outstanding as at 31 December, 2014 and 2013.
- 150 and 130 officers received second or more advances even though their first advance remained un-acquitted respectively during the years 2014 and 2013. In 2013 un-acquitted advances amounted to K923,974
- Seven and four advance payments totalling K40,910 and K18,460 were not recorded in the Advance Register in 2014 and 2013 respectively; and
- Six acquittals totalling K19,517 were not acquitted within the required time frame.

DEVELOPMENT BUDGET

Waigani Court Complex Project

In 2014, the Government appropriated K10 million under the Development Budget for the Waigani Court Complex project. I noted the following discrepancies:

- No Annual Work plan was provided for my review;
- No Cash Flow Statement was provided for audit verification;
- There were no meetings convened in 2014;
- No warrant authorities were made available for audit;
- There was no Trust Instruments made available for audit;
- Cash Book and Bank reconciliation statements for the months of January – December, 2014 were not signed off by the preparer or verified to ensure that the Bank Reconciliation had been prepared according to the set *PFMA* Guidelines;
- The Bank reconciliation statement did not clearly state the respective month the bank reconciliation was prepared for; and

- Monthly bank reconciliations were not submitted to Department of Finance as required.

NJSS - Foreign Currency Account (AUD) WITH a/c # 1013414279

- The Cash Book and Bank reconciliation statements were not signed off by the preparer or were verified for the 12 Bank Reconciliation that had been prepared in accordance with the set *PFMA Guidelines*;
- The Bank reconciliation statement did not clearly state the bank reconciliation date for each month; and
- Monthly bank reconciliations were not submitted to the Department of Finance as required.

Payment – Waigani Court Complex Account No 1011784079

- Paid vouchers for two payments totalling K56,817 were not provided for audit verification and tests;
- Eight payments totalling K1,150,308 were not signed by the Commitment Clerk;
- Two payments totalling K698,946 were not examined by the Examining Officer; and
- Eight payments totalling K1,037,373 were not certified by the Certifying Officer.

Payment – Foreign Currency Account (AUD) No. 1013414279

- Paid vouchers for five payments totalling K732,348 were not provided for audit verification;
- Nine payments totalling K1,163,093 were not signed by the Commitment Clerk;
- Three payments totalling K552,385 were not examined by the Examining Officer; *and*
- Five payments totalling K737,846 were not certified by the Certifying Officer.

However, in 2013 I noted these anomalies

Waigani Court Complex Project

- No Annual Work plan for 2013 was submitted for my audit review;
- No Cash Flow Statement was furnished for audit verification;
- There were no Project Progress Report(s) during the year;
- No warrant authorities were made available for audit; and
- Trust Instruments were not made available for audit.

The review and examination of the bank reconciliation statements, cash book and other related records relating to the Waigani Court Complex PIP project revealed the following discrepancies:

- The Bank Reconciliation statement did not clearly show for each month the bank reconciliation date;
- 12 bank reconciliations were not duly checked and approved by the senior accountable officer(s); and
- Monthly bank reconciliations were not submitted to Department of Finance as required.

Payments

- The paid voucher for a payment of K51,478 for compacting of car park was not made available for audit review;
- Three payment vouchers totalling K84,266 were not examined, certified and sighted by the Financial Delegate; and
- Two payments vouchers totalling K33,952 were not signed by the Commitment Clerk.

TRUST ACCOUNTS

In 2014, there were two Trust Accounts operating under the account name “*Sheriff National Court Trust Account*” with account numbers 1000583619 and 1001657344 respectively with Bank of South Pacific.

My Audit examination of ledgers, records and related documents pertaining to the Sheriff National Court Trust Account revealed the following anomalies:

- The Sheriffs National Court Trust Account was not operated and linked with the PGAS system;
- There was no Cash Book maintained by the Sheriff’s Office; and
- All 24 bank reconciliations for the two accounts were not duly checked and approved by a senior accountable officer.

Sheriff National Court Trust Account No: 1000583619

- Payment vouchers totalling K1,023,060 were not furnished for audit.

Sheriff National Court Trust Account No: 1001657344

Audit examination of ledgers, records and related documents pertaining to the Sheriff National Court Trust Account (#1001657344) revealed the following anomalies:

- A variance of K32,000 resulted from the comparison between the bank reconciliation balance of K877,303 and the bank statement balance of K845,303. I was not able to verify the cash book balance since no cash book was maintained by the Sheriff’s Office; and

- 33 payments totalling K596,911 were paid to various individuals and companies during the year 2013. Supporting documents to validate payments including Court Orders claims were not provided as attachment to 17 claims totalling K107,927.

Registrars Trust Account

The Registrar's Trust Accounts was operated by the *Account number 1000583618* with Bank of South Pacific. Audit examination of ledgers, records and related documents pertaining to the Registrar's Trust Account revealed the following matters of concern:

- There was no *Trust Instrument* to govern receipts and payments of the Trust Account;
- The Registrars Trust Account was not linked up with the PGAS system; and
- There was no cash book and bank reconciliations maintained

Payments

- Payment vouchers for three payments totalling K2,126,688 were not submitted for audit review; and
- Court Orders as supporting documents for two claims totalling K3,190,885 were not sighted during the audit.

However, I noted these discrepancies in the 2013 Trust Account operations

Sheriff National Court Trust Accounts

Audit examination of ledgers, records and related documents relating to the Sheriff Trust Account revealed the following anomalies:

- The Sheriffs Trust Account was not linked to the PGAS system;
- Cash book and bank reconciliations were incomplete. No cash book and bank reconciliation were prepared for the months of October, November and December, 2014;
- Bank reconciliations for January to September, 2014 for the two accounts were not signed by the officer responsible for preparing the bank reconciliation or were reviewed and approved by an authorised officer; and
- Five payments totalling K349,174 were paid without the respective Court Orders attached to the claims.

Registrars Trust Account

The "*Registrar's Trust Account*" was operated on *Account Number 1000583618* with Bank of South Pacific. Audit examination of ledgers, records and related documents relating to the *Sheriff Trust Account* revealed the following matters of concern:

- There was no Trust Instrument in place to guide NJSS from irregular payments;

- The Registrars Trust Account was not linked up to the PGAS system;
- There was no cash book and bank reconciliations maintained; and
- Court Orders were not sighted for five payments totalling K130,428.

DEPARTMENTAL RESPONSE

The above matters were brought to the attention of the Secretary of the *National Judicial Staff Services*, however, no responses were received up to the time of writing this Report in September, 2015.

CONCLUSION

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

14. DEPARTMENT OF LANDS AND PHYSICAL PLANNING 2014 - 2013

OVERVIEW

The Department's mission is to contribute to social and economic growth through facilitating the equitable distribution and productive use of land.

The Department is expected to fulfill its mission in the context of the following Acts: *Land Act, 1996, Land Groups Incorporation Act, 1974, Land (Ownership of Freeholds) Act, 1976, Land Registration Act, 1981, Physical Planning Act, 1989* and the *Survey Act, 1969*.

AUDIT FINDINGS

CORPORATE GOVERNANCE

Corporate Plan and Annual Management Plan

The Department had a Corporate Plan for the period 2013 to 2017. Based upon the Corporate Plan, and the budgeting approach to manage the Departments resources, the Annual Management Plans for 2014 were prepared to meet the requirements of the budgetary cycle.

All mandatory reports as required in *Section 5* of the *PFMA* in 2013 were not furnished for my review:-

- Annual Management Plan for 2013
- Annual Management Reports – 2013; and

STATUTORY REPORTING

- The Department had prepared an Annual Financial Management Report for 2014 as required under *Part III, Section 5 of PFMA*, however, both the Annual Financial Management Report and the Quarterly Reports were not certified and signed by the Department's Accounting Officer.
- The Annual Management Report for 2014 was not prepared as required in *General Orders*.

BUDGETARY CONTROL

I was not able to conduct the audit of Budgetary Controls for 2014 as the PGAS downloads submitted, contained details of Cash Book and Expenditure Transaction Details for the month of January to June 2014 only. In the absence of complete information relating to the Departments financial transactions and activities for the months of July to December, 2014, the audit of Budgetary Controls was not possible. Numerous attempts in requesting for the full year's PGAS data to be submitted for audit review were not successful.

Expenditure Variances (2013)

A comparison of the Expenditure Summary Report for the period ending 31 December, 2013 from the Department of Finance (IFMS) and the report by Department of Lands & Physical Planning (PGAS) revealed the following variances.

Particulars	Recurrent Variance	Development variance
	IFMS vs PGAS (K)	IFMS vs PGAS (K)
Revised Appropriation	- 1,807,100	-5,000,000
Warrant Authority	11,597,100	-69,900
Actual Expenditure.	13,642,156	0

- The difference noted between the two records for Recurrent and Development Budgets indicated that there was no reconciliation between the two records.
- According to the records maintained by Finance Department, actual expenditure was in excess of warrant authority by K1,981,500 under four vote items, three from the recurrent and one from the development expenditure report.

BANK RECONCILIATION

The *Department of Lands and Physical Planning* maintained a Drawing Bank Account No. 4311-6131 with Bank of PNG.

- Monthly bank reconciliations for the year, 2014 were not done. I was advised that related records, documents and ledgers pertaining to bank reconciliations were misplaced as a result of the Department relocating to a new building.
- In the fiscal year 2013, the Bank Reconciliations were only prepared up to the month of June, 2013 as at the time of audit in June, 2015.

REVENUE MANAGEMENT

Audit examination of revenue records and related documents revealed the following weaknesses:

- The actual revenue collected for the year 2013 amounted to K21,107,700 resulting in a shortfall of K4,892,300 when compared to the estimated budget of K26 million;
- Records pertaining to the total revenue of K1,894,044 for the 2013 fourth quarter was not verified as there were incomplete records of receipts and statements maintained by the Department;
- Audit did not sighted receipts for revenues collected totalling K1,246,622 pertaining to the fourth quarter. I was informed that all receipts were kept in the system, which was not restored when the Department moved into its new office at the end of November, 2013. Manual records have been maintained since December, 2013;

- Records maintained in regard to debtors on land lease rentals may not be correct due to individual debtors not updated on a timely basis from the Provincial Treasury Offices;
- The Department did not send out annual invoices as it should. Further, it did not conduct annual audits to ensure that the information maintained for each individual debtors were correct; and
- Audit requested for a copy of the *Lands Act* to confirm the rates and fees charged relating to the revenues collected but none was provided.

PROCUREMENT AND PAYMENT PROCEDURES

I reviewed 22 payment vouchers totalling K1,879,433 and 45 payment vouchers totalling K12,198,890 in 2014 and 2013 respectively including other related documents and noted the following discrepancies:

- Two payments totalling K419,181 and eight instances amounting K6,227,975 in 2014 and 2013 respectively were not verified nor validated as related paid vouchers were not provided;
- A payment of K16,990 paid to an individual for rental subsidy and Departmental allowance had no supporting documents to substantiate the payment;
- Six payments totalling K876,489 were paid based on quotations. Original invoices were not used for the purpose of effecting payments as required;
- A payment of K58,601 made to a security firm for the provision of security services was not examined;
- Four payments totalling K497,911, were not certified by the Certifying Officer;
- The Department did not maintain a Quotations Register, this was contrary to the *FMM Part 12, Division 2 and 3* which require quotations to be recorded in a 'Quotations Register';
- Three quotations were not obtained prior to purchase of goods and services for five payments totalling K82,982 and six instances totalling K1,383,521 in 2014 and 2013 respectively as required by *FMM Part 12 Division 3*;
- Three payments totalling K154,353 were paid to suppliers as outstanding claims relating to 2010 and 2013. These payments were unbudgeted and had a negative effect on the cash flow operations of the Department;
- 130 payments totalling K1,885,310 and 18 payments amounting K5,671,438 were paid to contractors during the year in 2014 and 2013 respectively. However, Contract Agreements for the contractors were not furnished for audit review; and
- In four instances, payments amounting to K160,189 in 2013 did not have the invoices attached to the payment vouchers to confirm that the payments were correctly paid; and

- In 2013, the *FF3* & *FF4* were not completely filled/signed by appropriate authorized officers (*Section 32 Officers, Certifying Officers, Financial Delegate, etc.*) prior to effecting the payments as required by the *FMM* for 11 payments amounting to K4,105,000.

HUMAN RESOURCES AND PAYROLL

A review of selected personal files and other related payroll records disclosed the following weaknesses:

Contract Officers

I examined 30 employees' personnel files and I noted the following anomalies;

- Contract of employment for three contract officers were not sighted in their personnel files; and
- I was not able to sight the Contract Performance Review Report or the staff performance appraisal of three officers in their respective personnel files.

Recreation Leave

10 officers went on recreational leave during the year 2014 costing the Department K66,269. However, I noted that:

- Documents relating to the recreational leave taken by an officer totalling K5,682 were not sighted in file; and
- No evidence was sighted in file of the 10% deduction as contribution towards the cost of airfares for eight officers was contrary to *General Orders 14.47*.

Double dipping of Telephone Allowance

- Six senior officers were paid fortnightly telephone allowances as well as received monthly mobile phone credits in 2013.
- A total of K87,000 was paid for mobile phone credits in 2013. However, the Department only kept a record of phone credits issued to officers in November and December, 2013 resulting in a total of K75,490 unaccounted for. Furthermore, the Register was not signed by all the officers who received the phone credits.

I selected 17 payments totalling K219,098 for leave warrants paid in 2013 and I noted the following irregularities:

- Four payment vouchers totalling K58,343 were missing;
- All payment vouchers sighted, totalling K160,754 had no copies of birth certificates attached to confirm the ages of the dependants claimed for leave warrants; and
- Vehicle and boat hires to the officer's villages were also paid to five officers totalling K16,400, contrary to *Circular 16/2011*.

ASSET MANAGEMENT

During my review of the Fixed Assets Register, and related records for the year 2014 and 2013, I noted the following discrepancies:

Asset Register

- The Asset Register was not updated, consequently, four assets purchased totaling K488,820 and 22 assets totalling K230,827 in 2014 and 2013 respectively were not recorded in the Register;
- There were no Stock Cards and Loans Register maintained separately to account for 'attractive items' such as computing equipment and laptops with their accessories, mobile phones, cameras and projectors purchased totalling K1,540,390 for 36 assets in 2014 and K81,759 worth of mobile phones purchased in 2013;
- The Fixed Asset Register did not contain important asset details such as Quantity and estimate of the respective assets' Economic Life;
- The Department did not undertake any stocktake for the years under review. Due to the absence of annual stock take report, I was not able to ascertain the existence and the working conditions of all assets purchased for the Department; and
- The Department did not have in place an asset policy to properly guide and control the use of assets purchased.

Motor Vehicle Register

There were 52 motor vehicles maintained and operated by the Department in the year, 2014. A review of the Register revealed the following irregularities:

- The Fleet Register maintained by the Department was incomplete as information such as unit cost, estimated economic life; preventative maintenance requirement, corrective maintenance history and custodian of vehicles were not included in the Register;
- Payment vouchers for four motor vehicles totalling K540,000 were not sighted in file;
- The purchase of the seven motor vehicles during the year exceeded the budgeted appropriation for motor vehicles by K471,762;
- The status reports for four motor vehicles valued at K281,486 indicated as 'write-off' and 'road-unworthy' were not provided for audit verification; and
- Two vehicles with an economical value of K14,509 were maintained by the Department despite the expiry of their set date/term of replacement which was five years. As per the *FMM, Part 31, Division 5.16*, these vehicles should have been disposed earlier to avoid additional costs for maintenance.

ADVANCE MANAGEMENT

Audit examination of the Advance Register and related records and documents revealed the following irregularities:

- 170 advance payments totalling K290,840 and 24 cash advances amounting K78,483 in 2014 and 2013 respectively remained un-acquitted at year end;
- Second or more advances were issued to Officers without acquitting their first advances in 2013 and 2014;
- 11 Delays in acquittals totalling K43,322 ranging from nine to 182 days, a contrary to *FMM*;
- Four payments totalling K18,211 did not have supporting documents such as boarding passes attached to the acquittal forms;
- A total of five advances amounting K30,442 were un-registered in 2013; and
- No salary action was taken by management to recoup the un-acquitted advance from officers who failed to acquit in both years.

DEVELOPMENT BUDGET

Customary Land Acquisition

The objective of the project was to provide an environment for developing a framework for mobilizing, acquisition, and development of Customary Land in Papua New Guinea. The Government appropriated K25 million in 2014.

Monitoring and Review Processes

During my audit review, I noted that there was no Trust Account established to hold the PIP funding for 2014. Further, I noted that the following reports, records and documents related to the Trust Account were not produced by the Department as required by *PIP Project Guidelines*:

1. Annual Work Plan for 2014
2. Cash Flow Statement for 2014
3. Quarterly Budget Review Reports for 2014
4. Project Steering Committee and its Meeting Minutes
5. Progress report on the project for 2014

Procurement and Payments

Paid vouchers for all payments relating to land acquisition and compensation totalling K30,450,190 during the year were requested for audit review, however, only 13 payment vouchers totalling K13,459,606 were furnished for audit review. The following discrepancies were noted:

- Actual expenditure of K42,180,998 exceeded total warrants issued of K25,000,000 resulting in a variance of K17,180,998;

- Paid vouchers for 24 payments totalling K16,990,584 were not furnished to audit for review;
- Two payments totalling K1,422,000 were not committed/examined and certified prior to payment;
- 11 payments totalling K9,659,606 were not signed by the Commitment Clerk to indicate that funds had been committed for payment. Included were three payments totalling K2,800,000 that were not examined;
- I did not sight Land Investigation Report for a payment of K800,000 made to an individual as part payment for a land;
- Land Valuation Certificate by the Valuer General for four payments totalling K1,600,000 were not sighted during the audit;
- The Certificate of Alienation by Department of Provincial Government & Local Level Government was not provided for three payments totalling K1,000,000; and
- Nine payments totalling K7,022,000 were made without documented evidence that legitimate landowners have signed and received the payments, signed by Government officers executing the payment and signed by witnesses such as councillors and village chiefs, etc.

DEPARTMENTAL RESPONSE

The matters were brought to the attention of the Secretary through the management letters for 2013 and 2014 respectively, however, no management responses were received at the time of writing this Report in September, 2015.

CONCLUSION

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

15. DEPARTMENT OF IMPLEMENTATION & RURAL DEVELOPMENT 2014-2013

OVERVIEW

The *Department of Implementation and Rural Development* is expected to play a lead role in the formulation, co-ordination and implementation of the Government's Rural Development Policies and Programs that contribute to improving delivery of government services, raising the quality of life and attaining sustainable development.

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

AUDIT FINDINGS

CORPORATE GOVERNANCE

- The Department prepared a *Corporate Plan for the period 2014-2018* however, was not launched yet as at the time of audit in November, 2014.
- There were no Divisional Plans or Annual Activity Plan for the year 2013 being put together to link to the budget and previous Corporate Plan in order to identify targets and indicators.
- No Audit Committee established as required by *FMM Part 9*.

REPORTING REQUIREMENT

- The Department had prepared its Annual Management Report for the year 2013, however, this was not signed off by the Minister responsible.

BUDGETARY CONTROL

A comparison of the Expenditure Vote Summary generated by the IFMS 2365 and the PGAS record revealed the following variances for the year, 2014 and 2013.

Particulars	Recurrent Variance (IFMS/PGAS) (K)	Recurrent Variance (IFMS/PGAS) (K)	Development Variance (IFMS/PGAS) (K)
	31 December, 2014	31 December, 2013	31 December, 2013
Revised Appropriation	(507,400)	(5,743,800)	3,213,000
Warrant Authority	3,510,500	(1,170,378)	2,620,000
Actual Expenditure	3,382,343	(1,937,596)	2,614,453

- Variances noted from the two records (IFMS and PGAS) derived mainly as a result of non reconciliation.

Management Response

The Management concurred and advised that:-

- *Expenditures covered movement of funds from PIP to recurrent Items through the normal of Warrant of Authority to rollout the Department's key programs associated with DSIP or service delivery programs.*
- *Agree to "Perform monthly reconciliation between PGAS and IFMS records and ensure that reconciliation items are cleared during the subsequent month," however DOT has to ensure reconciliation effectiveness in the systems to help Departments are prudent in their budgetary controls.*

CASH MANAGEMENT

The Department had sufficiently improved in preparing and submitting its monthly bank reconciliation to Department of Finance in 2014 and 2013.

Reconciling items for the month ending 31 December, 2014, disclosed the following discrepancies:

- The other items (debits) totalling K170,899 was noted to be variances between November, 2014 cash book closing balance and December, 2014 opening balance. Bank Reconciliation was not identified and cleared in the subsequent month; and
- Included in the unpresented cheques of K38,546,015 were stale cheques totalling K1,025,871 which were not identified, journalized and cleared.

Management Response

Management concurred with the audit findings and promised to take corrective actions.

ADVANCE MANAGEMENT

Audit examination of the Advance Register and other related records revealed the following irregularities:

- The Advance Register maintained lacked vital information such as; FF4 reference No. and date; Designation of advance holder; Signature of recipient; and Date of acquittal;
- The Department did not develop a Policy in regard to Advance Management;
- Un-acquitted advances (including unrecorded advances totalling K222,558) totalling K456,126 were noted for 141 payments which constituted 77% of issued advances in the financial year, 2014 which were outstanding as at 31 December, 2014 while 115 advances totalling K621, 083 remained outstanding as at 31 December, 2013;

- Second advances continued to be issued to Officers while their first advances remained unacquitted in 2014;
- The Financial Delegate did not review the Advance Register as required in accordance with *FMM Part 20 para: 12.3*. Consequently, substantial amounts of advances issued were not registered, un-acquitted and second advances were issued when first advances were un-acquitted;
- In 2013, six advance payments totalling K20,100 were not recorded in the Advance Register as well as seven acquittals totalling K162,252 were acquitted without proper supporting documents such as itineraries, cheque copies and boarding passes; and
- 32 payments advances totalling K95,738 relating to 2012 were un-acquitted as at 31 December, 2013. No follow up actions were undertaken by Management nor recovery action through salary deductions to recover the outstanding advances.

Management Response

The management concurred with any observations and advised to implement audit recommendations covering advance management.

ASSET MANAGEMENT

The audit review of the Assets Register, transaction details and other related records revealed the following discrepancies:

- The Asset Registers maintained were deficient in that vital information required by the *FMM* were not captured as noted in 2013 and 2014;
- Five out of 10 assets purchased totalling K61,866 were not recorded in the Asset Register maintained in 2014 while 28 out of 34 assets purchased in 2013 totalling to K169,768 also were not recorded;
- A finger–print system that cost the Department K31,900 was idle and not serving its purpose as officers continued to manually sign in and out. This was a result of poor management decision made;
- The Vehicle Register was not updated to reflect current changes to Departmental vehicles; and Files in regard to each vehicle were not made available for audit examination;
- There was no annual stock take conducted for the 2014 financial year;
- A vehicle purchased at a cost of K79,800 was not recorded in the Fleet Register and also was incorrectly facilitated from *Vote Item 122* appropriated for ‘Utilities’ and not *Vote Item 222* meant for ‘Purchase of motor vehicles.’ This payment was considered irregular as it was unbudgeted expenditures and was in breach of *Appropriation Act*;
- Three motor vehicles purchased in 2012 totalling K247,990 were unaccounted for in the Fleet Register; and

- The issue of maintaining a logbook with the Department remained outstanding to effectively monitor daily use of vehicles.

Management Response

I was advised by management that it would endeavor to implement my audit recommendations and also improvement maintenance of documentation on assets procurement.

PROCUREMENT & PAYMENT PROCEDURES

Audit examination of 27 paid vouchers totalling K526,750 in 2014 and 50 paid vouchers totalling K2,177,068 in 2013 together with related records revealed the following irregularities:

- Quotation register was not maintained. This issue was raised in my previous audit (2012) and remain unresolved;
- All paid vouchers were not stamped as “PAID” for accountability purposes. This issue was also raised in my previous audit report and continue to remain unresolved;
- Eight payment vouchers totalling K102,238 in 2014 and eight in 2013 totalling K205,714 were not submitted for audit, therefore, the authenticity and propriety of the payments made were not ascertained;
- 13 payments totalling K180,625 in 2014 and 17 payments totalling K591,896 in 2013, payments were made without supporting documents including tax invoice, receipts/delivery dockets as evidence for payment or receipt of goods/work/service. This issue was raised in the previous audit report and no improvements were made;
- Seven payments totalling K108,588 in 2014 and 23 payments in 2013 totalling K1,050,561 were made without obtaining three written quotations from different suppliers prior to effecting payments;
- In 2013, Finance Forms were not attached for two payment totaling K64,120 to ascertain validity of approval obtained in 2013 as well as two payments totalling K29,415 were not approved by the Financial Delegate;
- Also in 2013, 15 payments totalling K477,796, were not certified correct by the Certifying Officer prior to raising cheques; and
- Payment vouchers for payments totalling K29,117 did not have supporting documents such as terms of reference/scope of work for the Consultancy work done to substantiate the payment made.

Management Response

The Department concurred with the findings and resolved to implement my audit recommendations where it was applicable.

HUMAN RESOURCE

Audit examination of transaction details for the financial year under review (2014) revealed the following discrepancies:

Gratuities

- 15 Senior Officers received gratuity payments totalling K52,439 in 2014 through PGAS and not paid through Concept as required.

Overtime

Audit selected 9 payments totalling K9,832 and 14 payments totalling K53,503 in 2014 and 2013 respectively to test the completeness and accuracy of overtime payments and the following discrepancies were noted:

- Three officers were paid overtime totalling K919 in 2014 and two Officers totaling K4,014 in 2013 were in breach of *General Order 13 para: 67 (a)* as the officers occupied positions at Salary Grade 10 and above;
- Three overtime payments totalling K5,404, were made to officers whose names were not listed in the Staff Establishment Register in 2014;
- Three payments totalling K14,323 did not obtain approvals from their respective supervisors as required; and the standard *Finance Form 83* entitled Overtime & Shift Allowances Statement were not used as required also in 2013; and
- 11 payment vouchers totalling K39,180 were not provided for review, therefore, the authenticity and propriety of the payments made was not ascertained during audit.

Payment of Recreational Leaves

- Two payment vouchers totalling K22,390 were not submitted for audit therefore, the authenticity and propriety of the payments made were not ascertained.

Management Response

Management agreed with my audit findings and was taking remedial actions.

DEVELOPMENT BUDGET

*Administration of Provincial Support Grant (PSG) /District Support Grant (DSG)
(Discretionary/Non-Discretionary)*

The review of controls surrounding the management and disbursement of the PSG/DSG in 2013 revealed the following discrepancies:

- I noted that a Manual cheque register was maintained for the five Regions. All respective Registers had the various columns with sub-heads as, “Name of P/Member, Electorate, Cheque number; Cheque amount; Collector’s name; Sign; Date collected and Paying Officer”;

However, the Registers were incomplete when checked as part information such as name of person collecting the cheque, signature of collector, date and the Paying officer acknowledging the cheque recipient were not completed.

- Furthermore, the Manual Cheque Register did not include the Committee’s approval date and acquittal date to confirm the committee’s approval;

This issue was highlighted in the 2012 Management Letter, however; the Register was not improved to include the missing information.

- Cheques for respective MPs as per the annual budget appropriation were drawn and held until the MPs submitted their acquittals for the previous year. This practise has resulted in cheques becoming stale as the MP failed to acquit the previous year’s DSG. Such practise did not indicate a realistic outcome in terms of payments and service delivery assessment as cheque payments were withheld and became stale in the process.
- The Department journalised 14 stale cheques to the value of K5 million for cheques drawn in 2012 financial year of which, 11 totalling K4,250,000 were for DSG and 3 totalling K750,000 were for PSG;
- Similarly in 2014, 14 cheques totalling K3.5 million cheques became stale for the PSG and 18 totalling K4.5 million for the DSG; and
- Similarly, a total of K250,000 was paid to a Provincial Treasury account for Regional Member’s non–discretionary component from the Discretionary component funding which was considered irregular as it breached the *Appropriation Act*, whereby incorrect expenditure was facilitated from Budgeted Program Expenditure Funding.

Coastal Vessel Program

During my audit, I noted that the Department received K20 million appropriation 2013 and expended K18,973,547:

- The Department paid 17 District Treasury Offices (DTO) totalling K17,000,000 and one payment to a Provincial Treasury Office totalling K1,000,000. However, I noted that none of the District/Provincial Members acquitted their K1 million of the coastal vessel funding in 2013, bringing the total to K18,000,000 un-acquitted funds which constitute 95% of the expended funding (K18,973,547); and
- No Administrative Guideline was in place to govern the expenditure/disbursement and acquittal of the coastal vessel program in 2013.

A payment totalling K414,000 was for legal clearance for delivery costs of two landing barges of which the Department was not responsible for as it was not initially a binding party to the contract.

Management Response

Management agreed with observations and highlighted that ministerial directions supersedes administrative processes in this case.

JOURNAL ENTRIES

An audit examination of journal entries print and other related records for the financial year, 2014 revealed the following discrepancies;

- A total of 134 journal entries consecutively numbered (1-134) were captured on the Journal Entry Printout. However, I noted that the 78 JEs from 57 to 134 totalling K32,009,439 were posted into the PGAS without preparing manual JE, hence, I was not able to ascertain whether proper authorisation was obtained prior to posting into PGAS.
- I selected 20 journal entries totalling K21,505,096 from the 56 on file and noted the following:
 - All 20 Journal Entries were not signed by Certifying officer and Verifying officer;
 - Seven Journal Entries were District Support Grants totalling K2,500,000 that did not have any supporting documentation to support adjustments; and
 - Five Journal Entries (18,21,50,51 & 52) totalling K1,082,610 which were raised to cancel cheques did not have the original cheques attached.

In 2013, out of 20 JEs reviewed totalling K4,818,238; seven totalling K1,521,488 were not certified correct and all the 20 journals entries were not verified prior to posting.

Management Response

The Management agreed that discrepancies occurred due to inadequate staff in the Section charged with these responsibilities therefore would endeavor to improve in the future.

DEPARTMENTAL RESPONSE

These findings were brought to the attention of the Director in the Management Letter issued and the responses were received for issues highlighted in 2013, however, responses were not received in respect of audit issues raised in 2014 up to the time of writing this Report in September, 2015.

CONCLUSION

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

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

16. DEPARTMENT OF AGRICULTURE AND LIVESTOCK 2014-2013

OVERVIEW

The Department's mission is to encourage agriculture production to increase for both internal consumption and export, thus increasing rural well-being and contribution to social and economic development.

The Department is expected to fulfill that mission on the context of the related legislation such as *Animals Act, 1952, Cocoa Act 1981, Copra Act, 1953, Coffee Industry Corporation (Statutory Functions and Powers) Act, 1991, Palm Oil Industry (Biala Project Re-Organisation) Act, 1976* and through the exercise of the following functions:

- Administer all legislation relating to *Agriculture and Livestock*;
- Promote agriculture development and productive employment generation;
- Assist Provincial Governments to increase their agricultural capacity;
- Prepare and implement appropriate investment programmes for major commodities and livestock;
- Liaise with the Rural Development Bank (now National Development Bank) and the National Plantation Management Authority;
- Operate experimental stations and laboratories conducting adoptive research into the production and preparation for market of primary products; and
- Provide public extension services and scientific information.

AUDIT FINDINGS

CORPORATE GOVERNANCE

The Department did not provide the following documents for my audit review.

- *Corporate Plan/Annual Plan*
- *Annual Management Report*
- *Quarterly/Annual Financial Management Report*

In the absence of these Reports, I was not able to ascertain whether the Department's risk management process and accomplishment of Corporate objectives were reliable and attained during the year.

BUDGETARY CONTROLS

Variances in Expenditure Balances from PGAS and IFMS

The comparison of the Department's Expenditure Vote Summary (PGAS) and the Expenditure Summary generated by Department of Finance to ascertain completeness of the two records and revealed the following:-

- There were variances in the Revised Appropriation, Warrant Authority and Actual Expenditures;
- No reconciliation was done on the two Reports.

Particulars	Variance PGAS/IFMS (K)
<i>Revised Appropriation</i>	36,900
<i>Warrant Authority</i>	(4,353,390)
<i>Actual Expenditure</i>	(5,970,826)

- Verification of Warrant Authorities received revealed the following:
 - 13 vote items in PGAS totalling K826,041 were greater than that of IFMS;
 - One vote item in PGAS totalling K5,179,431 was less than IFMS; and
 - 12 warrant authorities included, four entered in PGAS totalling K650,086 were greater than the warrants issued while eight totalling K679,486 were less.

This indicated that DAL advanced funds through the PGAS system to pre-commit and expend and later adjusted when the next warrants were received. However, I noted that the expenditures incurred as per PGAS & IFMS had three vote items with expenditures amounting K5,970,826 recorded under IFMS were more than that of PGAS expenditure records.

BANK RECONCILIATION

Audit verification of the documents and related schedules of the bank reconciliation for the Department for year 2013 revealed the following observation.

- All documents relating to BPNG Statement of Accounts, Cheque Reconciliation Listings and Cash Books for the months from January to December, 2013 were filed. However, I noted that no proper bank reconciliation was prepared for the years 2014 and 2013.

ADVANCE MANAGEMENT

The review of the Advance Register and related records and documents revealed the following irregularities:-

- The 2013 manual Advances Register stated that 189 unacquitted advances totalling K506,640 were outstanding as at 31 December, 2013. A follow up of 2012 outstanding advances of K1,021,833 also remained unacquitted up to the time of audit in August, 2014;

- No follow up action was taken and reminder notices sent out to the advance holders to acquit their outstanding advances during the year;
- Additional advances were issued to officers who did not acquitted their first advances contrary to *FMM, Part 20*; and
- From 189 advances paid in 2013, I reviewed 50 acquittals and I noted the following weaknesses:-
 - The maintenance of acquittal forms was poor;
 - Acquittal forms were incomplete and were not reviewed by the Financial Delegate;
 - Supporting documents including airline tickets and cheque butts, etc were not attached to the acquittal forms to confirm that an officer had travelled out; and
 - No reports of domestic and overseas travels were attached to the acquittal forms.
- 29 cash advances totalling K137,947 were unacquitted;
- 107 reimbursement of own expenses totalling K279,786 was claimed by 53 officers. I was uncertain as to whether these reimbursements were genuine and that such practice was unjustified and unbudgeted for; and
- Management of advances by the Department was poor and there were no improvements during the years 2014 and 2013.

ASSET MANAGEMENT

During my audit review of the Asset Register and related accounts & records relating to the management of the Fixed Asset and inventories I noted the following anomalies:-

- The Department of Agriculture and Livestock did not maintain a Consolidated Asset Register to record all office assets purchased. Asset valued at K70,490 were unaccounted for;
- No updated listing for institutional houses was provided except for a House Hold Goods Asset Register which only stated houses located at Moitaka and Gabaka. Gabaka had 38 houses and Moitaka recorded 26 houses totaling 64 houses. As a result, 18 houses were unaccounted; and
- The Fleet Register was poorly maintained and was incomplete, not updated and lacked relevant sub-headed columns such as; "*Date of purchase, Cost Price of Vehicles and Suppliers Details*".

PROCUREMENT AND PAYMENT PROCEDURES

A sample of 70 paid vouchers relating to payments totalling K914,951 for the year 2013 and for the period (Jan-Jun), in 2014 a sample of 70 payments totalling K1,286,681 were selected on a random basis were tested and verified and the following irregularities were noted:

- The Department did not maintain Quotations Registers for both verbal and written quotations;

- Payments vouchers for 40 payments totalling K566,126 and 17 payments totalling K808,588 in 2013 and 2014 respectively were not provided for audit. Consequently, I was not able to verify and confirm the correctness and the validity of the payments done during those years;
- Payment vouchers totalling K81,803 in 12 instances and K118,611 in seven instances in 2014 and 2013 respectively were not verified, examined nor certified prior to making payments as indicated in the General Expense Forms (FF4);
- Three written quotations were not obtained prior to purchases of goods and services as required under *Part 12 of the FMM/Finance Instruction No.2/2013* for 12 payment totalling K122,714 and six payments totalling K87,126 in 2014 and 2013 respectively,. I was unable to ascertain whether due regard to economy was taken into consideration for the purchases made;
- Seven payment totalling K51,481 and three payments totalling K21,427 in 2014 and 2013 respectively were made without the approval of the *Section 32 Officer*;
- Payments were made without the prior approval of the Financial Delegate and the Certifying Officer before effecting payment for five payment totalling K43,229 in 2014 and four payments totalling K33,108, in 2013; and
- 13 payments totalling K94,420, were made in 2013 without the approval of the Authorized Requisition Officer and further, six payments totalling K39,461 were made without *supporting documentation* to validate and justify the payments made.

HUMAN RESOURCE MANAGEMENT & PAYROLL

The review of Human Resource Management and payroll together with related records and documents revealed the following discrepancies;

Payroll

- Fortnightly payroll reconciliations were not done by the Department;
- 13 Payrolls for 2013 were missing at the time of audit in August, 2014, and
- The Payroll records for each pay days were not certified by two senior officers as required.

I was unable to ascertain whether genuine and correct salary payments were made to the respective officers as no payroll reconciliations were made as a result of poor record keeping and internal controls surrounding Payroll were weak.

Departmental Restructure & Recruitment

- The Department did not review and prepare and updated organisational structure and salary scale after its last approval by Department of Personal Management on 18 January, 2001.

Contract Officers

- I reviewed 20 contract officers respective personal files including the top management noted the following weaknesses:
 - Two of the 20 files were not provided for my verification during the year;
 - Contract documents for two officers were missing from their personal files;
 - 17 personal files did not have copies of the officer's education qualifications; and
 - 18 salary history cards were not up dated and as a result, I noted that the delays ranged from two to 13 years overdue as six of these files were more than 10 years in arrears.
- During my review of 52 Casuals Employees on Short Term Contracts, I noted the following discrepancies:
 - Despite the freezing of recruitment, DAL had gone ahead to recruit 52 casuals on Short Term Contracts and were paid from PGAS. Of the short-term contracts, I did not sight any approvals from the Department of Personal Management;
 - Of the 52 casuals, only 24 personal files were furnished for my audit review. Out of the 24 files, only five files had short term contracts while 19 files did not have contract documentation; and
 - From the five short-term contracts sighted, three contracts had expired, one was valid to November, 2014 and one was for the Caretaker, Secretary.
- From the 16 contract officers personal files checked, I noted that:
 - Gratuity records were not sighted in four officers' current files as the rest were sighted with copies of gratuities paid been filed in their files; and
 - Nine Gratuity payments totalling K72,307 were made from PGAS instead of Alesco or Concept Payroll during the year. This included gratuity payments of K16,473 for two non- contract officers.
- A very senior officer was paid overtime totalling K4,471 through Alesco payroll which was contrary to *GO.13.67*.

TRUST ACCOUNTS

The Department administers a total of eight Trust Accounts. Two of these Accounts were World Bank funded and five were GoPNG funded Trust Accounts were further reviewed resulting in the following irregularities:

- Five Trust Accounts that were directly managed by the Department were operated outside of the PGAS systems;

No	Trust A/c Name	Bank Rec prepared up to
1	Cape Rodney Rubber Development Project	December 2013
2	Productive Partnership in Agriculture Project (PPAP) –GoPNG Counterpart	December 2013
3	NCD – Smallholder Support Services and Expansion Project (SSSEP)	December 2013
4	2KR Japanese Aid Project	July 2013
5	Agro-Food Safety and Codex Project	December 2013

- The bank reconciliations of the four Trust Accounts prepared from October, 2013 up to December 2013 were not reviewed and were not furnished to Finance Department as required in the Trust Instruments; and
- 30 payments from the five GOPNG Trust Accounts were tested to ascertain whether payments were made in accordance with the signed Trust Instruments and *FMM*. However, no paid vouchers were provided even though regular follow-ups were made which made it difficult for me to carry out further testing.

DEPARTMENTAL RESPONSE

The results of the audits were reported to the Secretary of the Department in a management letter. However, the management did not respond up to the time of writing this Report in September, 2015.

CONCLUSION

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

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

17. DEPARTMENT OF PETROLEUM AND ENERGY 2014-2013

OVERVIEW

One of the major objectives of the *Department of Petroleum and Energy* is to advise and assist the Minister in the development of relevant policies in accordance with legislative requirements and to support the Government's efforts to develop the Nation's petroleum industry by promoting, monitoring and regulating all activities directly related to exploration and developing of petroleum resources in Papua New Guinea.

Another major program/objective of the Department is to formulate and implement appropriate action plans for Energy Management Section suitably integrated with development planning in other economic sector activities. This includes liaising with other government agencies involved in rural infrastructure development by adopting an integrated approach to energy planning and rural development.

AUDIT FINDINGS

CORPORATE GOVERNANCE

- The Department was operating without a Corporate Plan, a Strategic Plan and an Annual Management/Activity Plan as required by law (enabling Act of Parliament) and government policies/guidelines.
- I confirmed that the Internal Audit Unit did not have an Approved Internal Audit Work Plan/Program for the year ended 31 December, 2013. Audit reports prepared were done on adhoc basis as instructed by Secretary or compliants lodged by officers.
- There was no Audit Committee established by the Department, contrary to *FMM Part 9*.

REPORTING REQUIREMENT

- No quarterly/Annual Financial Management Report on the overall assessment of the Department was prepared and submitted to Department of Finance as required.
- No annual performance/management Report on the work and achievements of Department of Petroleum & Energy in relation to the Corporate and Annual Management Plans was submitted to the Central Agency Coordination Committee (CACC) and Department of Personnel Management.

BUDGETARY CONTROL

Variances in the expenditure balances of IFMS and PGAS records

The comparison of the Expenditure Vote Summary (PGAS) for the period ending 31 December, 2013 maintained by the Department against the Expenditure Statement on IFMS (2222) Report produced by Department of Finance revealed significant variances in both recurrent and development budgets.

Recurrent variances in Expenditure Balances

Particulars	IFMS vs PGAS	
	Recurrent Variances (K)	Development Variances (K)
Revised Appropriation	(1,076,052)	(3,741,000)
Warrant Authority	7,086,548	(5,182,000)
Actual Expenditure	2,740,791	(17,870)

I noted that the differences were as a result of non-reconciliation of the two records (*IFMS & PGAS*) by the Department.

CASH MANAGEMENT- Bank Reconciliation

During my review of the bank reconciliation statement for the month ending December, 2013 and other related records I noted the following discrepancies;

- The bank reconciliation for the month of December, 2013 was not reviewed and signed off by an independent reviewer after been prepared. In the absence of an independent reviewer, I was not able to ascertain the accuracy and completeness of the Department's bank balances as at 31 December, 2013;

Details of unreconciled items:

- A Fraudulent cheque 99998 worth K200,000, was pending investigation date 24 May, 2000;
- Unidentified journals for cancelled cheques amounting to K1,153,230 dating back to year 2000;
- Journals were not raised totalling K124,558 were dating back to year 2004;
- Unpresented cheques totalling K6,569,193; and
- Balances as at 31 December for the Bank and Cash Book was not verified as bank confirmation and cash book report for month ending 31 December, 2013 were not provided.
- The monthly bank reconciliation for the period January to June, 2014 were not prepared and forwarded to audit.

ASSET MANAGEMENT

- The Department did not maintain a Fixed Asset Register and a motor vehicle Fleet Register as required to account for the new purchases as well as transfer/movement of assets annually. This had resulted in assets purchased in 2012 totalling K429,096 and in 2013 totalling K1,214,943 to remain unrecorded at the time of audit (August, 2014). Four and five vehicles were also not accounted for totalling K208,024 and K669,532 in 2012 and in 2013 respectively.
- Annual stock take was not undertaken for the year 2013 including previous year 2012. This has been a recurring issue which I reported annually.

PROCUREMENT AND PAYMENT PROCEDURES

In my audit examination of the transaction details and other related records for the year ended 31 December, 2013, and from January to June, 2014 I noted the following discrepancies:

- The Department did not maintain a Verbal/Written Quotation Register as reported in the previous audits; and
- Furthermore, the Department did not maintain an Invoice Register as confirmed.

Excessive Expenditure – Vehicle Hires

- Contrary to *Part 17* of the *FMM*, the Expenditure Transaction Details, 136 payments totalling K3,666,606 was expended on the use of private hire vehicles in 2013. A total of 11 private vehicle hire companies were paid a sum of K3,145,401 (85% of K3,666,606) in excess of K50,000 to K2,000,000.
- I noted that from 01 January to 31 June, 2014, the Department made payments totalling K527,405 to 14 private hire car companies and some were paid regularly without having any minor contract agreements in place.
- Three regular service providers that were paid more than K80,000 were reviewed to confirm whether minor contract agreements were in place and I noted that no minor contracts were signed between the vehicle hire companies and the Department.

Incorrect Votes Charged against Consultant Payments

- 19 consultancy payments totalling K1,318,133 were expended in 2013. I noted that six of these payments totalling K320,085 (24%) were incorrectly charged to Expenditure Vote Item 121 & 135 –instead of 141, contravening *G.O Para: 12.3*.

Examination of Payments

- Eleven payment vouchers totalling K374,272, were not made available for audit verification;
- No Requisition for Expenditure Forms (FF3) were attached to five claims totalling K95,200. In the absence of the documents, I was not able to ascertain whether the payments followed

the procurement process and approvals were obtained by the *Section 32 Officer* and Financial Delegate prior to the payments;

- Three written quotations were not obtained from reputable suppliers for 23 payments totalling K1,357,148 as required by *FMM and Finance Instructions 2-2013*;
- 32 payments totalling K1,540,380 were effected without proper supporting documents such as tax invoice, receipts and delivery documents;
- The Department facilitated three payments totalling K456,979 on photocopied Requisition for Expenditure Forms (FF3). These payments posed high risks of claims re-submitted for payment when original FF3 were not used;
- A payment of K40,000 to a contract company was not approved by the Authorized Requisition Officer to officially initiate the payments processed;
- The Commitment Clerk did not sign the Requisition for Expenditure Form (FF3) for nine payments totalling K446,376;
- 21 payments totalling K1,601,908 exceed K50,000, however, a minor contract was not sighted by audit;
- 19 outstanding claims totalling K889,912, from previous years were paid without court order as evidence to effect the payments;
- A payment of K29,303 was made to an individual for consultancy services rather than to a registered firm, as required. In addition, audit noted that the service was provided to the Department in November, 2011 to 30 April, 2012 and payment was made in 28 April, 2014 after two years; and
- No PTB approval was obtained from Department of Works for the external use of vehicle hire for a payment made to a Hire Car Company totalling K20,000.

HUMAN RESOURCE & PAYROLL MANAGEMENT

Casual & Part Time Employees

Payment of wages to individuals and through paymaster were paid through PGAS in 2013 and continued into 2014 instead of processing through Integrated Human Resource and Payroll Management Systems (HRPMS) as stipulated in *GO 7.3*.

Money In lieu of Leave (MILOL)

- I noted that 17 officers were paid a total of K88,547 as money in lieu of leave (MILOL) in 2013. These payments were irregular as the officers were not retrenched from public service to be eligible for such termination benefits. Furthermore, these payments were erroneously charged to vote items 112 and 114 instead of 141.

- An officer was paid K27,790 in 2014 and he also received a similar payment of K27,790 in 2013 which grossed to K55,580. The officer was not a retrenched officer as he was currently holding a very senior management position and as such was not entitled to this payment.

In addition, the payments in 2014 were charged to vote item 112 instead of 141, indicating expenses unbudgeted for.

Overtime Payments

- In 2013, five officers were paid overtime totalling K9,623 contrary to *G.O para 13.67* as their substantive positions were Grade 10 and above and as such were not eligible.
- In 2014, three officers continued to receive four overtime payments totalling K15,166 although they were not eligible as per *G.O 13.67*

Gratuity Payments

- Three officers were paid a total of K20,373 as gratuities through the PGAS and not Concept Payroll as required. I was not able to ascertain the correctness of payments made as Employment Contract Agreements were not sighted in personal files provided.
- Contract agreements for seven Senior Contract Officers were not sighted in their personnel files maintained. Consequently, I was unable to verify their salaries and allowances received.

Special/Domestic Market Allowances

- Seven officers receiving special market allowances did not have a copy of their qualification(s) in their respective personnel files as evidence to substantiate the allowances received.
- The position of Chief Programme Officer was not approved by DPM to receive DMA and as such the officer was not eligible to receive the allowance of K1,578 per fortnight. The Department did not cease payment of the allowance.
- The position of Senior Technical Officer (Grade 11) was eligible for SDMA at a minimum point of K10,500 per annum instead he was receiving SDMA of K13,250 annually at K508 fortnightly. This was in excess of the approved rate.

The Staff Development & Training Officer (Grade 12) was acting as the Manager-HR (Grade 15) and was eligible for an annual SDMA of K16,500 as per DPM approval. However, in 2013 and including pay 1-14 of 2014, there were annual SDMA variations in the officer's pay slips resulting in a SDMA net overpayment of K2,607.

- The acting Human Resource Manager was receiving DMA as well as SDMA. An overpayment of K10,837 was not recovered.
- Similarly, the Senior Staff Clerk (Gr.11) acting as Personnel Officer (Gr.13) was receiving SDMA at a higher rate than the approved rate.
 - In addition, the officer did not meet the minimum requirement of a Diploma, hence was not eligible for receiving the SDMA.

Higher Duty Allowances

- Four officers were paid “higher duty allowances” totalling K36,044 through PGAS system instead of Concept payroll as required. Furthermore, these payments were charged to Vote Items 112 and 135 which was incorrect and unbudgeted for.
- Approval for a HDA payment for a Senior Staff Clerk (Grade 11) acting as Personnel Officer (Grade 13) was not sighted in her personal file to validate allowance received.

Payroll Reconciliation

No payroll reconciliation was performed on a quarterly basis by the Department for the financial year 2013 up to June 2014 in conformity with *G.O Para:3.112-117* requirements.

Record Management

A review of records management for the financial year, 2013 including 2014 (Jan-June) revealed significant control weaknesses:

- Security of personnel files were lacking. Personnel files were shelved in an office that was accessible by the public and not stored and maintained securely in a locked cabinet; and
- The personnel files submitted for audit review were not folioed with numbers up to the last page.

TRUST ACCOUNTS

Trust Accounts

According to the individual *Trust Instruments* for each Trust Accounts, the Department was responsible to maintain documents and records for six Trust Accounts and submit to Department of Finance monthly bank reconciliations as required by *FMM*. The six Trust Accounts are:

- (a) *Kutubu Petroleum Royalty Trust Account;*
- (b) *Gobe Landowners Benefits Trust Account;*
- (c) *Moran Petroleum Royalty Trust Account;*
- (d) *Central Moran Petroleum Development Levi Trust Account;*
- (e) *Hides Petroleum Royalty Trust Account; and*
- (f) *Konebada Petroleum Park Authority*

Bank Reconciliation

- Bank reconciliation for five Trust Account were verified with 31 December, 2013, closing balances reported except for Konebada Petroleum Park Authority Trust Account which was not provided.

Payment out of Trust Accounts

- Examination of payment vouchers in regard to the five Trust Accounts were not possible due to unavailability of source documents such as Expenditure Transaction Details and Cashbooks. The payments were processed at Department of Finance and payment vouchers were kept there as well. Similar audit observations were made in the last audit and the situation has not improved. Consequently, I am unable to audit and report on the probity and the veracity of the Trust Accounts transactions.

ADVANCE MANAGEMENT

Audit examination of the Advance Register and other related documents revealed the following discrepancies for the period under review:

- Un-acquitted advances totalling K261,165 regarding domestic travels, salary and cash advances issued during 2012 were outstanding at the time of audit in August, 2014;
- There were twenty un-recorded advances totalling K85,792 for the 2013 financial year;
- 64 advances totalling K190,960 were outstanding at 31 December, 2013;
- 58 payments totalling K180,295 which constituted 95% of un-acquitted advances for the financial year 2013 were issued to 20 officers when their first advances remained outstanding; and
- The Financial Delegate did not review the Advance Register to ensure that advances were acquitted regularly as required by legislation.

DEVELOPMENT EXPENDITURE

The Department was allocated K11.0 million under the 2013 Public Investment Program for three projects. K4.0 million was transferred equally into the Konebada Petroleum Park Trust Account and the LNG Development cost subsidiary Trust Account. K7.0 million was expended by the Department under the appropriation for outstanding MOAS.

Non Compliance to PIP Guidelines

I was not provided documentation including Annual Work Plans and Cash Flow Statements. I was not able to establish whether the Project Steering Committee was as documentary evidence established and records were not provided for my review. Furthermore, Quarterly Review Reports were not made available for review.

Outstanding MOAs – Procurement & Payment Procedures

During my review and audit examination of 11 payments totalling K6,999,782 which constituted 99% of the K7,000,000 funding paid to various suppliers, I noted the following irregularities from the payments as follows:-

- Nine payments totalling K6,565,782 (93%) were not validated as the payment vouchers were not made available for audit:
 - Further, documents such as Minor Contract/CSTB Contract Documents and acquittal reports for a number of projects listed below but were also not made available to audit although requested:
 - *Komo –Bosaviea Secondary School Construction for K2.5 million;*
 - *Upgrading of Pimaga Rural Airport K0.5 million;*
 - *Nogoli Growth Centre Project for K0.4 million;*
 - *Pureni Health Centre Upgrade for K0.8 million;*
 - *Hiwa Community Centre for K1 million;*
 - *Irakorahi Development Corporation for various project for K0.6 million; and*
 - *Green Bay Ltd for various projects for K0.6 million.*

I further noted that the Company that received K2.5 million to construct a secondary school at Komo-Bosaviea was owned by a senior employee of the Department which was in violation of *PSGO 20.3* and funds may have been fraudulently obtained.

- The payment to a company for a sum of K416,130 was for a vehicle hire by a Senior Manager of the Department. The irregularities noted in regard to the payment are as follows:
 - A total of K397,320 which constitute 95% was noted as unpaid brought forward balances back dating to 03 September, 2012 as per Tax Invoice dated 16/12/2013; supporting documents such as PTB approval covering period 01 December, 2012 and 31 December, 2013 was not sighted and tax invoices attached did not equate K397,320. Approval from Department of Finance was also not sighted;
- Similarly, payment to a company totalling K17,870 was for outstanding vehicle hires incurred by the Department. Discrepancies noted are as follows:
 - No approval was obtained from Department of Finance –Public Accounts for the 30 days hire from 27 December, 2010 - 27 January, 2011;
 - No ILPOC was issued by the Department in 2010 to the vehicle hire company to commit the Department. No written correspondences between the service provider and the Department with respect to these outstanding bills were provides for audit verification.

As there were significant weakness in the internal controls I noted that there was a high risk of previous years claims being re-submitted again in the current financial year resulting in unbudgeted expenses been paid against current appropriated expenditures.

DEPARTMENTAL RESPONSE

The audit findings and observations were referred to the Secretary of the Department of Petroleum and Energy on 06 May, 2015, however, no responses were received up to the time of writing this Report in September, 2015.

CONCLUSION

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

18. DEPARTMENT OF FINANCE 2013

OVERVIEW

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

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

AUDIT FINDINGS

BUDGETARY CONTROL

According to the Department of Finances Expenditure Statement, vote items totalling K1,077,717 were over-expended for year ended 31 December, 2013.

Management Response

The management concurred and advised that there was a review in its current arrangements and put in place new arrangements fully consistent with the requirements of Finance Management Manual Part 7.

BANK RECONCILIATION – Drawing Account

The Department did not prepare any bank reconciliations for the year ended 31 December, 2013.

Management Response

The management concurred and advised that an experienced senior adviser would be commencing with the Department prior to the end of May 2015, and would work closely with existing resources to address the issues on compliance.

ASSET MANAGEMENT

A review of management of Departmental Assets and related records revealed the following issues:

- The Corporate Services Division did not maintain a master/central asset register for the Department;
- 23 asset payments totalling K128,540 were not verified as recorded as documents and records were not provided;

- In the Internal Audit Report, I noted that only three out of the eight Divisions; had maintained Asset Registers (Manual) as per *FMM Part 32*; and
- The Vehicle Fleet Register maintained by the Corporate Services Division did not indicate correctly the date of purchase as a result, I was not able to verify whether all 17 vehicles purchased in 2013 totalling K2,202,216 were accounted for.

Management Response

I was advised by management “that Reforms to substantially strengthen the Department’s capacity and performance in terms of asset management are in train. These include more effective use of the Asset management module in IFMS, and the recruitment of a senior experienced advisor to lead implementation of better practice approaches in the Department.”

PROCUREMENT AND PAYMENT PROCEDURES

I selected 20 payments totalling K438,455 and tested the controls surrounding the procurement and payment procedures and I noted the following discrepancies:

- Nine payments totaling K170,678 were made without obtaining three written quotations as per *FMM* requirement;
- The officers failed to attach overseas travel approvals from the Chief Secretary’s Office for three payments totaling K67,272 as required in the *Circular Instruction No.1/2013*;
- Two payments vouchers totalling K31,782 were not available for audit review;
- The Procurement Officers or authorised requisition officers (ARO) responsible for each Division did not maintain a Quotation Register as required in *Division 1 of FMM Part 12*; and
- Further, I noted that Safe Keeping of all paid vouchers was unsatisfactory. Access to the storage area where files were kept were not restricted, as a result, unauthorised people had unrestricted access.

Management Response

The management concurred and advised that, a review of payments processes in the Department would commence shortly and remediation approaches in respect of each of these issues would be addressed in the review.

HUMAN RESOURCES MANAGEMENT

- I requested for the relevant documents and records relating to Human Resource and Payroll Management. The management did not provide the relevant documents and records, consequently, I was not able to verify payments expended for Personnel Emoluments in 2013.
- Further, I was not able to review and verify the *Internal Audit Report No: 1/2013* relating to Headquarters Payroll Review as the documents and records were not provided for audit.

Management Response

I was advised by management that significant improvements in records management were envisaged with the establishment of a specific records management team within the Department. The apparent failure to provide all information requested was acknowledged and condoned with regret.

TRUST ACCOUNT

During my review of the Trust Account records maintained, I noted the following issues during audit.

- Department of Finance administers 39 Trust Accounts of which 16 are active while the rest were dormant or revoked of the 16 active accounts, seven were directly administered by Finance Department;
- However, of the seven accounts, two [*Manam Disaster Resettlement Trust Account* and *FMIP (GoPNG)*] were not recorded in the Fourth Quarter Review Report submitted for my review; and
- Records such as cash book and monthly bank reconciliations were not prepared and maintained, consequently, I was not able to do further audit verification and tests into the receipts and payments for the year ended 31 December, 2013 for the seven Trust Accounts.

Management Response

The management concurred and advised that a senior and experienced advisor had joined the Trust Accounting team to strengthen performance in all aspects of Trusts management, including compliance with all legislative requirements.

ADVANCE MANAGEMENT

The review of the Advance Register acquittal files and related records revealed the following control weaknesses:

- 151 advances totalling K237,174 were not recorded in the Advance Register for 2013, hence, to ascertain whether these advances were acquitted was not possible;
- Of the 20 advances recorded as acquitted, the acquittal files were not sighted for seven totalling K38,801. The files were poorly organized and not kept in chronological order;
- Financial Delegate did not certify the acquittal forms as correct for 13 acquittal files totalling K25,424; and
- 31 Travel and five Cash Advances totalling K42,139 and K8,500 respectively were outstanding for the year ended 31 December, 2013.

Management Response

I was advised that management was currently giving consideration to system changes that can lead to strengthened processes in this area.

DEPARTMENTAL RESPONSE

The reported findings were brought to the attention of the Secretary through a management letter and their responses were incorporated accordingly.

CONCLUSION

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

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

19. DEPARTMENT OF FOREIGN AFFAIRS AND TRADE 2013

OVERVIEW

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

The Department is expected to fulfill its mission in the context of the *Citizenship Act, 1975*, *Migration Act, 1978*, other relevant legislation and in accordance with the International Agreements as follows:-

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

AUDIT FINDINGS

REPORTING REQUIREMENTS

- No Quarterly/Annual Financial Report on the overall assessment of the Department was prepared and submitted to Department of Finance as required in *Part 2, Section 17* of *FMM*.
- No report on the work and achievement of Foreign Affairs in relation to the Corporate Plan and Annual Management Plans was submitted to the Department of Personnel Management as stipulated in *Public Service General Order 8.12*.
- Quarterly Budget Review Report for Recurrent and Development Budget whether prepared and submitted to Treasury Department were not provided to my review. Therefore, I was not able to ascertain whether the Report was prepared and submitted as required by *FMM Part 7, Division 7, paragraph 36*

BUDGETARY CONTROL

A comparison of the Expenditure Report generated by the IFMS 2365 against the Expenditure Vote Summary through the PGAS system revealed the following variances between expenditures balances for period 13 of the year ended 31 December, 2013.

Recurrent Variances in Expenditure Balances

Variances in IFMS & PGAS		
Details	Recurrent (K)	Development (K)
Original Appropriation	1,500	10,000,000
Revised Appropriation	(531,100)	14,000,000
Warrant Authority	2,057,700	14,000,000
Actual Expenditure	9,668,210	430

The discrepancies from the two records occurred as a result of the non-reconciliation of the two records:

- An analysis of the allocation by warrant authority records of the IFMS 2365 and PGAS revealed differences in 16 vote items aggregating K2,057,700; and
- Detail analysis of the Actual Expenditure Items also indicated differences in 16 vote items totalling K9,668,200.

Over Expenditure

- In the recurrent budget (IFMS 2365 Report) there was no over expenditure noted in the aggregate total, however, there was over expenditure in the individual vote items 211 and 272 totalling K1,342,000 and K12,000 respectively.
- In the Development Budget, (IFMS 2368 Report) there was an over expenditure of K13,993,000 arising from Vote Item 225.
- Warrant Authority was incorrectly recorded under vote item 225 in IFMS for K1 million instead of K15 million resulting in variances noted between the two records totalling K14 million.

CASH MANAGEMENT

Monthly bank reconciliation for 31 December, 2013 was not submitted for audit for verification. Consequently, I was not able to ascertain the cash position as at 31 December, 2013 and establish whether the bank reconciliation was prepared and submitted to Department of Finance within the required timeframe.

HUMAN RESOURCE & PAYROLL MANAGEMENT

The review of Human Resource Management and Payroll together with related records and documents revealed the following anomalies:-

- Payroll reconciliation for each Quarter of 2013 was not made available for my audit review. In the absence of the payroll reconciliation, I was not able to ascertain whether the Department had complied with the *General Orders* requirements and perform one of the key compliance checks to ensure accuracy and completeness of payroll against its Staff Establishment Register and unattached/long suspended List;
- Eight gratuity payments totalling K53,772, were paid to eight officers through PGAS instead of Concept Payroll which is contrary to *General Order*. Of the eight officers who received gratuity payments, seven officers did not have a valid signed contract, however, received gratuities payable on those acting positions aggregating K46,943 contrary to *General Order 9.35*;
- An officer, was paid K6,829 as gratuity payment. However, due to the unavailability of his employment contract I was not able to verify the payment;
- The Department facilitated the payment of casuals wages for 57 payments totalling K296,028 through the paymaster which was in breach of *Part 7 of the General Order (4th edition)* whereby no casuals or part time employees shall be paid off by cash or cheque payment, all must be processed through Concept Payroll;
- 18 payment of casual wages totalling K126,710 were charged to incorrect expenditure vote items;
- The Department facilitated the payment of 55 overtime payments totalling K172,702 through the PGAS system paid under the paymaster's name, contrary to *General Order*;
- 12 Overtime payments totalling K25,111 were facilitated from incorrect Vote Items; and
- No Annual Training Plan (if any) was submitted for audit. This issue remained outstanding as previously reported in my 2012 Report.

ASSET MANAGEMENT

During my audit examination of the Assets Register together with other related records for the period under review (2013), I noted the following discrepancies:

- The Furniture and Fittings Register lacked the information of assets such as quantity and unit costs and descriptions;
- Similarly custodian of vehicles and their designations were not captured in the Motor Vehicle Fleet Register;
- The Attractive Items Register did not contain date of purchase and costs of assets;
- Eight payment vouchers totalling K43,849 relating to purchase of assets were not made available. In the absence of the payment vouchers, I was unable to ascertain whether the purchases were duly registered/accounted in the Asset Registers maintained;
- Assets totalling K28,473 were also not recorded in the Register maintained for purchase of printers and computers;

- Assets purchased in 2012 totalling K127,480 were unaccounted as at the time of audit (June) 2014;
- As reported in 2012 no annual stock take was conducted in the year 2013;
- A vehicle costing K93,276 was not recorded in the Register. This payment was incorrectly paid out of Vote Item 135 instead of 222; and
- Of the 19 vehicles recorded, six vehicles had private number plates and not “Z” plates contrary to the *DPM Circular 5/2013*.

Foreign Missions

An examination of the Overseas Missions Financial Returns Register maintained for 2013 noted the following weaknesses pertaining to delays in submission of monthly financial returns to Headquarters. Details are as summarised below:

- Out of the 20 Missions/Posts established, 15 Missions had submitted all their returns for the year 2013 and four Missions failed to submit their November/December returns while one did not submit for the whole year up to the time of audit in June 2014; and
- Delays in forwarding monthly financial returns from all Missions ranged from 1 to 10 months.

Public Investment Program (Pip) Expenditure

The Department of Foreign Affairs & Trade had one major project being the reconstruction of the PNG High Commission Project in Honiara, Solomon Island with a total expenditure of K20 million. I noted the following irregularities were noted:

- The *Annual Work Plan and cash flow statement* for projects if any was not made available to audit. In the absence of these documents, it was not possible to link the budget to identify targets and to assess achievement of set outputs;
- Project Steering Committee Meeting Minutes if any convened in 2013 were not made available for audit;
- No Quarterly Budget Review Report on the 2013 Development Budget was made available for audit;
- A total of 22% of the total expenditure of K4,411,207 was reallocated/reprioritise to cater for the Department's recurrent expenditure which was in breaches of the Appropriation Act. Approval from Secretary, Department of Treasury was not obtained prior to moving funds between expenditures vote items;
- Validity of a payment totalling K909,078 was not ascertained as the payment voucher was not provided for audit review; and
- 12 payments totalling K11,032,867, were drawn in advance at close of accounts and were to be released to the company during the course of the project after relevant work was completed

and certified by the engineers' representative for payment in 2014, contrary to Contract Agreement where monies were to be paid upon completion of work.

ADVANCE MANAGEMENT

The audit examination of documents and records for the period under review (2013) and from January–June 2014 noted the following discrepancies:

- A Cash Advance Register was not maintained. This issue was also reported in 2012 and remained unresolved. In the absence of a Cash Advance Register, 14 cash advances issued totalling K131,613 were not accounted for and remains un-acquitted in 2013;
- The Travel Advance Register lacked the following vital information such as *Officer's Designation; FF4 reference number; Date* as required by the *FMM*;
- A total of 77 advance payments totalling K407,572 and K382,977 were not registered for years 2013 and 2012;
- 293 Advance Payment totalling K1,644,926 remained un-acquitted in 2013 as at the time of audit (August, 2014). I observed that management was complacent in monitoring of advances issued and ensuring timely acquittals. Appropriate actions was not taken to recoup from officers who failed to acquit their advances;
- Advances totalling K1,104,484 were outstanding for the year 2012;
- 55 officers in 2012 received second advances and more in 2013 totalling K1,120,985, contrary to *FMM*;
- 47 Clothing Allowances totalling K226,048, remained un-acquitted as at the time of audit in August, 2014 contrary to *General Order 13.116 (iv)*;
- Furthermore, I noted that 27 clothing allowances totalling K236,305 were not registered in the Advance Register; and
- Two officers were paid clothing allowance totalling K17,129 in the same financial year which was in breach of the *General Order (4th Edition) 13.116 (b) (ii)*.

This had resulted in overpayments totalling K9,345 and K6,784 for each officers respectively:

- Further, the Department paid 25 officers clothing allowances totalling K215,048 exceeding the DPM approved clothing allowance rate of K500 ranging from K1,000 to K22,557 in 2013; and
- There was no evidence of the Financial Delegates reviewing the Advance Registers as required in *FMM* for the financial year 2013.

DEPARTMENTAL RESPONSE

The above matters were brought to the attention of the Secretary through a management letter and no management responses were received at the time of preparing this Report (Part 2).

CONCLUSION

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

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

20. DEPARTMENT OF JUSTICE AND ATTORNEY-GENERAL 2013

OVERVIEW

The Department's mission is to ensure efficient and expeditious settlement of disputes, through the Justice System and the maintenance of social order according to the rule of law.

The Department is expected to fulfill its mission in the context of the following:-

- Provide legal advice to all Arms of Government;
- Probate and Administration of Estates;
- Administrate Probation and Parole Services; and
- Provide services to the Legal Training Institute, the Law Reform Commission, Solicitor General's Office, all Courts in the National Judicial System, the Magisterial Services Commission, the Land Titles Commission, the Accountants Registration Board, the Public Curator's Office and standing or ad-hoc organisations relating to the functions of the Department.

AUDIT FINDINGS

REPORTING REQUIREMENTS

The Annual Management Report and the *Quarterly Budget Review Reports* were not furnished for audit review and verification.

BUDGETARY CONTROLS

A comparison of the 2013 Expenditure Vote Summary maintained by the Department of Justice and Attorney General (DJAG) and the Expenditure Report on IFMS 2222 produced by Department of Finance revealed significant variances between expenditure statement balances.

Particulars	IFMS and PGAS Variance (K)
Revised Appropriation	66,571,027
Warrant Authority	20,866,019

During my review, I noted that the transfers or adjustments reconciliation between IFMS and PGAS were not done and consequently, incorrect expenditure balances were recorded.

- Expenditure Statements produced by Department of Finance revealed expenditure in excess of warrant authorities under 11 Vote Items totalling K825,000 in the Re-current Budget.

BANK RECONCILIATIONS – DRAWING ACCOUNT

The *Department of Justice and Attorney General* maintained a Drawing Bank Account (Account No. 4311-6105) with BPNG. Audit verification of the documents and related schedules for the 31 December, 2013 bank reconciliation revealed that the reconciling items were highlighted but not investigated, cleared and adjusted in the cashbook. Furthermore, I noted that:

- The amount of K37,407 represented a cancelled cheque however, no journal entries were raised during the year;
- Reimbursements from the Main Public Account for the month of December totaling K7,412,182 were not cleared and posted in the Cash Book;
- Unpresented cheques totalling K7,399,503 included stale cheques dating back to 2013;
- A variance of K54,841 was noted between the Cheque Reconciliation Listing (after) and the Bank Reconciliation;
- Other items (Debits) totalling K945,524 represented mostly unidentified cheques since 2010, and
- Bank Reconciliations were not reviewed by the appropriate Financial Delegates.

The Public Curator's Operational Trust Account

The receipts of this Trust Account were mainly from Commissions from Estates and was supposed to be used for the purpose of administration of the Public Curator's Office. However, I noted the following anomaly:

- The Public Curators Office maintained two separate cash books; one via PGAS and the other manually by the Investment & Trust Officer. However, the records maintained in PGAS were incomplete;
- Receipts recorded in PGAS were stated as K498,207 and Receipts reported in Manual Cash Book totalled K324,030. A difference of K174,177 was noted;
- Cheque numbers 6487 and 6488 were missing and not accounted for. Furthermore, these cheques were not sighted in the cancelled cheques listing;
- There were no proper supporting documents relating to a payment of K1,800 on cheque 6470;
- Expenses of personal nature were reimbursed from the Trust Account; and
- Cash reimbursements totalling K5,500 were used as cash advances for officer's personal use.

The Library Trust Account

I reviewed 20 transactions totalling K644,398 to confirm and verify the validity of the payments and the procurement process and I noted the following anomalies;

Payments out of the Trust Account:

- Three paid vouchers totalling K100,232 were not furnished for audit;
- 17 payments totalling K544,166 were made contrary to the purposes stated in the Trust Instrument of the Trust Account;
- Six payments totalling K116,314 were made based on less than three quotations;
- Two payments totalling K60,210 were made based on quotation and not on the original tax invoices;
- Six payments totalling K341,119 were not certified by the Commitment Clerk;
- A deposit of K44,075 which was not related to the purpose of the Trust Account was later paid as workshop expenses totalling K38,939 for a UNICEF approved program; and
- A payment of K15,606 was paid to a company without a General Expense Form (FF4) attached to the claim. Furthermore, the Contract Agreement between the Company and the Department was not sighted.

Trust Account reconciliation

- Bank Reconciliations for the months of September, October, November and December, 2013 were not prepared;
- Credits in Bank Statement not in cash book amounting to K58,036, were not identified, investigated and cleared. The amount comprised of an unknown salary payment by the Department of Foreign Affairs and Trade in Port Moresby; and
- Outstanding cheques dating back to 2009 totalling K167,552 were not investigated and cleared.

The Legal Fees Trust Account

I selected 24 transactions totalling K2,963,017 to verify and confirm the veracity of the payments and procurement process and I noted the following issues;

Payments out of the Trust Account

- Ten paid vouchers totalling K2,241,668 were not furnished for audit;
- 12 payments totalling K198,015 made for various expenditures, were contrary to the purposes stated in the Trust Instrument;
- Total payments of K11,887 were based on less than three quotations or no quotation at all; and
- Total payments of K60,210 were based on quotations and or pro-forma invoices.

Trust Account Reconciliation

- Credits in Bank Statement not in cash book totalling K207,578, were not identified, investigated and cleared. The amount included payment of housing rentals and Village Court related expenses;
- Debits in Bank Statements not in cashbooks were stated as K8,917, however, no journal entries were passed to adjust the cashbook; and
- Outstanding cheques totalling K218,806 were not reclassified as stale and adjusted on the cash book accordingly.

ADVANCE MANAGEMENT

My review of the management of Advances during the 2013 financial year revealed the following discrepancies:

- Advances issued totalling K54,212 were not registered;
- 32 advances totalling K97,575 were not acquitted at 31 December, 2013;
- 14 second advances totalling K54,743 were issued to officers whilst their first advances were outstanding; and
- 20 officers did not acquit their advances within the required acquittal dates as stipulated in the *FMM*.

ASSET MANAGEMENT

During my audit, I was advised that each Asset was properly identified classified according to *Part 32* of the *PFMM*. However, the actual Assets Registers were not provided for audit. Consequently, I was not able to perform audit tests and procedures to ascertain the Assets of the Department.

PROCUREMENT AND PAYMENT PROCEDURES

My review of 38 payment vouchers totalling K40,654 and other related documents pertaining to procurement and payment procedures revealed the following weaknesses:

- Nine payments totalling K9,817 were not provided for my review.;
- Paid vouchers were not filed and stored properly in a secured location;
- Three payment totalling K3,610, were not certified by the Commitment Clerk;
- In 12 payments totalling K18,779, the FF3 and FF4 were not attached to the claim to ascertain whether payments were examined;
- Payments totalling K20,300 were made on pro-forma invoices and not made on original tax invoices as required; and
- No Delivery Dockets were sighted for 15 payments totalling K22,389 as evidence that the goods bought were actually delivered.

HUMAN RESOURCE AND PAYROLL

Training

During my audit of Human Resource & Payroll, I noted that the Department had produced a three year Training Plan (2013-2016). However, I was not able to ascertain the outputs of the training programs. Further, I noted these anomalies:

- Eight officers that were paid Special Domestic Market Allowances (SDMA) had no authorisation documents in the files for the SDMA payments;
- Four personal files were not provided for audit; and
- Four casuals were paid SDMA;

Contracts

- Nine contract officers' employment contracts had long expired but were not reviewed and renewed;
- Eight Senior Officers occupying Grade 10 positions and above were paid overtime;
- Prior approval for overtime (*General Order 13.59*) was not obtained before working outside the normal working hours; and
- Three overtime payments totalling K18,179 relating to 2012 were paid in 2013.

Recreation Leave

- An officer received a double payment of recreational leave entitlements from two separate payments totalling K24,824 on cheque numbers 56717 & 57694 respectively. Further, verification was not possible as the paid vouchers were not sighted.

DEVELOPMENT BUDGET

In 2013 a total of K3,000,000 was allocated and used for the purpose of constructing an office complex in Popondetta. The Departments Assets and Property section administered the Project. However, I noted that the compliance reports such as the following were not furnished to audit.

- a) Annual Work plans and Cash flow Statements
- b) Quarterly Budget Review Reports
- c) Project Steering Committee (PSC) Meeting Minutes ;and
- d) Progress Reports of the PIP project

Payments

I noted that there were irregular payments made from the funds. Consequently, a total of K100,000 was paid to Air Niugini to replenish the Department's Prepaid Account. This expenditure was not in line with the PIP Project guidelines.

JOURNAL ENTRIES

21 cancelled cheques were tested and I noted that all the 21 Journal Entries were not verified before posting. Further, two of the original cancelled cheques were not provided for audit verification.

DEPARTMENTAL RESPONSES

The findings were brought to the attention of the Secretary in April, 2015. At the time of writing this report (*Part 2*) no response was received from the Department.

CONCLUSION

In general, there was no marked improvement in the system and operation of controls with the Department compared to the previous years. The results of the audit indicate that overall, there were significant weaknesses in the control framework. The control activities such as delegation, authorisation, reconciliations, data and payroll processing, management monitoring were not sufficiently robust to prevent, detect, or correct error or fraud.

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

21. DEPARTMENT OF NATIONAL PLANNING AND MONITORING 2013

OVERVIEW

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

- Broad community consultation and policy development and analysis;
- Determination of the Medium Term Development Strategy and preparation of Medium and Annual Plans;
- Resource sourcing and annual capital budgeting;
- Monitoring and evaluation of implementation of policies and programs as well as post implementation impact of projects; and
- Provision of technical support to the provinces in implementing the Provincial Government Reform.

AUDIT FINDINGS

BANK RECONCILIATION – DRAWING ACCOUNT

The Department of National Planning and Monitoring operated a Drawing Account No: 4311-6561 with the Bank of Papua New Guinea.

- The monthly bank reconciliations for the year 2013 were not prepared contrary to the requirements of *FMM Part 3*. This issue was raised in 2011 and remained unresolved.
- It was noted during audit that since the introduction of IFMS in 2011, bank reconciliation issues had been a problem which was not rectified in the system that is currently in use (IFMS) accumulating into arrears of about 3 to 4 years.

ASSET MANAGEMENT

Audit examination of the Asset Register and related records revealed the following irregularities:

- The Asset Register maintained was incomplete and did not contain vital information such as date of purchase, unit cost and total cost as required. Therefore, I was not able to ascertain whether assets purchased in 35 instances totalling K1,073,740 were actually recorded;

- The Department did not maintain records of assets purchased in prior years;
- The 2013 Motor Vehicles Register stated that 12 new vehicles were purchased during the year, however, details were incorrectly recorded when compared to payment vouchers sighted. Similarly, the seven vehicles purchased in 2012, did not have any records of details as required. This was an indication of no proper internal control in place in regard to vehicle management; and
- In addition, another vehicle register titled “vehicles purchased before 2013” had a record of 29 vehicles. 25 Motor Vehicles were on Tender and four for Board of Survey. I was not able to confirm further as no document copies of board of survey reports or tender papers nor individual vehicle files been made available.

PROCUREMENT AND PAYMENT PROCEDURES

The examination of 56 paid vouchers relating to payments totalling K6,664,401 and related records and documents selected on a random sample basis together with a review of the procurement and payment procedures revealed the following discrepancies.

- I was not able to verify and validate the propriety of the ten payments totalling K867,716 as the paid vouchers were not sighted although requested;
- 46 payment vouchers were sighted and I noted that, 43 payment vouchers totalling K5,264,985 were not verified, examined nor certified correct by respective authorized officers prior to making payments as noted in the General Expense Form (FF4);
- Three written quotations were not obtained prior to purchase of goods and services for seven payments totalling K103,392 as required under *Part 12* of the *FMM*. In the absence of quotations, I was unable to ascertain whether due regard to economy was taken into consideration for the purchases made;
- Four payments totalling K2,540,967 were made to suppliers did not have *supporting document* to validate the purpose of the payments made; and
- Two payments totalling K31,700, were effected without the Section 32 Officer’s approval. The General Expense form was not verified, not examined and certified correct by the Financial Delegate indicating non compliance with payment procedures as stated in the *FMM*.

HUMAN RESOURCE AND PAYROLL MANAGEMENT

The review of Human Resource Management and payroll controls revealed the following:-

- The Payroll printouts for 2013 were not provided for my review and audit, consequently, I was uncertain whether genuine and correct salary payments were made to the respective officers and whether the payroll was been certified by a senior officer;

- 21 contract officers who had their contract documents renewed were paid Settling-In-Allowances totalling K13,500 in 2013. This was contrary to *GO* where it states that it is a “one off payment” at commencement of signing initial contract;
- Salaries and other related allowances amounting to K611,469 were paid from the IFMS instead of the Concept or Alesco Payroll during the year;
- A senior officer was paid fortnightly salaries including tax deductions amounting K46,937 from pay no’s 11 to pay no. 19 during the year, 2013 through the IFMS (8201) report;
- Personal Files for 10 contract officers were not provided for audit verification, although requested; and
- Five of the officer’s short-term contract documents did not indicate their contract expiry dates or dates of renewal.

TRUST FUNDS

According to the Trust Accounts listing provided, the Department of National Planning and Monitoring administered and maintained 21 Trust Accounts.

- There were no proper records maintained in respect of Receipts and Payments during the year for accounts administered by the Department. I was not able to do further testing due to unavailability of records of receipts and payments for the period under review for compliance with Trust Instrument and procurement and payment procedures as per *FMM*; and
- Bank reconciliations for all Trust Accounts were not provided for my review and audit. Audit was uncertain whether the bank reconciliations were been prepared during the year. This issue had been reported in 2011 and 2012 was the same in 2013.

ADVANCE MANAGEMENT

The audit examination of the advance payments as per the Expenditure Transaction for the year 2013 revealed the following discrepancies:

- The non-maintenance of an Advance Register by the Department as previously reported in 2012 continued into year, 2013. Hence, a total sum of K3,361,762 in 808 advance payments made during the year remained unaccounted for; and
- Included in the total advances of K3,361,762, were 123 advances of K1,673,710 paid under the Paymaster contrary to *FMM Part 20*, where the payments should have been paid to the name of the advance holder and not the Paymaster for purposes of acquittal and record keeping.

DEVELOPMENT EXPENDITURE

There were 15 projects implemented through the Department in 2013. Six of these projects were GoPNG funded, seven donor funded and two co funded by GoPNG.

- A review of the DNPM IFMS 2222 Report, revealed a total of K70,422,000 which was expended under GoPNG funded projects in 2013. Refer details below:-

No	Projects/Program	Revised Appropriation (K)	Warrant Authority (K)	Actual Expenditure (K)
1	Special Intervention Program	22,500,000	22,500,000	22,469,000
2	Institutional Capacity Building	3,000,000	3,000,000	2,993,000
3	PNG Church State Partnership Prog.	10,000,000	10,000,000	9,970,000
4	Identity Card (with Biometrics)	30,000,000	30,000,000	29,990,000
5	Contractual Legal Obligation	5,000,000	5,000,000	5,000,000
Total		70,500,000	70,500,000	70,422,000

Further analysis of the above projects into compliance with PIP Guidelines and verification of expenditures were not done as following documents and records were not provided for audit verification:

- Project work plans and cash flows for various projects;
- Meeting minutes of Project Committees to ascertain meetings held as required; and
- Project Reports if any was not provided for audit.

DEPARTMENTAL RESPONSE

The Department had not responded to the findings reported in the management letter up to the time of writing this Report (*Part 2*) in September, 2015.

CONCLUSION

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

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

22. DEPARTMENT OF PROVINCIAL & LOCAL LEVEL GOVERNMENT AFFAIRS 2013

OVERVIEW

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

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

- Maintain general liaison between National and Provincial Level Governments to identify problems and identify assistance;
- Provide legal and corporate advice to Provincial and Local Level Governments in line with the National Government policy;
- Co-ordinate and administer the Government's policy and programs for village services;
- Provide periodical inspection on financial matters relating to Provincial and Local Governments, including urban and city councils as required under the Organic Law;
- Oversee and administer border development programmes and provide Refugee assistance;
- Liaise with National and Provincial Departments as effective administration of agency funds;
- Oversee and administer the administration of Urban Councils and the National Capital District Commission;
- Review periodically National Government policies as they relate to Provincial and Local Level Governments and village development services except for Bougainville Province;
- Co-ordinate and advice on improvement training programmes for provincial finance and audit staff, extension officers and training input into community and village based activities;
- Provide effective administration where provincial governments are suspended; and
- Administer policy and functions relating to the Electoral Development.

AUDIT FINDINGS

CORPORATE GOVERNANCE

Reporting Requirement

- The Quarterly Financial Reports portrays how the funds were allocated to various activities as stated in the Activity Plan and how these funds were used. These could not be verified as the Quarterly Financial Reports were not provided for audit verification.

BANK RECONCILIATION

The Department operated a Drawing Bank Account (4311-6141) with the Bank of Papua New Guinea. However, I noted that the Bank Reconciliations for the financial year 2013 were not done and maintained each month as required. The Bank Reconciliation Officer's position was vacant and no skilled officer was available to perform the respective duties. The Department had breached the requirements of *PFMA* on Bank Reconciliation as it did not prepare and submitted the completed Bank Reconciliation Statements to Finance Department within 14 days after the month end.

BUDETARY CONTROL

The review of the Budgetary Controls and other related records and documentation revealed the following discrepancies:

- Variances in expenditure balances were noted between the DoF (IFMS) and DPLLG (PGAG) records and it indicated that there were no reconciliations between the two records, hence, a serious lack of monitoring and control on the Cash Flow Management. The differences between the two records revealed that the IFMS record exceeded the PGAS record by K8,938,737;
- The PGAS records also indicated that total expenses were more than Warrants issued by K1,348,163. Further, the IFMS records indicated that total expenses incurred was in excess of Warrants issued by K16,478,000;
- The expenditure statement (IFMS 2222) maintained by Department of Finance for year ended 31 December, 2013 stated expenditures in excess of warrant authorities issued under three vote items totalling K35,000;
- A comparison of the expenditure summary transaction downloaded from PGAS and Warrant Authorities issued in 2013 revealed that there was an over expenditure amounting to K1,743,077 for 10 vote items; and
- Vote Items 272 from IFMS records and Vote Items 225 & 224 from PGAS records were not budgeted for in the original appropriation for the year. Despite being unbudgeted, the *Department of Provincial & Local Level Government Affairs* had incurred expenditures for vote items mentioned above totalling K2,949,574.

ADVANCE MANAGEMENT

The examination of the Advances Register, acquittal forms including 64 advances totalling K451,979 revealed the following discrepancies:-

- The Department did not maintain and update the Advance Register to record the advances made during the financial year 2013;
- Travel and Cash Advances were paid to the name of the Paymaster and not the advance holder for 40 advances totalling K398,757;

- Acquittals for all travel advances did not include necessary supporting documents including boarding passes and a general report to justify the travel and the tasks performed; and
- There were continuous payments of travelling advances regardless of advances not acquitted properly as required. I noted that all the 64 Travel Advances, Cash Advances and others had incomplete acquittal records on file.

ASSET MANAGEMENT

The function of procurement and control of consumable stores and assets were decentralized and each Branch/Section was responsible for its own needs. The Manager-General Administration was assigned to coordinate and maintain a centralized register. I noted the following during my review:

- The Asset Registers for National Disaster Centre were not provided for audit;
- From the Asset Registers provided, the following information was missing;
 - Details of Estimated Economic Life,
 - Preventative Maintenance Requirements, and
 - Corrective Maintenance History.
- The Asset Disposal Register was not made available for audit examination;
- As per the 2013 PGAS Expenditure Report, a total of eight vehicles were purchased during the year for K678,506. From the eight vehicles purchased, two vehicles totalling K218,875 were not sighted in the Department's Asset Register;
- The Vehicle Fleet information provided did not include the purchase prices of some vehicles, the date of purchases and the custodians and location of the vehicles;
- In addition six vehicles did not have Government 'Z' plate numbers. As per the response provided, I was advised that five other vehicles would have their vehicle registrations changed as the registrations expired;
- Two motor vehicles were wrecked in accidents and the respective Accident Reports were not provided for audit verification; and
- No year- end stock take was conducted.

PROCUREMENT AND PAYMENT PROCEDURES

In my review of 144 paid vouchers totalling K6,261,283 to ensure whether controls over the procurement and payment procedures were followed, I noted the following discrepancies:-

- 36 payment vouchers totalling K606,335 were not provided for audit verification;
- 21 payments totalling K1,053,335 were paid out to suppliers of goods and services without obtaining proper documentation. I noted that necessary documents such as Business Registration Certificate, Certificate of Compliance, and others were not attached with the

paid vouchers;

- Minor Contract Agreements were not sighted for payments ranging from K50,001 to K500,000 for 21 payments totalling K1,891,342;
- Three written quotations were not obtained for 71 payments totalling K3,834,722 from suppliers of goods and services for payments ranging from K5,001 to K500,000;
- Proforma Invoices were obtained for five payments totalling K320,009;
- 15 payments totalling K1,212,514 were made to suppliers of goods and services without obtaining original Tax Invoices; and
- The following irregularities were noted in regard to FF4/ ILPOC:
 - The claimants of the cheques did not sign the FF4 for 104 payments totalling K5,507,778;
 - The Certifying Officer did not sign the FF4 for three payments totalling K129,276; and
 - The receiving officer did not sign the FF4 for five payments amounting to K246,694.
- Irregularities noted in FF3:
 - The *Section 32 officer* did not sign the FF3 for four payments totalling K176,420;
 - The Authorized Requisition Officer (ARO) did not sign the FF3 on two payments totalling K445,707;
 - The Financial Delegate did not sign a payment of K72,200 made to a Real Estate Company; and
 - Proforma Invoices were provided by suppliers to effect payment for five payments totalling K320,009.
- Fraud Case (Based on Internal Audit Report)

Department of Provincial & Local Government Affairs, Internal Audit Division reported a fraud case which involved an officer who misappropriated a sum of K142,073. However, I noted that:

- No payment vouchers were provided for the payments that related to the fraud; and
- The Report indicated that an officer within the Finance Section drew out cheques to four companies and individuals. The officer involved admitted fraudulently printing cheques from the PGAS system for personal use. However, no appropriate actions were taken by the Management.

HUMAN RESOURCE AND PAYROLL

The Staff Establishment Register was provided for audit verification and the following anomalies were noted:

- The Department had 151 funded positions and 52 of these funded positions were vacant. Of the 52 vacancies, 22 officers were acting on those positions and the remaining 30 positions were vacant;
- The HR & Payroll Section of the Department had provided the *Capacity & Development Plan* indicating that the *2013 Training Plan* was included. However, the Training Plan was not for 2013;
- The Department failed to fulfill its statutory obligations to formulate a *Five (5) Year Training Plan* as part of its *Department's Corporate Plans*. Further, it did not produce an *Annual Training Plan* and Report tailored to fulfill the requirements of a *Five (5) Year Training Plan*; and
- 47 payments totalling K391,967 were associated generally with staff training and development in year, 2013. However, the Department made payments out of Expenditure Vote Item 136 (Training) which were not related to training for 56 instances totaling K383,750.

Casual Employees

- The records kept by Human Resource & Payroll indicated that nine officers were employed as casuals by the Department. However, as per the Expenditure Transaction Details, 14 employees were paid as casuals through PGAS. In my review, I noted that 212 payments totaling K82,179 were paid as wages to the 14 casual employees;
- I was not able to verify the wages paid as Human Resource & Payroll did not keep proper records of casual employees and the information provided was inaccurate and unreliable;
- 14 casual employees were paid through Vote Item 135 (Department's Goods & Services item) and not through Vote Item 112 as required for "Casuals" wages. The amount expended for Vote Item 135 amounted to K75,029 in 197 payments; and
- I noted that the casual officers concerned did not have any placing under the staff structure of the Department in order to maintain the operations of the odd jobs performed by them.

Payment of Recreational Leave Fares

- Recreational Leaves were approved for nine payments totalling K86,432. However, *Birth* and *Marriage Certificates* were not provided as required; and
- Two payments totalling K22,309 were based on one invoice provided. Quotations were not obtained from two or more travel agents.

Personal Files – Staff History Cards

- Staff History Card for a Senior Officer was not sighted in the personal file. However, this officer was paid a Gratuity payment of K3,335 without a contract;
- Employee's letter of confirmation, letter of appointment and *Form SR 3.11* to indicate the employees' position and employment details in the employees' personal files folder were not provided for the Officer; and
- A Senior Officer's, contract expired in March, 2013 and the contract was not renewed. Though the Contract had expired, the officer was performing the duties of the contract position held.

TRUST ACCOUNTS

The audit examination of Trust Account Bank Reconciliations, Trust Instruments, Cash Book, Bank Statements and other related records for the year ended 31 December, 2013 revealed the following discrepancies:

- Two Trust Accounts were maintained by *National Disaster Centre* and *PNG Fire Services* respectively outside of the scrutiny of the Department of Provincial & Local Government Affairs;
- Certain funds were being transferred out of Department of Provincial and Local Government Affairs Main Drawing Account to National Disaster and PNG Fire Service PIP Trust Accounts respectively in year 2013;
- The Trust Deed for National Disaster Trust Account was not furnished for audit examination. Without the Trust Deed, I was not able to verify the validity of the payments made from the National Disaster Trust Account. Trust Instrument/Deed provides guidelines on how the payments should be spent and on which specific areas and items;
- In year 2013, I noted that payments made from the National Disaster Trust Account amounted to K1,181,358. Most of these payments were of recurrent nature; Salaries and Wages, Accommodation, Travelling Allowance and others; and
- Five cheque payments totalling K2,853,059 were transferred out of DPLGA Main Drawing Account to Natural Disaster Trust Account. However, I was not provided with relevant books of accounts and records or the payment vouchers to verify and confirm the expenditures incurred.

DEPARTMENTAL RESPONSE

The Department did not respond to my Audit Management Letter at the time of writing this Report in September, 2015.

CONCLUSION

In general, there was minimal improvement in the system and operation of controls within the Department compared to previous years. Management need to take affirmative action on audit recommendations.

Further, the results of my audit indicate that overall there were notable weakness in the control framework. The control activities such as delegations, authorisations, reconciliations, segregation of duties, management monitoring, etc. were not sufficiently robust to prevent, detect or correct errors or fraud.

23. DEPARTMENT OF COMMUNITY DEVELOPMENT 2013

OVERVIEW

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

AUDIT FINDINGS

CORPORATE GOVERNANCE

Corporate and Annual Plans

The Department had a revised Corporate Plan 2012 – 2016 that captured four Corporate Goals which are outlined below;

- *Improve Corporate Governance;*
- *Enhance Community livelihood;*
- *Further Human Rights; and*
- *Promote and foster Religion.*

Based on the Corporate Plan, the Department is required to prepare an Annual Management Plan. However, the Department did not provide to audit the Annual Management Plan for 2013. Therefore, I was not able to verify whether the performance levels as outlined were achieved as the documentation for the monitoring and evaluations of the specific performances were not provided for my review and audit.

Minutes of Meetings

- Meeting Minutes of the Top Management Team and Senior Management were not provided for audit when requested.

REPORTING REQUIREMENTS

Quarterly Report/Annual Financial Reports

During my review of the Quarterly Financial Reports, I observed that:

- The accomplishments of the key target areas and their respective scope and implementations and the achievable target areas were not captured in the respective reports. Further, I noted that;

- *Human Resources Management*:-There were no highlights on the actual staff strength and weaknesses for each quarter and the category of employees (either permanent or casuals); comparative table for staff strength as against the approved Department's staff structure;
- *Annual Operational Plans 2013*:- was not attached to the First Quarter 2013 Report; and
- *First & Second Quarterly Reports*:-highlighted only the financial management of the fund allocations and expenditure.

Annual Management Report

- Management did not furnish an Annual Management Report for my review for the year ended 31 December, 2013.

DRAWING ACCOUNT

The *Department of Community Development* operated a Drawing Account (No.4311-6142) with the Bank of Papua New Guinea. However, the monthly Bank Reconciliation for financial year ended 31 December, 2013 were not provided for audit.

I was advised that a Consultant was engaged by the Department to prepare the Bank Reconciliations in March, 2013.

At the time of preparing this report, the Bank reconciliations were not provided for my review.

BUDGETARY CONTROLS

Variances in Expenditure Balances

The comparison of the Expenditure Vote Summary report for the year ending 31 December, 2013 from Department of Finance and the Department of Community Development (*PGAS*) revealed the following discrepancies:

- There was a serious lack of monitoring and control on the Cash Flow as differences were noted between the two records and further indicated that there were no reconciliations between the two records, hence;

Particulars	Variances in PGAS/IFMS (K)
Revised Appropriation.	75,581,500
Warrant Authority	2,167,400
Actual Expenditure	29,714,244

- The IFMS records indicated that Total Expenses incurred was in excess of Warrants Issued by K24,813,000;
- The Expenditure Statement (*IFMS 2222*) maintained by Department of Finance for year ended 31 December, 2013 revealed expenditures in excess of warrant authorities issued under two Vote Items totalling K20,059,000;

- The comparison of the Expenditure Summary transaction from PGAS and Warrant Authorities issued in 2013 revealed that there was an over expenditure of K829,156 in 15 Vote Items; and
- The Vote Item for the purchase of motor vehicles was not budgeted for as per the 2013 Original Appropriation. Despite this, the Department had incurred expenditure of K141,000 from this Vote Item.

HUMAN RESOURCES MANAGEMENT & PAYROLL

A review of related documents and records, revealed the following discrepancies:

- A total of K143,086 was expended under Item 136 – *Training*, however, I was not able to verify the correctness of the expenses as the *Annual Training Plan* was not provided for audit;
- The casual employees listing recorded 65 casuals in 2013, however, the staff Establishment Register stated 47 casual officers;
- The HR & Payroll Section did not update and reconcile the records /files of casual officers;
- The Expenditure Transaction Details indicated that casual employees were paid through five various Vote Items totaling K118,696 instead of Item 112;
- The Department had 235 funded positions and 62 of these funded positions were vacant. Out of the 235 funded positions, 47 were casuals, 14 officers unattached, and the remaining 62 positions were not occupied;
- Four Recreational Leave fares totalling K31,221 were approved for payment without valid documentation including birth and marriage certificates;
- Staff History Card for a Senior Officer was not sighted in his personal files;
- Personal File and Staff History Card for an officer was not sighted in the HR and Payroll Section of the Department; and
- A Senior Officer had resigned but was on payroll and the status of his employment was not ascertained.

ADVANCE MANAGEMENT

In my review of the Advance Register and other related records, I observed the following discrepancies. A total 108 of advance payments totalling K357,486 were tested:

- I noted that 49 Advances amounting to K220,535 were not acquitted;
- 28 Advances amounting to K47,871 had some form of acquittals made, however, I noted that these acquittals were incomplete and had missing supporting documentation;

- 13 Advances amounting to K92,042 were not registered in the Advance Register; and
- Five Advances were paid in the name of the Paymaster totalling K29,705 however, the five respective acquittal files were missing.

ASSET MANAGEMENT

My audit examination of the Assets Register and other related documentation revealed the following anomalies:-

- Nine motor vehicles had private registration numbers; and
- There was no annual stock-take done at the end of 2013 on all the assets and consumables kept by the Department.

PROCUREMENT & PAYMENTS

Audit selected 100 transactions totalling K1,703,956 and tested for control weakness in the procurement and payment procedures and the following discrepancies were noted:

- 56 paid vouchers totaling K855,617 were not provided for audit;
- 43 payment vouchers amounting to K830,387 did not have the required FF3 and three quotations except for four payments where quotations were not required relating to payments on fuel advances and sitting allowances;
- Nine consultancy payments totalling K187,600 did not have contractual agreements and documentation attached to the paid vouchers;
- 13 payments totalling K208,900 were made to various suppliers without Invoices. Consequently, I was not able to trace and verify the payments to ascertain whether the payments were actually made for the type of services or goods received;
- Three payments totalling K28,867 payments were not certified by a Certifying Officer;
- A payment totalling K17,952 on cheque 121450 for accommodation to a hotel was made with no authorization and approval from the ARO and Financial Delegate;
- Six payments totalling K167,350 were paid to hire car companies operating in the National Capital District without the approval of PTB;
- Seven payments totalling K20,500 were made to individuals rather than established and genuine suppliers that were registered with IPA for various goods and services provided. I was not provided the reasons and the basis for these payments;
- The Department did not have a procurement policy in place; and
- The Quotation Register was not kept up to date.

DEPARTMENTAL RESPONSE

At the time of preparing this report in September, 2015 the reply to my Management Letter issued on 14 August, 2015 was pending.

CONCLUSION

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

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

24. DEPARTMENT OF LABOUR AND INDUSTRIAL RELATIONS 2013

OVERVIEW

The Department's mission is to create a climate of industrial harmony between employees and employers in both government and non-government sectors, promote job opportunities for nationals and set and regulate terms and conditions of employment.

The Department is expected to fulfill that mission in the context of the 18 Legislations it administers – viz: the *Employment Act*, the *Industrial Relations Act*, the *Employment of Non-Citizens Act*, the *Workers Compensation Act*, *Industrial organisation Act*, *Industrial Safety Health and Welfare Act*, *Explosive Act*, *Explosive (Adopted) Act*, *Inflammable Liquid Act*, *Trade Licensing Act*, *Local Government Act*, *Apprenticeship and Trade Testing Act*, *National Training Council Act*, *Employment Placement Services Act* and Employment Statistics Regulation and other relevant Legislations taking into account the recommendations of the International Labour Organisation; and through its exercise of these functions as follows:-

- Responsible for industrial relations including conciliations and arbitration services;
- Control registration of employee and employer industrial organisations and provision of registry facilitates;
- Research on labour and employment matters;
- Advice on industrial and commercial training;
- Administer a work permit system of employment of non-citizens and monitor training and localization programmes;
- Undertake labour inspections;
- Provide industrial safety, health, and welfare inspections and advisory services;
- Determine licensing of petroleum storage and explosives;
- Administer workers' compensation services; and
- Provide services to the Apprenticeship Board, Trade Licensing Board, Minimum Wages Board, and standing or ad hoc organisations relating to the functions of the Department.

AUDIT FINDINGS

CORPORATE GOVERNANCE

- The Department had a Corporate Plan for the period 2013 – 2015
- Annual Work Plan for 2014 was prepared as required.
- Annual Management Report/Annual Financial Report for 2013 was prepared as required.

- A review of Internal Audit Unit function revealed the following shortfalls:
 - The Department of Labour & Industrial Relations has an internal audit unit that had one officer designated as a Chief Internal Auditor;
 - The internal audit plan was prepared for 2014; however, no audit was done;
 - Insufficient support and cooperation was provided by the Department to support the work of Internal Audits; and
 - No Audit Committee was established in the Department.

BUDGETARY CONTROL

Variance between DoF and DL&IR, 2013

A comparison of the *Expenditure Summary Report for the period ending 31 December, 2013* from the Department of Finance against the *report by Department of Labour through (PGAS)* revealed the following unexplained variances, refer to table for details

Particulars	Variance in PGAS/IFMS (K)
Revised Appr	-901,600
Warrant Auth	10,319,400
Actual Exp.	7,758,901

The difference noted between the two records for Recurrent Budgets indicated that there were no reconciliations made between the two records.

BANK RECONCILIATION – Drawing Account

The Department of Labour operated a Drawing Bank Account Number 4311-6130 maintained at Bank of PNG.

A review of the bank reconciliation statement for month of December, 2013 and related records revealed the following reconciling items that remain un-cleared:

- Outstanding receipts totalling K867,455 from September brought forward, were not cleared;
- Journal Entries totalling K1,240,651 comprised of cancelled cheques and payment cheques on CHL not in cash book. Included were two outstanding items dating back to 2005 and 2007. These items were not investigated and cleared;
- Reimbursements from the Main Public Account totalling K2,090,283 for the months from February to December, 2013 not cleared and adjusted in the cashbook; and
- Other items totalling K193,155 included errors in opening and closing balances and unidentified Journal Entries. These items were not investigated, cleared and adjusted accordingly in the cashbook.

ASSET MANAGEMENT

According to 2013 Expenditure Transaction Detail (ETD), asset purchased in 2013 totalled K508,685.

- The Department did not maintain an Asset Register hence, the assets totaling K508,685 remain unaccounted for; and
- As there was no Register maintained by the Department, the physical condition and the use of these assets were not ascertained as no proper control mechanisms were in place to monitor these assets.

PROCUREMENT AND PAYROLL PROCEDURES

My review of 63 payment vouchers totalling K1,667,031 and related accounts and records, I noted the following weaknesses:

- No Quotations Register was maintained as required in *FMM*;
- 16 payment vouchers totalling K718,436 were not provided for audit verification;
- 22 payments amounting to K436,159, did not have three written quotations attached as required prior to purchasing goods and services;
- 17 payments totalling K326,320 were paid without original sales invoices attached; and
- I noted that 39 payments totalling K719,839 were not attached with receipts or delivery dockets for proof of goods and services received.

PAYROLL AND HUMAN RESOURCES

- I vouched 18 contract officers' files to ascertain and verify salaries and allowances paid to them.
 - Four officer's contract agreements were not sighted on file.
 - New contracts for four officers' were not sighted in their respective files.
- Two payment vouchers relating to overtime payments totalling K13,727 were not provided for audit, verification.
- Audit selected eight payments relating to payment of leave warrants, and noted the following:
 - Three out of eight payments vouchers were not provided for audit.
 - Two leave fares totalling K23,703 were paid for children over 19 years old.
 - Cost of vehicle and boat hires were also paid to the two officers totalling K11,000.
- A total of K36,536 was paid for a training in Australia which was not budgeted for and not in the Department's Training Plan.

TRUST ACCOUNT – BANK RECONCILIATION

The review of the December, 2013 bank reconciliation for Work Permit Trust Account revealed the following unreconciled items:

- The Closing cashbook balance as at 31 December, 2013 in the Bank reconciliation was an adjusted closing balance (K11,250,421) from the cash book balance of K7,648,487;
- I noted that Unpresented Cheques included 180 cheques totalling K554,612 that were not presented for more than one year and were not reclassified as stale cheques and the cashbook adjusted accordingly;
- Outstanding deposits in cash book but not in the bank statements were noted in 71 instances totalling K11,441,540. The monies collected were not deposited on a timely basis to avoid outstanding deposits during the year, 2013; and
- 70 outstanding short bank deposit in cash book but not in bank totalled K61,165. Deposits totalling K11,502,705 dating back to 2005 were not investigated and action taken on Officer responsible to recover shortfalls.

ADVANCE MANAGEMENT

My review of the management of Advances by the Department in the form of domestic and overseas travel advances, salary and cash advances, I noted the following anomalies:

- A total of 121 advance payments totaling K25,891 were un-accounted in the 2013 Advance Register;
- Out of the 178 advances recorded, 155 totalling K514,199 were unacquitted advances in January, 2015;
- 12 second cash advances totalling K148,459, were given to officers while their previous advances were not acquitted;
- Out of 36 acquitted advances, 30 advances worth a total of K73,816 were not sighted in the acquittal file although reported as acquitted; and
- The Financial Delegate did not review the Advance Register as required.

REVENUE

The review of the records and documents relating to revenue was undertaken and the following irregularities were noted:

- There was a shortfall of K251,045, which was 1% of the annual target of K27,622,100 from actual collections of K27,371,055. I noted that the Provincial Labour Office collections were not included because they were reporting directly to the Provincial Treasury Offices;

- There was no safe to keep the collections during the day. The cash/cheques were collected and left on the table which increased the risk of theft as the door to the Collector's room was accessible to the public;
- Reporting for the collection of revenue in the Head Office was up to date for the year under review, with Quarterly Reports prepared as required;
- Review of the Fourth Quarter Report revealed that reporting of revenue collections at Provincial Labour Offices was not forthcoming for some centers;
- The Report also revealed that reconciliation of revenue collection records were not done between the Department and the Department of Finance resulting in overstated revenue of K619,935 reported in the Finance record; and
- Receipting was also an issue highlighted in the Report. Receipting was done manually and therefore caused delays.

DEPARTMENTAL RESPONSE

The audit findings were brought to the attention of the Department in my Management Letter dated 27 April, 2015. However, the management did not respond up to the time of preparing this Report in October, 2015.

CONCLUSION

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

25. PUBLIC SOLICITOR TRUST ACCOUNT 2014

OVERVIEW

The *Office of the Public Solicitor* is a Constitutional Office established by the *Constitution* of the *Independent State of Papua New Guinea* to provide legal assistance to the general public who cannot afford the high cost of legal services provided by private legal firms. The Office operates a trust account to cater for funds deposited by the clients and to make payments in accordance with the purpose of the Trust Account. The *Solicitor General* is required by the Trust Instrument to prepare the Statement of Receipts and Payments annually and maintain such records as stipulated in the Trust Instruments and related regulations.

AUDIT FINDINGS

FINANCIAL STATEMENT

Statement of Receipts and Payments for the year ended 28 February, 2014.

The Statement of Receipts and Payments was intended to show the Public Solicitor's Trust Account balances as derived from the records maintained by the Office and bank balance for the year ended 28 February, 2014. The Statement disclosed the Trust Account opening cashbook balance as K455,454 and closing balance as K537,137 as shown below:

Particulars	Amounts (K)
Opening Cash Book Balance (01/03/2013)	455,454
Add: Receipts	767,243
Less: Payments	685,560
Closing Cash Book Balance (28/02/2014)	537,137

observed that the Cash book was generated from a Microsoft excel spread sheet and the Administration, individual Client ledgers and Trail balance were manually prepared based on the Cashbook maintained by the *Public Solicitor*. However, I noted these anomalies:

- Under the Administration ledgers there was a payment of K1,500 incurred for fuel and was not taken up in the cash book.
- Other Operational expense of K37,369 was incurred for the *Public Solicitor's Office* operational expenses.
- There were no Quarterly Trial Balances produced for the ledger accounts as required.

Management Response

The Management responses indicated that the documents and records provided to me were not properly reconciled and verified before their presentation for my audit. Further, contrary to the Trust Instruments, the management expended more than K20,092 from the Trust Account as Other Operational Expenses.

BANK RECONCILIATION

The Public Solicitor's Office had carried out timely bank reconciliations for the year ended 31 March, 2014 in respect of its Trust Account. However, I noted the following discrepancies in the monthly bank reconciliations prepared for the financial year:

- There were no evidence that the bank reconciliation prepared were submitted to Department of Finance as required by *Part 16* of the *FMM Part 16:8.1*;
- The bank reconciliations submitted for audit did not have supporting documents including cash book and monthly bank statements attached together with the reconciliations to support the balances on the reconciliation statements;
- All the bank reconciliations from 31 March, 2013 to 28 February, 2014 were prepared and signed off on 30 April, 2014; and
- The monthly bank reconciliations revealed that the following reconciling items were not cleared to reflect the correct and true cashbook balance as at 28 February, 2014:
 - Credits and Debits in the bank statement not in cash book totalling K110,000 and K12,698 respectively (Feb 2014) were not identified and cleared in the Cash Book; and
 - The un-presented cheques for 2013 that were stale for the last one year amounted to K3,252. These cheques were not journalised and written back into the Trust Account Cash Book. Further, I was not provided a detailed list of the un-presented cheques.

Monthly adjusting Journal Entries

- There were no manual Journal Entries maintained for the *Public Solicitors Trust Account*.

Management Response

The management concurred with my observations and advised that it had not complied with the Trust Instruments and the relevant reporting requirements; however, corrective actions would be taken.

PROCUREMENT & PAYMENT PROCEDURES

During my review of the accounts and records relating to the payments totaling K685,560 for the year, I noted the following discrepancies:

Payment Vouchers Missing

A paid voucher totalling K14,700 was missing from the file and was not made available for audit examination.

Non-Trust Payments

Six payments totalling K6,092 were made outside of the authorized payments mentioned in the *Trust Deed*. Although the respective amounts were not significant, the payments were in violation of the *Trust Instrument*. Further, there was no evidence to substantiate the payments made from the Trust Account.

Furthermore, a consultant was engaged to review and audit the Trust Account records. I requested a copy of the engagement contract but was not provided for my review and audit. The consultant was paid K12,000 without any form of contract.

No Proper Supporting Documentations

No proper documentations were sighted for four payments totalling K3,167 from the paid vouchers audit examined.

Segregation of Duties

My audit observed that there was a staff shortage, particularly staff with a broad background in Government Financial Accounting. The Director Corporate Services was the only officer who prepared receipts and payments journals, cashbook and bank reconciliations. I was concerned at the lack of this important internal control mechanism in the management of the Trust Account.

Management Response

The Management concurred with my observations and advised that it would rectify the anomalies noted. Further, refunds would be made accordingly from the Recurrent Budget for the Non Trust related payments made.

RECEIPTS & REVENUE

I reviewed the revenue collected totalling K767,243 for the year 2013 and noted the following irregularities:

- Three payments totalling K12,698 out of the Trust Accounts were not recorded in the cash book;
- Two deposits totalling K110,000 were not recorded in the Receipt Book; and
- There was no official Receipt Book maintained, despite recommendation made in my previous audit report.

Management Response

The Management countered my observations and advised that receipts and receipt books were issued and maintained accordingly. However, at the time of my audit this was not that case and it is the responsibility of management to maintain proper accounts and records.

ASSET MANAGEMENT

Audit review and examination of Asset Register maintained and related documentation revealed the following weaknesses:

- The Asset Register was not updated from the year 2005;
- Two motor vehicles purchased during the year (2013) totalling K239,038 were not recorded in the Asset Register. I enquired with the Director Corporate Services and I was verbally advised that the funds were transferred from Recurrent funding into the Trust Account as holding account for future use. I was further advised that these vehicles were recorded in the Public Solicitor Office Asset Register and not the Trust Account Register. However, this account as mentioned was not disclosed in the Trust Account reports presented for audit; and
- The Administrator of the Trust Account abused the Trust Instrument to facilitate an illegal transfer of budgeted allocation for the *Office of the Public Solicitor*.

Further, there were no *Accounting Policies* in place for depreciation, disposals and replacements of the assets owned by the Public Solicitor's Trust Account.

Management Response

The Management responded that it had not purchased from the Trust Account during the year, however, this was contrary to the fact that two motor vehicles were purchased from the Trust Funds from an improper transfer of funds from the Recurrent Budget during the year.

TRUST ACCOUNT COMPLIANCE

Non- Trust Related Payments

I observed that six payments were non-trust related expenses and they included travel allowances, accommodations, airfares, hire cars, hire of venues for functions etc.

Bank Reconciliations

There was no evidence to confirm that copies of the completed bank reconciliations were submitted to Department of Finance as required.

Management Response

The Management concurred with my observations and advised that it was in the processes of remedying the compliance issues with amendments to its compliance guidelines in accordance with the Trust Instrument and the Lawyers (Trust Account) Regulations, 1995.

DEPARTMENTAL RESPONSE

The responses from the Management took more than six months, however, most of the responses were not substantiated at the time of the audit. Consequently, I was unable to ascertain the relevance and the veracity of the responses that I received.

CONCLUSION

However, the total Fund of the Public Solicitor's Trust Account audit was not significant compared to the Department audited the results of the audit indicates that overall, there were weaknesses in the control framework. I noted that the control activities, such as delegates, segregation of duties, reconciliations and management monitoring were not sufficiently robust to prevent, detect or correct errors or fraud. Consequently, there was an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

26 LIST OF DEPARTMENTS AUDITED IN THE LAST THREE (3) YEARS

No	Code	Name of Department	YEARS AUDITED			
			2012	2013 Previous	2013 Current	2014
1	247	Agriculture and Livestock	✓		✓	X
2	225	Attorney General	✓		✓	X
3	261	Commerce and Industry	✓	≠		X
4	242	Community Development	✓		✓	X
5	226	Correctional Services	✓	≠	✓	✓
6	234	Defence	✓	≠	✓	✓
7	235	Education	✓	≠		X
8	230	Electoral Commission	✓	≠	✓	✓
9	245	Environmental and Conversation	X	X		X
10	206	Finance	✓		✓	X
11	217	Foreign Affairs and Trade	✓		✓	X
12	202	Governor General	X	≠		X
13	240	Health	✓	≠	✓	✓
14	236	Higher Education	✓		✓	✓
15	216	Internal Revenue Commission	✓		✓	✓
16	252	Lands and Physical Planning	✓		✓	✓
17	262	Labour and Industrial Relations	✓			X
18	224	Magisterial Services	✓	≠		X
19	223	National Judiciary Services	✓		✓	✓
20	201	National Parliament	✓	≠		X
21	229	National Planning and Monitoring	✓		✓	X
22	204	National Statistics Office	X	X		X
23	267	Office of Rural Development	✓		✓	✓
24	220	Personnel Management	✓		✓	✓
25	255	Petroleum and Energy	✓		✓	X
26	211	PNG – Bureau of Customs	✓		✓	✓
27	228	Police	✓	≠		X
28	203	Prime Minister and NEC	✓	≠	✓	✓
29	232	Provincial and Local Government Affairs	✓		✓	X
30	254	Mineral Policy and Geo Hazard	X	X		X
31	259	Transport	✓	≠	✓	✓
32	208	Treasury	✓	≠	✓	✓
33	264	Works and Implementation	✓	≠	✓	✓
34	221	Public Service Commission	x	X	X	X
35	258	Information and Communication	x	X	X	X
36	213	Fire Services	x	X	X	X
37	212	Information Technology Division	x	X	X	X
38	222	Office of Public Solicitor	x	X	X	X
39	215	PNG Immigration and Citizenship Services	x	X	X	X
40	209	Office of the Registrar for Political Parties	x	X	X	X
41	218	Office of Public Prosecutor	x	X	X	X
42	231	National Intelligence Organisation	x	X	X	X
43	257	Public Enterprise	x	X	X	X
44	205	Office of Bougainville Affairs	x	X	X	X
45	268	Central Supply and Tenders Board	x	X	X	X
46	269	Office of Tourism Arts and Culture	x	X	X	X
47	246	Office of Urbanisation	x	x	x	X
		TOTAL	29/47	14/47	16/47	15/47

Key:

Departments Audited	✓
Departments Not Audited	X
Department Reported in the last Report (2013)	≠

27. ACKNOWLEDGEMENT

I would like to acknowledge the professionalism and commitment of my staff in undertaking the audit work that is reflected in this Report (*Part 2*). Their efforts have ensured the audit work program is on track and enabled preparation of this Report in a short period of time.

The co-operation and the assistance rendered by all Heads of Departments and their staff are also acknowledged.

Finally, I would also like to thank the Chairman and the members of the Public Accounts Committee for their continued interest and support for my Office.



PHILIP NAUGA
Auditor-General