



Performance Audit on the Management and Reporting of Trust Accounts



Performance Audit on the Management and Reporting of Trust Accounts

A report examining the extent of Trust Accounts in use within the
Government of Papua New Guinea

Auditor-General's Office of Papua New Guinea



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OFFICE OF THE AUDITOR-GENERAL

20 March 2014

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

Dear Mr. Speaker,

In accordance with the provisions of Section 214 of the Constitution of the Independent State of Papua New Guinea, and the Audit Act 1989 (as amended), I have undertaken an audit examining the extent of Trust Accounts in use within the Government of Papua New Guinea.

I submit the report of this audit and the report is titled "***Performance Audit on the Management and Reporting of Trust Accounts.***"

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

Yours sincerely,

PHILIP NAUGA
Auditor-General

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Acronyms and definitions

Accounting Frameworks and Standards Division, Department of Finance	The Division is responsible for developing policies, standards and procedures based on the <i>Public Finances (Management) (PF(M)) Act 1995</i> as well as providing analysis and advice on financial management. The Division is responsible for maintaining and developing the financial systems of Government and also responsible for assisting and supporting the Public Accounts Committee.
AGO	Auditor-General's Office
ANZ	Australian and New Zealand Banking Group (PNG) Ltd
Bank of PNG	Bank of Papua New Guinea. The Bank of Papua New Guinea is a corporate organisation and was established by the <i>Central Banking Act, 1973</i> which defines its powers and functions. It commenced its operations on 01 November 1973 as the country's Central Bank.
BSP	Bank South Pacific Limited. The bank commenced operations in Port Moresby as a branch of the National Bank of Australasia Limited. In 1995 a consortium of Papua New Guinea businesses acquired the bank. In 2001 BSP purchased the State Owned – Papua New Guinea Banking Corporation (PNGBC – formerly CBA PNG).
Finance	Department of Finance
Financial Instructions	Section 117 of the PF(M) Act 1995 provides for the issuance of Financial Instructions. Unless otherwise indicated, the Financial Instructions referred to in this report relate to those available on the Department of Finance website under the Legal Frameworks section under the Financial Management Manual, Section 3 – see link below. http://www.finance.gov.pg/Fin_Framework_Legislations/FMM%20and%20PFMA/Financial_Instructions.htm
FMM	Finance Management Manual
GoPNG	Government of Papua New Guinea
MTSF 2008-12	<i>Medium Term Fiscal Strategy (MTFS) 2008-2012</i>
PAC	Permanent Parliamentary Public Accounts Committee
PF(M) Act	<i>Public Finances (Management) Act 1995</i> (as amended)
PNG	Papua New Guinea
The Constitution	<i>The Constitution of the Independent State of Papua New Guinea, 1975</i>
Trust Accounting Branch, Department of Finance	The Branch administers and controls the establishment, management, closure and operation of Trust Accounts and enhances accuracy of reporting on Trust Accounts. The Branch introduces measures to ensure the capture of Trust accounting transactions and better compliance with Trust Instruments and improve reporting of Trust spending through enhancements to the PNG Government Accounting Systems (PGAS).
Trust Instrument	A Trust Instrument is the legal document that created the Trust Account. The document often shows the establishment, the purpose of the Trust Account, the source of funds and the type of activity that the Trust Account is to fund. A Trust Instrument also often identifies the administrators of the Trust Account and their responsibilities.

1. Executive Summary

1.1 Trust Accounts are a key mechanism used in the Government of Papua New Guinea (GoPNG) for holding monies on behalf of a third party or setting money aside for specific tasks and/or projects. In particular, the stated purposes for holding funds in Trust Accounts are to spread public investment spending over time to manage inflationary and demand pressures in the economy; and to provide time for implementing agencies to properly design implementation strategies.

1.2 In order to clarify the extent of Trust Accounts in use within PNG, the objectives of this performance audit on the management and reporting of Trust Accounts were to:

- identify the category, number and balance of public monies held in Trust Accounts managed or controlled by GoPNG entities;
- determine the party responsible for the management and reporting of these Trust Accounts and their subsequent compliance with these requirements; and
- assess the effectiveness of the monitoring arrangements of Trust Accounts within the GoPNG.

The category, number and balance of Trust Accounts in use could not be reliably identified.

1.3 The *Public Finances (Management) Act 1995* (PF(M) Act) outlines specific legislative responsibilities associated with the establishment and on-going management of Trust Accounts. Notwithstanding these legislative responsibilities, the audit found that there is no authoritative source of information that can be relied upon to enable the specific number of Trust Accounts in operation in the GoPNG to be determined. This relates to the number of current Trust Instruments as well as the number of specific bank accounts that are open in relation to the operation of a Trust Account.

1.4 As the actual quantum of Trust Accounts cannot be established, the mix of the type of accounts in existence also cannot be reliably identified. Further, while a minimum estimate of the balance of funds held in Trust Accounts at a point in time can be determined, the extent of the error of this figure cannot be readily calculated, particularly when the balance of subsidiary accounts are not always captured through the various reporting activities and the sources of published data differ. For example, as at 31 December 2012 the balance of Trust Accounts as calculated from bank balances was K2.37 billion; yet the 2014 Budget had the balance for the same point in time as K2.26 billion. This equates to a difference of K110 million.

1.5 Given the different possible definitions of a Trust Account, and the variations amongst the 'authoritative' sources of information, the AGO could not confidently state the number of Trust Accounts in operation across the GoPNG at a specific point in time, nor their type or balance of funds.

The identification of responsible entities is incomplete given the absence of an authoritative source of Trust Accounts. The overall compliance with legislative requirements is poor.

1.6 In regards to the management and administration of Trust Accounts, the PF(M) Act sets out a clear distinction in roles between the overarching coordinating responsibilities of the Secretary of Finance in regards to all Trust Accounts in the Trust Fund, and the specific roles of a Departmental Head responsible for the administration of an individual Trust Account.

1.7 In its role as overarching coordinator, since 2004 Finance has been rationalising the Trust Accounts within the Trust Fund. For example, some 660 National Government Trust Accounts were revoked in 2004 and 2005. In addition to formally revoking many Trust Instruments, in 2006 Finance wrote to the relevant banks instructing them to review and close a number of associated trust bank accounts. Banks were also directed to transfer any funds remaining in bank accounts associated with the revoked trusts to the Waigani Public Account in accordance with the requirements of the PF(M) Act.

1.8 While many Trust Accounts have been revoked since 2006, due to poor record keeping practices and limited staff availability within the Trust Accounting Branch in Finance, the AGO has been unable to examine revocation notices nor the advice to the bank(s) to close the associated accounts. Further, while accounts have been revoked, some continue to be operated and are repeatedly included in Statement 'C' of the Public Accounts.

1.9 During the course of the audit, instances were also identified where administering departments provided the required information to Finance yet it either did not make it to the Trust Accounting Branch or were not reflected in the oversight records held by the Branch.

1.10 The repeated advice from Finance that it is unable to do its role effectively as a coordinating body due to monthly reconciliation reports not being submitted by administering departments is valid. However, Finance itself is the department most responsible for the administration of individual Trust Accounts and no reconciliation reports were noted as ever having been received by the Trust Accounting Branch for these accounts. Had the reconciliation reports been done and submitted for the accounts that Finance is personally responsible for, there would have been a strong start to addressing the deficiencies within the system more broadly. The Trust Accounting Branch should be leading by example.

The monitoring of Trust Accounts is vastly incomplete and consequently is of minimal effectiveness.

1.11 In addition to minimal monthly reconciliations being provided to Finance, there is no mechanism/ practice/ behaviour within the Trust Accounting Branch to consolidate the information provided into a useable form for broader analysis and tracking. As a consequence, minimal effective monitoring of Trust Accounts takes place.

1.12 It should also be noted that the extent of any monitoring relates to the accounting side of Trust Accounts. There is no regular reporting or overarching coordination of the outcomes of funds held in trust, nor of the delivery of projects or programs as envisaged when the Trust Account(s) were established.

In order to address such fundamental issues in relation to the management and reporting of Trust Accounts, the audit report makes six recommendations directed at the Department of Finance.

1.13 The audit report also covered the location of Trust Accounts, the reporting of interest earned on Trust Accounts and the adoption of the 2001 Government Financial Statistics. These topics warrant further investigation once the fundamental issues surrounding the management and reporting of Trust Accounts are addressed.

Recommendations

Recommendation No.1 (Paragraph 3.49)

The AGO recommends that, as part of the ongoing reforms to the financial management framework, for the purposes of identifying the number and type of Trust Accounts, the Department of Finance:

- clearly defines by what measure a Trust Account will be counted (i.e. Trust Instrument or bank account); and
- decides whether the type of Trust Account is an important element to be retained in the ongoing management of Trust Account and, if so, clarify the categories of trusts to be used.

Department of Finance Response:

The Trust Branch of Accounting Framework Division in the Department of Finance has been operating with a very short staff numbers since 2010 to 2012 and was unable to fully achieve most of its key activities.

However with staff numbers strengthened in 2013 the branch has embarked on improving areas of its core functions to standard requirements.

One of the main tasks that the branch will carry out within the first six months of 2014 is to create a database for all trust accounts and categorized under their respective trust types with updated status on each individual trusts.

Recommendation No.2 (Paragraph 3.50)

The AGO recommends that, in order to enable consistent public disclosure of Trust Accounts, the Department of Finance undertake a systematic consolidation of the various 'authoritative' sources with the aim of developing one, comprehensive database of Trust Account details that are supported by the required Trust Instruments and/or individual legislation. Further, the Department of Finance use this consolidated list to actively manage the Trust Accounts.

Department of Finance Response:

The same database that will be created as mentioned in our first response which will consolidate well comprehensive data that will cover information related to commencement of the trust account, sunset clause, or revocation details if any trust account becomes revoked.

Once again the department is focused in getting the management of Trust account to a very comprehensive database.

Recommendation No.3 (Paragraph 3.51)

The AGO recommends that, in order to capture the Trust Accounts in operation across the Provincial Governments, the Department of Finance task its Provincial Treasurers to undertake a baseline stocktake of all bank accounts managed within the Provinces to identify whether:

- the accounts are related to the delivery of Trust Account activities; and
- approved Trust Instrument documentation exists to legally establish the trust; and
- the accounts only contain Provincial or National Government funds; and
- the details are included in the monthly reporting to the Department of Finance.

Department of Finance Response:

The Trust Branch in the Department of Finance has also aligned its responsibilities on capturing and consolidating Trust Account information in the Provincial Government level.

Letters have been prepared but are yet to be signed by the Acting Secretary to be disbursed to Provincial Administration/Treasuries to consolidate trust account information in their provinces.

The Trust Accounting Branch with its staff strength is also planning to visit the provinces physically to enforce this task.

Recommendation No.4 (Paragraph 4.56)

The AGO recommends that, in order to enable appropriate information flows and resulting action, the Department of Finance examine its internal correspondence distribution system to ensure correspondence addressed to the Departmental Secretary in relation to Trust Account matters are actually delivered to the Trust Accounting Branch in a timely manner.

Department of Finance Response:

The Trust Branch is also keen on improving the flow of correspondence within the branch regarding Trust matters. The Acting Assistant Secretary will be keeping a document registry in her system to ensure all incoming documents are registered before going out to action officers.

Follow up on documents to be worked on will be done in weekly basis to avoid unnecessary delays and ensure efficiency in responding letters.

The department is also keen on improving handling of trust correspondences in efficient manner.

Recommendation No.5 (Paragraph 4.57)

The AGO recommends that, in order to address the potentially contradictory roles within the Trust Accounting Branch between the day-to-day operations and payments from certain significant Trust Accounts and the management and oversight of all GoPNG Trust Accounts, the Department of Finance clearly identifies the different roles and tasking responsibilities, and develops an appropriate management framework to ensure both elements are sufficiently resourced and delivered upon.

Department of Finance Response:

We advise again that due to short staff strength in prior years before 2013 there were too many Trust accounts for one person to handle and take charge of which resulted in a lot of oversight in management of the trust accounts.

The Trust Branch has allocated trust accounts under respective government agencies and distributed to officers to follow up and take appropriate action in trying to improving management of Trust accounts by agencies.

With the number of Government Budget Funded Trust been reduced since 2012 to five, IDG, High Impact, Education Tuition Fee, 2015 Pacific Games and Bougainville Restoration and Development Trust the department is working towards bringing the trust management to the desirable level.

Recommendation No.6 (Paragraph 4.58)

The AGO recommends that, to enable effective monitoring of Trust Account operations and inform economic policy and budget decision-making, the Department of Finance examine the development a suitable mechanism to improve the timely submission of monthly reconciliations by all administering entities as well as enabling the submitted information to be best utilised.

Department of Finance Response:

Again with the full staff strength in the Trust Branch now, the Department of Finance is consistently working to ensure compliance of bank reconciliation is achieved.

The department has since picked up in the Reviewing of Bank Reconciliation and is constantly writing to responsible agencies handling trust accounts to comply.

And it is good to advice that this is progressing well and we intend to improve and raise the standard of bank reconciliation and maintain at high level of output.

2. Introduction

Public Financial Management in Papua New Guinea (PNG)

Background

2.1 The *Constitution of the Independent State of Papua New Guinea* (the Constitution) contains several provisions relating to the supervision and control of public finances. Section 211 (1) of the Constitution states that all moneys of or under the control of the National Government shall be dealt with and properly accounted for in accordance with the law.

2.2 The law that governs public finances is the *Public Finances (Management) Act 1995* (the PF(M) Act). The Act also enables regulations to be made by the Head of State acting on advice for better control and management of public monies and public properties.

2.3 Section 10 of the PF(M) Act explains that there shall be a Public Account for the National Government as well as for each Provincial or Local-level Government established under the *Organic Law on Provincial Governments and Local-level Governments*. In the case of the National Government, the Public Account consists of the Consolidated Revenue Fund and the Trust Fund. All public moneys are payable into either the Trust Fund or the Consolidated Revenue Fund depending on the nature of the receipt.

2.4 It is a generally accepted principle of Government accounting to maintain all receipts in a single consolidated fund to ensure effective surveillance and control of public funds. In this respect, section 13(1) of the PF(M) Act states that, except for those monies credited to the Trust Fund, all money raised in the form of loans and receipts of revenue shall be credited to the Consolidated Revenue Fund.

2.5 Section 117 of the PF(M) Act¹ creates the legal authority for the Secretary of Finance to issue Financial Instructions for, amongst other things, the better control and management of public money and public property. The Financial Instruction in respect to Trust Accounts is Part 16 of the Financial Instructions located in Volume 1, Section 3 of the 2006 Finance Management Manual (FMM). Additional specific Financial Instructions have been issued for a broad group of Trust Accounts, as well as for the establishment and/or management of individual accounts². Appendix 1 lists the current specific Financial Instructions that impact on Trust Accounts.

Department of Finance

2.6 The Department of Finance (Finance) is a key central agency of the Government of Papua New Guinea mandated by the Constitution, the Organic Law on Provincial and Local-level Governments and the PF(M) Act.

¹ Specifically, section 117 of the PF(M) Act states: “*The Departmental Head of the Department responsible for financial management may issue Financial Instructions, not inconsistent with this Act, as to any matter prescribed by this Act to be so provided for, or that are necessary or desirable for carrying out or giving effect to this Act and in general for the better control and management of public moneys and public property.*”

² For example, Financial Instruction 3C/2008 was established for the better control of public funds and effective implementation of the District Service Improvement Program Funding.

2.7 Finance is specifically responsible for providing direction and support in financial policy formulation, financial systems development and maintenance, financial and accounting information processing, financial management and accounting procedures, monitoring of financial performance against the Budget, and legislative compliance and financial reporting requirements for the whole of Government.

2.8 Other specific requirements creating and authorizing the performance and execution of Finance's responsibilities come from policy determinations of Government reflected in Government development plans and annual budgets.³

2.9 At the time of audit, a specific branch resided in the Department of Finance's Accounting Frameworks and Standards Division⁴ known as the Trust Accounting Branch. The Branch is responsible for administering and controlling the establishment, management, closure and operation of Trust Accounts and enhancing the accuracy of reporting on Trust Accounts. The Branch is also responsible for introducing measures to ensure capture of Trust Accounting transactions and better compliance with Trust Instruments and to improve reporting of Trust spending through enhancements to the PNG Government Accounting Systems (PGAS).

Department of Treasury

2.10 The role of the Department of Treasury (Treasury) also impacts the use and operation of Trust Accounts in PNG. The vision of Treasury is "improving the quality of life for Papuan New Guineans by being a leading Government economic agency." The role of Treasury is to achieve its vision and undertake its responsibilities as set out in legislation and Government directives. The key legislation and Government policies that govern the work of Treasury include:

- *Public Finances (Management) Act 1995*;
- *Fiscal Responsibility Act 2006*;
- Medium Term Fiscal Strategy;
- Medium Term Debt Strategy;
- *Public Service Management Act 1995*;
- PNG Vision 2050;
- Development Strategic Plan (2010 – 2030); and
- PNG Medium Term Development Plan (2011 – 2015).

2.11 The mandate of Treasury, as outlined in its recent Corporate Plan, include promoting macroeconomic stability; formulating and managing the Budget; having effective debt management; promoting good governance and accountability; and ensuring competition and State-owned enterprises policies are in the interests of Papua New

³ http://www.finance.gov.pg/About_Us/ accessed 9 May 2013.

⁴ As outlined in the Department of Finance's website, the Accounting Frameworks and Standards Division is responsible for developing policies, standards and procedures based on *Public Finances (Management) Act 1995* as well as providing analysis and advice on financial management. The Division is responsible for maintaining and developing financial systems of Government and also responsible for assisting and supporting the Public Accounts Committee. (http://www.finance.gov.pg/Fin_Services/Frameworks.htm accessed 9 May 2013)

Guineans. Treasury recognises that some of these roles are shared with other agencies within the PNG Government.⁵

2.12 The Fiscal Responsibility Act specifies the requirement of the Treasurer to table and release publically annual fiscal reports to ensure transparency in the conduct of the fiscal policy within PNG. These reports are to include:

- an annual Budget Strategy Paper, which is to assist the understanding of the fiscal situation and the Government's proposed Budget strategies;
- a Mid-year Economic and Fiscal Outlook report, released by the end of July each year, which provides an update on the fiscal and economic forecasts in the Budget; and
- a Final Budget Outcome report within three months of the end of the financial year.

2.13 Each of these annual fiscal reports contain key information surrounding the use of Trust Accounts within the public sector and their potential impact on the fiscal position of the PNG economy. For example, in the most recent Final Budget Outcome for 2012, released by the Treasurer on 31 March 2013, it stated:

Under the previous Medium Term Fiscal Strategy 2008-2012 (MTFS), Government spending of additional mineral revenue (comprised of spending from additional mineral revenue deposited into Trust Accounts and additional priority expenditure) was limited to a maximum of 4 per cent of GDP per annum.

The Government has now developed the new MTFS 2013-2017. The new MTFS outlines the need to incorporate Trust spending into total Government spending so as to better inform appropriate fiscal policy from year to year.⁶

2.14 Considering the period of time under review for this audit, the earlier Medium Term Fiscal Policy provides the context for management and reporting of Trust Accounts. In this respect, the MTFS 2008-2012 states that the purpose of holding funds in Trust Accounts is to spread public investment spending over time to manage inflationary and demand pressures in the economy and to provide time for implementing agencies to properly design implementation strategies.

2.15 The MTFS for 2008-2012 also explains that the overall balance in each year's Budget will not be affected by the amount drawn down from the Trust Accounts for actual public expenditure, as for Budgetary purposes, the expenditure is recorded once the funds are transferred to trust. This approach differs to the International Monetary Fund (IMF) definition of the Budget balance and has been identified as a high priority area of reform in the updated MTFS for 2013-2017.⁷ The opportunity this reform may bring for Trust Account management and reporting is discussed further at paragraphs 5.20 and 5.21.

⁵ Department of Treasury, Corporate Plan 2012– 2015, pp. 3-4.
http://www.treasury.gov.pg/html/misc/Treasury%20Corporate%20Plan_2012-2015.pdf accessed 13 May 2013.

⁶ Department of Treasury, *Final Budget Outcome 2012*, 31 March 2013, p. 15.

⁷ Department of Treasury, *2013 Budget, Volume 1*, Chapter 13.

The Trust Fund and Trust Accounts

2.16 The National Trust Fund consists of a number of Trust Accounts established under section 15 of the PF(M) Act⁸. The aggregate of the balances in individual Trust Accounts constitutes the Trust Fund balance. The PF(M) Act requires that public moneys are payable into the Trust Fund only if such payments are within the specific scope of any individual Trust Account; otherwise such moneys must be paid into the Consolidated Revenue Fund (CRF).

2.17 The Finance Management Manual, Financial Instruction Part 16 explains that Trust Accounts have been established in PNG to account for the following types of transactions or funds:

- moneys held in trust for third parties;
- revolving or working capital funds provided for certain Government, commercial or trading operations; and
- suspense or transitory transactions which are to be held in special accounts until they are transferred to the final accounts.

2.18 As a result of the recent commodity boom within PNG, a majority of the additional revenue received by the Government has been paid into Trust Accounts through annual or supplementary appropriations to pre-fund public investments.

Parliamentary scrutiny

2.19 The Permanent Parliamentary Committee on Public Accounts (the PAC) has had an active interest in the management, reporting and operation of Trust Accounts within PNG. It has undertaken inquiries into specific Trust Accounts such as the Sepik Highway, Roads and Bridges Maintenance and other Infrastructure Trust Account⁹ as well as the more general inquiries on Trust Accounts covering a specific time period.

2.20 In this latter respect, on 14 December 2007, the PAC commenced an inquiry into the keeping of Government Trust Accounts for the financial years 2000 to 2008. In this inquiry the PAC resolved to try and ascertain the exact state of Trust Accounts, Trust Accounting, Trust management and the use to which Trust monies had been put by Trustees during each financial year 2000 to 2008. One of the key findings of this report was that¹⁰:

The failure of Trust Accounting is so basic that the Government has no idea of exactly how many Trust Accounts exists or how much public money is held in or

⁸ Specifically, section 15 of the Act states:

Within the Trust Fund, Trust Accounts may be established as directed by the Minister or prescribed by any other law –

(a) to receive moneys held by the State as trustee; or

(b) to receive the proceeds of commercial or trading activities carried on by any arm, agents or instrumentality of the State; or

(c) for such other purpose as may be approved by the Minister.

⁹ The National Parliament of Papua New Guinea, *Public Accounts Committee Report to Parliament on the Inquiry into the Sepik Highway, Roads and Bridges Maintenance and Other Infrastructure Trust Account*, 19 April 2007. <http://www.parlcmnts.gov.pg/docs/Sepik%20Trust.pdf> (accessed 12 March 2013).

¹⁰ The National Parliament of Papua New Guinea, *Final Report of the Public Accounts Committee into the State of Trust Accounts in the period 2000-2008*, 2 July 2009 [tabled 2 March 2010]. <http://www.parlcmnts.gov.pg/docs/Inquiry%20into%20the%20Keeping%20of%20the%20Government%20Trust%20Accounts%20from%202000-2008.pdf> (accessed 12 March 2013). Paragraphs 2.1, 2.6 and 21.1.

has passed through those Accounts, where it comes from or, in many cases, where it goes.

Public interest

2.21 The television and print media in PNG also appears to have a keen interest in the management and operation of Trust Accounts. On a regular basis articles and editorials appear in the local national papers, the *Post-Courier* and *The National*. Stories shown on the local television news stations of *EMTV* and *Kundu 2* regularly touch on the use of Trust Accounts and the impact these accounts have on the citizens of PNG. Many articles are also picked up and discussed through online blogs such as the Sunday Chronicle PNG; PNGexposed Blog; Bulolo Live; and the Pacific Islands Report.

2.22 As identified in the June 2012 Citizen Survey¹¹ regarding citizen access to information in PNG, radio and newspapers play a dominant and equally important role in keeping PNG citizens informed about the majority of issues they consider 'information' priorities. The survey found that radio and newspapers consistently emerged as the two leading sources of information on sports, politics, national news, education, environment as well as international news. In addition, television is valued particularly for its coverage of international news; however, due to limited television signals in rural areas its reach tends to be limited primarily to urban areas; 70 per cent of all respondents who use television as one of their sources on issues they see as information priorities live in urban areas. The survey also identified however that the Internet is rarely used by PNG citizens to obtain information, due to its low accessibility and high cost. For now, the Internet is used primarily by young, highly educated urban elites.

Previous audits

2.23 The annual Reports of the Auditor-General, in particular *Part 1: Public Accounts of Papua New Guinea*, make specific comment about the use and operation of Trust Accounts. Year after year, the Auditor-General's Office (AGO) has reported that the balance of the Public Account (consisting of the Consolidated Revenue Fund and the Trust Fund) cannot be confirmed. As a result of the lack of Trust Account monthly reconciliations; continued use of revoked non-bank Trust Accounts; and Trust Account expenditure not being captured in accordance with Trust Instruments, the correctness of the closing balance of the Trust Fund has not been able to be verified.¹²

2.24 In addition, in November 2012 the Department of Finance Internal Audit and Compliance Division undertook an audit on the Management of Trust Accounts by Finance. The internal audit was designed to assess the control framework relating to the Department's Trust Accounting Branch and to form an opinion on the adequacy and effectiveness of the current control system. The report was also to provide recommendations to address any identified weaknesses and/or opportunities for improvement. The internal audit was focused primarily on the financial management of public funds held in trusts through its receipting and disbursement of funds in the identified sample of Trust Accounts.

¹¹ *Citizen Access to Information in Papua New Guinea, Citizen Survey, June 2012*, p. 23. The report focused on the key findings of the study into Citizen Access to Information in Papua New Guinea, conducted by InterMedia Europe in 2012. The study was commissioned by ABC International Development and funded by the Australian Agency for International Development (AusAID).

¹² Auditor-General's Office, *Report of the Auditor General – 2010 On the Public Account of Papua New Guinea: Part 1 Public Accounts of Papua New Guinea*, pp. 9-13.

2.25 The internal audit identified a number of critical issues which impacted on the integrity of the control environment relating to the management of Trust Accounts in Finance. In particular, two of these critical issues have heavily impacted on this performance audit and are as follows:

- *Resource constraints in the Trust Accounting Branch that results in poor record keeping of financial records. Management has to give priority to increasing the Trust Account staffing level as well as strengthening their capacity to deliver quality output. ...*
- *Timeliness, integrity and completeness of Trust reporting by departments is not yet to a standard that supports ready reporting of aggregated Trust Fund details. Subsequently, there is a need to provide clear guidance to, and support the building of competency in agencies relating to the reporting function.*¹³

2.26 Where possible, this performance audit has endeavoured to build on the matters previously identified in earlier assessments.

The Audit

Audit rationale

2.27 In order to most efficiently and effectively address the various concerns raised specifically by the PAC over time, the media more broadly, and the previous audit findings, the AGO proposed that, initially an audit of the higher level identification, management and reporting obligations for Trust Accounts should be undertaken (this audit). This will ultimately be followed by account-specific audits examining actual delivery of works and expenditure of funding.

2.28 A number of specific benefits were identified by a staged approach. Firstly, such an approach breaks a very large and complex area of public financial management and accountability in PNG into manageable pieces. Further, it assists the AGO in its aim to develop a sustained performance audit capability by enabling existing financial and compliance auditors to develop performance audit skills in a considered manner.

Audit objective

2.29 In order to clarify the extent of Trust Accounts in use within PNG, the audit objectives of the management and reporting of Trust Accounts are to:

- identify the category, number and balance of public monies held in Trust Accounts managed or controlled by GoPNG entities (including statutory authorities, provincial administrators and departments);
- determine the party responsible for the management and reporting of these Trust Accounts and their subsequent compliance with these requirements; and
- assess the effectiveness of the monitoring arrangements of Trust Accounts within the GoPNG.

¹³ Department of Finance, Internal Audit and Compliance Division, Audit Report: *Management of Trust Accounts by Department of Finance*, Report No: 06/2012, 29 November 2012, p. 2.

Audit approach

2.30 To address the audit objective, the audit involved the following key steps:

- Assessment of the publically disclosed 'Details of Trust Accounts' as attached to the annual Budget for 2010, 2011, 2012 and 2013 with available Trust Instrument documentation and banking details. In addition, comparison of these figures was made with the master hard copy folders of Trust Instruments and the electronic 'master' list of Trust Accounts held by the Department of Finance. The audit also sought to analyse this data to determine whether or not each account existed at law.
- Comparison of this Trust data with previously completed Financial Audit Management Letters to individual National and Provincial Government entities. The audit also built on the validation exercise undertaken by the Department of Finance with individual administering agencies.
- Examination of the overall governance framework and monitoring arrangements for Trust Accounts through fieldwork within both the Department of Finance and the Department of Treasury, together with examination of the management of a sample of Trust Accounts in regards to compliance.

Reporting

2.31 In order for a performance audit to be undertaken and completed in a timely way, access to sufficient and appropriate information is required. We also required the full support and availability of key people during the course of the audit. Unfortunately, as acknowledged in previous reports of the Auditor-General's, access to Trust Account information, even at the higher, framework level is difficult. Throughout the course of this audit, considerable delay was also experienced through waiting on specifically requested information to be provided to the audit team; and to hold meetings with relevant individuals. At times the delays resulted from the inability to locate relevant information due to the absence of key staff.

2.32 As a result of waiting for additional audit information, initial audit findings in the form of a draft report were not provided to the Department of Finance until December 2013. In February 2014 an exit interview was held with senior officers of the Department. In March 2014 a formal response to the audit was delivered by the Secretary of Finance and the report was finalised soon thereafter. The AGO particularly thanks the officers of the Department of Finance for their constructive engagement in finalising the report.

3. Category, number and balance of Trust Accounts

Background

3.1 As part of the inquiries included in the 2010 PAC report on the *State of Trust Accounts in the period 2000 – 2008* the then Chairman, Hon. Timothy Bonga MP was quoted as stating:

'In the last five years there appears to have been a very serious deterioration in Departmental accountability and therefore in the state of, reliability of accuracy of and veracity of the Public Accounts.

This is an extremely serious national failure. So basic are the failures that neither the Auditor-General nor the Department of Finance, nor this Committee can even ascertain how many Government Trust Accounts exist. Nobody seems to know.

Mr Gabriel Yer has given sworn evidence to this Committee that there were 2500 Trust Accounts, but in 2006 approximately 400 were closed.

Mr Tosali, the Secretary for Treasury has recently been reported as saying that there are 10,000 – 15,000 Trust Accounts.

How much money is in these Accounts or has passed through them and where the money came from and went is a matter that no Department or Government Agency seems to know.

What is certain that records and accounts of those Trust Accounts maintained by individual Departments or entities which control them, are either non-existent, hopelessly inaccurate or so obscured by incompetence or malpractice that there is virtually no understanding of or control over public monies in these Trust Account – except by individual signatories who, in many cases, use the Accounts as their own private funds. I refer this Committee to our Report to the National Parliament on the Sepik Highway etc. Trust Fund Account which addresses this problem.¹⁴

3.2 Through the inquiry, the PAC sought to try and establish the exact number, type and span of Government Trust Accounts through gathering evidence and questioning the then Secretaries for Finance and Treasury, however it received no reports, no response, no information and no cooperation¹⁵. As noted earlier in this audit, a key finding in the 2010 PAC report was that the Government has no idea of exactly how many Trust Accounts exists or how much public money is held in or has passed through those Accounts, where it comes from or, in many cases, where it goes.

3.3 As most recent as Friday 12 April 2013, *The National Opinion* titled *Trust funds or mis-trust funds?* included the follow statements:

¹⁴ The National Parliament of Papua New Guinea, *Final Report of the Public Accounts Committee into the State of Trust Accounts in the period 2000-2008*, 2 July 2009 [tabled 2 March 2010]. <http://www.parlcmnts.gov.pg/docs/Inquiry%20into%20the%20Keeping%20of%20the%20Government%20Trust%20Accounts%20from%202000-2008.pdf> (accessed 12 March 2013). Paragraph 18.1.

¹⁵ The National Parliament of Papua New Guinea, *Final Report of the Public Accounts Committee into the State of Trust Accounts in the period 2000-2008*, 2 July 2009 [tabled 2 March 2010]. <http://www.parlcmnts.gov.pg/docs/Inquiry%20into%20the%20Keeping%20of%20the%20Government%20Trust%20Accounts%20from%202000-2008.pdf> (accessed 12 March 2013). Paragraph 19.15.

At last count – well, there really hasn't been any serious attempt at counting – there were over 2,500 Trust Accounts in the country.

Millions of kina, windfall money over and above the budget figures, have been parked in those accounts. ...

The Government has been allowing billions to be stolen from under its very nose, tragically aided and abetted by our own people.

We have been told that the funds would be put into key infrastructure projects. So we ask the Government: Where are the key impact projects that were funded by these astronomical sums parked outside the budget?¹⁶

Audit approach

3.4 As noted in Chapter 2, in order to address the audit objective of identifying the category, number and balance of public monies held in Trust Accounts managed or controlled by GoPNG entities, a number of key steps were followed.

3.5 Initially, an examination of the publicly disclosed information on Trust Accounts was undertaken. This was followed by a detailed assessment of the publically disclosed 'Details of Trust Accounts' as attached to the annual Budgets for 2010, 2011, 2012 and 2013 with available Trust Instrument documentation and banking details. Further, a comparison of these figures was made with any 'master' list of Trust Accounts held by Finance; and information contained in the National Public Account. The intention was to include analysis to determine whether or not each account existed at law by examining the master folders of approved Trust Instruments held and managed by Finance.

3.6 Analysis was undated during the course of the audit as a result of additional information being provided by Finance and published by Treasury.

Category

3.7 The following discussion explores the various definitions of category and type of Trust Account – all of which contribute to a potential misunderstanding and different perspectives associated with Trust Accounts being formed.

3.8 As noted earlier in this report, the legal framework specified in the PF(M) Act in relation to the creation and management of Trust Accounts is expanded in the Financial Instruction Part 16, located in Volume 1, section 3 of the Finance Management Manual (FMM). Specifically, the Financial Instruction explains that Trust Accounts have been divided into four categories for accounting purposes as shown in Table 3.1.

Table 3.1: Categories of Trust Account as outlined in the Financial Instruction Part 16

Category (a): Finance Operating Trust Accounts
Category (b): General Trust Accounts
(i) with bank account
(ii) without bank account
Category (c): Investment Trust Accounts
Category (d): Project Trust Accounts

Source: Financial Management Manual, Volume 1, Section 3, Part 16, subsection 2.2, p 17.1.

¹⁶ *The National*, Friday 12 April 2013, Opinion, *Trust funds of mis-trust funds?*, p. 60.

3.9 In regards to Category (a), the Financial Instruction explains that Finance Operating Trust Accounts are asset or clearance accounts and are of two types, namely:

- With separate bank accounts. Examples include the Waigani Public Account (WPA); Operating Accounts of Provinces; and Drawing Accounts of self-accounting national departments; and
- Non-bank accounts. Examples include Permanent Advances; Other Advances; Bank transfer to WPA; Cash in Transit; and Salaries Clearance Account. The FMM explains that assets are represented as balances in these Trust Accounts and have a corresponding liability reflected in balances in the Consolidated Revenue Fund and the General Trust Fund Account.¹⁷

3.10 Unlike most Trust Accounts that are created by Trust Instruments signed by the Minister for financial affairs or specific provision in a law, the Financial Instruction also explains that Finance Operating Trust Accounts are not created in such ways. It is not apparent why they are categorised in the Financial Instruction as Trust Accounts yet are established by a different method.

3.11 Examination of the annual National Public Account suggests that both types of accounts included in Category (a) are generally not referred to as Trust Accounts; rather that they are simply considered as Finance Operating Accounts. Further, while these accounts are captured in the listings of bank accounts disclosed in the Notes to Statement 'A': Statement of Public Account Balances in the annual Public Accounts; they are not included in the listing of Trust Accounts disclosed in Statement 'C': Receipts and Payments of the Trust Fund in the annual Public Accounts¹⁸. They are also not included in the list of Trust Accounts as published in the annual Budget.

3.12 Analysis of the January 2007 Finance guidance document *A Guide to Preparing the Public Accounts for the National Government of the State of Papua New Guinea* further supports the view that Category (a) Trust Accounts as defined in the Financial Instruction, are no longer how these bank accounts are practically accounted for by Finance or individual departments.¹⁹

3.13 Finance guidance on preparing the Public Accounts also details the categories of Trust Accounts from an accounting perspective. Specifically, rather than the four categories as shown in the Financial Instruction; it outlines that there are three basis categories of trust:

- General trusts with own bank accounts (type 3/5 trusts). These are the most common type of trusts and are usually used to hold development moneys received from either aid partners or transferred from the CRF under an appropriation;
- Investment trusts with own bank accounts (type 4/7 trusts). These are used to hold money that belongs to another person and for whom the State is acting as trustee.

¹⁷ Financial Management Manual, Volume 1, Section 3, Part 16, subsection 2.3, p 17.2.

¹⁸ Statement 'C' to the Public Accounts is a combined and simplified combination Operating Statement/ Balance Sheet for the Trust Fund. No Consolidated Revenue Fund moneys are shown in Statement 'C'. It reportedly summarises the opening balances, receipts and payments and closing balances of each trust in the Trust Fund. Statement 'C' is split into three categories as defined in the Finance guidance on preparing the Public Account – see paragraph 3.13.

¹⁹ As there does not appear to be any consolidated source of Financial Instructions, it is not apparent whether any update on the categories of Trust Account has been circulated by Finance.

Examples include compensation moneys collected by the courts and held in trust for children until the child reaches a certain age; and

- General trusts without bank accounts (type 6 trusts). These trusts are used for a variety of purposes but do not have their own bank account. Instead they rely on the Waigani Public Account as the bank account into which the trust moneys are paid (and drawn).

3.14 The audit team found that the key difference between the Financial Management Manual categories and the 2007 Finance guidance document is that General Operating Trust Accounts Category (a) are not classified as Trust Accounts and Project Trust Accounts Category (d) are treated as a subset of 'General trusts with own bank accounts'.

3.15 Notwithstanding these various definitions, the annual National Budget explains that the Trust Fund consists of six types of Trust Account. While the detail in the Budget contains all three categories of Trusts noted above, they are more descriptive of the basis of the funds residing in each type of 'account'. Table 3.2 below lists the six types of Trust Account.

Table 3.2: Categories of Trust Account as disclosed in the annual National Budget

Trust Accounts forming the Trust Fund are categorized in six (6) types, and these are:
1. Revenue Trust: Used to account for Revenue collected from customer/ industry for paying specific expenses of services provided by the Government.
2. Beneficiary Investment Trust: Record receipts from various sources and payments made to beneficiaries of investments made by the station on their behalf.
3. Royalty Trust: Use to account for royalties for oil, timber, etc. and payments to the beneficiaries of investments made by the station on their behalf.
4. Temporary Holding Trust: Used to hold third party monies that are in dispute.
5. Special Purpose Trust: Used to hold third party monies that are in dispute.
6. Project Trust: Hold monies from Donor and/or GoPNG counterpart funds for Development Projects.

Source: Department of Treasury, *National Budget*, Volume 2, Part 2. 2010; 2011; 2012 and 2013.

3.16 Analysis of the information disclosed in the National Budget reveals that, up until the 2012 Budget, it was possible to determine the category of Trust Account by the Trust Account number under the various types. For example, as shown under Beneficiary Investment Trusts, the following types of Trust Account were listed:

- 360-034 Unclaimed monies – a General trust without bank account (type 6 trust);
- 440-002 Motor Vehicle Deposit through to 440-046 Bookmakers Security Deposit – Investment trusts with own bank accounts (type 4/7 trusts); and
- 330-007 Public Curator's Trust Account - a General trust with own bank account (type 3/5 trust).

02. BENEFICIARY TRUSTS
Department of Finance
360-034 Unclaimed Monies
440-002 Motor Vehicles Deposit
440-009 District Court Trust Account
440-019 Insurance Deposit
440-034 Registrar of Supreme Court
440-046 Bookmakers Security Deposit
Department of Justice & Attorney General
330-007 Public Curator's Trust Account

3.17 However, with the changeover to the new Integrated Financial Management System (IFMS)²⁰ for the compilation of Trust Account details for the 2013 National Budget, it is not possible to determine the category of Trust Account as only a 'Legacy' Trust Account number is available. Further, while the cover page explains the six types of trusts as detailed in Table 3.2, no Beneficiary Trusts are listed. Also, analysis shows that the names of the type 6 or type 4/7 trusts are not included in the listing. During the course of the audit, Finance indicated that work needed to be undertaken to develop a better reporting capability between its current Trust Account records and the new IFMS.

3.18 As this section highlights, there are a considerable number of authoritative sources that attempt to categorise the different types of Trust Accounts. While traditionally there may have been a sound basis for such an approach, with the move to IFMS the benefit of this approach is no longer apparent.

3.19 In this respect, Finance advised the AGO in February 2014 that consultation is underway with the IFMS system to improve this issue and allow trusts established under the various six categories to be maintained. A database is being planned and will soon contain and also maintain all records of Trust Instrument establishment, revocation and all necessary details.

Number

3.20 As noted in Chapter 2, the legislative basis for the establishment of a Trust Account resides in section 15 of the PF(M) Act 1995. This is the case for all Trust Accounts, regardless of whether they form part of the National Government Trust Fund, or within a Provincial or Local-level Government Trust Fund. Appendix 2 provides an extract of the relevant sections of the Finance Management Manual that explains how the PF(M) Act relates to all levels of Government.

3.21 As the excerpt from the PAC inquiry (see paragraph 3.1) highlights, there is considerable misunderstanding about the number of Trust Accounts in existence within PNG. There are a number of key issues which impact on the misunderstanding. These issues are discussed below.

Trust Instrument or bank account?

3.22 One of the major issues relates to the unclear definition of what is considered a Trust Account for numerical purposes. Based on the PF(M) Act, 'Trust Account' is defined as a Trust Account established under section 15. Financial Instruction Part 16 notes that normally Trust Accounts are not allowed special banking arrangements, that is, their own bank account, but that in special cases there is no objection to allowing a special banking

²⁰ The IFMS is a computer-based whole of Government planning, budgeting, accounting and financial reporting system. See http://ifms.finance.gov.pg/index.php?option=com_content&task=category§ionid=11&id=26&Itemid=107 accessed 21 May 2013.

facility²¹. At the time of audit, the majority of Trust Accounts disclosed in Government publications were general trusts with their own bank accounts.

3.23 However, given current practices, when the term Trust Account is now used it is not apparent on whether this refers to the actual Trust Instrument as approved by the Minister responsible for financial matters, or the creation of a specific bank account.

3.24 AGO analysis of the Trust Instruments held by Finance has revealed that, in many instances, the Trust Instrument creates a 'primary' bank account as well as a number of 'secondary' or 'subsidiary' bank accounts. This is further compounded by the powers contained in some Trust Instruments that enables monies standing to the credit of the Trust Account not required to be used for the day-to-day operations of the Trust Account to be invested in an interest bearing deposit account.

3.25 Further, since 2008 the creation and approval of certain Trust Instruments²² within Finance has often involved the establishment of a primary (main) bank account to reside in the Bank of Papua New Guinea (Bank of PNG), with the subsidiary operational account to be established within one of the approved commercial banks. This practise was frequently used for those Trust Accounts created in 2010. As a result of the change in monetary policy and cash management approaches, many new Trust Accounts now consist of at least two bank accounts.

3.26 AGO has found that the number of Trust Instruments approved, or the number of bank accounts created, are not consistently managed or identified to enable an accurate number of Trust Accounts to be counted using either basis.

Authoritative list?

3.27 There are also a number of consolidated sources of information that purport to capture the number, type, uses and balances of Trust Accounts in use within the GoPNG. The following discussion examines these sources and the variations between them.

Department of Finance records

3.28 As noted in Chapter 1, amongst other things, Finance is responsible for the establishment, management, closure and operation of Trust Accounts. This responsibility as defined in the PF(M) Act and supporting documents makes no distinction between Trust Accounts held at the National Government level; or Trust Accounts held more broadly across the whole public sector. However, analysis of Finance records shows that this responsibility currently only extends to the National Government level as discussed below.

3.29 As part of the audit the AGO examined both the electronic and hard copy registers of Trust Accounts managed by the Trust Accounts Branch area within Finance. At the time of audit fieldwork, Finance staff advised the AGO that the authoritative electronic register

²¹ Specially, Section 5 of Financial Instruction Part 16 explains that as Trust Accounts are part of the Public Account, receipts and payments are to be accounted for by Provincial and District Treasuries or the Department of Finance in Port Moresby. Subsection 5.2 notes however that in special cases, (such as projects substantially financed by contributions from foreign countries or agencies and where the contributors require such a facility or where projects are likely to be converted into statutory authorities after a period), there is no objection to allowing a special banking facility. Where a special bank account is to be opened, specific prior approval is requirement from Finance and implementing agencies are required to submit a statement of cash account to the Public Account in Finance for each month not later than seven days after the end of each month unless a different period is allowed under the Trust Account.

²² This approach relates in particular to special purpose and project Trust Accounts that are considered to be 'Budget-funded' trusts.

of Trust Accounts was a Microsoft Excel spread sheet. While the source data that populated this spread sheet was extracted from the new IFMS, the AGO was advised that the spread sheet was still the authoritative tool used by the Department to manage all Government Trust Accounts. In the version of the spread sheet provided by Finance to the AGO, the key spread sheet contained initial legacy numbers of the Trust Accounts, a new IFMS numbering system, the name of the Trust Account, the responsible agency for the management of the Trust, the bank account details for the primary and subsidiary accounts where known, and the balance of each known account as at 31 December 2011²³.

3.30 In addition to this electronic 'register' of Trust Accounts, at the time of audit Finance held a number of 'Master' lever arch folders containing hard copy records of approved Trust Instruments and some amendments. AGO analysis of these hard copy records found that while many of the Trust Accounts included in the electronic register were included, there was a substantial number of Trust Instruments missing. For example, there were 34 Trust Instruments not located in the Master folders for current Trust Accounts that held a recorded cumulative balance in the electronic register of K330 million as at 31 December 2011. Further, there were some 58 Trust Instruments included in the Master folders that did not appear on the Finance electronic register. Accordingly, it was not apparent from these discrepancies whether the Finance electronic register contained additional Trust Accounts that were not underpinned by legislation or Ministerial approval (by way of a Trust Instrument). Further, it was not apparent whether Trust Accounts had been revoked (by removing them off the electronic register) but that formal revocation had not been approved by the Minister.

3.31 It was also apparent that the Trust Accounts information consolidated by Finance and included in the Master spread sheet and the Master folders relates only to the General Trusts with bank account category (type 3/5 trusts). The General Trust Accounts without bank account (type 6) and Investment trusts with own bank accounts (type 4/7); both of which are disclosed in the National Budget and Statement 'C', are notably absent.

3.32 In regards to Trust Accounts more broadly across the PNG public sector, there does not appear to be any central repository. Some National Government Trust Accounts managed by the Provincial Administrations are included in the Finance Master spread sheet such as the various Sub National Strategy Trust Accounts; and the East New Britain (ENB) Cocoa Pod Borer Trust Account. However, the various Trust Accounts that form part of individual Provincial Government funds, such the Gulf Investment Trust Fund²⁴ or the Milne Bay Tourism Trust Account are not captured in Finance's data.²⁵ Similarly, many of the

²³ When this information was provided to the AGO February 2013, the most recent comprehensive data held by Finance was some 14 months out of date. It was not until August 2013 that Finance held, and was able to provide the AGO with, updated balance data for the majority of bank accounts as at 31 December 2012 and 30 June 2013. At that time remaining bank account balances had not yet been updated.

²⁴ See AGO, Report of the Auditor-General 2009, Part III Report, 2009, p. 113. The results of the AGO audit on the Gulf Province identified that an entity named "Gulf Investment Trust Fund" had been set up with the Bank of South Pacific. The report noted that the details of the Trust Account along with the accounting records were yet to be established and audited.

²⁵ For example, in regards to the Milne Bay Provincial Government, the April 2011 AGO Management Letter in relation to the 2009 accounts identified that the province had 35 non-bank Provincial Trust Funds and 27 National non-bank trust funds maintained within the PGAS system for clearance purpose.

Trust Accounts managed by public authorities such as the Independent Public Business Corporation²⁶ are not centrally captured.

3.33 In response to the issues raised regarding an authoritative list of Trust Accounts, in February 2014 Finance advised the AGO that the department was taking stock on the Trust Register and do realise that a number of Trust Instruments are missing from the 'Master' lever arch folders. Finance explained that there have been instances when agencies or provincial government have established Trust Instruments without going through the department but directly to the Minister; and then agencies and provincial governments failed to deliver a copy to them. There have also been instances where records have been retrieved from these 'Master' folders and never returned back to the folder. The department advised the AGO that work is being planned and soon to be carried out to agencies and provincial governments to take full stock of this matter.

Statement 'C' in the Public Accounts

3.34 In addition to the register of Trust Accounts discussed above, Finance compiles and discloses details of Trust Accounts as part of the annual Public Accounts. In particular, Statement 'C' of the Public Account discloses the receipts and expenditures of the Trust Fund over a particular financial year.

3.35 Unfortunately, due to timing issues it was not possible to compare the Statement 'C' information to the current lists of Trust Account as the most recent published data on the Public Accounts available at the time of audit were the 2010 accounts²⁷. The AGO audit of the 2010 Public Accounts noted that there had been expenditure made out of 283 Trust Accounts in that year. However, the report also noted that the audit of the accounts and records of the National Departments and agencies had confirmed that there were instances of Trust Accounts not operating on the PGAS accounting system and were therefore not included in Statement 'C'.²⁸

Budget documents

3.36 In addition to examining the various registers of Trust Accounts held by Finance, the AGO sought to gain an appreciation of the number of Trust Accounts that had been publically disclosed as part of the annual National Budget. In this respect, the AGO examined the annual Budgets for 2010, 2011, 2012 and 2013. In each year it was apparent that the number and details of Trust Accounts presented within Volume 1 – *Economic and Development Policies*; differ considerably from the information contained in Volume 2 (Part 2) – *Recurrent Budget Estimates Of Revenue And Expenditure For Statutory Authorities Provincial Governments Debt Services And Trust Accounts*.

²⁶ The Independent Public Business Corporation was established in March, 2002. The establishing legislation was amended in 2007 and the objectives and functions of the Corporation were changed. A major impact of the amendments made in the amended Act was that the Corporation, the Trusts, the State Owned Enterprises or any other enterprises in which the Corporation, the Trusts or a State Owned Enterprise holds any interest shall not be subject to the *Public Finances (Management) Act, 1995*. Many of the Trust Accounts that come under the IPBC are not included in the listings managed by Finance. The Trust Accounts which are included relate to the Lae Port Development Project (GoPNG counterpart funding and Asian Development Bank loans); the Konebada Petroleum Park Authority; and the National Research Institute's National Land Development program.

²⁷ At the time of finalising this audit Finance had not yet provided the 2011 statements to the AGO for audit.

²⁸ AGO, *Report of the Auditor General – 2010 on the Public Account of Papua New Guinea, Part 1 – Public Accounts of Papua New Guinea*, 28 June 2013, p. 11.

3.37 Table 3.3 below shows the number of Trust Accounts referred to in the different sections of the Budgets over the various time periods, as well as the number of Trust Accounts detailed in the electronic register held by the Department of Finance.

Table 3.3: Number of Trust Accounts

	Budget 2010	Budget 2011	Budget 2012	Budget 2013	Budget 2014	Finance electronic register*
Summary of Trust Accounts (Volume 1) [^]	36	42	45	36	28	62
Grand Total of all Trust Accounts (Volume 2) [#]	216	281	271	307	311	318

Note:

* Master Excel spread sheet current as at February 2013 prepared and managed by the Department of Finance.

[^] The number is determined by counting the Trust Account names listed in the table detailing the movements in Trust Accounts. This figure counts the DSIP as one Trust Account even though it consists of 90 separate banks accounts. For the Finance electronic register, this cell contains the number of Trust Accounts listed as 'Budget Funded'.

[#] The number is determined by counting the names of Trust Accounts listed in the Volume 2, Part 2 Trust Account Estimates, Full Details of Trust Accounts.

Source: AGO analysis of Treasury and Finance records.

3.38 On closer examination of the various volumes of Budget documentation, the reasons for the considerable difference can be explained. Notwithstanding the section heading of 'Status of Trust Accounts' in Volume 1 of the National Budget for the years noted above, the information contained in this chapter relates to a discussion on Budget funded Trust Accounts rather than all Trust Accounts. For example, in Volume 1 of the 2013 Budget, the Status of Trust Accounts section (1.4) shortens the reference of 'budget funded Trust Accounts' to Trust Accounts. By Chapter 5 of Volume 1, the reference is removed and the document simply explains:

The Trust Accounts reported in this chapter contain funds appropriated through additional priority expenditure (APE), supplementary budget expenditure (SBE) and annual Budgets.

3.39 By comparison, a reader can only assume that Volume 2, Part 2 'Details of Trust Accounts' contains all types and sources of funding as the documentation does not specify the source of funding. For Volume 2, Part 2, the cover page provides a general description of Trust Accounts and the financial framework. The cover page also notes that Trust Accounts forming the Trust Fund are categorised into six types as illustrated earlier in Table 3.2.²⁹

3.40 While the inclusion of revoked Trust Accounts still in operation in Statement 'C' account for many more Trust Accounts being included in Statement 'C' compared to the Budget, the listing is still incomplete as Trust Accounts not administered through PGAS are not captured.

3.41 As a result of the anomalies between the electronic register and the hard copy Trust Instruments held by Finance; the absence of two of the three types of national Trusts from these sources; and the more broad Trust Accounts managed by Provincial Governments and public authorities not being included; the AGO concludes that no single source provides an authoritative listing of Trust Accounts in use within the public sector of PNG.

²⁹ The six different types of Trust Accounts are discussed earlier in detail in the section on "Category".

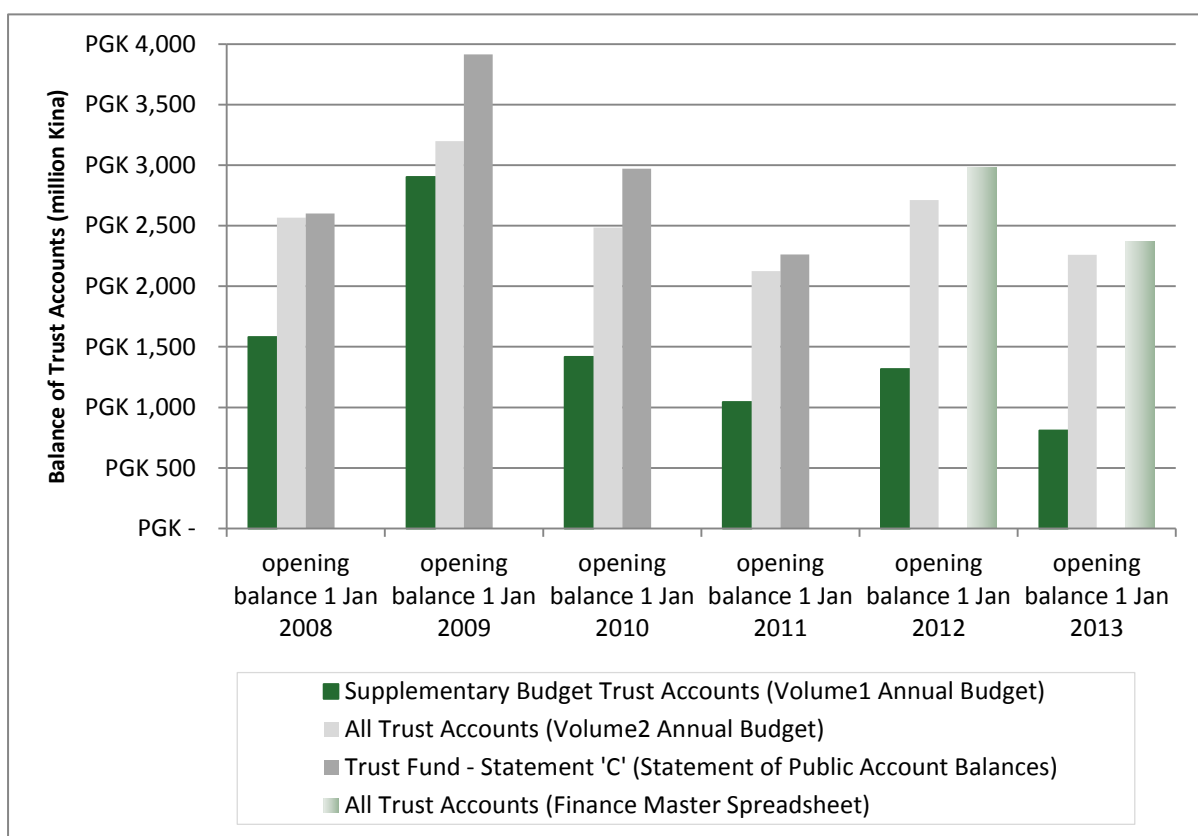
Balance

3.42 As noted in paragraph 3.29, the Master electronic register of Trust Accounts held by Finance is a Microsoft Excel spread sheet and that, when provided to the AGO, balance data was as at 31 December 2011. Notwithstanding numerous requests for updated information at the time of drafting this report, it took until August 2013 for Finance to hold, and be able to provide the AGO with, updated balance data for the majority of bank accounts as at 31 December 2012 and 30 June 2013. The updated balances related to accounts held in the Bank of PNG, BSP and ANZ.

3.43 Statement 'C' also provides an annual opening and closing balance for the Trust Fund. However, the disclaimer audit opinion published for the Public Account for at least the last three years states that in the absence of complete returns and reconciliations of Trust Accounts, the AGO was unable to verify the correctness of the closing balance of the Trust Fund.

3.44 Notwithstanding the anomalies previously identified, using the various sources of information used in determining the category and number of Trust Accounts, the overall estimated balance of funds can also be disclosed at annual points in time, as shown in Figure 3.1.

Figure 3.1: Balance of National Trust Accounts



Source: Department of Treasury and Department of Finance records.

3.45 However, as Figure 3.1 illustrates, as a result of the inconsistency and incompleteness in the captured 'total' number of Trust Accounts from the various sources as discussed previously, the overall balance of funds held in GoPNG Trust Accounts cannot

be reliably summed. The absence of a reliable balance of funds held in Trust Accounts can have flow-on effects to macroeconomic decision-making in PNG.

Conclusions

3.46 From the discussion above it is apparent that there is no authoritative source that can be relied upon to enable a specific number of Trust Accounts in operation in the GoPNG to be determined. This relates to the number of current Trust Instruments or the number of specific bank accounts that are open in relation to the operation of a Trust Account.

3.47 As the actual quantum of Trust Accounts cannot be established, the mix of the type of accounts in existence also cannot be determined. Further, while a minimum estimate of the balance of funds held in Trust Accounts at a point in time can be determined, the extent of the error of this figure cannot be readily calculated, particularly when the balance of subsidiary accounts are not always captured in the reporting.

3.48 Given the different possible definitions of a Trust Account; and the variations amongst the 'authoritative' sources of information, the AGO cannot confidently state the number of Trust Accounts in operation across the GoPNG at a specific point in time, nor their type or balance of funds. In order to address such fundamental issues, the AGO makes the following recommendations.

Recommendation No. 1

3.49 The AGO recommends that, as part of the ongoing reforms to the financial management framework, for the purposes of identifying the number and type of Trust Accounts, the Department of Finance:

- clearly defines by what measure a Trust Account will be counted (i.e. Trust Instrument or bank account); and
- decides whether the type of Trust Account is an important element to be retained in the ongoing management of Trust Account and, if so, clarify the categories of trusts to be used.

Department of Finance Response:

The Trust Branch of Accounting Framework Division in the Department of Finance has been operating with a very short staff numbers since 2010 to 2012 and was unable to fully achieve most of its key activities.

However with staff numbers strengthened in 2013 the branch has embarked on improving areas of its core functions to standard requirements.

One of the main tasks that the branch will carry out within the first six months of 2014 is to create a database for all trust accounts and categorized under their respective trust types with updated status on each individual trusts.

Recommendation No.2

3.50 The AGO recommends that, in order to enable consistent public disclosure of Trust Accounts, the Department of Finance undertake a systematic consolidation of the various 'authoritative' sources with the aim of developing one, comprehensive database of Trust Account details that are supported by the required Trust Instruments and/or individual legislation. Further, the Department of Finance use this consolidated list to actively manage the Trust Accounts.

Department of Finance Response:

The same database that will be created as mentioned in our first response which will consolidate well comprehensive data that will cover information related to commencement of the trust account, sunset clause, or revocation details if any trust account becomes revoked.

Once again the department is focused in getting the management of Trust account to a very comprehensive database.

Recommendation No.3

3.51 The AGO recommends that, in order to capture the Trust Accounts in operation across the Provincial Governments, the Department of Finance task its Provincial Treasurers to undertake a baseline stocktake of all bank accounts managed within the Province to identify whether:

- the accounts are related to the delivery of Trust Account activities; and
- approved Trust Instrument documentation exists to legally establish the trust; and
- the accounts only contain Provincial or National Government funds; and
- the details are included in the monthly reporting to the Department of Finance.

Department of Finance Response:

The Trust Branch in the Department of Finance has also aligned its responsibilities on capturing and consolidating Trust Account information in the Provincial Government level.

Letters have been prepared but are yet to be signed by the Acting Secretary to be disbursed to Provincial Administration/Treasuries to consolidate trust account information in their provinces.

The Trust Accounting Branch with its staff strength is also planning to visit the provinces physically to enforce this task.

4. Administration and Monitoring of Trust Accounts

Background

4.1 Section 19 of the PF(M) Act defines the responsibilities of the Secretary of the Department of Finance (as the Department Head responsible for financial management) and the responsibilities of the agency heads in relation to the operation of Trust Accounts in their respective department or agency.

4.2 The Act also provides that the Secretary may suspend the operation of a Trust Account where the provisions of section 19 are not complied with; and also take over responsibility of that account. In addition, after consultation with the Departmental Head responsible for a Trust Account, the Secretary may authorise the transfer of the surplus in that Trust Account to the Consolidated Revenue Fund.

Specific responsibilities for administrative entities

4.3 According to section 19 (2) and (3) of the PF(M) Act, a Departmental Head responsible for a Trust Account shall ensure the proper management and operation of that Account. In most instances, the specific governance of a Trust Account is specified in the Trust Instrument. Amongst other things, Trust Instruments specify the establishment, purpose, name of the Trust Account, administrator, signatories and reporting requirements.

4.4 In regards to reporting requirements, the PF(M) Act requires the Departmental Head before the commencement of each fiscal year submit to the Secretary for Finance, in the prescribed form, an estimate of receipts and payments expected to be made into and withdrawn from the Account.

4.5 Further, section 19 (4) states:

A Departmental Head of a Department responsible for a Trust Account—

- a) may authorize payment out of that Account in accordance with the estimate of receipts and payments submitted under Subsection (3) and agreed by the Departmental Head of the Department responsible for financial management; and*
- b) may delegate, either conditionally or unconditionally, the power to authorize withdrawals under Paragraph (a); and*
- c) shall maintain such records pertaining to the Account as are required by the Departmental Head of the Department responsible for financial management and shall submit to him within seven days after the end of each month, details of transactions on the account; and*
- d) shall, at the end of each fiscal year, submit to the Departmental Head of the Department responsible for financial management, a statement of the account for the preceding year.*

4.6 It is also the responsibility of the Departmental Head to ensure that all Trust Accounts under their control are reconciled on a monthly basis with copies sent to the

Accounting Frameworks and Standard Division, Department of Finance. Financial Instruction Part 16 sets out the specific periods for monthly reconciliation and annual estimates, but notes 'unless a different period is allowed under the Trust Instrument.'

Dual roles within Finance Trust Accounting Branch

4.7 As noted above, there is a clear distinction of roles in the PF(M) Act between the overarching coordinating responsibilities of the Secretary of Finance in regards to all Trust Accounts in the Trust Fund; and the specific roles of a Departmental Head responsible for the administration of an individual Trust Account. However, it is the understanding of the AGO (and, disclosed on the Finance website) that the Trust Accounting Branch within Finance is responsible for the dual function of overseeing all Trust Accounts within the GoPNG as well as being responsible for the administration and processing of payments out of specific Trust Accounts. In this respect, the accountability of these Trust Accounts is in jeopardy as no reconciliations are submitted and/or followed up by the monitoring section of the Branch. The realisation of significant risks associated with both functions being undertaken in the one Branch are outlined in the various discussions below.

Rationalisation of the Trust Fund

4.8 Since 2004 Finance has been rationalising Trust Accounts within the Trust Fund. In this respect, the 2004 Public Accounts noted that prior to 31 December 2004, the then Minister for Finance had revoked approximately 400 National Government Trust Accounts and the Provincial Governments had agreed to revoke approximately 150 Provincial Trust Accounts. The 2005 Public Account noted that a further 260 National Government Trust Accounts were revoked by the then Minister for Finance.

4.9 In addition to revoking many trusts, in August 2006 Finance wrote to each commercial bank and the Bank of Papua New Guinea instructing them to review and close a number of Trust bank accounts that were revoked as part of Government endorsed reforms for expenditure and control. Finance staff, with endorsement from the Minister of Finance, requested each bank to close all bank accounts associated with the revoked Trusts and transfer any funds remaining to the Waigani Public Account in accordance with the requirements of the PF(M) Act.

4.10 Each bank was requested in separate letters to verify lists of Trust Accounts that had been revoked and confirm their records and action closure. The instruction letter included attachments that covered a number of specific revoked Trust Accounts which had known bank details, and also a similar number of Trust Accounts that had been revoked but their bank details were unknown, many of which were old and unlikely to have been used for many years. The following table shows the total of Accounts that were instructed to be closed and remaining balances be transferred to the Waigani Public Account.

Table 4.1: Bank accounts that were to be closed

Bank	Number of Accounts to be closed
Bank South Pacific	143*
Westpac	2
ANZ	2
Bank of Papua New Guinea	5
Bank Unknown	139
Note:	
* Total of accounts held with BSP plus others which Department of Finance generally listed under BSP in reference to their Trust numbers though Finance was unable to establish the bank details and account numbers.	

Source: AGO analysis of Department of Finance information.

4.11 The AGO sought to examine whether the instructions by Finance to the respective banks were executed. The analysis was based on comparing the details listed in the attachments to the Finance Master spread sheet provided by Finance to the AGO (current for 2012).

4.12 According to the analysis, the 143 bank accounts held with Bank South Pacific have appeared to be closed. This was the same for ANZ (2), Westpac (2), and Bank of Papua New Guinea (5). The remaining 139 accounts with unknown bank details also do not appear within this Master spread sheet.

Revoked Trust Accounts still open and/or in operation

4.13 While the above analysis shows that many bank accounts seem to have been closed as a result of Trust Accounts being revoked; since 2006 no more recent correspondence was located with Finance's revoked Trust Account records. From examining other documentation it is apparent that many Trust Accounts have been revoked since 2006, however the poor record keeping and staff availability within the Trust Accounting Branch in Finance has meant that the AGO has been unable to examine revocation notices nor the advice to the bank(s) to close the associated accounts.

4.14 AGO has also regularly reported in the audit on the annual Public Accounts that revoked Trust Accounts (both with bank account and without bank account) continue to be included in Finance's Statement 'C' to the Public Account. Specifically, the 2010 Statement 'C' shows that there are 24 General Trusts with bank accounts and 7 General Trusts without bank accounts previously revoked but still listed. Further, the Notes to the statement specifically disclosed that eight Trust Accounts had been revoked but that the bank account was not yet closed.³⁰

Trust Accounts without bank accounts – AGO issues previously identified

4.15 The audit team specifically sought to consolidate issues previously identified in the AGO's annual reports in regards to Trust Accounts without bank accounts as there has been an ongoing issue in regards to Trust Accounts having been revoked in 2005 and 2006 but remained in operation. Their accounts show credit balances, receipts and expenditure transactions and the closing balance. The following analysis covers the last three most recent published Part 1 reports of the Auditor-General to the Parliament on the

³⁰ AGO, Report of the Auditor General – 2010 on the Public Account of Papua New Guinea, Part 1 – Public Accounts of Papua New Guinea, 28 June 2013, pp. 43-49.

Public Account of Papua New Guinea, Statement 'C'. This analysis provides a strong indication of the types of issues present in relation to this type of Trust Account.³¹

Balances

4.16 In the year 2008 audit of the Public Account, the total opening balance of revoked non-bank account Trusts showed K1.146 million and the closing balance of K24.581 million. By the end of 2009 the balance for revoked Trust Accounts showed a significant fall in the balance to K4.943 million. The most recently published report for the year 2010 showed an increased balance for the year end at K21.380 million. Moreover, there had been an increase in amounts of money used in the year 2008, decrease in 2009 and significant increase again in 2010.

Number of active non-bank revoked Trust Account

4.17 Of the 28 non-bank account Trusts listed in 2008, 12 of them had a revoked status. In 2009, 11 of the previous revoked Trust Accounts appeared again. Of these 11 Trust Accounts, five were actively used for performing transactions while six maintained only the balance from the preceding year. The latest published report for 2010 Public Accounts transactions showed that there were seven non-bank account trusts with a revoked status. Three of the previous five Trust Accounts from 2009 continued to be active while one previously inactive account was reactivated³². The remaining three revoked non-bank Trust Accounts only maintained their balances. Notwithstanding these Trusts have been revoked, many revoked Trust Accounts continue to exist both in terms of performing transactions and/or having outstanding balances (both positive and negative). As the Trusts were revoked, these transactions are contrary to the PF(M) Act.

4.18 Trust Fund Suspense Account No. 2, (Account Code 360-31) is an example of continued use of a revoked non-bank Trust Account despite other Trust Accounts being established.³³ Amongst other things, the account was to be used for making and receiving payments relating to bail moneys and child maintenance. Even though the account was revoked in 2006, new transactions continue being shown in the PGAS print out and the TMS ledger printout. Given the significant ongoing use of this account it is regularly covered in questions as part of enquires on the annual Public Accounts by the Public Accounts Committee.

Overdrawing of non-Bank Trust Account

4.19 In addition to the issues discussed above surrounding the revoked status of non-bank accounts and their continued operation; as these accounts draw down on the Waigani Public Account there have been frequent occurrences of these accounts being overdrawn – that is accessing more funds than what is standing to the balance of that account.

³¹ The analysis supplements information previously discussed in relation to identifying the number of trust account with respect to their status as revoked or active and the associated balances at years end. The main analysis was done on the Statement 'C' and the annexure to the report for each year as it contained suitable data for analysis.

³² For example trust account 128, Simbu School Subsidy revoked in 2006 was not included in the 2008 Statement 'C' but was listed in the 2009 Statement with a nil balance. However, in 2010 it then appeared with a positive balance.

³³ The list included in Appendix 1 notes Financial Instruction 2/2007 issued on 4 April 2007 and Financial Instruction 6/2007 issued on 13 November 2007. The first Financial Instruction explains that the Finance Minister had revoked Suspense Account No 2 and that it could no longer be legally used for recording of receipts and payments; and provides advice about the replacement two Trust Accounts and how they should now be used. The second Financial Instruction details the procedures to be followed to finalise the closure of revoked or illegal trust account codes within PGAS.

Drawing down funds where there is insufficient credit standing to the account is contrary to the requirements of section 17 of the PF(M) Act³⁴.

4.20 Specifically, the 2008 report showed that five non-bank Trust Accounts were operated with overdrawn closing balances aggregating some K18 million. The 2009 report showed an improvement with only four non-bank accounts having overdrawn closing balances of some K14 million by the end of the year. The 2010 report showed that these same four accounts continued to be overdrawn, with one of the accounts being further overdrawn by the end of the year. Of these overdrawn accounts, only one Trust Account had the status of an active account.

Reconciliation of Trust Accounts transactions

4.21 In its role as being responsible for the overarching coordination of Trust Accounts, there have been a number of recent occasions where the Trust Accounting Branch within Finance has undertaken Government-wide assessments of Trust Accounts in respect to individual accounts and/or status of account reconciliations. Unfortunately, from examination of records it is apparent that the Trust Accounts administered within Finance were excluded from these activities as discussed in detail below.

March/April 2011

4.22 In March/April 2011, the Finance Minister (as Minister responsible for financial management) instructed the Bank of Papua New Guinea and the commercial banks to suspend the operation of some 100 Trust Accounts that had not complied with the requirement to complete monthly bank reconciliations for an extended period of time. Finance had categorised a Trust Account as non-compliant if it was established before 1 January 2010 and no reconciliation of transactions had been provided to Finance since 1 January 2010. As noted in paragraph 4.5, section 19 (4c) of the PF(M) Act requires entities to submit details of the transactions of the account to Finance within a specified period of time. This is commonly referred to as a bank reconciliation.

4.23 Simultaneously, the Secretary of the Finance wrote to the affected entities and advised them of the suspensions of Trust Accounts in their agency and outlined the process required to get the suspensions lifted. Departmental Heads were advised that while the suspension was in place, no transactions would be able to be processed through the account. In order to lift the suspensions, Finance required Trust Account reconciliations for the months of January 2011, February 2011 and March 2011. Also, any Trust Account operating outside of PGAS was required to transition to that system.

4.24 In response to this correspondence, Finance records note that there had been an immediate reaction from a number of agencies who provided Finance with the required reconciliations. As at August 2011, Finance had lifted the suspension on 23 accounts. Also, Finance revoked 15 Trust Accounts, with a further 22 accounts earmarked for revocation.

4.25 Examination of the Trust Accounting Branch's records showed that while Finance was the department most responsible for the administration of individual tracked Trust

³⁴ Section 17 of the PF(M) Act states that:

Monies may be paid out of a Trust Account only –

- (a) for the purposes of the Account or as authorized by law; and*
- (b) if a sufficient credit is available in the Account.*

Accounts, no reconciliation reports were noted as having been received. Further, while a letter for Finance was drafted, it only listed 2 per cent of tracked accounts where reconciliations had not been received. It also appears that this correspondence was not sent. There was also no record of any suspension activities being undertaken on any accounts administered by Finance.

4.26 In response to this issue, Finance advised the AGO in February 2014 that the shortage of staff in the Trust Branch had been a very serious issue since 2010 and work to be done on Finance trusts had been lagging due to that. However, with full staff strength since 2013 the Branch is aiming to get these in order by 2014. At the time of finalising the audit, Finance had advised that the staff within the Trust Branch were already working on reconciling the Trust Accounts managed by the department.

October 2012

4.27 In October 2012, Finance sought to confirm the accuracy of its records in regards to the entity responsible for the management of active Trust Accounts by again writing to Departmental Heads. Through this same correspondence to Chief Executives, Finance outlined the current status of reconciliations for these Trust Accounts. In instances where there was demonstrated poor compliance with the submission of bank reconciliations, the letters stated:

The Department of Finance is undertaking a tough stance on non-compliance and request that you immediately address this issue and arrange for the submission of bank reconciliation statements for the months January – September 2012 by the 30 October 2012. If the reconciliations are not received by this date the Department of Finance will be taking action to suspend the operation of the Trust Accounts. If you cannot meet this deadline, you should contact [removed] and make alternate arrangements.

Coverage of records

4.28 Using the most recent list of Trust Accounts provided to the AGO by Finance, the AGO undertook analysis to validate the details included in this correspondence to administering entities. The analysis revealed that rather than write to all 66 entities listed as the responsible entities in the Master spread sheet, letters appear to have not been written to the following departments/agencies:

- Autonomous Bougainville Government
- Central Supply and Tenders Board
- Department of Education
- Department of Finance
- Department of Information and Communication
- Hela Transitional Authority
- Office of Coastal Fisheries Development Agency
- Office of Deputy Prime Minister
- PNG Rubber Board
- Tourism Promotion Authority

4.29 While no record was available to show that the above entities had received correspondence from Finance, on file was a response from the Department of Education for one of their 16 Trust Accounts. Similar, no copy of any letter being sent was on file but a response was also received by the Central Supply and Tenders Board.

4.30 Based on the above analysis, AGO found that the entities not written to are responsible for some 32 per cent of the Trust Accounts included in the Master list, with a balance of some 56 per cent of funds held in Trust Accounts (including tracked subsidiary Trusts) as at 31 December 2011. Audit analysis shows that the key entity not covered by the stocktaking activity was, once again, the Department of Finance itself. Based on its own records, at that point in time Finance was responsible for the administration of some 32 per cent of all Trust Accounts (including tracked subsidiary accounts), and which also account for some 27 per cent of funds held in Trust Accounts as at 31 December 2011. This is a significant oversight and one which appears to have occurred as a result of both the administration of some individual Trust Accounts held by Finance and the monitoring of all Trust Accounts being undertaken by the same staff within the Department.

4.31 In response to this analysis, Finance advised the AGO in February 2014 that many of these accounts relate to the subsidiary District Services Improvement Program trust accounts managed by the District Treasury's. Department of Finance also manages part of the supplementary Budgets which were presented at the time when staff shortages were being experienced. Finance advised that they are working on resolving these outstanding issues.

Anomalies in Finance's administrative records

4.32 AGO analysis of responses received by Finance in response to their 'stocktaking' letter of October 2012 identified numerous occasions where administering entities disagreed with the records of the Department. The disagreements related to the accuracy of submission dates of reconciliations; as well as the accuracy of Trust Account-responsible Departmental Heads.

4.33 For example, in the letter to the Public Curator and Official Trustee of PNG, Finance advised that their records indicated that the Public Curator's Office had only one active Trust Account. The details below then listed three accounts with last reconciliations received by Finance in May 2012, and another Trust Account that was identified as new. In response, the Public Curator's Office noted that it actually managed six active Trust Accounts, excluding the two newly established trusts. Further, it explained that they reported monthly to Finance and that reports had been sent as of July 2012, with August and September 2012 waiting with internal senior managers to be endorsed and ready to send. AGO examination of the accounts listed by the Public Curator's Office found that some of the six are listed as subsidiary Trust Accounts, notwithstanding the copy of the Trust Instrument held by Finance makes no mention of subsidiary accounts.

4.34 In another example, the response provided to Finance from the Department of Mineral Policy and Geohazards Management (DMPGM) noted that four of the eight Trust Accounts listed in the Finance correspondence were not administered by them. Rather, DMPGM explained that these Trust Accounts were previously managed under the old Department of Mining and that two of the accounts should be referred to Mineral Resources Authority; with the remaining two accounts already phased out and the accounts closed.

4.35 Other issues associated with the accuracy of Finance's administrative records were identified through this stocktaking process. In one instance, an agency advised Finance that they considered the account noted in the correspondence was not actually a Trust Account. Specifically, the Central Supply and Tenders Board (CSTB) advised Finance that when approval was sought by the Board and the Secretary for Finance, it was to open an operational account and no Trust Instrument was drawn at that time. Further, CSTB advised that they had been reconciling the account but had not been forwarding them to the Trust Accounting Branch as they thought the account was only an operational account.

Status of reconciliations

4.36 Through letters to individual departments, Finance advised responsible agencies that, as required under section 19 (4) of the PF(M) Act, monthly bank reconciliation statements for each Trust Account are required to be submitted to the Trust Accounting Branch within 14 days from the end of each month. In each letter, dates were provided (where available) of the last bank reconciliation held for each Trust Account.

4.37 In the letters, Finance detailed the name of the Trust, the bank and account number where available and the last recorded reconciliation noted within their records. Finance records showed that only five accounts had submitted these reports as required by the PF(M) Act. Unfortunately however, the balances of these accounts combined held less than 1 per cent of all funds held in Trust Accounts as at 31 December 2011.

4.38 The most significant issue relates to the number of accounts where Finance does not have a record of ever receiving a reconciliation report. In this respect, having not submitted a report exceeded 70 per cent of Trust Accounts listed in the correspondence; and some 50 per cent of all accounts included in Finance's Master spread sheet. The issue of not submitting monthly reconciliation reports has been raised repeatedly in the Auditor-General's annual report on the Public Account, and reinforced by Finance, but individual entities (including the Department of Finance itself) continue to not comply. Such behaviour continues to exist notwithstanding the previous suspension of bank accounts by Finance due to non-compliance.

4.39 Further, as noted in paragraph 3.43, one of the basis of the disclaimer audit opinion published for the Public Account for at least the last three years relates to the absence of complete returns and reconciliations of Trust Accounts, and as a result the AGO was unable to verify the correctness of the closing balance of the Trust Fund.

4.40 These examples highlight the value of this extensive stocktaking activity by Finance in updating Trust Account details.

Monitoring arrangements

4.41 As noted in paragraph 2.14, the *Medium Term Fiscal Strategy (MTFS) 2008-2012* states that the purpose of holding funds in Trust Accounts is to spread public investment spending over time to manage inflationary and demand pressures in the economy and to provide time for implementing agencies to properly design implementation strategies.

4.42 Accordingly, the audit sought to examine how the Departments of Finance and Treasury monitored Trust Accounts and how this information potentially feeds into any decision-making processes regarding inflationary and demand pressures in the economy.

4.43 Based on the audit findings above, it was evident that, in the absence of any consolidated, reliable system for identifying and managing Trust Accounts it was difficult for any evidence-based higher level monitoring to be taking place. It was also evident that even where monthly reconciliation reports were being submitted, there was no mechanism, practice or behaviour within the Trust Accounting Branch to consolidate the information provided into a useable form for broader analysis and tracking. This is particularly in relation to monies received in, and payments made from, each account.

4.44 The consequences of this lack of mechanism/ practice/ behaviour were evident when the Department of Treasury sought input from the Trust Accounting Branch for the quarterly financial reports that are submitted to the Central Agencies Coordination Committee (CACC). In this respect, Treasury sought opening and closing balances; as well as revenues and expenditure for each Trust Account for the relevant quarter. Rather than provide a full list of Trust Accounts, only the Budget-funded trusts (and their subsidiary accounts) were identified. Further, accompanying the Finance submission for the 1st and 2nd quarters for 2013 Treasury was advised that:

'Note that the revenue and the expenditure columns of the report were not filled. This is because the managing agencies have their own reports on how they receive and spent monies.'

4.45 While noting Finance's comment that the managing agencies (also known as administering departments) have their own reports; audit analysis of these quarterly submissions showed that in both instances Finance itself was the administering department for more than 50 per cent of the listed Trust Accounts. Accordingly, the level of detail requested by Treasury should reasonably have been able to be provided by Finance for at least these accounts.

4.46 The example above highlights the flow-on implications of administering departments not submitting monthly reconciliations to Finance as the overarching coordinating body. It also highlights the need for a mechanism/practice/behaviour to be developed within the Trust Accounting Branch. These will enable effective monitoring of detailed information so as to inform decisions in addition to the compliance perspective of ensuring entities have submitted their required reports. Such a mechanism/practice/behaviour, once developed and implemented, should also enable consistent accurate extraction of information for external reporting purposes such as quarterly reports to Treasury; consistent data for annual Budgets and Statement 'C'; and answering questions to Parliamentary Committees. There would also be value in Finance exploring potential technology solutions to assist with the development of such a mechanism.

4.47 It should also be noted that the extent of any monitoring relates to the accounting side of Trust Accounts. There is no regular reporting or overarching coordination of the outcomes of funds held in Trust; nor of the delivery of projects or programs as envisaged when the Trust Account(s) were established.

Conclusion

4.48 The PF(M) Act sets out a clear distinction in roles between the overarching coordinating responsibilities of the Secretary of Finance in regards to all Trust Accounts in the Trust Fund; and the specific roles of a Departmental Head responsible for the administration of an individual Trust Account.

4.49 In its role as overarching coordinator, since 2004 Finance has been rationalising the Trust Accounts within the Trust Fund. For example, some 660 National Government Trust Accounts were revoked in 2004 and 2005. In addition to formally revoking many Trust Instruments, in 2006 Finance wrote to the relevant banks instructing them to review and close a number of associated Trust bank accounts. Banks were also directed to transfer any funds remaining in bank accounts associated with the revoked Trusts to the Waigani Public Account in accordance with the requirements of the PF(M) Act.

4.50 While many Trust Accounts have been revoked since 2006, due to poor record keeping practices and limited staff availability within the Trust Accounting Branch in Finance, the AGO has been unable to examine revocation notices nor the advice to the bank(s) to close the associated accounts. Further, while accounts have been revoked, some continue to be operated and are repeatedly included in Statement 'C' of the Public Accounts.

4.51 During the course of the audit, instances were also identified where administering departments provided the required information to Finance yet it either did not make it to the Trust Accounting Branch or were not reflected in the oversight records held by the Branch.

4.52 The repeated advice from Finance that it is unable to do its role effectively as a coordinating body due to monthly reconciliation reports not being submitted by administering departments is valid. However, Finance itself is the Department most responsible for the administration of individual Trust Accounts and no reconciliation reports were noted as ever having been received by the Trust Accounting Branch for these accounts. Had the reconciliation reports been done and submitted for the accounts that Finance is personally responsible for; there would have been a strong start to addressing the deficiencies within the system more broadly.

4.53 In addition to minimal monthly reconciliations being provided to Finance, there is no mechanism/practice/behaviour within the Trust Accounting Branch to consolidate the information provided into a useable form for broader analysis and tracking. As a consequence, there is no monitoring of the Trust Accounts to ensure that there is a spread of public investment spending over time to in order to manage inflationary and demand pressures in the economy, as intended in the Medium Term Fiscal Strategy (MTFS) 2008-2012.

4.54 It should also be noted that the extent of any monitoring relates to the accounting side of Trust Accounts. There is no regular reporting or overarching coordination of the outcomes of funds held in Trust; nor of the delivery of projects or programs as envisaged when the Trust Account(s) were established.

4.55 In order to address these identified administrative and monitoring issues, the AGO makes the following recommendations.

Recommendation No.4

4.56 The AGO recommends that, in order to enable appropriate information flows and resulting action, the Department of Finance examine its internal correspondence distribution system to ensure correspondence addressed to the Departmental Secretary in relation to Trust Account matters are actually delivered to the Trust Accounting Branch in a timely manner.

Department of Finance Response:

The Trust Branch is also keen on improving the flow of correspondence within the branch regarding Trust matters. The Acting Assistant Secretary will be keeping a document registry in her system to ensure all incoming documents are registered before going out to action officers.

Follow up on documents to be worked on will be done in weekly basis to avoid unnecessary delays and ensure efficiency in responding letters.

The department is also keen on improving handling of trust correspondences in efficient manner.

Recommendation No.5

4.57 The AGO recommends that, in order to address the potentially contradictory roles within the Trust Accounting Branch between the day-to-day operations and payments from certain significant Trust Accounts and the management and oversight of all GoPNG Trust Accounts, the Department of Finance clearly identifies the different roles and tasking responsibilities; and develops an appropriate management framework to ensure both elements are sufficiently resourced and delivered upon.

Department of Finance Response:

We advise again that due to short staff strength in prior years before 2013 there were too many Trust accounts for one person to handle and take charge of which resulted in a lot of oversight in management of the trust accounts.

The Trust Branch has allocated trust accounts under respective government agencies and distributed to officers to follow up and take appropriate action in trying to improve management of Trust accounts by agencies.

With the number of Government Budget Funded Trusts being reduced since 2012 to five, IDG, High Impact, Education Tuition Fee, 2015 Pacific Games and Bougainville Restoration and Development Trust the department is working towards bringing the trust management to the desirable level.

Recommendation No.6

4.58 The AGO recommends that, to enable effective monitoring of Trust Account operations and inform economic policy and budget decision-making, the Department of Finance examine the development of a suitable mechanism to improve the timely submission of monthly reconciliations by all administering entities as well as enabling the submitted information to be best utilised.

Department of Finance Response:

Again with the full staff strength in the Trust Branch now, the Department of Finance is consistently working to ensure compliance of bank reconciliation is achieved.

The department has since picked up in the Reviewing of Bank Reconciliation and is constantly writing to responsible agencies handling trust accounts to comply.

And it is good to advise that this is progressing well and we intend to improve and raise the standard of bank reconciliation and maintain at high level of output.

5. Opportunities

Introduction

5.1 The issues identified earlier in this audit report indicate that there are some fundamental improvements required to address the current situation surrounding the management and reporting of Trust Accounts in use within the GoPNG.

5.2 This chapter highlights a number of additional areas that; while both significant and important, cannot be fully realised until the earlier fundamental issues are addressed. These additional areas present opportunities that warrant further examination by stakeholders.

Location of Trust Accounts

5.3 The issue of where Trust Account funds are located has featured in the local press on numerous occasions over the years and is of particular current interest to the Public Accounts Committee.

5.4 In August 2010, the Post Courier featured an article entitled 'PNG Government loses big time in Trust Accounts'³⁵. Specifically, this article reported:

The Papua New Guinea (PNG) Government has become the biggest loser with its decision to park up to K5 billion in Trust Accounts with the commercial banks.

From that amount the Government is earning an interest rate of 1-2 per cent while the commercial banks are earning a hefty 5 to 6 per cent interest from the Bank of Papua New Guinea's Treasury bills.

Speaking on the State of the Economy at the National Development Forum hosted by the Consultative Implementation Monitoring Council (CIMC) in Port Moresby yesterday Governor of the Bank of PNG Loi Bakani said that the central bank paid out K4 billion to the commercial banks in interest last year and "that is how much the people of Papua New Guinea had to pay the banks when the Government parked K4 billion in Trust Accounts with these banks". ...

Mr Bakani said that Trust Accounts should have been opened with the Central Bank because at the moment the payment of interest to commercial banks was becoming a liability for the Central Bank.

He said former Governor Wilson Kamit and the bank advised against using commercial banks to park Trust Accounts because of the repercussions and the Government did not take their advice. ...

5.5 A related issue regarding Trust Accounts in the commercial banks was published on 26 November 2012, where the Post Courier reported:

Prime Minister Peter O'Neill is concerned about excess liquidity in the banking system, which is putting pressure on the economy....

³⁵ 19 August 2010, Post Courier, 'PNG Government loses big time in trust accounts'. Reproduced by Vanuatu News. <http://www.vanuatunews.com/regional-news/region-business/470-png-government-loses-big-time-in-trust-accounts>

Mr O'Neill believes one way Government can act to remove excess liquidity in the system is to transfer all Trust Accounts held in commercial banks to the Central Bank.

He has met and discussed this briefly with the Central Bank Governor Loi Nakani, and has now written to Treasurer Don Polye to get the department to work towards this before the 2013 fiscal year begins.

Most of the Trust Accounts operated by the Government for projects and procurement of essential goods are held at commercial banks. Some are held at the Central Bank or bank of PNG.

These accounts hold hundreds of millions of kina, and the concern is that this contributes to the excess liquidity in the system.

Excess liquidity puts upward pressure on the economy and causes interest rates and inflation to rise.

In recent times, the Central Bank has used monetary policy to intervene in the market to ease the pressure.

But the Prime Minister believes the Government can act decisively to mitigate the risks by transferring the Trust Accounts to the Central Bank, where there will be effective management of cash flow and foreign exchange risks.³⁶

5.6 The issue of the location of funds in Trust Accounts was also a feature of a Public Accounts Committee hearing on 25 November 2013 when the PAC commenced an inquiry on Trust Account Placement and Management. As a result of the first day of the inquiry on 26 November 2013, The National reported:

The Public Accounts Committee has questioned senior civil servants on why public funds held in Trust Accounts are deposited with commercial banks rather than the Central Bank.

The committee yesterday grilled the Secretaries of the Departments of Finance, Treasury and Planning on the matter. ...

The Committee asked [Finance Secretary Dr Ken] Ngangan if it was possible to transfer the Trust Accounts from commercial banks to the Bank of Papua New Guinea where they could gain more interest than in the commercial banks.³⁷

5.7 At the time of audit, the AGO was able to calculate the approximate split of funds for those Trusts Accounts included in Finance's Master spread-sheet between the Bank of PNG and the commercial banks. The location of trust funds at year end is illustrated in Table 5.1.

Table 5.1: Location of Trust Funds at year end – all captured Trust Accounts

	Bank of PNG	Commercial banks	Approximate balance
31 December 2011	20%	80%	K3.0 billion
31 December 2012	7%	93%	K2.3 billion

Source: AGO analysis of Department of Finance information.

³⁶ 26 November 2012, Post Courier, 'Excess liquidity in banks concerns PM', p.2

³⁷ 26 November 2013, The National, 'State trust funds probed', pp. 1 and 3.

5.8 As noted earlier in paragraph 3.25, in 2008 Finance started establishing primary bank accounts in the Bank of PNG, and subsidiary accounts in the commercial banks for new Supplementary Budget-funded trusts. Notwithstanding the considerable proportion of funds residing in the commercial banks for all Trust Accounts shown in Table 5.1, for the Budget-funded Trust Accounts a different situation is evident as shown in Table 5.2.

Table 5.2: Location of Trust Funds at year end – Budget-funded Trust Accounts

	Bank of PNG	Commercial banks	Approximate balance
31 December 2011	96.8%	3.2%	K623 million
31 December 2012	99.5%	0.5%	K153 million

Source: AGO analysis of Department of Finance information.

5.9 During the course of the audit, the audit team was advised that Trust Accounts were set up in commercial banks as the Bank of PNG does not provide transactional banking facilities throughout the country. Should the Government seek to move the balance of all Trust Accounts to the Bank of PNG, such matters will need to be addressed.

Reporting of interest earned on Trust Accounts

5.10 In addition to the comments above regarding the location of Trust Account funds, there is a particular issue surrounding the reporting of interest earned on funds held in Trust Accounts.

5.11 In accordance with subsection 12(2) of the PF(M) Act, any interest derived from Trust bank accounts is to be paid into the Consolidated Revenue Fund (CRF) unless the relevant Trust Instrument requires otherwise. While a small number of Trust Instruments require interest to be retained by the Trust, or used for the purposes of the Trust, most instruments are silent on the treatment of interest. For these Trust Accounts, interest should be paid into the CRF in accordance with the legislation.

5.12 In April 2002, a 'general trust without bank account'³⁸ to be known as the Interest Holding Trust Account was established. The Trust Instrument specified that the purpose of the account was to hold all monies: recovered from all the commercial banks as interest earned from all the Government (operating and Trust) accounts; and to pay from the interest held in the Trust Account expenditures relating to the purpose of the Trust Account and other specific expenditures such as capital infrastructure projects. The Trust Instrument specified that the account was to be administered by the Department of Finance.

5.13 The Trust Instrument was silent, however, on the transfer of interest into the CRF as required by the PF(M) Act. Rather, the Trust Instrument stated that all payments to be made from the Trust Account were to comply with the procurement procedures under the PF(M) Act and Instructions issued from time to time. Further, all payments made from the Trust Account were to be approved by the Secretary for Finance or the Minister for Finance where applicable for the purpose of the Trust Account or for any other capital expenditure as required.

5.14 Examination of the published AGO report on the Public Accounts for the years 2002 to 2010 identified that the use of this Trust Account has been limited. Specifically, as

³⁸ See paragraph 3.13.

shown in the following table, interest was only recorded as having been received in 2004 (for K1.658 million). A further amount was noted against Statement 'C' in 2005 (of K1.182 million) but the figure was not disclosed in the actual receipts against the Trust Account.

5.15 Table 5.3 also highlights that, based on the level of interest reportedly earned in 2004 and 2005 to the calculated interest rate is considerably lower than 1% on all funds residing in the Trust Fund. Specifically in 2004 it is calculated at 0.45%; and in 2005 it is lower at 0.12%.

Table 5.3: Interest Holding Trust Account (General Trust without bank account)

Report of the Public Account	Amount reported as received in the Trust Account (million)	Reported balance of Trust Fund at year end (million)*	Estimated interest earned on combined balance
2002	not listed	K224.774	nil
2003	nil	K321.474	nil
2004	K1.658	K368.157	0.45%
2005	K1.182 [#]	K1,015.027	0.12%
2006	nil	K1,684.981	nil
2007	nil	K2,600.099	nil
2008	nil	K3,914.031	nil
2009	not listed	K2,970.275	nil
2010	nil	K2,261.970	nil

Notes:

* Balance as reported in Statement 'A' of the Public Account. This balance of the Trust Fund includes monies held in commercial banks as well as the Bank of PNG. Approximate split between banks is not disclosed in the reports.

[#] The notes to Statement 'C' state that during 2005 a total of K2.840million was transferred from the Trust Fund to the CRF. K1.658 million of this amount was earned in 2004 (and disclosed against the Trust Account in 2004) but was not correctly brought to account until the 2005 year. Accordingly, K1.182 million of interest was earned in 2005 however this figure was not reported against the Trust Account.

Source: AGO analysis of AGO reports *Part 1 Public Accounts of Papua New Guinea* for 2002 through to 2010.

5.16 Statement 'E' to the Public Account discloses particular investments of the Trust Fund. While the audit opinion of the Public Account has frequently noted that the AGO is unable to satisfy itself to the completeness or accuracy of the disclosures, this statement does provide an indication of the sort of interest rates being received for invested trust fund monies for a particular period.

5.17 Using the indicative rates in Statement 'E' for 2004 and 2005, the AGO calculated the minimum and maximum levels of possible interest earned. Comparing these ranges to the disclosed interest in the Interest Holding Trust Account, as shown in Table 5.4, revealed that more interest was received than was potentially earned from those investments in Statement 'E'.

Table 5.4: Estimate range of interest earned on particular Trust Fund investments

Report of the Public Account	Reported balance of Trust Funds invested (million)	Interest rate range on Trust Fund Investments [^]	Estimated minimum interest earned (million)	Estimated maximum interest earned (million)	Level of interest reported (million)
2004	K7.627	2% to 3.75%	K0.153	K0.276	K1.658
2005	K11.625	1% to 10%	K0.116	K1.163	K1.182

Notes:
[^] Interest rate ranges as achieved for investments disclosed in Statement 'E': Trust Fund – Particulars of Investment.

Source: AGO analysis of AGO reports *Part 1 Public Accounts of Papua New Guinea* for 2004 and 2005.

5.18 The AGO expanded this analysis by calculating the potential interest earned on the total balance of the Trust Fund using the indicative rates of interest for the relevant period. Also for comparative purposes, the Bank of PNG benchmark interest rate at year end is included. This analysis is shown in Table 5.5. As the table highlights, the range of potential interest is considerably higher than the amounts of interest reported for 2004 and 2005. The numbers are also significant given no interest has been disclosed in the Interest Holding Trust Account as having been received since 2005.

Table 5.5: Estimate range of interest earned on monies in the Trust Fund

Report of the Public Account	Reported balance of Trust Fund at year end (million)	PNG benchmark interest rate at year end [#]	Interest rate range on Trust Fund Investments [^]	Estimated minimum interest earned (million)	Estimated maximum interest earned (million)
2002	K224.774	14%	4% to 13%	K8.991	K29.221
2003	K321.474	14%	2% to 3.75%	K6.429	K12.055
2004	K368.157	7%	2% to 3.75%	K7.363	K13.806
2005	K1,015.027	6%	1% to 10%	K10.150	K101.503
2006	K1,684.981	6%	1% to 10%	K16.850	K168.498
2007	K2,600.099	6%	0.35% to 1.5%	K9.100	K39.001
2008	K3,914.031	8%	Not disclosed*		
2009	K2,970.275	7%	2.5% to 7.75%	K74.257	K230.196
2010	K2,261.970	7%	2% to 6.25%	K45.239	K141.373

Notes:
[#] A benchmark interest rate is often defined as the minimum interest rate investors will accept for investing in a non-Treasury security. The benchmark interest rate in Papua New Guinea is known as the Kina Facility Rate (KFR). The Bank of PNG introduced the KFR in February 2001 as an official rate to indicate its stance on monetary policy. The monthly KFR is announced by the Governor of the Bank of PNG. Changes to the KFR are based on assessment of economic fundamentals in the economy. The initial KFR was set at 15.50% in February 2001, which was based around the 28 days treasury bill weighted.
^{*} The 2008 Public Accounts Statement 'E': Trust Fund – Particulars of Investment notes that 'Investments from Trust Accounts monies in 2008 were not disclosed in Statement 'E'. Therefore a Nil Statement 'E' is shown here'.

Source: AGO analysis of AGO reports *Part 1 Public Accounts of Papua New Guinea* for 2002 through to 2010.

5.19 It is clear given the large amount of monies held in Trust Accounts that there is the potential for significant interest being earned; or significant interest being foregone with the use of non-interest bearing transaction accounts. This situation warrants further investigation once an authoritative source of GoPNG Trust Accounts has been achieved.

Adopting the 2001 Government Financial Statistics

5.20 The 2013 Budget included the country's updated Medium Term Fiscal Strategy 2013 – 2017. This strategy updated the previous stand-alone document for the period 2008 – 2012. The new Fiscal Strategy outlined a number of High Priority Reforms that the Government anticipated to undertake in the medium term. One of the reforms in particular will have a significant impact on the monitoring and reporting arrangements for Trust Accounts. Specifically, under High Priority Reforms it states:

13.8.2 Adopting the 2001 Government Financial Statistics (GFS)

Currently, the Government uses the guidelines of the 1986 Government Finance Statistics Manual in the compilation of statistics on the finances of the Government.

The 2001 GFS system replaces the 1986 GFS system. The 2001 GFS system is designed to provide statistics which best enable policymakers and Government to analyse Government operations and their effect on the economy, to implement appropriate fiscal policies, and to compare PNG's performance with other countries. As well as improving PNG's ability to implement fiscal policy, adoption of the 2001 GFS system is required by all members of the International Monetary Fund.

The shift to the 2001 GFS during the course of this MTFS will lead to some changes in how the Government reports expenditure. Currently, funds are considered spent simply if it is placed in a Trust Account. Going forward, the funds will only be counted for expenditure purposes when they are actually used for the agreed purpose. This will improve public accountability as reporting should be more closely aligned with actual delivery of services.³⁹

5.21 In order for the GoPNG to be in a strong position to transition across to the 2001 GFS system, an accurate baseline of existing Trust Accounts needs to be established. Further, the existing reporting framework needs to be upgraded so that responsible entities clearly understand their reporting requirements; and staff responsible for monitoring Trust Accounts within Finance captures the data provided in a useable form so that other areas within Finance and Treasury can rely upon the information provided. The audit recommendations throughout this report will go some way to assist the Government to be in a strong position to effectively make this transition.

³⁹ PNG Treasury, 2013 Budget – Volume 1, Chapter 13: Medium Term Fiscal Strategy 2013-2017, p. 171.

Appendix 1: Financial Instructions relating to Trust Accounts

Financial Instruction as available on Finance's website

Department of Finance Financial Management Manual, PART 16 – TRUST FUND AND TRUST ACCOUNTS, Printed in January 2006

Financial Instructions considered current by Finance but not readily available

Financial Instruction 02/2003: The administration of Trust Accounts (issued 29 April 2003)

Financial Instruction 02/2007: The administration of new child maintenance and bail and Court ordered compensation trusts (issued 04 April 2007)

Financial Instruction 04/2007: Use of the 2006 and 2007 Supplementary Budget Trust Funds (issued 22 August 2007)

Financial Instruction 06/2007: Finalisation of revoked/illegal Trust Account codes in PNG Government Accounting System (issued 13 November 2007)

Financial Instruction: 3C/2008: District Service Improvement Program Trust Guidelines (issued 19 June 2008)

Financial Instruction 1/2013: Financial Instruction for the Implementation of the Provincial Service Improvement Program (PSIP), District Service Improvement Program (DSIP), and Local Level Government Service Improvement Program (LLGSIP) (issued 01 January 2013)

Financial Instruction 1A/2013: Financial Instruction for the Implementation of the Provincial Service Improvement Program (PSIP), District Service Improvement Program (DSIP), and Local Level Government Service Improvement Program (LLGSIP) (issued 14 June 2013)

Appendix 2: Extract from Financial Management Manual Volume 2

Volume 2 of the Financial Management Manual (March 2006) specifies the District Treasury Procedures and Controls. Following is an extract of the relevant sections relating to how the PF(M) Act relates to all levels of Government.

SECTION 1: Government Financial Management and Accounting System – An overview

1.1 The Legal Framework

The Constitution of Papua New Guinea contains several provisions relating to the supervision and control of Public Finance. Section 211 (1) of the Constitution states that all moneys of or under the control of National Government shall be dealt with and properly accounted for in accordance with the law. The law that governs public finances is the Public Finances (Management) Act.

The Public Finances (Management) Act provides for the management of public finances. The Act also enables regulations to be made by the Head of State acting on the advice of the National Executive Council for better control and management of public monies and public properties.

Financial instructions dealing with procedures relating to receipts and payments of public moneys and Public properties are issued by the Departmental Head responsible for Financial Management under Section 117 of the Public Finances (Management) Act.

The raising and expenditure of finance by the National Government is subject to authorisation and control by the National Parliament and is regulated by an Act of Parliament (Section 209 of the Constitution).

Section 210 of the Constitution prescribes that the Parliament must authorise the imposition of tax, raising of loans or expenditure of public money only on recommendation of the Head of the State, acting on advice of the National Executive Council. The section further prescribes that the Parliament cannot change the purpose of any tax, loan or expenditure or increase or reallocate the amount in budget proposals.

The Constitution, the Organic Law, the Act, the Regulations and the Financial Instructions therefore constitute the legal framework for all levels of the Government's financial management system.

1.3 RESPONSIBILITY FOR FINANCIAL MANAGEMENT

1.3.1 The responsibility for financial management is specifically stated in Section 3 and 4 of the Public Finances (Management) Act.

The Minister for Finance is responsible for the supervision of finances of the State including finances of Provincial and Local-level Governments, formulation of annual budgets and overseeing their implementation (section 3 of the Act).

The Departmental Head responsible for Financial Management is responsible for the control and direction of all matters relating to the management of the financial affairs of the state, may require to submission of financial reports at specified intervals and may impose surcharge and penalties on the Accountable Officer who fails to submit reports (section 4 of the Act).

1.3.2 Local-level Government Financial Responsibility

Local-level Governments are independent legal entities with authority for managing their financial affairs. In recognising these fiscal responsibilities, Section 105A (6) of the Organic Law requires Local-level Governments to manage their financial affairs in accordance with provisions of the Public Finances (Management) Act.

SECTION 2: PUBLIC ACCOUNTS

2.0 The Requirement for Public Account

Each level of Government shall establish its own Public Account, as provided for in Section 10 of Public Finances (Management) Act 1995. The Local-level Government Public Account consists of:

- a) Local-level Government General Revenue Fund
- b) Local-level Government Trust Fund.

All moneys are to be paid into the Public Account either to the credit of the General Revenue Fund or the Trust Fund. Money belonging to the Public Account shall be deposited into the Local-level Government bank account approved by the Departmental Head responsible for financial management.

Surplus moneys that are not immediately required by Local-level Governments may be invested in securities or interest bearing deposits upon approval by the Departmental Head responsible for financial management.

2.1 The LLG General Revenue Fund

In accordance with Section 13(1) of the Public Finances (Management) Act 1995, all monies raised in the form of loans, receipts or revenue shall be credited to General Revenue Fund, except those moneys credited to the Trust Fund.

Payment from the LLG General Revenue Fund may be made only as authorised by an Appropriation Act or other Acts of Parliament. There may be expenditure from the Fund authorised by way of Special Appropriations, such as charges upon the General Revenue Fund, which are either authorised by the Constitution or an Act of Parliament.

The purpose of Special Appropriation is to provide for expenditure, which is permanent, and of a continuing nature and which will be met irrespective of the state of finances.

2.2 The Trust Fund

Section 15 of the Public Finances (Management) Act 1995 states that Trust Fund Accounts may be established for such purposes as are directed by the Minister responsible for Financial Management or purposes prescribed by any other law. The aggregate of all Trust Accounts make up the Trust Fund, which is represented by cash in the Public Account.

Trust accounts are established by the Minister for Finance or by other laws to hold moneys received by the Government, which are held in trust for various reasons. Local-level Governments are not to establish Trust Accounts without Ministerial approval or as authorised by law.

All receipts for the purpose of trust are credits to the Trust Account. Only receipts which are consistent with the purpose of the Trust Account may be credited to the Trust Account. No payment can be made from the Trust Account unless it has a credit balance (Section 17 Public Finances (Management) Act) and is deemed appropriate under the Trust Instrument or the Act.

Any proceeds from the investment made out of the Trust Accounts shall be credited to the General Revenue Fund or dealt with in accordance with the Trust Instrument or the Act.

AGO Performance and Special Reports

1. The Effectiveness of Solid Waste Management in Papua New Guinea (2010)
2. Access to Safe Drinking-Water in the National Capital District – Papua New Guinea (2013)
3. District Services Improvement Program (2014)