



Phone: (+675) 3012200 Fax: (+675) 325 2872 Email: [agopng@ago.gov.pg](mailto:agopng@ago.gov.pg) Website: [www.ago.gov.pg](http://www.ago.gov.pg)

## **Report of the Auditor-General**

### **PART II - 2011**

#### **National Government Departments and Agencies**

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



30 July, 2013


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

Dear Mr. Speaker,

In accordance with the provisions of Section 214 of the Constitution of the Independent State of Papua New Guinea, I have the honour to transmit to the National Parliament the Part II of my Report for the year 2011.

The Report deals with National Government Departments and Agencies on the control environment and on transactions with or concerning the public monies and properties of the State of Papua New Guinea in 2011.

*Yours faithfully,*



**PHILIP NAUGA**  
Auditor-General



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## LIST OF ACRONYMS

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

## FOREWORD

My Report to the National Parliament for 2011 is being presented in four parts:

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

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

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

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

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

- **Summary results of audits of 2011 accounts** are used to support the audit of the Public Accounts for 2011. In order to assess the reliability and accuracy of the reported expenditure and revenue of the 2011 Public Accounts, 27 Departments with significant budgetary appropriation were selected and their results evaluated; and
- **The control and transaction audits in 2011 of individual Departments** examined controls surrounding procurement and payments, asset management, human resource management, management of advances, bank accounts and budgetary controls. Management letters were sent to Departmental Heads to report on the control weaknesses to improve on. Results of these are detailed under the individual agencies included in this Report.

## ROLE OF THE AUDITOR-GENERAL – Introduction

### Authority to Audit

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

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

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

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

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

### Audit Coverage

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

- **Audit of 2011 accounts** - to examine statutory reporting, cash management practices, budgetary appropriations and in particular erroneous charges to itemized expenditure and year end processes. To support the audit of the Public Accounts for 2011, 27 Departments have been selected on the basis of significant funding in the 2011 budgeted recurrent and development expenditure.
- **The control environment in 2011** - to examine, controls surrounding procurement and payments, asset management, human resource management, management of advances, cash management and budgetary controls. Individual reports/management letters were sent to Departmental Heads to report on the 2011 control weaknesses to improve the processes. Results are detailed under the individual agencies included in this Report.

### Responsibilities of Management

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



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

### **Responsibilities of the Auditor-General**

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

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

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

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

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

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

## CONTROLS ENVIRONMENT – Summary Results

### Introduction

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

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

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

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

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

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

### *The audits of internal controls*

The audits of 2011 controls were designed to assess the reliability of control structures to produce complete, accurate and valid information for financial reporting purposes.

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

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

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

## Budgetary and Fund Controls

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

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

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

- A lack of monitoring of expenditure was noted in all 27 Departments. Departments did not prepare cash flow statements on a regular basis to report on significant anticipated shortfalls or surpluses and to enable the Head of Department to make informed financial decisions. All 27 Departments indicated non-reconciliation of their monthly PGAS report against the TMS General Ledger maintained by Department of Finance. As at 31 December, 2011 the aggregate variance between these two (2) records for 21 Departments indicated a massive variance of K361,493,744. This lack of monitoring expose the Public Accounts to the risk that moneys could be spent in excess of the appropriation limit, resulting in breaches of the *Appropriation Act* approved for the budget year including the *Public Finances (Management) Act, 1995* or even the *Constitution of the Independent State of PNG*.
- Incorrectly charged expenditures to vote items for which funds were not appropriated, either through use of incorrect expenditure codes or through journal entries. There were also instances noted of funds being transferred between divisions and functions as at 31 December, 2011, contrary to the *2010 Appropriation Act for the 2011 budget year*.
- A lack of reconciliation between the PNG Government Accounting System (PGAS) and the TMS which captures all the financial transactions processed through the PNG Government Main Public Accounting System. Each Government agency is expected to reconcile their records (PGAS) on both revenue and expenditure with the monthly records produced by the Department of Finance (TMS). If there are any differences between the two records, journal entries are required to be raised by the Departments to make the necessary adjustments ensuring that both records have the same information on their respective ledgers. Materials variances were noted in several agencies for example; Department of Health – K39.7 million, Department of Justice and Attorney General – K9.3 million, Department of Defence – K54.3 million, Department of Lands and Physical

Planning – K10.6 million, Department of Works and Implementation – K119.8 million and Department of Correctional Institutional Services – K46.2 million.

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

## Bank Reconciliations

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

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

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

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

- Bank reconciliations were current in only 14 out of 27 Departments. However, even in those entities, significant unreconciled items were carried over for long periods of time. Five (5) Departments had not performed any bank reconciliation for the year under review, 2011, while three (3) had their last reconciliation completed in September and one (1) in February of 2011 respectively.
- The officers responsible for preparation of the bank reconciliation were not qualified and sufficiently trained.
- In a number of agencies, the reconciliations were not reviewed and certified as correct by a senior officer.
- AGO noted that not all Departments were submitting their bank reconciliation statements to Department of Finance within 14 days after the close of each month as stated in the PFM Act.

## Assets Management

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

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

From the asset records of the 27 Departments audited, it was evident that:

- Asset registers were either non-existent or they were not maintained properly in all agencies. The lack of register exposes the entity to the risk that assets may not be utilised effectively, may not be protected from physical deterioration or maintained properly.
- Periodic stock-takes were not being conducted to determine the accuracy of assets on hand in agencies. In most cases the physical condition and durability of assets held is not properly ascertained. The risk of assets being removed without authority or through theft is high in agencies that do not conduct periodic stock-takes.
- From the samples of vouchers AGO selected for testing, in excess of K16.4 million was identified as unrecorded assets in which payment details of these assets could not be traced to asset recording, both resulting from lack of a register or simply not being recorded by any means.
- Controls surrounding management of vehicle fleets were non-existent. Custodianship of vehicles was not documented and identified to officers in possession, nor any review conducted on the custodial arrangements to ensure that the vehicles did exist.

## **Procurement and Payment Procedures**

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

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

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

Other significant issues were:

- Payment vouchers were not examined for completeness and certified correct prior to processing them for payment. These were noted in 13 entities out of 27 audited aggregating K56.8 million;
- In all 27 Departments, where AGO undertook detailed testing, the amounts relating to missing documentation was in excess of K141 million;
- Payments to suppliers were often made on pro-forma invoices and without required quotations. A number of agencies were making payments through this process; and

- In 11 out of 27 departments audited, payments were made without the supporting documents such as the tax invoice to substantiate the payments aggregating to K4 million.

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

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

## HR Management

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

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

Common weaknesses identified across the agencies were:

- Although the payroll is processed centrally by the Information Technology Division (ITD) of the Department of Finance for public servants, it is the responsibility of the Departmental Head to ensure the Department's payroll is accurate and complete. AGO found that there were no payroll reconciliations performed by HR areas throughout 2011 in all 27 Departments tested. Previous audits indicate also that not many agencies perform such reconciliations. The agencies did not maintain their own PGAS ledger records but relied on the Department of Finance records. The lack of this key control can facilitate fraudulent payroll activities where payments processed outside the system such as manual cheques would not be easily detected in the absence of independent records and reconciliation.
- One of the important aspects of the HR function is to maintain records that demonstrate compliance with applicable human resource statutory and regulatory requirements, agency policy and agreements with other parties. Up to date records in respect to individual employees are vital and should be properly maintained. Testing of a sample of employee files in all 27 Departments noted that salary history cards were not updated on a regular basis with recreational leave, HDA, sick leave or tax declaration forms on dependents claimed.
- Personnel files were generally not kept in a satisfactory manner. The files were left lying around on the floor area and not in a secure environment. There is a risk of loss of payroll, personal information or documents, damage to the files and also unauthorised access to payroll and personal information.



## Trust Account Management

Government agencies (or the Heads of Departments) are responsible for the maintenance of trust accounts. To ensure proper accountability of trust moneys, Part 3 of the *Public Finances (Management) Act, 1995* requires the maintenance of adequate records, that collection of receipts and payments from trust accounts is done in accordance with the Trust Instruments and submission of periodic reports to Department of Finance including a requirement to submit monthly bank reconciliations.

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

- Out of twenty seven (27) Departments operating trust accounts, AGO identified the existence of ten (10) trust accounts that were not operating under the Department's PGAS accounting system. When records are not properly maintained, monitoring of expenditure and compliance cannot be effectively performed.
- In most of the Departments with trust accounts, payments were made contrary to the purpose of the trust. These agencies have also not submitted monthly reconciliations and statements of receipts and payment to the Department of Finance.
- Surplus funds available in the trust accounts were not invested in line with the *Public Finances (Management) Act*. Such action was not taken on most of the trust accounts administered by agencies.

## Advance Management

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

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

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

- In 21 out of 27 Departments tested, unacquitted advances as at 31 December, 2011 were in excess of K13.6 million. It was observed that most of these agencies issued further advances to officers whilst their previous advances remained outstanding;
- AGO observed the practice of agencies paying significant amounts to the Paymaster as cash advances. These cheques were cashed by the Paymaster/Paymistress and paid to officers of the Departments for various purposes. Such practice could lead to fraud as there is no documentation/audit trail. These payments were noted in nine (9) out of 27 departments in excess of K18 million. Material payments were noted in several departments, for example, Department of Education – K4.4 million, Department of Lands and Physical Planning – K8.8 million,

Department of Prime Minister and National Executive Council – K3 million and Department of Petroleum and Energy – K3.2 million. AGO observed that it was common practice by agencies to draw advance payments by using the Paymaster where controls over acquittals have been unsatisfactory; and

- Management of the advances was very poor and there was no assurance over the completeness of the recorded balances. AGO identified K7.1 million unrecorded advances in 11 departments.

## Conclusion

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

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

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

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

Unfortunately the results of the testing of accounts and controls in 2011 again revealed weaknesses of such magnitude that material errors could have been processed or misappropriation and fraud could have occurred. The results from my audits clearly indicate that the systems of internal control within agencies were ineffective, contributing to further decline in the level and quality of services provided. The senior management of most agencies reported in this report had failed to exercise their financial management responsibilities well.

A broad range of internal control issues were raised with agencies as part of this audit. In general, the results of the testing of controls in 2011 were reflective of my report for previous years and indicate that, overall, there continued to be significant weaknesses in agencies' control environments. While a few agencies have taken appropriate action to address reported audit issues, most agencies have not made any attempt to address issues that have been outstanding for many years. Fundamental control activities, such as delegations, authorisations, reconciliations, management oversight and monitoring, were not sufficiently robust to prevent, detect or correct errors or fraud. Consequently there is significant uncertainty over the reliability, accuracy and legitimacy of the reported financial information for most agencies.

Strong financial management is an essential part of any public sector, however weakness in financial management practices and processes help legitimise bad governance and divert funding and energy from



development plans and achievement of national goals and priorities. The onus of responsibility in ensuring compliance with legislative, managerial and procedural requirements rests with the heads of agencies and their senior management. Audit reports to agencies contain recommendations for the key issues identified during the course of my audits, and if implemented by management, would address and resolve most of the internal control weaknesses reported on.

The contents of this Report informs in summary the results of the audits of the 27 Departments and Agencies. Audit observations were provided to each Department and each Agency for their management responses and, where provided, have been included in this report.

## 1. DEPARTMENT OF AGRICULTURE AND LIVESTOCK

### OVERVIEW

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

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

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

### FINDINGS

#### BUDGETARY FUNDS CONTROL

##### *Recurrent Budget 2011*

A comparison of the 2011 expenditure vote summary printout (run-date 15/02/2012) maintained by DAL with the Expenditure Statement on TMS 100 (run-date 09/02/2012) produced by Department of Finance for Period 12 revealed significant variances between expenditure statement balances.

#### **Variances in Expenditure Balances between PGAS and TMS**

<b>No</b>	<b>Particulars</b>	<b>Expenditure as per DAL record (PGAS)</b>	<b>Expenditure as per DoF record (TMS)</b>	<b>Variance (K)</b>
1	Revised Appropriation	44,966,500	14,760,700	30,205,800
2	Warrant Authority	39,518,500	14,838,700	24,679,800
3	Actual Expenditure	38,725,283	45,707,063	-6,981,780

The variances indicated that no reconciliation was performed between the two (2) ledgers.

#### *Warrant Authorities*

Analysis of the warrant authority allocations under 18 vote items recorded between TMS and PGAS for Period 12-2011 revealed the following discrepancy:

- Nine (9) vote items with warrant authorities aggregating to K5,985,400 under TMS recorded more than the PGAS ledger; while

In addition, expenditures totaling K80,000 were incurred against an unauthorised economic vote Item # 120 for goods and services without any warrant allocation which was unbudgeted for and in breach of the *Appropriation Act, 2010*.

### **ASSET MANAGEMENT**

A review of the assets register maintained and related records revealed the following weaknesses:

- A fixed assets register was not maintained by the department and periodic stock take was not carried out to physically verify the existence, custody and status of all assets. Audit noted that in 218 instances assets totaling K1,430,850 purchased in 2011 were not recorded in the asset register.

#### *Motor Vehicles*

- The department did not maintain a vehicle/fleet register to record all vehicles procured and owned by the department. Audit was unable to confirm the total number of vehicles maintained including the two (2) that were purchased in 2011; and
- The department did not maintain a vehicle service/maintenance schedule. This showed that the department had not monitored vehicles that were due for regular servicing, up-to-date registration of vehicles, and consumption of fuel/lubricants by all vehicles and to determine if all its vehicles were road-worthy.

#### *Institutional Houses*

There were 69 institutional houses registered for N.C.D, however, all other information regarding their current state were not available, such as current condition, last maintenance done and total rent fee collected from tenants. All other provincial data on housing were also not updated. In the absence of the vital information, audit was unable to verify the existence of these assets.

### **PROCUREMENT AND PAYMENT PROCEDURES**

Audit selected on a random sample basis 110 payments totaling K5,095,556 and subsequent review of paid vouchers and supporting documents, procurement and payment procedures revealed the following irregularities:

- The department did not maintain a quotations register for the year 2011;

- 29 payment vouchers totaling K743,606 were not provided for audit and hence, the validity and propriety of the payments made could not be verified by audit;
- In 22 instances, payments totaling K747,264 were processed without obtaining three (3) written quotations and attaching to the payment vouchers as required;
- In 14 instances, payments totaling K885,266, the general expense forms were not examined and signed by the examining officer prior to effecting payments;
- In 36 instances, payments totaling K2,006,825 were not certified by the certifying officer;
- In 25 instances, payments totaling K1,569,627 were not authorized by the authorized requisition officer;
- In nine (9) instances, for payments totaling K239,218, approvals from the Section 32 officer were not obtained prior to effecting payments;
- There was no checking of funds availability by the responsible officer in 42 instances totaling K2,942,620; and
- In 26 instances, payment vouchers totaling K627,782 had no supporting documents such as contract agreements or terms of reference, approval granted by the procurement committee or an official document supporting the payments.

## **HUMAN RESOURCE MANAGEMENT**

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

### *Casual Employees*

- A total of 177 casual employees were engaged by the department in 2011. According to the 2011 budget, the approved budgeted casuals were set at 123. However 34 more were engaged and paid through the PGAS system which were unbudgeted for; and
- Of the 20 personal files for the casual employees that were requested for audit verification, only ten (10) were provided. Nine (9) were based at the outstations and one (1) was yet to be created. Audit noted that ten (10) files sighted lacked relevant supporting documents to substantiate their engagement with the department. These were:-
  - Letter of application/interest made to the department;
  - Letter of agreement of employment with specified terms & conditions; and
  - No salaries/wages tax declaration forms were sighted for tax purposes.

### *Payroll*

- An officer acting as OIC – salaries, on grade 12 level was noted to have made salary adjustments on her HDA and SDMA for the period of her maternity leave which was in breach of the General Orders;

- An officer whose substantive designation was a senior technician on grade nine (9) level was acting on a Grade 12 position which was 3 levels above his substantive. According to the payroll no. 25/2011 reconciliation, the officer was being paid higher duties allowance at five (5) grades above his substantive level which was from grade 9 to 14 which further revealed that there were no vacant Grade 14 positions as the two (2) grade 14 funded positions were already occupied by two (2) other officers as per the staff establishment register;
- An officer designated as budget officer on grade 12 level was also acting as assistant accountant on grade 12 level who was paid double SDMAs on K10,000 p.a. plus K4,000. Audit is uncertain as to which higher grade, the SDMAs were being paid from due to insufficient records; and
- A senior officer designated on grade 12 level was still receiving higher duties allowances (HDA) and also HDA to SDMA despite a minute from PAB Director to reinstate two (2) senior officers as per PSC directive to be on the payroll as per Minute dated 07/11/11. Audit was uncertain as to which grade the HDA and SDMA were being paid from.

#### *Permanent Employees*

Audit examination of 20 personal files noted the following:

- records and salary history cards were not updated for all 20 files;
- The twenty (20) files did not have copies of the tax declaration forms; and
- Supporting documents were not sighted to confirm the changes made in the officers' salaries.

#### *Contract Officers*

- Out of 15 files provided for examination; one (1) officer had no employment contract in the file;
- The employment contracts for seven (7) officers had already expired and thus, no renewed contract agreements was sighted in their files; and
- Audit could not specify as to what category (i.e. A, B, C or D) each contract officer was attached to as only their names and period of contracts showed.

### **ADVANCE MANAGEMENT**

Audit review of advance registers, payment, recording and acquittal of advances revealed the following weaknesses:

#### *Travel Advances*

- As at 31 December 2011, a total of 412 advances amounting to K1,164,184 remained unacquitted;
- Second (2<sup>nd</sup>) advances totaling K860,557 were issued to officers contrary to the Finance Management Manual Part 20,12.11. From the records sighted, audit confirmed that management continued to pay second advances to staff who had not acquitted their previous advance(s); and

- Recipients of these second payments included very senior officers who did not seem to adhere to requirements in the Finance Management Manual.

#### *Cash Advances*

- The register was incomplete in that cheque numbers were not recorded and no column was provided for the officer receiving the cheque to sign in; and
- As at 31 December, 2011, 49 advances totaling K247,676 remained unacquitted.

#### *Acquittal File*

- Three (3) acquitted advances totaling K3,566 were not supported by acquitted forms in file;
- 81 acquittal forms for advances totaling K161,540 were incomplete with no financial delegate's signature/confirmation, no supporting documents such as, ticket butts and travel documents attached; and
- Nine (9) cash advances totaling K18,670 stated as acquitted. However, audit observed two (2) out of the nine (9) advances totaling K750 had no acquittal forms sighted in the acquittal file. Further, all nine (9) acquittal forms for cash advances totaling K18,670 were incomplete with no financial delegate's signature/confirmation, and or no supporting documents to confirm or identify that authentic persons had received the cheques.

## **DEVELOPMENT PROJECTS**

### **Development Projects-Public Investment Project (PIP)**

Audit noted that four (4) development projects had a total appropriation of K58.2 million through the department's budgetary allocation process. Significant issues were noted in the four (4) projects and are stated below:

#### **1.0 SMALLHOLDER SUPPORT SERVICE EXPANSION PROJECT (SSSEP)**

Analyses of the various expenditures incurred on the GoPNG funding component of K1,000,000 and other related records noted the following:-

- Two (2) items, 121 and 143 had over expended their authorised warrants by K49,752 and K200,000 respectively;
- Expenditures totaling K178,379 were incurred against three (3) unauthorised economic vote items # 114, 128 and 135 for goods and services without any warrant allocation which were unbudgeted for and in breach of the Appropriation Act; and
- Audit noted that SSSEP did not have an annual project report for the year 2011.

Audit selected 25 samples for testing totaling K443,302 which represented 59% of total expenses incurred during the year and noted the following:-

- In four (4) instances, payments totaling K52,651 did not have any job completion report from a competent technical officer to substantiate the payments made;
- A sum of K409,937 was paid for consulting services provided by five (5) consultants, however, tax remittances were not remitted to IRC as required. In addition, there was no work performance report from the consultants as per their terms of references;
- Two (2) contract agreements were incomplete without the signatures of the a/Secretary for DAL (to sign on behalf of the independent state of PNG), and the consultant and a witness, although consultancy payments had been made; and
- No asset register was maintained in 2011 although there were purchases of a vehicle and other inventories made for year 2011.

## 2.0 RURAL ECONOMIC DEVELOPMENT PROGRAM (REDP)

The RED program under the ownership of DAL as per 2011 budget drew four (4) objectives to be implemented to complement the first (1<sup>st</sup>) phase of the RED program. The annual work program was aimed to achieve the four objectives which were;- (i) to Articulate Sector Programs in Agriculture, Fisheries, Forestry, Tourism, Works and Transport; (ii) to Identify Economic Impact Projects; (iii) to Identify Market Access Projects and (iv) to Strengthen RED Secretariat.

Analyses of the various expenditures incurred and other related records noted the following:-

- Two (2) items, 121 and 135 had over expended their authorised appropriations by K18,741 and K216,483, respectively which were unbudgeted for;
- From vote item 136 (Training), funds totaling K50,000 was transferred to Pacific Adaptation Climate Change Trust Account without any specific instruction from the Departments of Finance and Treasury; and
- Funds under vote item 223 for K250,000 was not utilised at all and showed as a funding requested for feasibility studies, project preparation and design.

### *Project Steering Committee Meeting*

There was no project steering committee established for the Rural Economic Development (RED) program, although a letter dated 25 February, 2011 was received from the Department of National Planning and Monitoring (NAO) Support Unit, regarding the formation of a Steering Committee & Implementation of RED program to oversee the management and administration of the programme. As a result, the requirement of convening at least two (2) meetings in the calendar year was not met.

### *Project Implementation Report*

Audit noted that the RED program did not furnish any project implementation report in the area of management and implementation. Consequently, audit was unable to review and comment on reports such as quarterly implementation reports for each activity for the program, physical performance report, and annual work implementation report for the program.

### *Financial Management Reports*

The RED program did not furnish any quarterly or annual financial/expenditure reports to audit on how the development funds were been disbursed during the year 2011 except copies of commitment ledgers for 2011.

From the total budget appropriation of K1 million, a total of K647,020 was expended while the remaining balance of K352,980 was transferred to Pacific Adaptation of Climate Change Trust Account (PACCTA) held by DAL.

### *Procurement & Payments Procedures*

The RED program development budget expended a sum of K647,020 for the year 2011. Audit selected 21 samples for testing totaling K258,161 and the following were noted:-

- In six (6) instances, payments totaling K56,676 were made without obtaining three (3) written quotations. Audit sighted only one (1) quote for each payment made;
- For three (3) instances totaling K17,670, the requisition for expenditure (FF3) forms were not signed and approved by the Section 32 officer when procuring goods and services from the suppliers;
- Audit did not sight documents relating to a contract agreement for consultancy services provided for valued at K12,950;
- Payments totaling K106,278 were made to four (4) vehicle hire companies for hire of vehicles which were unbudgeted for; and
- In eight (8) instances, expenditures totaling K26,839 were erroneously charged for DAL staffs' overseas allowances, sponsorship, outstanding refreshments for MPs and reimbursement of white goods paid from an officer's own personal monies which were not related to RED program activities and unbudgeted for.

### *Asset Management*

The rural economic development program did not maintain an assets register during the year under review.

## **3.0 NATIONAL SPICE CROP DEVELOPMENT PROGRAM (NSCDP)**

### *Budget Appropriations & Controls*

Under the NSCDP, the PNG Spice Industry Board (PNGSIB) was allocated K2 million through the DAL development budget appropriation.

### *Project Steering Committee*

The National Spice Steering Committee comprised of six (6) members. The committee did not meet at all in year 2011, to discuss the progress as required in the PIP guidelines.

A review of the Financial Management Report revealed the following;



- Total funds allocated for the year was K2,003,797. As per the statement of expenditure, total expenditures incurred from August to 31 December was K464,684 and the balance available after expenditure was K1,539,113. However, the bank statement balance as at 31 December, 2011 was K1,477,824, resulting in variance of K61,289 which was not accounted for;
- A license fee of K1,000 was received and deposited into the operating account in September 2011. As noted, the SIB did not maintain a register for all revenue collected for the year. Thus, audit could not ascertain how the total revenue collected was disbursed during the year, although a total of K16,000 was reported (in a note form from the registered spice and herbs exporters listing); and
- Monthly bank reconciliations were not prepared for the year 2011.

#### *Procurement & Payment Procedures*

During the year 2011, the SIB development budget expended a sum of K464,684 on three (3) activity items as per the transactions on the statement of expenditure. Audit selected 25 samples totaling K289,137 and subsequent verification of paid vouchers and related records revealed the following discrepancies:

- In 11 instances, payments totaling K147,886 were made without obtaining three (3) written quotations. Only one (1) quotation was sighted for each payment made;
- In three (3) instances totaling K21,132, requisition for expenditure (FF3) forms were not signed by the Section 32 officer as approval to procure goods and services from suppliers;
- Four (4) payments totaling K25,360, were made without having received the goods and services received notes (GSRN) from the supplier to substantiate the payments. Audit could not verify whether goods and services were received from the suppliers or service providers since there were no GSRN notifications attached;
- Six (6) payments totaling K104,000 were paid for hire of private vehicles and consultancy services without any contract agreement documents or approval letter from the Secretary – DAL. Thus, no written evidence was sighted in this regard, although requested;
- Audit noted that in five (5) instances, expenditures to the value of K22,999 charged to DAL staff and office supplies were not related to National Spice Crop Development Program activities; and
- The asset inventory records maintained for 2011 was incomplete which did not include all necessary information or details such as; estimated economic life, preventative maintenance requirement, physical location and officer responsible for each asset.

#### **4.0 SMALLHOLDER RICE PROMOTION PROJECT (SRPP)**

The smallholder rice promotion project was co-funded by GoPNG and the Japanese International Cooperation Agency (JICA). It aimed at alleviating food security issues by promoting the production of rice through the training of local farmers and extension officers in rice farming and production.

The smallholder rice promotion project (SRPP) had an appropriation of K11,108,000 for year 2011 of which K300,000 was allocated by GoPNG, while K10,808,000 was from a donor agency.

As per the audit information requested dated 31/01/2012 to the Director Finance, audit was not provided with any information up until the completion of the audit.

As a result, audit did not sight any project documentation such as annual work plan, annual cash flow projection, quarterly/annual financial and project administration report, project steering committee meeting minutes and other necessary documents for the purpose of audit for the smallholder rice promotion project (SRPP).

## DEPARTMENTAL RESPONSE

The results of the audits were reported to the Secretary of the department in a management letter. However, management failed to respond up to the time of writing this report in June, 2013.

## CONCLUSION

The results of audit and the number and magnitude of control weaknesses identified in the course of audit indicate that overall, there are significant weaknesses in the control framework. At present, the control activities such as delegations, authorisations, reconciliations, segregation of duties, system access or data processing, management and monitoring are not sufficiently robust to prevent, detect or correct error or fraud. This situation has not improved from the previous year.

## 2. DEPARTMENT OF JUSTICE AND ATTORNEY-GENERAL

### OVERVIEW

The Department's mission is to ensure efficient and expeditious settlement of disputes, through the Justice System and the maintenance of social order according to the rule of law.

The Department is expected to fulfill its mission in the context of the following:

- Provide legal advice to all Arms of Government,
- Probate and administration of estates;
- Administrate probation and parole services; and
- Provide services to the Legal Training Institute, the Law Reform Commission, Solicitor General's Office, all Courts in the National Judicial System, the Magisterial Services Commission, the Land Titles Commission, the Accountants Registration Board, the Public Curator's Office and standing or ad-hoc organizations relating to the functions of the Department.

### FINDINGS

#### BUDGETARY AND FUNDS CONTROL

##### *Variances in Expenditure Balances (Recurrent Budget 2011)*

A comparison of the 2011 expenditure vote summary printout (run-date 22/05/2012) maintained by Department of Justice and Attorney General with the expenditure statement (TMS 330 run-date 07/03/2012) produced by Department of Finance for Period 12 , 2011 revealed significant expenditure variances. Details are shown in table below;

Particulars	DJ&AG (PGAS) (K)	DoF (TMS 330) (K)	Variance (K)
Revised Appropriation	44,986,900	110,355,300	-65,368,400
Warrant Authority	32,113,800	110,334,700	-78,220,900
Actual Expenditure	32,112,121	41,406,362	-9,294,241

The variances indicate that reconciliations had not been performed to balance the two (2) ledgers.

##### *Expenditures in Excess of Warrant Authority*

In addition, the expenditure statement (TMS 100) produced by Department of Finance for the year ended 31 December, 2011 (run date 07/03/2012) revealed expenditures in excess of warrant authorities issued under 11 vote items totaling K7,088,162 in the recurrent budget.

## Management Response

*The Department will take up these issues with Department of Finance to verify and establish the cause of these variances so that appropriate and remedial action can be taken to prevent such instances from happening and repeated in future reports.*

## BANK RECONCILIATION

The Department of Justice and Attorney General operates a Drawing Account No. 4311-6105 with the Bank of Papua New Guinea. Audit verification of the bank reconciliation statement prepared as at 31 December, 2011, revealed the following:

- Credits in bank statement not in cash book totaling K10,299,502 represented the reimbursements for the months of November and December 2011 which should have been journalised and cleared in the subsequent month and not carried forward; and
- Other items totaling K944,373 were unidentified credit items in the cash book carried forward from 2008. These should have been investigated, identified and cleared.

## Management Response

*The Management wishes to inform audit that the Department did take appropriate action by clearing all the reimbursements from the bank reconciliation through journal entry and also cleared all credit items from the bank reconciliation that appears from cash book entries.*

## PROCUREMENT AND PAYMENTS PROCEDURES

### *Transfer of Funds at Year End*

A review of transactions for the last quarter (Oct-Dec) 2011 with the related records and documents revealed that payments aggregating K6,494,259 were paid out as transfer of funds from various vote items. The following matters of concern were noted in regard to these payments:

- Payments aggregating K6,494,259 paid as transfer of funds were not budgeted for in the *Appropriation Act, 2010*; and
- The Department was in breach of the *Public Finances (Management) Act, 1995*, Section 27, where it states that all recurrent appropriations lapses at year end of that fiscal year.

### *Missing Payment Vouchers*

- 25 paid vouchers out of the 53 totaling K1,747,138 were not sighted by audit although requested for. Audit therefore could not authenticate the correctness of these payments made.

### *Incorrect Charging of Expenditure*

An examination of expenditure transaction details for 2011 revealed that in 167 instances totaling K2,595,318, expenditures incurred were not charged to their correct vote items.

## Management Response

*The Task Force Sweep Funds (K3,803,282.73) were appropriated through the recurrent budget under the DJAG through the Appropriation Act. While the remaining funds totaling K2,690,976.75 were unused funds transferred into Legal Fees Trust.*

*Management confirms and notes that other expenditure highlighted in the report are incorrectly charged to incorrect expenditure vote codes. And that corrective measure have been put in place where this won't be repeated.*

## TRUST ACCOUNTS

Audit was advised that there were four (4) trust accounts of which two (2) were maintained by the DJAG, while one (1) each are held by Public Curator's Office and Public Solicitor's Office respectively. The trust accounts were:

- Legal Fees Trust Account.
- Library Trust Account.
- Public Curator's Trust Account.
- Public Solicitors' Trust Account

Trust Accounts maintained by the Public Curator and the Public Solicitor were audited upon submission of Financial Statements as required in the Trust Instruments and reported separately. The audit reports of the Office of the Public Curator is covered in the Auditor-General's Part IV Report and the Office of Public Solicitor is covered separately in this Report.

Observations relating to the Legal Fees Trust Account and the Library Trust Account are detailed below.

### *Legal Fees Trust Account*

The trust instrument states that the Minister for Finance and Treasury by virtue of powers conferred by the PFMA hereby directs "payments made from the account shall be authorised by the Departmental Head of the Department of Justice and Attorney General, or his delegate, and only for the purpose of meeting the cost of legal representation engaged on behalf of the state by the Attorney General and shall comply with the *Public Finances (Management) Act, 1995*".

### *Payments made out of the Trust Accounts*

An examination of the payments made out of the trust account revealed that in 42 instances, payments amounting to K865,806 were made for various expenditures, contrary to the purpose stated in the trust instrument as described above.

### *Trust Account Reconciliation*

An examination of the bank reconciliation for the month ending 31 December, 2011 and related documents revealed the following matters of concern:

- All reconciling items should be adjusted by way of raising journal entry (J/E) to adjust the cash book. Debits in the bank statement not in the cash book amounted to K311,759 which consisted mainly of service charges which remained outstanding; and
- Unpresented cheques raised before 2009 which amounted to K51,068 should have been reclassified as stale and adjustments done to the cash book accordingly.

### ***Library Trust Account***

#### ***Trust account Reconciliation***

An examination of the bank reconciliation for the month ending 31 December, 2011 and related documents revealed the following matters:

- Debits in bank statement not in cashbook of K469 comprising of bank charges should have been adjusted in the cash book by passing necessary journal entries;
- Outstanding items amounting to K1,004,310 need to be identified, investigated and cleared; and
- Un-presented cheques raised before 2009 amounted to K142,762. These should have been reclassified as stale and adjustments done to the cash book accordingly.

### **Management Response**

*The management noted audit findings and responded that a request was made to the Department of Finance for a separate trust account to be created so that funds from other sources provided to the Department can be placed in the trust account to fund projects so that Legal Fees and Library Trust Accounts should not be used.*

*Management has taken appropriate actions to improve on its bank reconciliation for the two trust accounts.*

## **ADVANCE MANAGEMENT**

### ***Advance Register***

Review of the advance register (manual) noted the following weaknesses:

- 317 advances totaling K546,635 remained un-acquitted as at the time of audit;
- 75 officers were paid second advances whilst their prior advances remained outstanding;
- 121 advance payments totaling K210,581 were not recorded in the advance register.

### ***Advance acquittal files***

- In three (3) instances, financial delegates did not review the acquittal forms.

- In four (4) instances totaling K12,217, acquittal evidence/records were not sighted.

### Management Response

*Management has noted that this is a serious issue that the management hasn't been addressing and that corrective measures are now being taken to deal with advance management and accountability of the acquittals.*

### DEPARTMENTAL RESPONSE

The Department had responded to the audit findings reported in the management letter issued and their responses have been incorporated accordingly.

### CONCLUSION

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

The results of the audit indicate that overall, there continue to be significant weaknesses in the control framework. At present the control activities such as delegation, authorization, reconciliations, data and payroll processing, management monitoring are not sufficiently robust to prevent, detect, or correct error or fraud.

### 3. DEPARTMENT OF COMMERCE AND INDUSTRY

#### OVERVIEW

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

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

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

The Department promotes and supports the following legislations:

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

#### FINDINGS

##### BANK RECONCILIATION

Audit examination of the latest bank reconciliation and related records revealed the following discrepancies:

- There were inordinate delays in preparation of monthly bank reconciliations. The latest reconciliation completed and furnished for audit verification in April 2012 was for the month of February 2011, hence the bank reconciliation was in arrears by 10 months;
- Monthly bank reconciliations were not duly certified and approved by authorized Officers to attest for completeness and accuracy;
- Reconciling items needing to be identified, investigated and cleared prior to compiling the bank reconciliations were:

Schedule 5 - 3 fraudulent cheques totaling K58,950.

Schedule 6 - 42 outstanding items for the years 2010 to 1996 totaling K7,423,152.

Schedule 7 - Reimbursements to WPA for June 2010 – February 2011 totaling K12,078,085.

Schedule 11 - 12 other items totaling K171,961.



39 Stale cheques for years going back to 2008 totaling K54,672.

## **ASSET MANAGEMENT**

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

- As per the 2010/2011 expenditure transaction details, assets purchased totaling K757,730 were not recorded in the asset register;
- The recurrent budget for 2010 and 2011 did not appropriate for the purchase of vehicles. However, during the year 2010, K301,705 was spent whilst K535,422 was spent in 2011 on the purchase of motor vehicles;
- The asset register had a list of malfunctioned assets which should have been disposed; and
- No annual stock-take was conducted on departmental assets.

## **PROCUREMENT AND PAYMENT PROCEDURES**

A review of the expenditure detail transaction for 2010 and 2011 and subsequent verification of 99 paid vouchers selected on a random sample basis revealed the following discrepancies:

- 16 payments totaling K9,962,269 for 2010 and 18 payments totaling K3,503,066 for the year 2011 were charged to incorrect expenditure vote items in 2010 and 2011 respectively;
- Out of the 99 samples selected, 27 payment vouchers for 2010 totaling K754,633 and seven (7) for 2011 totaling K224,616 were not made available although requested;
- In three (3) instances, requisition for goods and services (FF3) were not attached for payments totaling K185,027;
- In 36 instances, the authorized requisition officer did not sign for payments totaling K7,371,353;
- In 24 instances, payments totaling K5,643,097 were made without the authorization of the section 32 officer;
- In 26 instances, paid vouchers totaling K6,603,783 were not signed by the financial delegate;
- In 62 instances, paid vouchers totaling K8,626,010 were not certified by the certifying officer;
- In 62 instances, paid vouchers were not verified and examined by the examining officer for payments totaling K8,626,010;
- In 16 instances, less than three (3) quotations were attached for payments above K5,000 and less than K100,000 totaling K570,110;

- In 33 instances, no receipts or reports were attached to confirm the delivery of goods or services provided for the total value of K6,088,314;
- In 20 instances, payments were made without invoices amounted to K1,065,267; and
- In 23 instances, consultancy/contract agreements were not sighted for payments totaling K6,564,723.

## **HUMAN RESOURCES AND PAYROLL**

Audit review of personal files and related records disclosed the following salient matters:

- The establishment register was not updated with names of new recruits and individual employment status;
- Five (5) casual employee's had no proper employment records. The only record available was a letter from a senior officer authorizing for inclusion on payroll;
- Two (2) senior officers employment contracts expired in 2010 were not renewed. However, they continued to receive all benefits and allowances;
- Seven (7) officers' history cards were not properly maintained and updated;
- Two (2) employees' payroll files could not be located;
- A payment of higher duty allowance (HDA) on a grade 12 level was not supported by relevant salary records except for a letter requesting for payment of higher duty allowance; and
- No payroll reconciliations were done against the standard payroll.

## **DEVELOPMENT BUDGET (PIP)**

### *Pacific Marine Industrial Zone Project*

The Pacific Marine Industrial Zone Project was appropriated K54 million in the 2011 Development Budget. It was noted that only K10 million was released to the Department as per the warrant authorities. The Project funds were maintained in the trust account called "Madang Marine Park Development Trust Account Subsidiary". Examination of the Project funds with the related records/documents revealed following matters of concern.

As per the expenditure transaction details for the 2011 (print-out dated 18/10/11), transactions totaling K9,996,570 were recorded and paid out of the project funds. Audit examination of 39 paid accounts totaling K9,100,637 selected on random basis revealed the following shortcomings:

- In seven (7) instances, paid vouchers totaling K950,547 were not sighted;
- In 30 instances, paid vouchers totaling K8,129,890 were not examined by the examining officer;
- In 31 instances, paid vouchers totaling K8,139,062 were not certified by the certifying officer;

- In seven (7) instances, payments totaling K1,155,283 were not supported by requisitions for expenditure (FF3);
- In three (3) instances, payments totaling K61,000 were supported by requisitions for expenditure (FF3) but the particulars were not completed and signed for correctness of payments;
- In three (3) instances, requisitions for expenditure (FF3) totaling K1,234,161 were not signed by the authorized section 32 officer;
- In 30 instances totaling K7,724,489, requisitions for expenditure (FF3) were not signed by the authorised requisitioning officer (ARO);
- In 22 instances totaling K6,427,649 requisition for expenditure (FF3) were not signed by the commitment clerk for evidence of funds availability;
- A payment of K568,039 was paid to a contractor as progressive payment for the supply and installation of a boundary perimeter fencing on project site. The following was noted:
  - Payment certificate submitted to the project manager included variations over K1 million of which approval from relevant authorizing committee/agencies was not sighted; and
  - Payment certificate submitted for consultancy and administration of the project on site was not signed and approved from the Consulting Engineers representative was not acknowledged before submitting for payment.
- A payment of K490,550 paid to a company for variation works on drainage culverts revealed the following:
  - Approval from relevant authorizing committees/agencies for the variation was not sighted; and
  - Work completion report from the project manager was not sighted.
- A payment of K4 million was paid to the same company for additional fencing. Total contract to extend variation price was K6,171,854. In this regard, the following were noted:
  - Copy of CSTB approval for extending variation for additional fencing was not attached to the claims form for payment;
  - Work completion report from the project manager was not sighted; and
  - The original contract value for supply and installation of fencing as per the CSTB approval was K7,038,673 and an additional variation amount of K1,253,867 thus totaling to K8,292,540. The payment of K4 million to the contractor, increased the total contract value to K12,292,540. The new extended variation amount (K4 million) is about 50% of the original contract value approved by CSTB. Audit is of the opinion that proper design drawings and costing were not done and checked before being approved. This reflects non compliance to the laid down financial regulations.

## ADVANCE MANAGEMENT

A review of the advance register and tests performed on samples of advances against records for the years 2010 and 2011 revealed the following weaknesses:

### *Year 2010*

- 74 advances amounting to K284,173 remained outstanding;
- In 15 instances, subsequent advances amounting to K210,235 were paid to officers whilst previous advances remained outstanding;
- 18 out of 30 acquittal forms for advances amounting to K70,093 were not sighted; and
- Five (5) out of 30 acquittal forms for advances amounting to K8,025 were not supported by relevant travel documents.

### *Year 2011*

- 33 advances amounting to K248,793 remained outstanding;
- In eight (8) instances, subsequent advances amounting to K83,235 were paid to officers whilst their previous advances remained outstanding;
- No action was taken on advance holders for non-acquittal of long outstanding advances;
- The Financial Delegate responsible for monitoring the Advance Register conducted no review to ensure timely acquittal of advances; and
- A total of 100 officers were issued salary advances from 2002 to 2011, totaling K354,226. The following observations were noted:
  - In 33 instances, outstanding salary advances totaling K114,747 have not been recovered;
  - Five (5) out of the 33 officers with total outstanding salary advances of K9,038 were either retrenched, suspended, transferred, terminated, resigned or have died and as a result could not be recovered;
  - In 30 instances, officers with salary advances totaling K131,017 did not complete their salary deduction repayments, thus leaving an outstanding of K84,171 yet to be recouped;
  - In 18 instances, advances totaling K46,161 were paid from the trust account; and
  - The Department continued to allow 44 officers to obtain additional salary advances whilst their prior salary advances remained outstanding.

## DEPARTMENTAL RESPONSE

The Department did not respond to the audit findings reported in the management letter issued, at the time of writing this report in June, 2013.

## CONCLUSION

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

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

## 4. DEPARTMENT OF COMMUNITY DEVELOPMENT

### OVERVIEW

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

### FINDINGS

#### BUDGETARY AND FUNDS CONTROL

A comparison of the Expenditure Vote Summary for the year ended 31/12/11 produced by the Department of Community Development with the Expenditure Statement on TMS 330 produced by Department of Finance for the same period revealed significant variances as detailed below;

The variances indicate that no reconciliations were performed to balance the ledgers.

##### *Variances in Expenditure Balances*

Particulars	Expenditure as per DCD record (K)	Expenditure as per DoF record (K)	Variance (K)
Revised Appropriation	108,492,800	108,841,900	-349,100
Warrant Authority	15,182,600	108,841,900	-93,659,300
Actual Expenditure	9,774,316	15,729,434	-5,955,118

In addition, the Expenditure Statement (TMS 100) produced by Department of Finance for year ended 31 December, 2011 revealed expenditures in excess of warrant authorities issued under three (3) vote items totaling K120,410 in the Recurrent Budget as reflected in the table below;

##### *Expenditures in Excess of Warrant Authority*

Item	Description	Warrant Authority (K)	Actual Expenditure (K)	Variance (K)
111	Salaries and Allowances	5,864,400	5,963,455	-99,055
112	Wages	443,899	454,011	-10,112
141	Retirement Benefits, Pension, Grt	305,100	316,343	-11,243
<b>Total</b>		<b>6,613,399</b>	<b>6,733,809</b>	<b>-120,410</b>

#### ASSET MANAGEMENT

A review of records maintained and the internal controls surrounding the asset management practices revealed the following issues:

- All assets were registered under one category, even though some assets were not of the same nature. Assets should be categorized according to their own nature as per the categories mentioned in *Financial Management Manual Part 32 Section (2) – Asset Register*.

- The asset registers had incomplete/missing information in the columns under Model Number and Serial Number. Further, the physical location and custodian columns were not provided. Hence, asset registers were noted to be incomplete and unreliable.
- In 23 instances, assets procured totaling K193,925 were not duly recorded in the asset register for year 2011 as required.
- No Motor Vehicle register was maintained by the Department to record all vehicles purchased by the Department. In the absence of the register, audit was unable to establish the ownership, custodianship, location and condition of the vehicles. As such, a Toyota Landcruiser 10 seater purchased for a value of K133,079 during the year under review could not be traced to the vehicle register.

## **PROCUREMENT AND PAYMENT PROCEDURES**

Audit review of the Expenditure Transaction Details for 2011 and the examination of 44 paid vouchers totaling K1,099,624 selected on a random basis and subsequent verification of paid vouchers and related documents revealed the following weaknesses:

- In 21 instances, payments made to the paymaster amounting to K40,522 was for allowances for the preparation of the 2012 Budget, which was considered to be a normal task for the departmental staff. Payment of such allowances appears to be abnormal and extravagant.
- In 37 instances, payments made to the paymaster amounting to K59,202 was for purchase of fuel, which should have been paid directly to the supplier.
- In 35 instances, payments aggregating to K139,021 for recreational leave airfare entitlements were paid to individuals instead of the respective airline companies or travel agents.
- In six (6) instances, payment vouchers totaling K80,448 were not made available for audit examination to establish the authenticity and propriety of the payments;
- An amount of K10,000 was paid for repair work done on a department vehicle, however, only one (1) quotation was obtained;
- A sum of K48,000 was paid to two (2) Officers being for back-dated medical and telephone allowances without appropriate tax deducted from the payments;
- An initial deposit of K2,000 for vehicle hire in Port Moresby and another deposit of K2,000 for vehicle hire in Lae paid to the same company amounting to K4,000 was not deducted from the final payment totaling K15,540;
- A payment of K14,305 in cash and paid through the paymaster, instead of paying directly to the security company; and
- A sum of K100,000 was disbursed to the Patio Water Supply project without cost breakups and acquittals on how the funds were used and status and progress reports were not sighted. Consequently audit was unable to vouch the propriety of the payments made.

## ADVANCES MANAGEMENT

An audit review of advance registers and related records and documents disclosed the following weaknesses:

- A total of 134 advances amounting to K208,077 remained un-acquitted;
- In 25 instances, second advances were paid to officers who did not acquit their first advances contrary to Part 20 paragraph 12.11 of the FMM;
- In 158 instances, advances totaling K562,629 were not recorded in the Advance Register but were shown on the expenditure transaction details listing for year 2011 rendering the advance register in complete and unreliable;
- The practice of processing travel advances and cash advances paid under the name of the Paymaster instead of the individual officer's name is still continuing in the previous report; and
- In 283 instances, advances made to the paymaster totaling K563,963 remained un-acquitted as at year end.

## DEPARTMENTAL RESPONSE

The Department has not responded to the management letter issued at the time of writing this report in June 2013.

## CONCLUSION

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

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



## 5. DEPARTMENT OF CORRECTIVE INSTITUTIONAL SERVICES

### OVERVIEW

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

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

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

### FINDINGS

#### BUDGETARY AND FUNDS CONTROL

A comparison of the expenditure vote summary printout produced by the Department of Correctional Services (PGAS) with the expenditure statement produced by Department of Finance (TMS) revealed significant variances between expenditure balances.

Particulars	Expenditure as per DCS record (K) (PGAS)	Expenditure as per DoF record (K) (TMS 330)	Variance (K)
Revised Appropriation	122,155,695	121,391,100	764,595
Warrant Authority	76,103,188	121,390,988	-45,287,800
Actual Expenditure	75,883,596	122,066,711	-46,183,115

- The variances noted indicated that the Department had not performed monthly reconciliations to reconcile the ledger balances for the purposes of reliable financial information for the users.

- The expenditure statement produced by Department of Finance for the month of December revealed expenditures in excess of warrant authorities issued under 5 vote items totaling K4,298,026.

## **BANK RECONCILIATION**

Audit examination of the bank reconciliation statement for the month of December, 2011 and other related records and documents revealed the following weaknesses:

- Numerous reconciling items were yet to be investigated, cleared and adjusted as required to establish an accurate cash book balance. The outstanding reconciling items are presented below:
  - A total of K15,071 represented transfers from Waigani Public Account. This amount appeared as a debit in the bank statement since February, 2011;
  - A total of K8,017,615 represented reimbursements for the month of December, 2011 were not journalised; and
  - Un-presented cheques as per schedule 8 amounting to K5,839,177 included stale cheques aggregating K1,248,347 issued from year 2009 to year 2010.
- A review of the bank reconciliation statement revealed that the cashbook indicated an overdrawn year end closing cash balance amount of K13,841,721.

## **PROCUREMENT AND PAYMENT PROCEDURES**

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

- In 23 instances, the Service incurred over-expenditures by vote items totaling K12,660,218;
- In 109 instances, expenditures totaling K13,369,685 were charged to various incorrect vote items. Further, audit noted that authority to use funds from other vote items due to insufficient funds in the correct vote item was given by requisition Officers instead of the Departmental Head;
- In 142 instances, a total of K388,965 was transferred from one vote item to another without proper approval;
- A total of K9,801,946 (13%) was spent on rations. In this regard, audit noted that:
  - Three (3) quotations were not obtained for the purchase of rations; and
  - The same supplier was selected to supply rations on a monthly basis without any evidence of contract agreements.
- A total of K585,302 was paid to a company for the supply, installation and maintenance of air condition system. In regard to this payment, audit noted that:

- There was no CSTB approval;
- There was no contract agreement;
- No job completion report filed; and
- The company conducted its business operations from a male dormitory room (TOA 6; K6) on UPNG campus. Audit could not verify the basis for selecting the supplier.
- A company was paid a total of K333,891 for the supply and installation of tanks and water pipes for Bihute prison. In this regard, audit noted that:
  - There was no contract agreement;
  - The business was registered on the 5 April 2011. Thus, the first payment of K199,598 was considered as an irregular transaction;
  - The company was overpaid by K2,650 for the first payment;
  - The company did not provide plumbing related services as it was only a hardware and agricultural goods supplier. Thus, the payment relating to labour costs of installing the tanks and water pipes was improper; and
  - No goods received report was received to confirm the number and condition of goods purchased.
- CIS paid a company K150,000 for the acquisition of a brick making machine. In regard to this payment, audit noted that:
  - There was no invoice;
  - No delivery docket was sighted to confirm that the brick machine was delivered; and
  - There was no updated asset register to confirm existence of the machine.
- A total of K117,374 was paid to a company for the provision of major renovations to a residential house in Lakiemata. In relation to this expenditure audit noted that:
  - Three written quotations were not obtained;
  - There was no contract sighted; and
  - No job completion report.
- A total of K366,485 and K336,323 were paid to two (2) unregistered companies. Hence, all business transactions entered into with the companies by the department were improper;
- The department paid a total of K176,360 to a workshop for repair and maintenance done to its motor vehicles in Buimo. In this regard, audit noted that the business was operating with an expired business certificate. Hence, business transactions with the supplier was considered improper;
- An amount of K12,243 was made in favour of an individual whose electrician's license had expired for the provision of electrical maintenance services to the prison compound in Kavieng;

- In six (6) instances there were variances between the invoiced amounts and that of the cheques. The cheque amounts were higher by K190,031 as compared to the invoiced amounts; and
- In another six (6) instances, payments totaling K97,808 were made for prior years commitments. In this regard, audit noted that:
  - An invoice was issued after the cheque was authorized and raised for the amount of K19,317;
  - Two (2) quotations for pest control and fumigation services were obtained three (3) months after the service was provided by the selected supplier;
  - A cash advance of K15,000, was raised in favour of an officer for organizing refreshments for the opening of a new house in Buimo. In this regard, audit noted that the cheque was raised before the approval by the Section 32 Officer.
- A review of randomly selected payments in 82 instances totaling K9,769,436 were examined and the following discrepancies were noted:
  - Changes not authenticated in three (3) instances totaling K475,671;
  - In 26 instances totaling K1,190,787 less than three (3) written quotations were obtained for payments above K5,000 and less than K300,000;
  - In 49 instances totaling K2,238,434 no receipts or reports were attached to confirm the delivery of goods or service provided;
  - Payments were made without tax invoices in 29 instances totaling K1,362,472;
  - Consultancy/contract agreements were not sighted to confirm amount paid to contractors in ten (10) instances totaling K1,266,866; and
  - The department did not have a quotations register.

## TRUST ACCOUNT

Examination of 59 payments totaling K266,780 made to individuals/suppliers out of the Prison Industry Trust Account during the year under review revealed the following discrepancies:

- In 45 instances, payments totaling K208,473 which constitutes 92% of total payments were paid to various individuals and suppliers for purposes not related to the nature of the trust account;
- 21 out of the 45 payments vouchers totaling K51,422 were paid as travelling allowances to officers for duty travels. Further checks revealed that the travel advances were not recorded in the advance register maintained;
- Five (5) payment vouchers totaling K8,823 were not furnished for examination purposes; consequently audit was unable to verify the propriety of payments effected;
- In all 54 payment vouchers furnished for review, audit noted that the same officer was examining and certifying the general expense (FF4) claims indicating no segregation of duties as required;

- In 27 instances, payment vouchers totaling K46,336 were not endorsed by the commitment clerk;
- Two (2) instances, payments totaling K11,062 were made to suppliers based on only one quotation for services rendered;
- In five (5) instances, payments totaling K15,638 were paid to suppliers based on pro-forma invoices; and
- Two (2) cheque payments totaling K96,614 were paid to a contract company for maintenance purposes and the following was noted:
  - The payments should have been made out from the recurrent budget; and
  - Completion report from field supervisor was not sighted.

#### *Bank Reconciliation*

A review of the bank reconciliation statement for the month of November and December 2011 and other related records relating to the prison industry trust account revealed the following:

- The Department was not submitting their bank reconciliation statement to Department of Finance within 14 days at the close of each month as required;
- The monthly bank reconciliations did not have necessary details such as date of preparation and names of officers who prepared and checked the bank reconciliations;
- The cashbook was not updated. Audit noted that receipts for the month of November and December 2011 were not entered in the (PGAS) cashbook, thus not giving a true and fair financial status of the trust account; and
- Audit noted that the cheque history listing printout did not show a realistic status of payments made. Payments presented at the bank were listed as un-presented.

#### **ADVANCE MANAGEMENT**

The review of the advances register and other related documents revealed the following anomalies:

- 11 advances totaling K35,680 were paid in the name of the paymaster which is in breach of the FMM Part 20;
- A total of 606 advances amounting to K732,167 remained un-acquitted as at the time of audit. Included in the unacquitted advances were ten (10) advances paid in the name of the paymaster totaling K71,949;
- 128 officers were paid second advances totaling K455,555 whilst their prior advances remained outstanding; and
- A sample of 52 acquitted travel advances totaling K90,401 were selected for audit verification which revealed the following:

- In 29 instances totaling K53,411, no field reports were attached as part of the acquittals to substantiate the advances paid;
- In 23 instances totaling K43,533, no airline boarding passes were attached to the acquittals to prove that the officer had actually travelled;
- In all 52 instances all acquittal forms were not approved by the financial delegates. As a consequence, audit was unable to determine whether acquittals were made within the *PFMA* required timeframe of 7 and 14 days for domestic and overseas travels respectively; and
- A total of K210,299 was cashed out in 2011 for various activities excluding petty cash reimbursements. Cash payments not acquitted amounted to K133,649.

## ASSET MANAGEMENT

Audit review of assets register and other related records disclosed the following matters of concern:

- The department's asset management unit was inactive;
- The asset register maintained by the Services was last updated in 2008. As such, audit could not determine the value of assets as at 31 December, 2011. Neither could audit confirm the existence and current condition of the department's assets;
- In 2011, the Fixed Assets Management Unit (FAMU) visited three (3) prison administrations namely, Beon, Ningerum and Bekut to conduct stock takes on the assets under their custody. However, there was no proper report furnished after the visitations; and
- The Department has an asset management system that is part of the Law and Justice Sector improvement program. However, the system is still under construction and is not fully functional.

## HUMAN RESOURCE MANAGEMENT

A review of records maintained by the human resource and payroll management division disclosed the following matters:

- A number of officers identified and advised to retire refused to do so. The matter is currently before the court of law; and
- The department did not have an annual training plan for 2011. Despite this, officers were recommended and approved for training.

A sample of 33 employee files were selected and the following discrepancies were identified.

- Employee personal files were poorly maintained in that their salary history cards were not updated. History cards were not sighted in 28 instances;
- Performance appraisals for 2011 were not done for 18 officers;

- Employment contracts were not on file for ten (10) contract officers;
- Audit could not confirm leave warrants paid to an officer in 2011 as requested information was not provided. Further, the officer claimed leave warrants for her dependent who was over the age of 18 years;
- Two (2) employee files were not provided;
- No appraisal was done for an officer being paid Higher Duty Allowance (HDA);
- Five (5) officers have yet to take their recreational leaves, their last leaves taken were in 1994, 2007 and 2008 respectively; and
- Monthly payroll reconciliations were not done.

## DEVELOPMENT BUDGET

The Department of Corrective Institutional Services (CIS) had three (3) projects currently in operation under the Public Investment Program (PIP) for the year 2011. The projects were fully funded by the Government of Papua New Guinea (GoPNG) and these were Rural Lockup, CIS Communication Infrastructure Program and Boram Jail Relocation. In relation to the operation and management of the projects, audit noted the following salient matters:

- Audit was not furnished with the annual work plan and the cash flow statements for all three (3) projects, although requested. In the absence of the annual work plan and cash flow statement, audit was unable to confirm that funds released through warrant authorities, to the Department and expended on the three (3) projects totaling K17,003,700 were as per the work plan and cash flow requirements;
- The department did not have a project steering committee. In the absence of a project steering committee, the requirements of quarterly meetings to discuss the progress of the projects was not complied with as stated in the PIP guidelines 10.1.2; and
- AGO noted that the trust account was not integrated into the PNG Government Accounting System (PGAS).

### Project (1) – *Rural Lock-Ups*

Audit randomly selected a sample of 20 payment vouchers valued at K3,203,277 and subsequent verification of paid vouchers and related documents revealed the following weaknesses:

- All 20 payment vouchers totaling K3,203,277 were not examined and certified by authorized officers;
- In seven (7) instances, payment of goods and services were made based on pro-forma invoices;
- Contract agreements were not sighted during audit for the following payments;
  - Three (3) payments totaling K1,495,927 for construction of Moreguina rural lock-up facilities;
  - A payment of K110,000 for consultancy work done at Pangia rural lock-up;

- Payments totaling K51,000 in two (2) instances for surveying of proposed rural lock-up site in Baiyer, Western Highlands Province; and
  - A payment of K1,394,000 was paid to a company without the contract agreement.
- Audit selected 13 payments relating to travelling allowances totaling K11,677 and tested on acquittal procedures which revealed that three (3) travel advance payments totaling K2,633 were not acquitted.

**Project (2) – CIS Communication Infrastructure Program**

Audit randomly selected a sample of 14 payment vouchers totaling K780,783 for verification and the following were noted:

- In all 14 instances the general expense forms (FF4) were not examined and certified;
- In two (2) instances, payments totaling K84,147 were made based on one quotation; and
- Audit randomly selected 28 travel allowances totaling K31,249 and the following observations were made:
  - 12 travel allowances totaling K17,906 were not acquitted;
  - 16 travel allowances totaling K13,343 were submitted for acquittal without sufficient supporting documents attached to the forms;
  - In two (2) instances acquittal forms were not signed by the financial delegate; and
  - The project unit did not maintain an advance register.
- Audit randomly selected 9 cash advances totaling K11,200 for verification and the following were noted:
  - Seven (7) cash advances totaling K10,200 were not acquitted; and
  - The project unit did not maintain any register to record all cash advance payments.

**Project (3)- Boram Jail Relocation**

Audit randomly selected a sample of 16 payment vouchers totaling K6,851,462 for examination and noted the following control weaknesses:

- In all 16 instances, requisition for expenditure (FF4) forms were not examined and certified by responsible officers; and
- The contract agreement was not sighted for a payment of K80,543 to a company for consultancy work at Baisu Correctional Institution.

Audit randomly selected 27 travelling allowance payments totaling K37,323. The verification of records maintained revealed the following discrepancies:

- In six (6) instances, travelling allowances totaling K5,736 were not acquitted; and
- No travel advance register was maintained.



## DEPARTMENTAL RESPONSE

The findings were brought to the attention of the Commissioner in the management letter issued. However, the management failed to respond up to the time of writing this report in June 2013.

## CONCLUSION

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

## 6. DEPARTMENT OF DEFENCE

### OVERVIEW

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

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

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

### FINDINGS

#### BUDGETARY AND FUNDS CONTROL

A comparison of the 2011 Expenditure Vote Summary against the Expenditure Statement produced by the Department of Finance revealed significant variances between the PGAS and TMS records maintained by the respective departments. These differences were not explained.

Particulars	Exp. as per PGAS (K)	Exp. as per TMS (K)	Variances
Revised Appropriation	222,675,200	199,419,300	23,255,900
Warrant Authorized	136,906,100	197,619,300	-60,713,200
Actual Expenditure	128,189,845	182,462,262	-54,272,417
<b>Net Unexplained Variance</b>			<b>91,729,717</b>

According to TMS 330 Report for Period 12 (run date 08/03/2012), 20 items were over-expended aggregating to K8,039,824 as at 31 December, 2011.

#### BANK RECONCILIATION

The Department of Defence operates a Drawing Account – No. 4311-611 with the Bank of Papua New Guinea. Audit review of records maintained in relation to bank reconciliation disclosed the following discrepancies:

- The latest bank reconciliation prepared was for the month of September 2011, which indicated that the reconciliation statements were not prepared on a timely basis and submitted to the

Department of Finance as required. Hence, the bank reconciliation was in arrears by more than two (2) months; and,

- The bank reconciliation statements were not certified by a senior officer to attest for accuracy and completeness of records.

## ASSET MANAGEMENT

Audit review of the asset register and related records revealed the following weaknesses:

- The Department did not maintain any asset register;
- Assets procured totaling K1,428,881 relating to different categories of assets were not accounted for as there was no register maintained to record the details as required under Part 32 of the Financial Management Manual;
- Attractive Items such as mobile phones, laptops, cameras, flash drives, and hard drives totaling K12,005 were purchased upon requests by officers. These items were not recorded separately in a register to record issues to officers; and
- No annual stock-take was carried out for the year 2011, however, audit was advised that the stock-take was currently undertaken on all Defence Assets nationwide, at the time of audit in July 2012.

### *Motor Vehicle Register*

- The Department did not maintain a proper motor vehicle register. The list of vehicles that was furnished to audit was a minute that was submitted to the Secretary of Defence regarding the condition of the department's fleet;
- The Department did not maintain a consolidated fleet register but instead maintained separate registers for both civilian and military divisions. Audit was not provided with the military fleet register although requested; and,
- In 2011, two (2) tractors and eight (8) motor vehicles were purchased totaling K840,184, however, audit could not verify their existence, in the absence of the vehicle register.

## HUMAN RESOURCE MANAGEMENT AND PAYROLL

It was noted that vote item 114 (excluding those that were paid through other vote items) incurred more than K10 million in Recreation Leave fares in 2011. An examination of 96 randomly selected paid vouchers for Recreational Leave entitlements totaling K1,220,301 and a review of the procurement and payment procedures revealed the following matters:

- 13 of the 96 paid vouchers were missing from the file;
- All annual recreational leaves were accrued at 30 working days and not 15 working days contrary to General Order 14.30;

- In 15 instances totaling K239,323, dependents over 19 years of age and also not eligible were included, which was contrary to General Order 14.41;
- Payments were not examined and certified by the respective officers in all 83 instances totaling K1,023,701;
- In all instances, copies of cheques were not attached to the paid vouchers for audit verification of the amounts paid;
- Payments relating to recreation leave were paid in lump sum to various travel agencies in some noted instances rather than to individual officers;
- Three (3) senior officers were paid over time totaling K21,263 and the following irregularities were noted in regard to these payments:
  - The officers who were paid overtime occupied positions at salary grades 10, 11, and 15 which were not eligible for overtime as specified in General Order 13.68;
  - In all instances, approval was not obtained from the supervisors prior to working overtime which is contrary to Financial Management Manual Part 18, Division 5.28;
- 31 officers gratuity payments totaling K302,933 and 17 officers salaries totaling K30,407 were paid through the PGAS and not through Concept payroll as required. An examination of the paid vouchers with the related records and documents revealed the following observations:
  - Audit could not verify the correctness of these payments in the absence of the personnel files for these officers;
  - Personal files were not made available to review employment contracts for senior officers. Audit was informed that the contracts had expired and were yet to be renewed. This issue was reported in our previous audit reports and remained unresolved up to the time of audit in July, 2012.

## PROCUREMENT AND PAYMENT PROCEDURES

A sample of 151 payments totaling K20,035,768 were selected from the Expenditure Transaction Details report and a review of the paid vouchers and related records and documents revealed the following irregularities:

- Of the total of 151 samples, 101 payment vouchers totaling K8,861,628 were not made available although requested; and,
- A total of K12,970,295 was paid to the Paymasters Imprest Account as reimbursements for the monies that were spent from the imprest account. There was no policy or instruction in place from Finance Department for such payments to be made from the imprest account and then to be reimbursed from PGAS. This practice is contrary to the *Appropriation Act, 2010* and the *Public Finances (Management) Act, 1995*. In addition no cash book was maintained for this Imprest Account.

This issue of monies transferred into the imprest account and payments out of the account was reported in our previous audit reports and remained unresolved.

## ADVANCE MANAGEMENT

The Department started maintaining its advance register in 2011. A review of the register and related documents revealed the following irregularities:

- All acquittal forms were not reviewed and signed by a financial delegate to ensure that acquittals were correct.
- 21 officers were given second advances totaling K195,779 while their previous advances were outstanding.
- 269 advances totaling K484,240 remained outstanding as of 31 December, 2011 in which 38 were related to cash advances, totaling K218,607.
- A sum of K48,948 was paid as cash advance to cater for medical expenses; which is contrary to *Part 20 of the FMM*.

## DEPARTMENTAL RESPONSE

The reported findings were brought to the attention of the Secretary through a management letter delivered on the 13 February, 2013.

At the time of writing this report, the management had not responded to the audit findings reported.

## CONCLUSION

In general, there were no significant improvement in the system and operation of controls within the Department compared to the previous years. The shortcomings noted in the past audits continue to exist which indicates that the management had not taken any action to correct the deficiencies reported.

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

## 7. DEPARTMENT OF EDUCATION

### OVERVIEW

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

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

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

### FINDINGS

#### BUDGETARY AND FUNDS CONTROL

A comparison of the Expenditure Summary for the period ending 31/12/11 generated by the Department of Finance against the report by Education Department through PGAS system revealed the following unexplained variances indicating a serious lack of monitoring and control weaknesses.

<u>Particulars</u>	<u>Exp.as per TMS</u>	<u>Exp.as per PGAS</u>	<u>Variances</u>
	<b>K</b>	<b>K</b>	<b>K</b>
Revised Appro.	653,033,800	655,966,100	-2,932,300
Warrant Authority	653,219,800	440,355,091	212,864,709
Actual Expenditure	434,900,298	435,177,452	-277,154

#### BANK RECONCILIATION

A review of the latest bank reconciliation for the month ended 30 September, 2011 and related documents revealed the following weaknesses.

- As at the time of audit in February, 2012, the latest bank reconciliation prepared was up to September, 2011, and consequently the bank reconciliations were in arrears by four (4) months;
- Other items in schedule 6 totaling K1,613,855 included unidentified journal entries, missed out paid cheques, journal entries for various cancelled and stale cheques, and various other items dating as far back as 2004, have not been investigated, journalised and cleared;

- Reimbursements totaling K67,878,383 for the months of May, 2011 to August, 2011 were yet to be posted into the Cashbook in order to clear them;
- Un-presented cheques totaling K73,236,498 included stale cheques totaling K1,986,660 that have not been cleared and adjusted in the cash book; and
- Other items in schedule 11 totaling K70,861,749 included cancelled cheques not yet journalized totaling K70,431,752 dating as far back as 2003. These items need to be investigated and cleared by effecting adjustments in the Cashbook.

## **ASSET MANAGEMENT**

Audit examination of the asset register and related records together with a review of the management controls and procedures revealed the following matters:

- The Department has an Asset Management Manual in place called the ‘National Assets Management Manual’ dated 2008, however, it has not been used nor revised since. This issue has been raised in the prior year’s audit and remains unresolved.
- The Department purchased a fixed assets management software in 2009 with a vision to centralize all its assets, however, the software did not generate reports that are required for management purposes as well as requirements stipulated under *Part 2 of the Financial Management Manual*.
- A review of the General Assets Register, the Maintenance register and the fuel register books and related records has shown that all registers were not updated regularly as required:
  - In 149 instances, payments totaling K689,009 of maintenance work paid to a company were not recorded in the maintenance register;
  - The fuel register was not updated regularly and with a total expenditure of K352,471 spent on fuel for the year 2011, security and control of fuel is still a great concern; and
  - In 11 out of 14 instances totaling K199,467, assets purchased were not registered in the asset register maintained.

## **PROCUREMENT AND PAYMENT PROCEDURES**

An examination of 35 paid vouchers totaling K35,855,241 and related documents selected on a random sample basis, and a review of the procurement and payment procedures in operation revealed the following shortcomings:

- In nine (9) instances, audit could not verify nor validate the propriety of the payments totaling K16,882,461 as the paid vouchers were not provided although requested;
- As raised in the prior year audit reports, proper maintenance and safe custody of payment vouchers is not seen as a priority and moreover, access to the accounts area was unrestricted;

- In three (3) instances, payments totaling K539,100 were processed and paid without the invoices to substantiate such payments; and
- In three (3) instances, payments totaling K3,290,319 were processed and paid on the pro-forma invoices instead of the tax invoices as required.

## **HUMAN RESOURCE AND PAYROLL**

### *Reconciliation of Salaries Drawing Account*

- The Department's payroll is processed and payments are made without the reconciliation of standard pay against actual pay per fortnight to vouch for the accuracy and completeness of the payroll expenses.
- No bank reconciliation had been compiled for the Salary Drawing Account since 1994 and up to the date of the audit in February, 2012.

This issue has been reported in our previous reports since 2006. The Department is yet to come up with some remedial action to rectify the problem of reconciling the Salary Drawing Account.

### *Maintenance of Employee Files*

A review of 15 employee files and related records relating to Teachers disclosed the following irregularities;

- Of the 15 files requested, six (6) were not made available for audit inspection.
- The nine (9) personal files that were examined revealed that history cards were not updated with data including salaries, recreation leave, miscellaneous leave and sick leaves. Some history cards were last updated in 2004.
- In five (5) out of nine (9) instances, the teacher's Certificate of Registrations were not sighted to verify that the employee was a registered teacher as is the requirement under the *Teaching Service Act, 1988 and the Education Act, 1983*.
- It was noted that in all the nine (9) files examined, there were no resumption forms (EDB023) sighted in the personal files. Audit further noted that the forms were submitted and the system has been updated, however, the forms were yet to be filed, indicating weaknesses in the internal controls.

## **TRUST ACCOUNT**

### **National Education Trust Account (NETA)**

Audit examination of eight (8) randomly selected samples of paid vouchers totaling K1,018,565 and related records revealed the following discrepancies:



- Cash advance's paid totaling K35,800 remained outstanding at the time of audit in February 2012;
- In three (3) instances totaling K154,495, purchases were made with only one (1) quotation;
- A payment of K241,275 was effected on the requisition form containing photocopied signatures of the requisitioning officer and *Section 32 officers* thus indicating serious weaknesses in the internal control system within the Department; and
- A payment voucher of K428,981 was not made available for inspection and as a result audit was unable to verify the propriety of the payment made.

## ADVANCE MANAGEMENT

An examination of the cash and travel advance register, acquittal forms and related records for advances paid to officers during the period under review disclosed the following weaknesses:

- A total of K4,405,255 was paid to Paymaster as cash advances for the period under review, however, the details of advances were not recorded in registers maintained, contrary to the requirements in the *Financial Management Manual Part 20*.
- No review on the advance register was done by a financial delegate to ensure that all advances are acquitted regularly. This issue was raised in the previous audit report and still remains unresolved.
- 11 out of 15 officers were paid second advances when their first advances were still outstanding amounting to K16,373. This is a direct breach of *Financial Management Manual Part 20, paragraph 12.11*.
- 793 travel advances totaling K2,392,100 remained unacquitted as at 31 December, 2011.

## DEVELOPMENT EXPENDITURE

The Department was directly in charge of ten (10) projects with a total expenditure of K49,514,658 for the year 2011. A review of the Public Investment Program (PIP) Procedural Guidelines and the work plans together with the procurement procedures were assessed and examined and the following matters were noted:

### *Procurement Procedures and Work Plan Analysis on Selected Projects*

*Project (A):*     Quality Development of Education Standards & Supply of Textbooks (No. 235-2101-1-232)

A review of the summary transaction detail totaling K4,964,382 against the work plan provided revealed that:

- Purchases totaling K53,297 for office furniture's, laptops and mobile phones were not included in the work plan. Hence the expenditure was considered as irregular.
- Of the 15 paid vouchers selected for examination, seven (7) paid vouchers totaling K48,355 were not provided for audit inspection and consequently audit was unable to ascertain the nature and propriety of the expenditure.
- 15 advances totaling K161,859 were not recorded in the register maintained.
- A detailed report for the project was not included in the fourth quarter review report as required in the PIP guideline.

*Project (B):*     Inspectors Housing & Transportation (No. 235-2101-3-220)

The total appropriation for the project was K5 million, warrant issued was K5,700,000 and the total expenditure incurred for the year 2011 was K5,690,206. A review of the progress report for year ending 31 December, 2011 revealed that:

- In the year 2010, a company was contracted to build 17xH65 houses worth K4.5 million, however, as at the time of audit in February, 2012, there were nine (9) more houses that were yet to be constructed indicating non compliance to the contractual payment made.
- An examination of 21 selected paid vouchers totaling K4,609,121 were examined together with related records and documents and the following weaknesses were noted:
  - In three (3) instances, paid vouchers totaling K26,374 were not furnished although requested;
  - In three (3) instances also, paid vouchers totaling K4,270,000 was not supported by tax invoices; and
  - In seven (7) instances totaling K260,434, payments were made based on the pro-forma invoices instead of the original tax invoices as required.
- 64 advances totaling K179,765 were not recorded in the register maintained.

*Project (C):*     Establish a Library in Every School (No. 235-2802-1-202)

- A review of the transaction detail totaling K10,996,235 against the work plan provided revealed that:
  - A payment voucher for K1,350,000 was not made available to audit although requested; and
  - Cash advances totaling K133,370 in 20 instances were not recorded in the advance register maintained.

*Project (D):*     Technical Vocational Education Training (TVET) Sector Projects (No. 235-2101-6-214)

A review of the summary transaction detail totaling K9,604,406 against the work plan provided revealed that:

- Purchases of goods and services totaling K188,906 for security services , photocopy papers, print and supply of 2009 standard and guidance books, including a total of K1,121,172 spent on construction and maintenance costs to the national library were not part of the expenditures identified in the work plan.
- Included in the payments not identified in the work plan were payments for security services totaling K145,728. Audit noted that these payments were not paid according to the rate stated in the contract agreement. This issue was raised in the previous audit report and still remains unresolved.
- Audit examination of 40 paid vouchers totaling K8,703,182 and related records and documents, revealed the following weaknesses:
  - In four (4) instances totaling K253,154 payment vouchers were not provided to audit although requested.
  - A payment of K100,000 was paid to a company for print and supply of students guidance text books. However, the requisition for expenditure (FF3) and the invoice were not attached to vouch for proper authority and validity of such payment.
  - In two (2) instances totaling K233,553, pro-forma invoices were used to effect payment instead of the original tax invoices as required.

## DEPARTMENTAL RESPONSE

The department has not responded to the audit findings reported in the management letter issued, up to the time of writing this report in June, 2013.

## CONCLUSION

Although the results of the 2011 audit indicate that there were improvements in the operation of the internal controls compared to previous years, the overall result indicate that there were still significant weaknesses in the control framework.

At present, the control activities, such as delegation authorization, reconciliation, data processing, segregation of duties, and system access are not sufficiently robust to prevent, detect or correct error or fraud.

## 8. OFFICE OF THE ELECTORAL COMMISSION

### OVERVIEW

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

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

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

### FINDINGS

#### BUDGETARY AND FUNDS CONTROL

A comparison of the 2011 Expenditure Vote Summary printout maintained by the Electoral Commission with the Expenditure Statement produced by the Department of Finance for Period 12 of 2011, revealed significant variances between statement balances. See table below for details:

*Summary Total of Expenditures (recurrent budget)*

Particulars	PGAS (K) EC	TMS100 (K)	DoF Variance (K)
Initial Appropriation	24,794,000	24,794,000	-
Revised Appropriation	24,418,000	24,942,600	-524,600
Warrant Authority	23,835,900	24,942,600	-1,106,700
Actual Expenditure	17,907,409	21,353,211	-3,445,803

*Analysis of Actual Expenditure by Item*

Review of the department's actual expenditure noted that items 111, 121, 123, 125, 135, 122, 128 and 221 have variances between the two (2) records totaling K3,445,803.

Even though item 111 - Salaries and Allowances was maintained at the Department of Finance, there was no reconciliation between the two systems to show a correct balance of the overall expenditure for the Commission.

The variances noted between the PGAS and TMS records indicates that no reconciliations have been performed to balance the ledgers.

## BANK RECONCILIATION

Audit review of the bank reconciliation statement for December, 2011 and related records disclosed the following short-comings:

- The cash book showed an overdrawn balance of K10,998,573 as at 31 December, 2011 indicating that the cashbook was not properly updated in a timely manner;
- Credits in Bank Statement not in cash book totaling K8,646,222 as at 31 December, 2011 includes; reimbursements received for the months of November and December, 2011, yet to be posted into the cashbook; and
- Un-presented cheques as at 31 December, 2011 amounted to K2,352,351, remained outstanding at year end.

Although bank reconciliations were up to date, the weaknesses identified relates to cashbook in the PGAS not properly updated and over due cheques not written back in the cashbook. These outstanding items identified in the reconciliation should have been investigated and cleared to obtain an accurate cashbook balance at year end.

## ASSETS MANAGEMENT

### *Lack of maintenance of the Master Asset Register*

- Audit reviewed an incomplete Assets Register for the Electoral Commission, which audit could not place any reliance on; and
- Furthermore, AGO performed an analysis on the 2011 expenditure transactions (PGAS) and randomly selected 38 transactions of assets purchased during the year totaling K451,448 to check if they were registered on the asset register. Audit noted that none of these assets were listed in the asset register.

### *Assets Officer exited without proper hand over of assets related documents and files*

- The Assets Officer left the Commission without proper hand over of assets and related documents and files to the management. No one has been resourced to manage the assets during time of audit in November, 2012.

### *Harcat Asset Management Software System a failure*

- The Electoral Commission was in the process of managing their fixed assets through a new computer system called “Harcat Asset Management Software System” but this was yet to be updated. An asset register from Harcat was furnished to audit however no reliance could be placed because it was also incomplete; and
- In the previous year (21/12/2010), audit noted that the Harcat Asset Management Software system was purchased for K265,479. This system has not been utilized and this raises concerns about the waste of public funds.

### *No Annual Stock-take of Assets in 2011*

- No stock-takes have been conducted to account for fixed assets held at the headquarters and in the Provincial offices. AGO was informed that the Commission did not conduct stocktakes due to time and resource constraints.

### *Assets Management Policy*

- In the *2011 Annual Report* of the Commission published in early 2012, audit observed a quote by the Director for Finance stating on *page 12* that “*policies and guidelines on assets management have been developed and are in use*”. During the time of audit it was confirmed that the policies were not developed.

## **PROCUREMENT AND PAYMENT PROCEDURES**

Audit randomly selected a sample of 129 paid amounts totaling K2,402,530 and subsequent verification of paid vouchers and related records revealed the following weaknesses:

- A quotation register was not furnished for audit, although requested;
- Three (3) quotes were not obtained in 17 instances totaling K505,345 before payment was made as required and audit made these observations on payments made; and
  - Audit noted an instance where the value for money by selecting the lowest cost was not practiced. The Commission selected and made payment on the most expensive in three (3) installments totaling K277,200; and
  - Furthermore, a cheque payment amounting to K392,503 for vehicle hire that was raised to a car rental company did not have any form of Certificate of Inexpediency (COI) attached to the paid voucher nor was there any form of evidence that this payment had gone through the tendering process before it was actually paid. Audit noted a “post it” note on the Finance forms stating “*Advise from Commissioner to process claim. Procurement to be done later by Director of Finance*” Audit is concerned that management override creates a culture where controls are no longer considered necessary.
- AGO noted that as part of its procurement control, the Electoral Commission had established a procurement committee which screened payments of claims over K1,000. In 27 instances totaling K880,555 procurement committee forms were not attached to the payments over K1,000 for goods and services provided.

### *Payments process weaknesses*

- The appropriate certifying officer did not sign on the General Expense Form (FF4) in 33 instances totaling K 538,181. The certifying officer must certify the General Expense Form (FF4) to prove that the procurement process had taken place;
- The appropriate financial delegate did not sign on the General Expense Form (FF4) in 15 instances totaling K 106,547. The financial delegate must approve that expenditure so that it is in line with the Cash Fund Certificate (CFC); and

- In 15 instances, payments totaling K314,406 were made based on pro-forma invoices and not tax invoices. Payments should be made based on tax invoices only.

#### *Missing vouchers*

Out of the 129 sample of paid vouchers requested, eight (8) vouchers amounting to K129,547 were not provided for audit verification and as a result audit was unable to establish propriety of payments made.

#### *Commission pays Rental for staff without a Policy*

Audit carried out an analysis on the 2011 expenditure transaction detail report and noted that out of the K1,978,096 that was paid out of item vote 127 – *Rental of Property*; K865,910 was paid for rental of office space, storage, sheds and containers for election related purposes. The remaining K1,112,186 was spent on rental accommodation for Electoral Commission Staff.

AGO was advised that the decision to pay rental accommodation for certain staff was made in a Senior Management Team meeting few years ago. However, straight after the decision was passed the Commission failed to establish a policy or guideline to indicate conditions such as who was entitled to this benefit; what was the basis and allowable rates. AGO further noted that:

- Rental Accommodation payments were between K1,500-K3,500 per month;
- There was inconsistency in the rental accommodations, some senior and junior staff had same rental levels; and
- 42.5% of the total rental accommodation payments for staff were made to individuals and not registered property companies.

The Senior Management Team Meeting Minutes or any formal documentation authorizing this rental accommodation payment arrangement was not provided for audit although requested.

A total sum of K2,388,427 was paid towards Electoral Staff Rental Accommodation for the past three (3) years without having a Staff Rental Accommodation Policy or Guideline in place.

## **HUMAN RESOURCE MANAGEMENT**

#### *Casual wages – weakness noted in the area of wages for casuals*

Audit analysed the expenditure transaction and noted that a total of 1,258 transactions amounting to K2,094,506 were paid out as wages in the year under review. Audit noted that:

- According to the 2011 Budget Volume II Part1 b 230, the Commission was only allocated K41,000 for wages. As total expenditure for casual wages was K2,094,506, the payment was K2,053,506 more than what was initially allocated or budgeted for Wages;
- A sample of five (5) wages paid totaling K3,168 was selected to verify for compliance revealed that in four (4) instances totaling K2,816 the financial delegate, certifying officer, paymaster and a witness did not sign in spaces provided on the wages sheet (FF10) to satisfy that all necessary checks like rates, periods, deductions, additions and other information were accurate and that the correct persons were being paid; and

- AGO had also noted in the wages sheets provided that the total number of casuals was 130. The 4<sup>th</sup> Quarter Budget Review Report stated that total casuals of the agency was three (3). Since a proper casual officers' movement listing was not provided to AGO although requested on the 8/10/2012, the Commission needs to justify the K2.09 million that was paid out as wages in 2011.

*Overtime – weaknesses noted in the payment of overtimes for staff*

Audit analysed the expenditure transaction and noted that a total of 416 transactions amounting to K230,640 was paid out as Overtime in the year under review. In respect of the payment audit noted that:

- According to the 2011 Budget Volume II Part1 b 230, the Commission was only allocated K40,000 for overtime. The expenditure incurred was K190,639 more than the initial appropriation for overtime; and
- AGO selected a sample of 11 overtime payments amounting to K7,597 to test and the following weaknesses were revealed:
  - In all instances, no prior approval was sighted from immediate supervisors stating that the officers needed to work the extra hours. AGO could not ascertain the basis for the extra hours paid; and
  - In five (5) instances totaling K3,507, the verifying officer did not sign on the space provided to verify that calculations were accurate.

Although most overtime payments were insignificant in amount, the controls surrounding the payment of overtime were questionable. Audit was concerned that management was creating a culture where controls were not considered necessary.

*Training Plan not prepared*

- There was no training plan developed by HR in 2011 as required in GO6.34 for the year under review.

## **TRUST ACCOUNT**

*No Segregation of Duties surrounding preparation of Trust Account bank reconciliations*

There were no segregation of duties in preparing and reviewing the Bank Reconciliations for the Trust Account. Segregation of duties is one of the key concepts of internal control as well as being a sound management practice. Audit acknowledged after discussion with the Accountant, that no other staff has been trained to undertake the task of preparing a bank reconciliation.



## ADVANCE MANAGEMENT

### *Lack of maintenance of the Advance Register (Manual Book)*

The Commission keeps two separate registers for Cash Advance and Travel Allowance. Although the Commission adheres to the requirements, there were issues identified in the payment, recording and acquittal of advances as given below:

- The details of the advances issued were incomplete. Details such as cheque number and date of acquittal made were not captured;
- As per the registers, 22 Cash Advances and 1453 Travel Allowances were issued in the financial year 2011. Audit could not establish the exact amount paid and acquitted due to insufficient information on records maintained; and
- It was difficult to follow up on those officers who were yet to acquit advances taken. This may result in second advance issued to officers who still had the first advance outstanding. Contrary to FMM Part 20 paragraph 12.11, seven (7) officers were paid second advances following K41,179 whilst the first advances received remained unacquitted.

The above issues reflect lack of control over advance management by the Senior Management of the Department.

## DEVELOPMENT BUDGET

### *Weaknesses noted in the procurement and payment process*

Audit randomly selected a sample of 34 paid vouchers totaling K1,124,096 for verification and noted the following weaknesses:

- 11 paid vouchers totaling K356,652 were not supported by three (3) quotations as required. In the absence of quotations, audit was unable to ascertain whether value for money was taken into consideration when the purchases were made;
- In seven (7) instances payments totaling K63,683, the certifying officer did not sign the general expense form (FF4) to prove that the procurement process had taken place as required; and
- In six (6) instances totaling K154,499, payments were made based on pro-forma invoices and not tax invoices as required.

### *Hire from Individuals and not registered companies*

Audit carried out an analysis on the overall development expenditure for 2011 and noted that 287 payments amounting to K1,504,959 were made to individuals and not to registered companies. Hires were for vehicles, boats, furniture, hailers, laptops, venue, whiteboards, gensets and entertainment. Audit noted a major weaknesses in the procurement process and lapses in internal control.

## DEPARTMENTAL RESPONSE

Prior to issuing the management letter, the audit findings were discussed with the management and the concerned Senior Officers. Furthermore, the management letter issued was also addressed to the Electoral Commissioner for his response.

The management responses were not received on the audit issues reported, at the time of writing this report in June, 2013.

## CONCLUSION

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

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

## 9. DEPARTMENT OF FINANCE

### OVERVIEW

The Department of Finance has two major programs:

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

### FINDINGS

#### BUDGETARY AND FUNDS CONTROL

A review of the expenditure statements, warrant authorities, cash fund certificates and other related records and documents relating to the Departments budgetary control process revealed the following;

- According to the expenditure statement generated from the Treasury Management System, 11 items of the votes were over-expended aggregating to K903,286 as at 31 December, 2011
- The 2011 expenditure vote summary (PGAS) showed a total of K21,365,929 as actual expenditure whilst the TMS report showed an actual expenditure of K22,245,269 indicating a difference of K879,340 between the two records.

This reveals a lack of expenditure control and reconciliation of both PGAS and TMS records to establish accurate balances.

#### BANK RECONCILIATION

##### *Drawing Account*

The Department of Finance operates a drawing account with the Bank of Papua New Guinea, however, audit was advised that the bank reconciliations for 2011 were not done. Audit was informed that this was due to the new system (Integrated Financial Management System) not being updated with the previous years' bank balance. Consequently, audit was unable to review and comment on the monthly bank reconciliation statements.

It is not known how the Department of Finance arrives at the correct cashbook balance at year end.

## **ASSET MANAGEMENT**

A review of the internal control systems relating to the efficient and effective management of assets of the Department revealed the following:

- The Information & Communication Technology Division's (ICT) asset register was missing from the consolidated register;
- No asset register was maintained by the Revenue Division;
- Dates of the items purchased in some instances were unknown in all ten (10) division's asset registers;
- The assets registers had incomplete details where in most cases there was no monetary value assigned to assets.
- The periodic stock-take of assets was not undertaken by the department;
- The fleet register was not updated; and
- Three (3) assets totaling K8,211 for the Corporate Services Division were not registered.

## **PROCUREMENT AND PAYMENT PROCEDURES**

An examination of 52 paid vouchers selected on a random sample basis and a review of the procurement and payment procedures in operation revealed the following irregularities:

- A total of 11 paid vouchers totaling K42,818 were missing from the files. As a result authenticity of payments could not be established in audit;
- Two (2) motor vehicles belonging to the PNG Customs Service were serviced at a total cost of K6,656 by the Department of Finance. There were no documentations attached to explain why Finance was paying for the services of the two (2) vehicles from another agency;
- Two (2) payments totaling K16,471 were made based on pro-forma invoices rather than on a tax invoice; and
- Tax invoices were not attached in two (2) instances totaling K34,391.

## **HUMAN RESOURCE AND PAYROLL**

A review of records maintained by the human resource and payroll management division disclosed the following matters:

- AGO noted a total of 77 Senior Officer's Contracts were not re-newed due to various disciplinary reasons. However, the officers were still being paid the allowances entitled to the contract positions up to 31 December, 2011.

- Audit noted the following issues relating to 11 Senior Contract Officers based at the head quarters;
  - In two (2) instances, contract agreements were misplaced;
  - Contract was never renewed in an instance but the officer was still being paid the full allowance tied to the contract;
  - An officer was referred for disciplinary action and the contract was put on hold but the benefits were still being paid; and
  - Contracts had expired dating back to 2009 but were not re-newed up to the time of audit.

## **TRUST ACCOUNTS**

The Department of Finance maintains 28 trust accounts, however; 17 business development grants trusts were maintained by the Treasury Department's Structural Policy and Investment Division (SPID). Written directives from the appropriate minister for the trust accounts to be maintained by the Treasury Department were not sighted and it was a breach of the trust instruments which states that the trust accounts were to be maintained by the Department of Finance.

The following documents were not furnished to audit despite several requests for the remaining 10 trust accounts that were maintained by the department:

- Bank Reconciliations;
- Trust Instruments;
- List of new Trust Accounts; and
- Expenditure transactions details.

In the absence of the trust account records audit could not review and report on the operations of the trust accounts.

## **ADVANCE MANAGEMENT**

AGO noted that the Department did not maintain an Advance Register and as such, audit could not carry out a review on the management of advances.

It is not known how the Department manages advances without an Advances Register.

## **DEVELOPMENT BUDGET EXPENDITURE**

Financial Management Improvement Programme (FMIP) involved full funding from the GoPNG for the Integrated Financial Management System (IFMS), Public Service Capacity Building (PCaB) II and FTB Training Support was partly donor funded with counterpart funds from GoPNG.

The Financial Management Improvement Programme was initiated and established by the Government to implement improved financial management across all levels of government. The programme is an integral part of the Department for Finance's initiative to improve financial management in the public sector.

A review of the two (2) programs under the FMIP project revealed the following:

- AGO noted that officers at the Department of Finance lack appropriate knowledge in using the IFMS programme. The system aims to improve business efficiency in planning, budgeting, accounting and financial reporting. However, audit noted a major concern in which the system does not reject payment to be made out of a different vote item when there were no funds from the appropriate vote item, the system allowed the payment as long as there were enough funds to process the particular payment.

### *Public Service Audit Program (PSAP)*

In 2004, recognising the need to improve governance, transparency and accountability within the public sector, the Government of Papua New Guinea (GoPNG) passed amendments to Section 9 of the *Public Finances (Management) Act, 1995* requiring all National Departments, Statutory Authorities and Provincial Governments to establish audit committees and internal audit units.

By providing targeted support to agencies through such mechanisms as the provision of capital and human operational resources, both internal and external professional assistance and training support, it was expected that resulting improvements in agency internal audit functions will properly support independent and sustainable audit committees.

AGO is satisfied that the project has been managed according to all legislations and guidelines; however, the only matters of concern were:

- Cheques were manually raised and payments made outside of the current government accounting system; and
- The quarterly expenditure reports were not furnished for audit verification.

## DEPARTMENTAL RESPONSE

The reported findings were brought to the attention of the Secretary through a management letter. The management letter responses were not received at the time of writing this report in June, 2013.

## CONCLUSION

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

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

## 10. DEPARTMENT OF FOREIGN AFFAIRS AND TRADE

### OVERVIEW

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

The Department is expected to fulfill its mission in the context of the *Citizenship Act, 1975*, *Migration Act, 1978*, other relevant legislation and in accordance with the International Agreements as follows:

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

### FINDINGS

#### BUDGETARY AND FUNDS CONTROL

##### *Variance in Expenditure Balances*

A comparison of the expenditure vote summary printout produced by the Department of Foreign Affairs and Trade (PGAS) with the expenditure statement produced by the Department of Finance (TMS) revealed significant variances between expenditure balances.

**Variances between Expenditure Balances**

Particulars	Dept of F/Affairs PGAS- Records K	Dept of Finance TMS – Records K	Variances Over (Under) K
Revised Appropriation	71,237,600	65,212,900	6,024,700
Warrant Authorized	71,237,600	66,102,400	5,110,200
Actual Expenditure	64,934,378	61,132,774	3,801,604

In addition, a warrant authority of K71,237,600 did not match with the total cash fund certificate (CFCs) of K67,799,500, as per the PGAS - expenditure vote summary for 2011 which gave a variance of K3,438,100.

Audit was uncertain whether the warrants received were posted on the PGAS as well as CFCs to reflect the same and corresponding figures.

The existence of variances between the records reflect poor record maintenance and lack of reconciliation to balance the records.

*Over Expenditure:*

An analysis of each programme summary as per TMS 330 noted that programme no: 2502 pertaining to “Government Representation Abroad” had an over-expenditure of K1,936,967.

This reflected that the respective overseas missions have continued to over expend in their allocations which was a breach of the *Public Finances (Management) Act, 1995*.

## **BANK RECONCILIATION**

Audit examination of the bank reconciliation statement prepared for 31 December, 2011 and the related records revealed the following weaknesses:

- Credits in bank statement totaling K1,797,650 were not cleared and posted in the cash book, resulting in the cash book being over drawn by K4,350,248, as at 31/12/2011;
- Total un-presented cheques of K2,537,968 could not be verified due to cheque reconciliation listing for period ending not provided, although requested;
- Other items (credits) – Schedule 8 disclosed an undated “stopped” cheque that amounted to K14,630 which was un-cleared but was carried forward to the month of December, 2011; and
- Audit noted that bank reconciliations were not furnished to DoF on a timely basis. Bank reconciliation for the three (3) months ending October, November and December, 2011 were compiled in March, 2012. There was a lapse in the required timeframe for these reports to be submitted to Department of Finance.

The non clearances of outstanding reconciling items indicates that an accurate cashbook balance could not be establish at year end.

## **ASSETS MANAGEMENT**

Audit reviewed the asset register and found that the asset register (including the motor vehicle and mobile phone registers) were incomplete and poorly maintained. The following were noted;

- Serial numbers, purchase date and cost price was not recorded for most of the assets;
- Column for *estimate of economic life* was not included in the asset register;
- A motor vehicle CAU 589 was not included on the asset register;
- The asset register was not reviewed by the financial delegate;
- Furthermore, audit noted that the department did not account for assets held in respective foreign missions;
- Private number plates were still being used by the department;



- Although Log books were printed for each of the department's vehicles, they were not used; and
- The department did not maintain a vehicle maintenance register.

#### *Mobile Phones & Prepaid Cards*

A Terms of Reference (TOR) for the use of mobile phone handsets was drawn up and approved in November, 2011. Audit noted the following discrepancies in relation to the management of mobile phones:

- Two (2) officers did not sign the TOR but were issued mobile phones;
- Two (2) officers were issued the same mobile phone;
- A total of 131 mobile phones (i.e 32 Black Berry Torch 9800 & 99 Nokia 1616) were purchased at a total cost of K20,370. However, signed TOR for 62 officers issued with mobile phones were not sighted on file; and
- Audit noted that officers who were issued prepaid cards also received fortnightly telephone allowances. It appeared that no action had been taken to address this issue and still remained outstanding.

### **PROCUREMENT AND PAYMENT PROCEDURES**

#### *Expenditure charged to incorrect vote items*

An analysis of the detailed expenditure download revealed that expenditure totaling K48,604,151 were charged to various incorrect vote items in violation of budgetary provision.

#### *Payment testing*

Audit selected 50 samples totaling K18,183,026, for audit verification. The following discrepancies were noted:

- In 34 instances totaling K16,202,124, payment vouchers were not provided for audit verification, hence audit was unable to ascertain the correctness of payments made;
- In four (4) instances totaling K87,997 payments were not properly authorized;
- In seven (7) instances payments totaling K114,686 had no receipts or delivery dockets attached to confirm the delivery of goods or services rendered;
- In four (4) instances totaling K81,794 payments were effected without tax invoices;
- In three (3) instances totaling K151,771 consultancy/contractual agreements were not sighted to confirm payments; and
- A Quotations Register was not maintained.

## **HUMAN RESOURCES MANAGEMENT**

Audit examination of personal files and related records revealed the following matters of concern:

- The Department of Foreign Affairs had a revised structure of 301 employees. However, audit noted a staff ceiling of 293 resulting in difference of eight (8) when compared with the revised staff ceiling. Hence, audit was not able to ascertain the actual Approved Staff Ceiling due to differences in the totals between Department of Personnel Management (DPM) and Department of Foreign Affairs and Trade;
- The appointment of the acting Secretary, was made on the 14 October, 2009. Since 14/10/2009 up to-date of audit on 16/11/12 no permanent appointment had been made;
- Salary history cards for all 24 contract officers pertaining to variations in salaries and allowances were not updated in terms of promotions, CPIs or contract employment's signed;
- Gratuity payments made for the periods covered were also not recorded although significant sums of monies were paid out;
- Audit noted that the last updates of salary history cards were done in early 1990s and late 2000. In this regard, a Salary History Card (SHC) for an officer was last updated on 09/10/89 which was 23 years in arrears whilst others showed between 1991 to 1998 and early 2000 which were nearing 20 years in arrears; and
- Five (5) casuals were engaged by the department and paid from the PGAS which included a short term contract employee who was designated as the Executive Officer on Grade 13 level. Audit could not confirm the above contract due to the file not being provided to audit.

## **FOREIGN MISSIONS FINANCIAL RETURNS**

Audit review of the overseas missions financial returns register maintained for 2011 and other related documents noted the following weaknesses:

- Out of the 18 missions/posts established,
  - Ten (10) missions had submitted all their returns for the year 2011,
  - Five (5) missions submitted parts of the returns but did not fully submit the whole year's reports; and
  - Three (3) missions namely, Canberra, Beijing and New Zealand did not submit any monthly reports for the whole year 2011 which is a breach of the manual of accounting procedures including the *PFM Act* and the General Orders. There was also no evidence to suggest that reminder notices had been served to the respective missions for the non-submission of monthly reports.
- Delays in forwarding monthly financial returns to headquarters were also noted from 15 out of 18 missions ranging from one (1) to ten (10) months.

- Audit was also informed that the reconciling of returns received by Headquarters were not up-to date as the department was still reconciling 2008 returns at the time of audit in November, 2012. Audit could not confirm or establish whether financial returns had been audited and examined by Internal Auditors during the time of audit in November 2012. In addition, boxes containing accounting records transferred from the previous office premises were still unpacked and lying on the floor and AGO was unable to check for relevant records and accounts.
- An audit review of the heads of missions personal files noted that three (3) HOMs have not returned to PNG since their contracts expired from their first overseas posting(s). They were still residing at their overseas missions/posts when their 2<sup>nd</sup> or 3<sup>rd</sup> re-appointments were made or post transfers made by the National Executive Council (NEC).

## ADVANCE MANAGEMENT

Audit examination of the advance register and related records revealed the following weaknesses:

- It was noted that advances were not recorded on a timely basis as and when the advance was processed, and the cheque issued since the records showed no clear sequential order. The register was still not properly maintained, incomplete and not updated;
- The register showed that advance holders were receiving their cheques without signing off in the register to indicate that the cheques were collected;
- No acquittal files were maintained;
- The practice of using “paymaster” was noted in 21 instances for payments totaling K87,386. For prudent business ethics and acquittal purposes of public monies paid as cash advances, all the advances should have been paid to the individual officers concerned and not paid as a lump sum to the paymaster. No acquittal or record had been sighted; and
- No recovery action was taken by management to follow up on un-acquitted advances.

## DEPARTMENTAL RESPONSE

The above matters were brought to the attention of the Secretary through the management letter and at the time of reporting in June, 2013 no management responses were received on the audit issues reported.

## CONCLUSION

The results of our audit indicate that overall, there were significant weaknesses in the control framework.

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

## 11. DEPARTMENT OF HEALTH

### OVERVIEW

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

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

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

### FINDINGS

#### BUDGETARY AND FUNDS CONTROL

##### *Recurrent Budget*

A comparison of the PGAS Expenditure Vote Summary printout produced by Department of Health against Department of Finance (TMS 100 for period 12 dated 07/03/2012) revealed the following variances between the Appropriations, Warrant Authorities and Expenditure balances as at 31 December, 2011:

Ledger Reports	Original Appropriation	Revised Appropriation	Warrant Authority	Actual Expenditure
<b>TMS 100</b>	261,684,000	265,987,000	263,709,000	253,567,799
<b>PGAS</b>	261,684,000	264,091,400	216,487,000	213,903,584
<b>Un explained Difference</b>		<b>1,895,600</b>	<b>47,222,000</b>	<b>39,664,215</b>

- Disparities existed in balances between the Department of Finance Vote Summary printout (TMS) and Department of Health's PGAS ledgers resulting in significant variances. Both records did not reflect any reality of movement and actual use of funds by the Department of Health

during the year 2011. Such results clearly reflect the lack of reconciliation between the two (2) records.

- Department of Finance (TMS100) ledger recorded over expenditure of K13,460,883 under 34 vote items and out of the total, K7,458,894 related to salaries alone; and
- In two (2) instances, amounts totaling K35,194,870 were transferred out of the recurrent expenditure votes to the Health Sector Improvement Program (HSIP) Trust Account. Of the total, a cheque of K27,522,649 was a transfer of development funds after the close of accounts for the financial year under review while the other K7,672,221 was a reimbursement of Project Funds. The reason for use of such funds by the Department and reimbursement could not be established in audit. In addition, the accountability statements were not sighted to satisfy audit whether funds were used for intended purposes.

### Management Response

*National Department of Health (NDOH) Finance Branch will need to work closely with Department of Finance and Treasury to reconcile PGAS with TMS IFMS reports and ALESCO payroll on a monthly basis.*

### Development Budget

#### PGAS Balances vs TMS (Main Public Account)

A comparison of the PGAS Expenditure Vote Summary printout produced by DoH against DoF TMS 100 for period 12 dated 07/03/2012, revealed the following variances between the Appropriations, Warrant Authorities and Expenditure balances as at 31 December, 2011:

Ledger Reports	Original Appropriation	Revised Appropriation	Warrant Authority	Actual Expenditure
<b>TMS 100</b>	315,809,000	286,809,000	286,809,000	123,100,000
<b>PGAS</b>	315,809,000	315,809,000	123,100,000	123,100,000
<b>Un explained Difference</b>		<b>(29,000,000)</b>	<b>163,709,000</b>	

- Disparities existed in balances between the Main Public Account (TMS) and Department of Health's PGAS ledgers resulting in significant variances. Both records did not reflect any reality of movement and actual use of funds by the Department of Health during the year 2011. Such results clearly reflect the lack of reconciliation between the two (2) records;
- Analysis of the Fund Allocations by Warrant Authorities recorded on the two records by vote items revealed Department of Finance (TMS100) ledger reported K163.7 million extra which was not captured in the Departments' ledger (PGAS) for Vote Item 139; and
- A comparison of the Expenditure balances on the two (2) ledgers of the Department of Finance (TMS) and the department's (PGAS) revealed that the TMS ledger reported over expenditure of K4 million under vote item 223, Feasibility Studies and Projects. According to 2011 supplementary Budget, the K4 million was withdrawn however, the Department had overspent the same amount.

## Management Response

*National Department of Health (NDOH) Finance Branch will need to work closely with Department of Finance and Treasury to reconcile PGAS with TMS IFMS reports and ALESCO payroll on a monthly basis.*

## BANK RECONCILIATION

Audit review of the department's monthly bank reconciliation for December, 2011 with the related records and documents revealed the following salient matters:

- Other Debits totaling K14,579,167 reported in schedule six (6) of the bank reconciliation statement which consists of overpayments, other variances and cancelled cheques relating to the period under review and prior years, remained uncleared;
- Reimbursements received from the Main Public Account (CRF) for the months of November and December, 2011 totaling K144,306,798 were not journalized and posted into the cash book during the year;
- Total unpresented cheques of K25,471,633 as shown in the bank reconciliation included 354 stale cheques to the value of K378,739 that were issued during the years 2010 and 2011. No action had been taken to write back the value of such cheques into the cash book;
- A sum of K18,537 was shown as mismatches in the bank reconciliation statement which relates to the year 2007, which needed to be investigated and cleared;
- The monthly bank reconciliation statement was prepared by a officer who also performed the duties of accounts clerk, raising and posting of journal entries into PGAS, collects presented cheques from bank and clears presented cheques in the system. Such action reflected a break down in the internal controls in relation to segregation of duties;
- Department of Health did not forward copies of the monthly bank reconciliation statements to the Department of Finance within the required 14 days of the preceding month as required; and
- The bank reconciliation statement was not attested to by a senior officer for correctness and completeness of records.

## Management Response

*Action taken to write back the value of the stale cheques into the cashbook by way of journal entries in accordance with the Finance Management Manual.*

*Bank reconciliation officer will be advised to ensure copies of bank reconciliation statements are lodged to DoF no later than 14 days after close of each month.*

## PROCUREMENT AND PAYMENT PROCEDURES

With reference to Part 13 of the Financial Management Manual on major procurements, the organization should have established authorized suppliers of goods and services for the year by public tendering, if the

amount is over K100,000 through the CSTB by obtaining an Authority to Pre-commit (APC) approval from Department of Finance. For this matter, AGO noted the following observations:

- No Authority to Pre-Commit Register was provided to audit although requested; and
- In 422 instances, Contract Agreements for the suppliers that had payments exceeding K300,000 and totaling K66,570,680 (categorized as major procurement) were not made available for audit verification.

### *Recurrent Expenditure*

Audit examination of 51 paid vouchers totaling K7,604,907 selected on a random sample basis with the related records and documents revealed the following observations:

- In 26 instances, paid vouchers totaling K6,769,916 were not made available to audit although requested. As a result audit was unable to vouch the propriety of payments made;
- 15 paid vouchers totaling K612,807 were not verified by an examining officer as required; and
- A total of K162,945 net allowances was processed in addition to his normal salary as a Departmental Head and paid on 08/07/2011 to the former Secretary for contract benefits for period covering from 9 April, 2009 to 3 July, 2011. The former Secretary was a Medical Doctor by profession however, served as a Departmental Head. The payment consisted of the following benefits as summarized below:

Particulars	Gross (K)	Tax (K)	Net (K)
SDMA	112,141	20,113	92,028
Overtime Allowance	44,627	4,279	40,348
Gratuity	42,953	15,034	27,919
Medical Insurance	<u>2,990</u>	<u>340</u>	<u>2,650</u>
<b>Total</b>	<b><u>202,711</u></b>	<b><u>39,766</u></b>	<b><u>162,945</u></b>

In regard to the payment audit noted the following matters of concern:

- The Paragraph 6.7 (d) of the Memorandum of Agreement (MOA) for the Determination of Salaries Allowances and Benefits of the National Doctors states that each medical and dental officer will maintain a log in a prescribed format of all on-call rosters fulfilled and all overtime attended to for inspection by an authorized officer at any time. No log sheet was maintained for on-call rosters or over time work performed by the former Secretary during his term as the departmental Secretary for audit inspection.
- A payment of K45,990 was made to a doctor as salaries and allowances based on short term contract. The contract period was from 1 February, 2011 to 31 June, 2011 while the actual contract was signed on the 9 August, 2011. However, it was noted that payment was done prior to approval of the employment contract. This practice clearly demonstrates the agency engaging a person without going through proper procedures;
- Two (2) payments totaling K42,690 were made to two consultants for providing short term consultancy services to the Department. However, it was noted that the claim was for consultancy services rendered in 2010. An amount of K11,190 was paid in favour of the consultant and not the company as per the tax invoice and reports were neither compiled nor made available to

justify whether the objectives of the services undertaken were achieved and beneficial to the Department; and

- In another instance, the Department paid K24,004 for airfares to an expatriate Doctor attached to Port Moresby General Hospital. Examination of the paid vouchers with the related records and documents revealed that; payment was facilitated from the previous contract signed in 2007 and expired in 2010, no birth certificates for the dependents claimed were attached and also payments were made out of other expenditure vote items.

### **Management Response**

*Contract entitlement paid according to DPM approval.*

*Human Resources Branch to confirm and verify if the contract was in line with set policies.*

*NDoH Human Resources Branch to ensure that claims made are in order and been budgeted for.*

*NDoH will need to do an analysis and provide a report to the management.*

*The management (HRM) will ensure that future recreation leave requisitions are paid according to the means of transportation and will only be approved in the particular location.*

### **Development Budget**

Audit selected five (5) new projects totaling K50 million which constitute 16% of the initial development funding allocation of K315.8 million in the 2011 appropriation to ascertain if the National Department of Health has met the PIP guidelines and procedures and other legislative requirements in implementing the projects. An examination of the paid vouchers and other related records pertaining to the above projects noted the following observations:

- K50 million appropriated for the projects were transferred to the HSIP Trust Account; and
- Two (2) projects as according to the expenditure vote summary had funds available in the trust accounts totaling K19,000,000. In addition, Boram Hospital Redevelopment had only received K9,000,000 of the K10,000,000 appropriated while the PGAS (operating account) noted two (2) cheque payments totaling K10,000,000 were transferred to the HSIP Trust Account.

The status of the projects and management of funds could not be established in audit as the projects were located and managed in the Provinces.

### **Management Response**

*If and when HSIP funds are used to meet a shortfall for a very critical commitment or expenditure such as procurement of emergency drugs for disease outbreaks, then these funds are to be reimbursed back to HSIP.*

## **ASSET MANAGEMENT**

A review of asset registers and related records revealed the following short-comings:



### *Fixed Assets*

- The functions of procurement and control of fixed and consumable assets in the Department was still decentralized; divisions/branch/section were still responsible for their own procurement. In the absence of consolidated data on assets, audit was unable to ascertain the total quantity and monetary value of assets fixed and consumable assets for Headquarters, as at 31 December, 2011;
- Two (2) positions were created under the new structure, one for Technical Officer and the other for Asset and Inventory officer. However, the positions remained unoccupied up to the time of audit in October, 2012. The asset management issue is an outstanding issue dating back to year 2002 and the management needs to employ competent officers to manage the Department Assets;
- No annual stock-take was done to physically verify the existence, custody and status of all assets; and
- Assets purchased in the year 2011 totaling K1,430,635 in 93 instances were not recorded in the register as required.

### *Motor Vehicles*

- Fleet Register's were only maintained in soft copy, and did not capture some of the vital information such as date of purchase, unit cost and total cost;
- Log books were not always in use for all vehicles;
- The Department had a draft Motor Vehicle policy in place which was not made available to audit, although requested; and
- Four (4) vehicles at the cost of K1,754,601 were purchased in 2011 and details of these vehicles were not recorded in the fleet register.

### **Management Response**

*Propriety for the Department now is to update the Asset Register by undertaking a stock take and to ensure that annual stock-takes would be carried out thereafter.*

## **HUMAN RESOURCES MANAGEMENT AND PAYROLL**

A review of personal files and related records disclosed the following anomalies;

### *Casual Employees*

- Non-compliance by the Department of Health in engaging casual employees without proper consultation with Department of Personnel Management over the years had resulted in additional administrative problems;
- Back pay for casuals totaling K1,681,139 relating to the years 2007 to 2010 were paid out of 2011 appropriations which were unbudgeted expenses; and

- Salaries and wages of casuals were paid through Kundu Pay System and were debited from the Department's main operating account and into the individual casual's accounts. 475 journal entries were passed to reflect transactions totaling K3,926,321 whereas updated casuals listing provided to audit totalled K163,780. Consequently, there was unexplained over expenditure of K3,762,541.

#### *Contract Officers*

A review of ten (10) contracts' and other documents in the personal files revealed the following discrepancies:

- No separate file was maintained for signed contract documents for its senior officers;
- Personal files for both closed and current were kept in the registry and were released upon request from Human Resources causing in delays. It would be convenient for the current running personal file be kept in a locked cabinet at the HR section whilst the previous files are kept away with registry;
- The Manager-Governance & Partnership (Grade 17) did not have an Acceptance of Offer letter in file for accepting the employment offered;
- The personal files were not always folio numbered making it difficult for audit trail; and
- The current Secretary's higher duty allowance was last updated in 2001 and his other higher duty allowance dated 21.06.11 was not updated and reflected in the history card. Also, no gazettal notice was sighted for the appointment as Secretary for the Department of Health.

#### **Management Response**

*MOA between PEA and Department of Labour & Industrial Relations will be used in absorbing casuals into establishment positions.*

*MOA of 2007-2010 between PEA and Department of Labour was received in 2011 and therefore, payments were made in the same year.*

*Human Resource Manager to follow up and advice on progress of establishing electronic records.*

*All files will be updated and folio numbers allocated.*

*Copies of Gazettal Notice and Contract document's in file, to be provided to audit.*

#### **ADVANCE MANAGEMENT**

A review of advances register and related records disclosed the following weaknesses:

- The Department maintained registers for both cash and travel advances, however, no register was maintained for salary advances. The advance registers maintained lacked the following vital information:
  - Cheque No;

- Signature of Recipient; and
- Financial Delegate Review.
- According to Expenditure Transaction Details, a total of 962 advances totaling K1,990,197 were paid during the year 2011. Of that total, 62 advances totaling K108,792 were recorded and acquitted whilst the variance of 900 advances totaling K1,881,404 (which constitute 94%) were not recorded and remained outstanding as at 31 December, 2011;
- A significant amount of K487,620 was paid to the Paymaster as cash advances which was also outstanding and remained unacquitted as at 31 December, 2011; and
- In 575 instances totaling K1,248,325, subsequent advances were paid to officers who had previous advances that still remained outstanding.

### Management Response

*Separate Register is now maintained from 2012 onwards for efficient recording and follow-up for all advances including salary and cash advance.*

*Action has been taken and the development of a draft policy is in progress according to PFMA to ensure all acquittals are done and in a timely manner.*

*Further actions will be taken to recover the months as recommended by the Disciplinary Committee.*

### DEPARTMENTAL RESPONSE

The Department has responded to the matters raised in the management letter and the responses have been incorporated accordingly.

### CONCLUSION

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

## 12. OFFICE OF HIGHER EDUCATION

### OVERVIEW

The Office of Higher Education function, as mandated by legislation is to provide services to Higher Education. The Office's mission is to foster, enhance, and promote quality higher education for social, economic and technological development of Papua New Guinea.

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

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

### FINDINGS

#### BUDGETARY AND FUNDS CONTROL

##### Recurrent Expenditure

- A comparison of the PGAS Expenditure Vote Summary produced by the Department with the expenditures vote summary from the Department of Finance (TMS) revealed variances totaling K1,598,130 under four (4) items of the vote; and
- The expenditure statement produced by the Department of Finance for period 12 revealed expenditures in excess of warrant authorities issued under two (2) expenditure vote items totaling K85,723.

##### Development Budget

- A difference of K19,876,000 was noted between expenditure amounts in PGAS and TMS under four (4) expenditure vote items as at 31 December, 2011;
- The expenditure statement produced by the Department of Finance for period 12 revealed expenditures in excess of warrant authorities issued under three (3) expenditure vote items totaling K5,254,000;
- According to the expenditure statement report for period 12 generated by the Department of Finance, a total of K25,040,000 under donor category was not expended at all during the financial year under review; and
- The Office of Higher Education continued to charge different vote items where there were funds available to cater for other expenditure vote items without the Department of Finance approvals.

## Management Response

### *Recurrent Budget*

*The difference of K1.5 million reported refers to payroll data being picked up by Finance payroll directly from Alesco payroll. This information is not reflected in the PGAS report as payroll expenditure is incurred from the Concept payroll.*

*Concept reports (FIN03 and FIN04) for the last pay period (no. 26) of 2011 provides details of data captured by the Treasury Management System (TMS). These reports were not provided to AGO during the course of audit.*

*It is imperative that (FIN03 and FIN04) reports be requested from payroll unit of the Human Resource Section to verify data reflected in TMS. Overall, Office of Higher Education was able to save K83,270 from the 2011 appropriation.*

### *Development Budget*

*One of the major reasons for variances is the implementation of the new Integrated Financial Management System (IFMS) at the Department of Finance. A lot of variances have been detected from this system.*

*Office of Higher Education is certain that the development data captured in PGAS is true and fair information provided. AusAid support funding of K25 million was never warranted or transferred to Office of Higher Education. These funds were withheld by AusAid and disbursed through their office.*

*Office of Higher Education will ensure controls are maintained and clearly spelt out in the commitment and expenditure of public funds within authorized limits and records are reconciled with the Department of Finance to integrate the correctness and completeness of balances.*

## BANK RECONCILIATION

A review of bank reconciliation statements for the month of December, 2011 revealed the following weaknesses:

- The statement of account received from the Bank of Papua New Guinea disclosed a NIL bank balance as at 31.12.2011 whilst the cash book balance reported an overdrawn balance of K16,518,232;
- The credits in bank statement not in cash book totaling K60,663,296 represented cash reimbursements from Waigani Public Account for the months of January to December, 2011 but were not recorded in the cash book as required;
- Un-presented cheques totaling K873,926 included 46 stale cheques amounting to K120,646 issued in 2009 and 2010, remained uncleared;
- Delays were noted in the submission of monthly bank reconciliations to Department of Finance for the months of March to December, 2011; and

- The bank reconciliation statement was prepared by an officer who also performed the duties of the certifying officer and this indicates weaknesses in internal control over segregation of duties

### Management Response

*The Office Higher Education acknowledged the audit comments on the issues reported, including the audit recommendations and will take corrective measures in future.*

### ASSET MANAGEMENT

- No annual stock-take of assets was carried out for the year under review.
- Assets were found to have no identification numbers assigned and recorded in the Register.
- The Office maintains separate asset registers for; Furniture & Fittings, Motor Vehicles, Register for Electrical Equipments (White Goods) Office Equipment Register (Electronic Equipments). However, these registers were not in full compliance with *PFMM* in that; vital information about assets were not always indicated.
- In ten (10) instances, assets purchased totaling K97,099 were not recorded in the assets register.
- The Office Asset Committee is not functional and a Terms of References (TOR) is yet to be developed to guide procurement and disposal of assets. Currently, all decisions were made by the Chairman using his discretion.
- From a sample selected from the expenditure transaction details for 2011, the following observations were noted:
  - Three (3) PCs valuing K8,534 could not be physically identified;
  - A digital camera valued at K1,495 could not be located;
  - Five (5) laptops purchased at a cost of K8,250, could not be located;
  - Ten (10) assets were purchased using pro-forma invoices instead of tax invoices totaled K133,614;
  - Five (5) assets totaling K46,866 were purchased without obtaining quotations from vendors prior to making purchases; and
  - Five (5) paid vouchers for assets totaling K81,077 were not sighted and hence could not be vouched in audit.

### Motor Vehicles

- The Office did not maintain a schedule or a chart for maintenance and service of Department motor vehicles, instead the dealer gave a reminder call every three (3) months and upon availability of funds a vehicle was put in for service.
- A Motor Vehicle Policy was in draft form and was yet to be endorsed for implementation.

- A total of K135,011 was incurred to maintain Office vehicles. Of the total, K58,928 was paid for fuel while K76,083 was for maintenance and service. However, agreements for maintenance and service of these vehicles from outside sources were not sighted.
- A motor vehicle -Toyota Hilux was sold for K9,500 to a former senior employee after an accident, costing the Office K20,601 to pay for repairs. According to records, the former senior officer was involved in an incident where he paid for the total cost of damage and got reimbursed in full. AGO noted Agency's negligence to comply with statutory requirements in relation to disposal of assets where Police, Board of Survey reports and certificate of disposal documents were not sighted. In the absence of related records and documents indicated that the process was flawed.

### Management Response

*Management has taken note of audit observations and appropriate remedial actions will be taken;*

- *Proper Asset Register will be established and updated regularly with stock cards maintained for each category of assets;*
- *Annual stock-takes will be carried out to ascertain the physical existence and true value of all assets;*
- *TOR for the Asset Committee will be drawn to guide the procurement and disposal of assets; and*
- *Complete Motor Vehicle Policy will be established to guide and protect the Office's fleet.*

## PROCUREMENT AND PAYMENT PROCEDURES

### Recurrent Budget

- The Office of Higher Education does not have a list of approved vendors.
- No registers were maintained to record verbal and written quotations.
- No approval was sought from the Consultancy Steering Committee of the Department of Personnel Management prior to engagement of consultant.
- An amount of K95,000 was paid in advance based on quotations provided by a consultant. No report from the Consultant was furnished to AGO to attest evidence of work carried out. It is not known if objectives were met and if OHE was satisfied with the work carried out.
- TESAS Travel airfares were not always paid out of vote item 144 but also from other expenditure votes. In addition, most of the cheques were raised after the close of 2011 financial accounts.
- Telephone bills were paid in advance and charged to other expenditure vote items.

- Three (3) out of the 13 paid vouchers selected for audit testing, payments totaling K12,000 were not supported by requisition for expenditure (FF3) to confirm the approved of claims prior to processing the payments.
- Four (4) paid vouchers totaling K37,754 were not sighted and hence the validity and propriety of payments made could not be ascertained in audit.

### Management Response

*Office of Higher Education currently does not have a list of approved vendors. It has made an undertaking to create the list but to date procurements are from certain suppliers. List of approved vendors will be reflected in the procurement policy yet to be developed.*

*Office of Higher Education incurs a lot of procurement and has not kept a registry of verbal and written quotations. A Central Claims Registry Clerk position has been created within the Finance and Administration Branch to undertake this task and will be functioning, once the Department of Personnel Management approves the position. Office of Higher Education should have a staff working fulltime on registering claims and quotations.*

*A consultant was engaged under Human Resource Branch to progress work on the restructure and assist with capacity problems within the Division. The contract was valued at K95,000 however; Office of Higher Education paid the entire contract value, even though work was not fully completed.*

*K82,277 reported was the remaining or surplus funds identified under different votes during close of accounts on the 14 December, 2011. These funds were paid into the project account held at ANZ to process beginning of year travel for TESAS students.*

*Office of Higher Education had recruited a retrenched officer through the internal advertisement process to fill the vacancy of a Staff Development Officer after seeking clearance from the Department of Personnel Management. However, the process in making payments to the officer was not in line with the Public Finances (Management) Act. The retrenched officer's engagement expired on 31 October, 2012.*

*In the case of telephone bills some payments were for 2012 advance payments to utilize delayed unused planned funds for scope of works and costing from suppliers.*

*The Office of Higher of Education agrees that transaction details were captured in PGAS but related paid vouchers could not be sighted.*

### Development Budget

An examination of the Development Budget with the related records and documents revealed the following observations:

- Two (2) project meetings were held during the year 2011, however, minutes of meetings were not furnished to audit although requested;
- Trust Instruments for the two (2) trust accounts were not sighted;



- Funds totaling K10,237,916 were transferred out of the Development Budget and paid into the newly created Project Account held with ANZ (Waigani) Branch in 2011. These transfers were made before the close of financial accounts in December, 2011;
- The bank reconciliation statement in relation to the Project Account for the Month of December 2011 was not prepared. In the absence of the bank reconciliation statement, AGO could not ascertain the cash position as at 31 December, 2011. In addition, interest revenue earned could not be verified;
- 286 transactions totaling K20 Million were incurred and paid as TVETTSPP projects in 2011. However, accountability statements were not furnished to audit to ensure funds paid were used for intended purposes;
- Ten (10) cheques to the value of K94,042, were drawn after the close of account on 12 December, 2011 from TVETTSPP funds. Of the total, nine (9) were related to salaries totaling K15,092 while one (1) was an advance payment for visas totaling K78,950 for TVETTSPP cohort three (3) students year marked for 2012; and
- No approval was sought from the Consultancy Steering Committee of the Department of Personnel Management prior to engagement of a consultant firm. It is also noted that the firm was not registered with Investment Promotion Authority and a certificate of compliance from IRC was not sighted.

### Management Response

*Two meetings were held in 2011, one on the 12 January, 2011 and the second one on the 14 September, 2011.*

*In 2011, the project officers through the Managing Consultant, was requested to provide weekly progressive reports (work activities and problem areas) to the Director General. This was done through minutes to the Director General and copies to the Associate Director TVETSSP who mostly dealt with policy issues.*

*All funds for 2013 will be held in the trust account that has finally been approved ; Latest bank statements for Office of Higher Education Project Account at ANZ Bank will be made available and monthly bank reconciliation statement for Office of Higher Education Project accounts are being submitted to the First Assistant Secretary (Accounting Standards and Frameworks Division) of the Department of Finance on 5 July, 2012.*

*Decisions regarding engagement of Consultant was decided at the senior management level through the Office of the former Director General and did not involve the activity officers of the project.*

### VISA Payments

An examination of nine (9) paid vouchers totaling K576,639 with the related records and documents noted the following matters:

- Six (6) payments totaling K380,539 were advance payment of visas for a third batch (trainee) during the year 2012. The funds were secured from the 2011 appropriation based on the

calculation approved by the selection panel. However, the actual number of students sent was 158 and not 241 as approved, a shortfall of 83 which needed to be explained; and

- The number of trainees for the second batch in 2011 was 62 and not 40 which resulted in Office of Higher Education making over-payment by K70,640 for 48 additional students (110-62). An amount of K70,640 needs to be recouped or deducted from the future visa payment.

### **Management Response**

*The first reason for awarding less than 241 scholarships in cohort three (3) was that the actual budget appropriation for 2012 was less than the K60 million requested for in the 2011 submission, reducing the number of scholarship awards to 200. Secondly, 42 out of the 200 students were not able to travel because of not meeting visa requirements.*

*The above cheques were raised in December, 2011 in anticipation that all unused funds would be transferred to the Consolidated Revenue Fund (CRF) in the absence of Trade Skills Trust Account. These were supposed to be advance payments for cohort three (3) in January, 2012.*

### **Catering Service Payments**

Seven (7) payments totaling K342,113 were made for catering services provided to trainers. A review of one (1) payment voucher noted that:

- A payment of K238,700 was made on 12.12.2011 (cut-off date of 2011 close of accounts). The company invoiced Office of Higher Education for an advance payment of catering service to be provided in the following year (2012). The nature of payment was considered to be questionable. It contravenes the financial regulations, where invoices are issued upon goods and services been rendered however, this is not the case; and
- An invoice was issued for K50 per day for three weeks catering for the 200 students. However, the actual number of students that accepted the offer for the 3<sup>rd</sup> batch were 158 and not 200 which resulted an over payment by K47,040. This amount in question should be recouped or deducted from future payments to the company.

### **Management Response**

- *The endorsed number of scholarship awards for cohort 3 was 241, however, for reasons number decreased. Thus preparations were made for 200 students in 2011 assuming that the Trade Skills Scholarship Trust Account would be approved before close of accounts. This is an overpayment by 42 students which TVETSSP will consult with the catering services.*
- *Only 158 students had granted visas out of 200.*

### **Payments**

Examination of 19 paid vouchers totaling K9,441,619 with the related records and documents revealed the following matters:

- Five (5) paid vouchers totaling K4,125,715 were not made available for audit verification. Of the total, K238,700 was paid on the date of close of 2011 accounts in December to a catering company as advance payment for 2012 as reported earlier;
- 12 payments totaling K4,168,110 had no FF3s attached with claims to initiate the payment process;
- Four (4) paid vouchers totaling K253,143 were not duly certified before the cheques were processed;
- The Office of Higher Education deviated from the Annual Implementation Plan and therefore, as a result;
  - Target of sending 250 students were not achieved; and
  - Office of Higher Education was able to send only 120 when 250 were budgeted for in 2011. Appropriate documentation to send only 120 students on approved scholarship were not sighted during audit.

### ***Labour Market Assessment Payments***

Audit noted 91 transactions totaling K1.5 million were incurred for the Labour Market Assessment projects at the year end 2011. Of the total, eight (8) payments totaling K89,414 were spent in relation to the project while two (2) payments totaling K1,039,055 were transferred and paid into a project trust account and the balance of K371,532 was incurred to meet the recurrent expenditures. The use of Development Funds to cater for expenses not related to Projects is deemed misappropriation of funds. A review of 25 paid vouchers totaling K98,311 noted the following discrepancies:

- Six (6) paid vouchers totaling K60,869 were not sighted and hence could not be vouched in audit;
- The requisitions for expenditure (FF3's) were not sighted for five (5) payments totaling K37,443 and hence, approval of the authorized Section 32 officer could not be ascertained;
- Four (4) paid vouchers totaling K34,443 were not captured in PGAS or transaction details;
- Three (3) paid vouchers totaling K33,394 were not examined prior to effecting the payments;
- Similarly, four (4) paid vouchers totaling K36,394 were also not certified prior to effecting payments; and
- Two (2) payments totaling K21,854 were made based on quotations submitted by vendors while another payment of K2,394 was solicited using pro-forma invoice.

## **PAYMENT OF GRANTS TO INSTITUTIONS**

### ***(a) TESAS LOAN. Grant Item (144)***

A review of the TESAS Loan and other related records and documents revealed that;

- A total of K6,590,945 was loaned to 7,038 students of various tertiary institutions from years 2000-2007 to finance TESAS scholarships. However, no attempt was made to recoup the amounts owed from the students concerned up to the time of audit in June 2012. This was also highlighted in our 2007 audit report;
- There were no incentives offered to students for early repayment of loans such as through discounts;
- There were no measures put in place to preserve the value of the loans. Although, loans were interest free, they should be at least indexed each year to reflect changes in the Consumer Price Index (CPI);
- No loan register was maintained to keep track of repayment; and
- No proper record keeping and filing was maintained making it difficult for audit trail.

### Management Response

*Office of Higher Education agrees and accepted the audit findings and recommendation regarding proper management of the TESAS Loan Grant. There was no proper policy in place by the National Government to manage this scheme since its inception six years ago. Therefore, this Office will analyse and devise a sound loan policy on management of the fund with a full time officer.*

#### **(b) TESAS BOARDING, LODGING, BOOK & EQUIPMENT ALLOWANCES**

TESAS Boarding, Lodging, Book and Equipment Allowances were payable to Students under the AES and HECAS category. Office of Higher Education is the government agency that awards the scholarship, facilitate payments and monitors acquittals on behalf of the government of Papua New Guinea

All Accredited Institutes of Higher Education annually were required to acquit to Office of Higher Education all funds related to TESAS. For continuing students, payments were done in two (2) installments. Institutions were required to submit their first acquittals in order to receive the second payment. First payment for the beginning of the current year depended on the acquittal of the second payment of the previous year.

According to expenditure transaction details 32 Institutions were paid K24,491,181 in relation to TESAS Boarding, Lodging, and Book & Equipment Allowances. A review of the acquittals register noted the following observations:

- 14 Institutions had not acquitted their second half of Boarding and Lodging and Book Equipment Allowances totaling K2,879,769;
- Three (3) payments totaling K337,536 captured in the expenditure transaction details were not recorded in the register of TESAS Boarding, Lodging & Book Equipment Allowance; and
- Two (2) institutions had their grants paid in advance totaling K435,666 for first and second semester before close of accounts in December 2011. These institutions had failed to acquit their 2010 grants and also for 2011.

## Management Response

*Office of Higher Education took note of the audit findings and recommendation and will ensure that performance of the Accounts Clerk-TESAS will be supervised and monitored by senior personnel to obtain the accuracy and completeness of the records.*

### (c) TESAS TRAVEL

Upon approval and accepting the Office of Higher Education scholarship, TESAS students were entitled to a return (air/sea/land) fare to various institutions and back to their respective home provinces. Office of Higher Education is responsible to monitor and keep updated records to ensure that airlines and travel agents acquit grants paid for as TESAS Travel on a timely basis.

A review of the 2011 accounts with the related records and documents and a follow up on the 2010 audit report noted the following unresolved issues:

- A total of K121,368 was paid to a travel agent in 2010 and highlighted in the audit report is yet to be acquitted and remained outstanding as at 31 December, 2011;
- 25 institutions were paid airfares totaling K1,099,986 as reported in 2010 also remained outstanding as at 31 December, 2011;
- No acquittal register or chart was maintained to monitor the payment and acquittal of TESAS travel. Also, no evidence was sighted to suggest that reminder notices have been served to airline/travel agents for follow up purposes;
- In 50 instances, a total of K5,899,991 was paid as airfares to two (2) travel airlines and three (3) travel agents during the year 2011. However, contract agreements if any entered between the Office of Higher Education and travel agents/ airlines were not furnished to audit although requested;
- Of the five (5) travel agents, two (2) had not furnished acquittals to the Office of Higher Education;
- In 2011, some institutions sought ticket re-imbursement from Office of Higher Education and such situation occurs when TESAS student pay for their own fares to respective institutions. It was noted that a total of K199,599 from 404 students submitted for payment of ticket reimbursement. However, no proper system was in place to account for what had transpired from Office of Higher Education;
- 35 payments relating to TESAS travel totaling K830,674 made to six (6) Teachers Colleges, five (5) Universities, a University College and seven (7) Colleges have not been acquitted; and
- The statement of accounts from respective travel agencies for the year ended 2011 were not provided to audit to ascertain the exact amounts held as credit in the accounts.

## Management Response

*Office of Higher Education agreed with audit findings and recommendation and stated that; Finance and Administration Branch will draw up a Travel Register to address those control weaknesses highlighted*

*and also to set a time frame to submit a report on the progress of the outstanding 2010 and 2011 financial accounts.*

**(d) RESEARCH AND SCIENCE TECHNOLOGY**

NEC Decision No: 17/2008 states the content of Statutory Business Paper No.4/2008 and approved the commencement of the establishment of the Research, Science and Technology Council.

On the same decision, the Office of Higher Education was supposed to establish a Research, Science and Technology Council.

An examination of NEC Decision No:17/2008 and other related documents and records noted the following;

- An interim committee known as the Science and Technology Initiative Committee (STIC) was established in 2007 without approval of PNG RST Council;
- After the last NEC Decision in 2008, to date no Council was endorsed and appointed to carry out the functions of Research Science and Technology;
- In 2007, the STI Committee approved and allocated K500,000 under Grants Item-144. From then on, universities made sub-missions on either new or existing proposals for research work to STIC for consideration; and
- In 2011, K500,000 was appropriated for under Grants Item- 144 with the TESAS appropriation where three (3) Institutions benefited from this funding. A review of the payments with the related records and documents revealed the following observations:
  - Review of payment vouchers noted that no approval was obtained from the STI Committee prior to making payments. The only available record at the time of audit in May, 2012 was an internal memo from the Chairman of RST Funds to effect payments;
  - No acquittals or financial statements were received on progress of work carried out and in the absence of such information, AGO was unable to establish whether funds were used for intended purposes;
  - There were no control measures in place for researchers to follow up on acquittals of STI funds; and
  - Delays in release of funds which also caused delay in acquittal.

**Management Response**

*Office of Higher Education took note of the audit findings and recommendation and has taken measures to ensure that;*

- *STI funds are acquitted before further payments are made;*

- *Establish proper guidelines in approving of project proposals, releasing STI funds, monitoring and evaluation of Research Project Proposals (both existing and new) through progressive reports; and*
- *Acquit STI funds to enable the accountability of government funds.*

## **HUMAN RESOURCE MANAGEMENT**

### ***Salaries-Personnel***

A general assessment of the human resources management practice revealed the following:

- Office of Higher Education has a staff ceiling of 69. Of the total, 48 positions had been substantively filled while 21 were vacant. An officer was unattached whilst ten (10) were on short term/acting basis resulting in the staff on strength to be 57;
- Training was provided to staff on an ad-hoc basis. In addition, training was also not linked or aligned to the staff appraisal needs;
- The Department had no Comprehensive Training and Management Plan for 2011; and
- The quarterly work plans were developed from January to September, 2011. However, these were not linked to the budget and corporate plan in order to identify targets and indicators and to enable the management to determine whether objectives were being met. The management therefore is not in a position to:
  - Monitor the achievements of the Department's objectives or programs;
  - Effect necessary changes;
  - Determine areas where change was required; and
  - Amend the objectives and strategies.
- There were 15 full time casual employees. Of the total, 14 were held against vacant positions and paid through concept payroll while one (1) casual employee was paid under PGAS;
- Job descriptions were not sufficiently defined in terms of reporting lines;
- Appropriate was criteria not used against type of performance to appraise to achieve the Departments objectives;
- Lack of training for employees at all levels;
- The appraisal process does not allow information feedback;
- No feedback to employees on actions taken on performance appraisals; and
- Information gathered from performance appraisal had no linkage to remuneration and promotion.



### ***Salaries – Payroll Review***

- Manual time register used for recording worked time was not reviewed by a senior officer in charge;
- No proper systems to ensure workers were being paid for hours worked;
- Manual history cards were not always updated;
- Lack of controls to ensure completeness /accuracy and authenticity of changes to the concept payroll;
- Not all changes to employee standing data were supported by authorized notifications from the Human Resource Division;
- No evidence to indicate that payrolls were reconciled to standard payroll;
- Gratuities were paid based on contract and not on performance;
- Calculation of gratuity not reviewed by senior officer in charge of Personnel;
- Calculations for overtime allowances were not always checked prior to posting into PGAS; and
- Duties involved in preparation, cashing of cheques at bank, enveloping and distribution or paying of cash wages were always done by the same person.

### **Management Response**

*Office of Higher Education took note of the audit findings and recommendation and has taken measures to ensure that;*

- *All staff has the necessary knowledge, skills and training to support the achievement of the Office's objectives;*
- *Performance of the human resource function be efficient and effective through development of sound human resource policies (recruitment, training and staff development); and*
- *Inefficiencies in the work force are addressed to enable Office of Higher Education to progress.*

### **TRUST ACCOUNT**

#### ***(a) Trust Instrument and Establishment of Trust Account***

The Higher Education Sector Infrastructure Rehabilitation Trust Account was established as per the Trust Instrument signed by Minister for Finance and Treasury dated 3 October, 2007. The purpose of the account was to hold monies directly appropriated to it, in accordance with Section



16(2) of the *PFMA, 1995* for the funding of rehabilitation of Higher Education sector infrastructure.

Paragraph 6 of the trust instrument states that the trust account will cease on the 31 December, 2010 or when all the moneys have been used to fund rehabilitation of the Higher Education Sector Infrastructure. In the event that funds were not utilized before 31 December, 2010 the account will be closed and that all unused funds in the trust account will be refunded and remitted to the Consolidated Revenue Fund (CRF).

The Trust Account was managed and administered by the Office of Higher Education through the Bank South Pacific at Port Moresby. A review of the trust account with the related records and documents revealed the following matters of concern:

- The operations of the “*Higher Education Sector Infrastructure Rehabilitation Trust Account*” had not ceased as at 31 December, 2010 as stipulated by the Trust Instrument; furthermore, no payments should have been made out of the Trust Account after 31 December, 2010 and any monies remaining should have been remitted to the Consolidated Revenue Fund (CRF);
- The closing bank balance of K3,958,192 at 31 December, 2011 was still not remitted to CRF as at the time of audit in May, 2012;
- No approval was sighted from Department of Finance to extend the operations of the Trust Account to year 2011; and
- The Office of Higher Education did not comply with the statutory requirements of Section 19 (3) of *Public Finances (Management) Act, 1995*, to prepare Annual Estimates of receipts and payments for the Trust account.

(b) *Bank reconciliation*

A review of the bank reconciliation statement for the month of December, 2011 revealed the following shortcomings:

- Receipt in Cash Book not in bank statement amounting to K550,000;
- Debits in Bank Statement not in cash book amounting to K260,839 was reported as bank fees, short fall payments, TT payments, invoice and re-credit error;
- Cheques on bank statement not in cash book amounted to K396,634 were reported as cancelled cheques yet to be journalized and reversal of Journal Entries dating back to June 2008;
- Credits in bank statement not in cash book totaling K797,152 represented direct deposits, dishonoured cheques deposited back to the account, interest deposited and over payment for TT payments; and
- The un-presented cheques as at 31 December, 2011 amounted to K256,015.

These reconciling items should have been investigated and cleared.

(c) *Payments*

AGO examined 14 payment vouchers totaling K353,605 to ensure whether the acquisition of goods and services were conducted in accordance with legislation, government policies and sound purchasing principles and practices. Weaknesses were noted as follows:

- Two (2) payments on requisition for expenditures totaling K557,851 were not signed by the authorized requisitioning officer;
- Two (2) paid vouchers totaling K400,909 were not examined for completeness and accuracy of claim prior to processing the payments;
- Ten (10) payments totaling K2,275,721 were made without tax invoices attached with the payment vouchers; and
- 14 payments totaling K3,536,044 were made without receipts as evidence that the payee received the goods and services.

### Management Response

*The management of Office of Higher Education took note of the issues highlighted in the audit recommendations and will take appropriate remedial actions as from year 2013.*

### ADVANCE MANAGEMENT

A review of the advance register and related records revealed the following weaknesses:

- The current (soft copy) advance register maintained was not complete and inconsistent in that; vital information regarding the advances were not captured;
- The Office of Higher Education issued five (5) types of advances; domestic travel advance, overseas travel advance, incidental allowance, cash advance and salary advance. The accounts clerk keeps acquittal records relating to domestic and overseas travel but not for cash advanced, incidental allowances and salary advances;
- A total of 62 advances amounting to K52,473 remained outstanding as at the 31 December, 2011;
- 41 officers were paid second advances totaling K36,420 whilst their first advances remained outstanding. These advances were captured through PGAS but not recorded in the Advances Register; and
- According to the Department records, 136 advances totaling K112,223 were acquitted. A sample of ten (10) advances totaling K10,251 of which seven (7) totaling K4,840 related to Domestic travels while three (3) totaling K5,411 were overseas travels to ascertain whether proper supporting documents were attached as evidence that the advances were acquitted. The following observations were noted:
  - Travel itinerary made to a former Senior Officer totaling K2,402 was not sighted and hence could not be vouched in audit;

- Three (3) acquittals totaling K1,642 were not supported by boarding passes; and
- Two (2) overseas travel advances totaling K3,008 were not supported by acquittals as evidence of correct use of cash advances.

### Management Response

*The Office of Higher Education took note and acknowledged the audit comments and audit recommendations and will take remedial actions on recouping all unacquitted advances, draw up a manual advance register in future to account for other advance, the financial delegate will regularly review the advance register to make sure all advances are acquitted and also will be reconciled with PGAS records.*

### DEPARTMENTAL RESPONSE

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

### CONCLUSION

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

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

## 13. INTERNAL REVENUE COMMISSION

### OVERVIEW

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

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

### FINDINGS

#### BUDGETARY AND FUNDS CONTROL

##### Variances in expenditure balances

A comparison of the 2011 Expenditure Vote Summary print out produced by the IRC against the Expenditure Statement produced by the Department of Finance (TMS 330, period 12, 2011) indicated the following variances in the expenditure balances:

Particulars	TMS Record	PGAS Record	Variance +(-)
Revised Appropriations	39,190,900	43,311,400	-4,120,500
Warrant Issued	38,984,000	43,311,400	-4,327,400
Actual Expenditure	30,426,330	25,709,082	4,717,248

These significant variances need to be resolved through a proper reconciliation of the TMS and PGAS records.

##### Management Response

- *The IRC recurrent appropriation for 2011 was K38,311,400. The Development Budget for the same period for the RASII Project was K5,000,000. These figures resulted in a cumulative total of K43,311,400 for IRC Budget for 2011 which was approved, gazetted and passed by the Government.*
- *According to the results of the audit conducted, IRC has transaction amounts within our budget allocation through PGAS. The records maintained by the Department of Finance are sourced from the TMS System.*

- *Ongoing problems were highlighted in the responses to the Auditor General's Management Letter of 2011 in relation to the discrepancies identified during the audit conducted that year.*
- *It may be appropriate that further clarification is sought from the Department of Finance in respect of the continued inconsistencies.*
- *All movements of funds (SA) are balanced after each transaction to ensure that our appropriation has not been exceeded.*

## **BANK RECONCILIATION**

The monthly bank reconciliation statements were prepared on a timely basis; however, the following minor discrepancies were noted:

- The Bank Reconciliations were not signed off by the preparer nor verified in 10 instances to ensure that the bank reconciliations had been prepared according to the set *PFMA* guidelines;
- Total un-presented cheques amounted to K4,430,282 as at 31 December, 2011. Of the total un-presented cheques, K8,996 related to 16 cheques raised in 2010; and
- Total Credits in Bank Statement but not in Cash Book was K6,737,882 as of 31 December, 2011. These were monthly reimbursements from the Waigani Public Account that were supposed to be taken up in the cash book. As a result, the cash book closing balance as at 31 December, 2011 showed an overdrawn balance of K11,168,165.

All reconciling items should be investigated and cleared so that the cashbook balance will be accurately stated at year end.

## **Management Response**

- *It is accepted that the original Bank Reconciliations sent to the Department of Finance were signed by the preparer only.*
- *In response to previous IRC audits, meetings were convened with the Department of Finance Accounting Frameworks & Standard Division. An action item taken up by IRC from these meetings was that IRC issued letters to suppliers and requested the deposit of the cheques identified as being unpresented into bank accounts as a matter of priority. This reduced the number of unpresented cheques on IRC records with the amount currently identified as unpresented being **K8,886**.*
- *The total reimbursement from WPA for December, 2011 drawings of K6,737,882 was posted in the Cash Book in January, 2012. This was due to the BPNG not providing Bank Statements and Paid Cheques in December, 2011 to be taken up in the cash book on the same month. The bank statements and cheques were collected in the second week of January, 2012 and amounts were subsequently journalised and entry affected in the PGAS Cheque Reconciliation System as Dr Cash Book Vote **Code 32/169** and Cr Trust Contra Vote **Code 320/169**.*

## ASSET MANAGEMENT

A review of the Master Assets Register for year 2011, revealed the following:

- All other types of asset have been recorded, except for the Attractive Items such as radios, cameras, tape recorders, projectors, medical, technical, scientific and computing equipment and similar valuable portable items. These items have all been recorded under Office Equipment as opposed to being recorded separately in a different register;
- There were instances noted where, the dates of items purchased and unit costs were not recorded; and
- Furthermore, audit selected a sample of 28 assets bought in 2011 and traced back to the register maintained to see if they were recorded. It was noted that 16 assets totaling K358,843 were not recorded in the assets register. The items not registered in the Asset Register include two (2) motor vehicles that were purchased in 2011 at a total cost of K178,279.

### Management Response

- **Review of Asset Register**  
*An IRC Attractive Asset Register (Loan Register) will be designed and embedded into business as usual. The Loan Register will have details of those items issued on loan to IRC Staff and the IRC Staff member who has the item on loan will sign for its receipt and return.*
- **Dates of purchase not in chronological order and not recorded**  
*It is regrettable that IRC is unable to locate purchase records of many of the items referred to in the 2011 IRC Audit. The Asset Register will be reviewed and all items purchased will be recorded chronologically from the date of acceptance and approval of the IRC Response to the Auditor General.*

*In addition, a number of the IRC assets identified as not being recorded on the Asset Register were purchased after the June, 2011 Asset Register update. These include the two vehicles ZIR 041 replaced by BDK 120 and ZIR 077 replaced by ZIR 100.*

## PROCUREMENT AND PAYMENTS PROCEDURES

Audit verification of a selected sample of 67 payment vouchers revealed the following matters of concern:

- The certifying and the claims examining officers approvals were not duly obtained for 38 payments totaling K977,761;
- The goods and services received note (G&SRNs) from the suppliers or services providers were not sighted to confirm that the goods paid for were actually received in all of the 67 payment vouchers that were tested; and
- The paid vouchers were also not stamped as “paid” as evidence of payment made to avoid further disputes with suppliers and services providers.

### Management Response

- **Requisite Approvals not obtained**  
*It is unacceptable that both the Certifying Officer and the Claim Examination Officers have approved these claims without signing the appropriate documentation. Action taken by locating those claims from file and Certifying and Examination Officers has signed them.*
- **No evidence of Goods and Service paid for were duly received**  
*Goods received notes were introduced to IRC Operations in 2012.*

### ADVANCE MANAGEMENT

Audit noted issues relating to Advance Management in the following areas:

- The columns for Date, Name, Designation, Signature and Remarks were noted to be missing from the advance register, contrary to *Part 20 (Section 12.2)* of the *Financial Management Manual*;
- Of the total of 530 advances issued, eight (8) advances totaling K10,572 were still outstanding; and
- The advance register was not reviewed by a financial delegate.

### Management Response

*Management agrees to the audit findings and will act on audit recommendations.*

### DEVELOPMENT BUDGET

The IRC managed only one project under the 2011 Development Budget Programme in 2011. The Project is called the Revenue Accounting System II (RAS II). This system has been introduced to replace the current Revenue Accounting System I (RAS I). The name of the system upon completion will be called the **Standard Integrated Government Tax Administration System** (SIGTAS).

- Seven (7) of the 13 paid vouchers were missing from the files; and
- AGO noted from a sample of 19 expenditure transactions that a total of K274,697 of Re-current Budget funds were used to cater for development budget activities.

### Management Response

- **Recurrent funds used in Project related expenses**  
*The payment of K181,820 mentioned is the last payment raised for CRC Sogema (RASII Project) under the Development Budget and is still on hold pending delivery.*

## REVENUE ANALYSIS

AGO made an analysis of the total revenue collected in 2011 as follows:

Balance Year to Date:	K6,669,674,000
Projection Year to Date:	<u>K6,230,580,000</u>
<b>Net Surplus:</b>	<b><u>K 439,094,000</u></b>

The following were observed of the above comparison made of the Net effects of the year end balances of 2010 and 2011 respectively:

Generally, the actual revenue collected in 2011 was far better than 2010 collections.

Actual Collected in 2011:	K6,669,674,000
Actual Collected in 2010:	<u>K5,534,284,000</u>
<b>Difference:</b>	<b><u>K1,135,390,000</u></b>

## Management Response

*In response to 2009 & 2010 AGO findings in relation to this ongoing issue, IRC has internally reviewed the controls and improved the processes to ensure that any variances are identified and corrected in the shortest possible timeframe.*

## DPARTMENTAL RESPONSE

The Department has responded to the audit findings reported in the management letter and their comments have been considered.

## CONCLUSION

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

At present the controls activities, such as delegations, authorizations, reconciliations, data processing, segregation of duties and system access are not sufficiently robust to prevent defect or correct errors or fraud.



## 14. DEPARTMENT OF LANDS AND PHYSICAL PLANNING

### OVERVIEW

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

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

### FINDINGS

#### BUDGETARY AND FUNDS CONTROL

##### Revenue Analysis

- The actual revenue collected amounted to K17,609,762 as per the Department of Finance revenue summary report for the period ended 31/12/11, whilst the Department of Lands & Physical Planning report showed K17,252,187 resulting in unexplained net variances in all 13 revenue votes aggregating to K357,576.
- Revenue for the year was estimated at K26 million while the Department actually collected K17.3 million resulting in a short fall of K8.7 million which is equivalent to 34% of the estimated revenue.

##### Expenditure Analysis (recurrent)

A comparison of the expenditure summary report for the period ending 31/12/11 generated by the Department of Finance against the Department of Lands & Physical Planning report (PGAS) revealed the following unexplained variances, indicating a serious lack of monitoring and control weaknesses.

Particulars	DL&PP-PGAS (K)	DoF-TMS100 (K)	Variance (K)
Revised Appropriation	34,714,600	35,817,300	-1,102,700
Warrant Authority	25,100,600	35,817,300	-10,716,700
Actual Expenditure	25,096,574	35,669,523	-10,572,949

#### BANK RECONCILIATION

A review of the bank reconciliation statements for the drawing account maintained by the Department revealed that the latest bank reconciliation prepared was for the month ended 31 December, 2010 as at the time of audit in July, 2012. Hence, the monthly bank reconciliation statements were in arrears by more than 12 months.

The non-preparation of bank reconciliations in a timely manner is a serious internal control issue and the management of the Department must treat it as a matter of priority.

## ASSET MANAGEMENT

The Department maintains two (2) forms of registers, one (1) is the General Assets Register and the other is the Fleet Register. Audit carried out a review of both registers and the following weaknesses were revealed;

- Out of 24 selected assets purchased in 2011, 12 assets totaling K815,548 were not recorded in the register maintained by the department.;
- The register maintained was noted to be deficient in that most columns were not filled and with less information such as the inventory number, serial number, model number, custodians and the date issued columns; and
- The Fleet Register is not properly updated when compared to the list of vehicles in the fuel register. Audit noted instances where vehicles with private registration numbers under custody of senior officers were listed in the fuel register but not in the fleet register.

## PROCUREMENT AND PAYMENT PROCEDURES

An examination of 49 payment vouchers totaling K7,122,130 selected randomly together with related records and a review of the procurement and payment procedures in operation revealed the following irregularities.

- In 18 instances, payment vouchers totaling K3,193,096 were not provided for audit inspection although requested, hence in the absence of paid vouchers audit was unable to verify the nature of payments;
- In six (6) instances totaling K169,027, three (3) quotations were not obtained prior to the purchase of goods and services as required under *Part 12, Division 3* of the *Financial Management Manual*. In the absence of such quotations, audit was unable to ascertain whether due regard to economy was taken into consideration in the purchases made;
- In four (4) instances totaling K71,697, purchases were made based on pro-forma invoices instead of Tax Invoices as required;
- PTB approval was not obtained prior to engaging external hire in two (2) instances totaling K31,216 contrary to *Part 17, Div.1 subsection 4.3* of the *Financial Management Manual*;
- There was no quotation register maintained by the department, thus is in violation of the *Financial Management Manual Part 12, Div.2.7*;
- Payment vouchers were not properly kept and managed by the Department. For instance, payments relating to Land Acquisition in 32 instances totaling K10,244,987 were kept by the Land Acquisition Division instead of the Finance Division as required for safe custody; and
- There was no segregation of duty as noted in the duties performed in the finance division. There was only one (1) person performing more than three (3) tasks, thus, indicating a very high risk

that things may go wrong. This matter was reported in the prior year's audit report and remains unresolved.

## HUMAN RESOURCE

- Since the approval of the Department structure in 2008, no training plan has been developed as part of the Department's Corporate Plan for the period 2008-2012 as required in the *Public Service General Order 5.34-5.35*.
- A review of 14 employee files and related records revealed that contracts for all 14 officers were not updated to the new salary structure outlined as per the National Executive Council Decision No. 53/2011. Up to date records in respect to individual employees are vital and should be properly maintained to facilitate payment of correct salaries and allowances.

## ADVANCE MANAGEMENT

A review of the travel and cash advance register and related records relating to the payment, recording and acquittal of advances revealed the following control weaknesses;

- 160 travel advances amounting to K232,957 remained outstanding for the year 2011;
- In 25 instances totaling K89,732, officers were paid second and third travel advances while their first advances were still outstanding contrary to the *Financial Management Manual Part 20, subsection 12.11*. Audit noted that these were mostly senior officers who did not seem to be adhering to the requirements;
- Out of a sample of 14 travel advances selected, 11 were not acquitted in a timely manner as required in *Part 20 of the FMM*. Delays ranged from five (5) days to eight (8) months in both overseas and domestic travel; and
- The department did not maintain a register to record all cash advance payments which is contrary to the *FMM Part 20*. A total of 88 payments totaling K8.77 million were paid to PAYMASTER of which there were no records to verify if the payments were paid to the rightful person after encashing by the payee. Cash is high risk in nature and in this case, AGO has no assurance on the accountability and the disbursement of these funds.

## DEVELOPMENT EXPENDITURE

Department of Lands and Physical Planning has two (2) main programs under the Public Investment Program (PIP) for the year 2011 as shown below:

Project Vote	Description	Revised Approp. (K)	Warrant Authority (K)	Total Expend. 31/12/2011 (K)
252-3201-3-205	<b>Land Development Program</b> <ul style="list-style-type: none"> <li>○ Valuation Project</li> <li>○ Physical Planning Project</li> <li>○ Leap Project</li> </ul>	10,176,600	10,176,600	4,469,600

252-3201-3-206	<b>Boarder Dev. Mapping Project</b>	2,000,000	2,000,000	2,000,000
<b>GRAND TOTAL</b>		<b>12,176,600</b>	<b>12,176,600</b>	<b>6,469,600</b>

A review into the Public Investment Program (PIP) Procedural Guidelines and related records revealed the following matters:

- National Land Development Project (NLDP) Committee is made up of eight (8) agencies that meets every first Tuesdays of every month to discuss matters such as Land related plans and issues. However, the Project Committee Meeting Minutes were not provided to audit and as such audit could not establish as to what sort of issues were discussed in the meetings or to actually verify if such meetings ever occurred;
- Quarterly budget review reports for the year 2011 were not prepared and submitted to the Central Agencies Coordination Committee (CACC) and donors as required under the PIP guidelines; and
- A final quarter review report was prepared and submitted to DNP&M for the Boarder Development Mapping Project, however, the report was not prepared on a timely basis as required by the PIP guidelines.

A review into the work plan, procurement and payment procedures of the projects administered by the department revealed the following matters:

*Project A: Land Development Program*

Audit randomly selected 19 payments totaling K2,200,574 and subsequent verification of paid vouchers together with related records revealed the following weaknesses:

- Payments for vehicle hire were made in two (2) instances totaling K9,050 of which three (3) written quotations were not obtained prior to engaging their services as required;
- A payment of K12,191 to a company for purchase of laptops and accessories was paid based on pro-forma invoice and not the tax invoice as required; and
- In four (4) instances totaling K9,897, requisition for expenditure forms (FF3) were not sighted and as such audit could not verify if proper approval was obtained prior to effecting payments.

*Project B: Boarder Development Mapping Project*

A sample of 14 payments totaling K888,773, selected on random basis and subsequent examination of paid vouchers and related records and documents revealed the following weaknesses:

- In five (5) instances totaling K271,145 paid vouchers were not provided for audit inspection although requested; and
- In 11 instances totaling K107,688, payments were made to the PAYMASTER for cash advances. However, there was no record of cash advances maintained by the department, and as such, acquittal of such advances could not be monitored and followed up. This is a serious breach of the *Public Finances (Management) Act, 1995*, and should be addressed immediately by the management of the department.

## DEPARTMENTAL RESPONSE

The department has not responded to the audit findings reported in the management letter issued, up to the time of writing this report in June, 2013.

## CONCLUSION

Overall result of the 2011 audit indicates that there are significant weaknesses in the control framework.

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

## 15. MAGISTERIAL SERVICES

### OVERVIEW

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

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

### FINDINGS

#### BUDGETARY AND FUNDS CONTROL

- Significant net variances of K1,276,022 under recurrent budget and K7,138,011 under development budget were noted between appropriations, warrant authorities and expenditure balances for the year ending 31 December, 2011;
- Duties of a budget officer was performed by an officer also responsible as Officer-In-Charge Expenditure and Examiner;
- Cash Fund Certificate's (CFC) posted into PGAS, in some instances had no input dates; and
- CFC's were being authorized by senior officers other than the Department Head.

#### Management Response

*The variances noted were the result of monthly TMS reports from the Department of Finance not received on timely manner to conduct reconciliation between both records.*

*The management agreed on the audit findings and stated that; it was only in few instances that cash fund certificates were not marked as posted, signed and dated. However, the PGAS administrator has been advised to take corrective measures in future.*

*The management will take corrective action to review the current practice in authorization of CFC's by certain individuals with the inclusion of the Chief Magistrate.*

#### BANK RECONCILIATION

A review of the bank reconciliation statement for the month of December, 2011 disclosed numerous reconciling items, some of which were related to the year 2007. A summary of the reconciling items outstanding are presented below:

- The statement of account received from Bank of South Pacific disclosed a credit bank balance of K1,682,627 as at 31.12.2011 whilst the cash book balance reported an overdrawn balance of K75,736,036;
- Reconciled overdrawn cash book balance as at 31.12.2011 was also overstated by K2,625,243;
- Reconciling items outstanding of K3,755,590 in debits and K81,247,477 in credits to be cleared;
- Unpresented cheques totaling K6,595,520 as shown in the reconciliation did not agree with the cheque reconciliation amount of K5,351,207 thus revealing a difference of K1,244,314;
- Unpresented cheques total included stale cheques aggregated to K3,831,062 that were issued during the years 2004 to 2010, remained uncleared;
- The bank reconciliation statement was not attested to by a senior officer for correctness and completeness of records; and
- There was no evidence to suggest that the copies of the reconciliation statements were submitted to Department of Finance as required.

### Management Response

*The bank reconciliation with the accumulation of reconciling items carried forward from prior year's reconciliation is recognized as a major problem. However, a request has been made to Department of Finance seeking assistance in updating and clearing all outstanding items. Should this be done, the problem will be under control to minimize the risk of any abnormalities that is likely to happen.*

### ASSET MANAGEMENT

The asset register provides the primary record for assets management. A review of the purchase, recording and control over assets revealed the following:

#### *Fixed Assets*

- No assets register was maintained;
- No stock take of assets were carried out periodically;
- According to the 2011 expenditure transaction details, 144 assets totaling K509,112 were purchased during the year but these were not recorded in the asset's register;
- A separate asset register was not maintained to record attractive items totaling K196,412;
- There is no policy in place for the use or custody of attractive items;
- An assets committee was not in place to ensure that activities relating to expenditure and receipts of public monies including acquisition, safe custody and disposal of state assets were carried out according to related requirements and legislations. The procurement function is noted to be decentralized;

- The Property and Assets Division was overlooked and given minimal or no consultation in regard to assets procurement even though it is in line with their job description and part of their expertise, especially in building and property management; and
- List of board of survey in respect of attractive items were provided, however, records stating current value of items and approval for disposal were not provided for audit verification.

#### *Magisterial Services Fleet*

- According to a temporary vehicle register maintained, a vehicle had a private number plate, contrary to financial regulations that all government vehicles should be fitted with “Z” plates;
- Four (4) vehicles purchased in 2011 totaling K414,669 as per the expenditure transaction report could not be traced to the vehicle register;
- Log sheets were not maintained to control the use of each vehicle. Similar issues were reported in our previous audit reports; and
- Records and documents relating to motor vehicles were not filed in an orderly manner making it difficult for audit trail.

#### *Fuel*

- According to expenditure transaction details, a total of K218,714 was spent on fuel in 2011. However, purchase of fuel was not always made from vote item 125 but also from other expenditure votes;
- The sole supplier for fuel to the department was paid K151,337 and a contract agreement, if any entered between the two parties was not sighted;
- A review on a payment totaling K24,875 made to the sole supplier for fuel with the related records and documents noted the following shortcomings;
  - Four (4) motor vehicles went in for refills which were not listed as department vehicles. Of the total, one (1) vehicle refilled eight (8) times while the other three (3) refilled once; and
  - As for the head quarters fleet, there was no control over fuel allocations per vehicle.

#### *Maintenance*

- A total of K337,317 was spent on maintenance and on-road costs for department vehicles. However, the department did not maintain a chart or schedule when vehicles were due for services. It was noted that the servicing of vehicles was done on need basis.

#### *Hire Cars*

- A total of K365,104 was spent on hire of motor vehicles from outside sources without obtaining approved from Plant and Transport of the Department of Works as required.



### *Buildings/Property*

- Magisterial Services has a housing policy in place, however, it is yet to be endorsed for implementation;
- The full listing of properties including court houses throughout the country was not furnished for audit review. From the list or records provided, vital information such as date of purchase and the cost involved were not indicated;
- The property titles and related records were not furnished for audit verification;
- General Orders 13.127, states that *an officer who resides in and pays rental in respect of property owned by the State shall receive a rental allowance in relation to that property*. However, according to available records, the following matter of concern were noted;
  - From the total 86 (magistrates and staff) who currently occupy institutional houses, 28 officers were receiving housing allowances without paying rent.

### **Management Response**

*The Management took note of our audit findings and recommendation and will act for those matters which need immediate remedial action*

## **PROCUREMENT AND PAYMENT PROCEDURES**

### *Recurrent Budget*

- As per the department records, the total actual expenditure incurred as at 31 December, 2011 was K30,762,311 whilst the analysis of payments by categories amounted to K30,955,935, resulting in an unexplained difference of K193,624.
- 23 payments totaling K129,337 were incurred to cover funeral expenses relating to the death of 4 staff members of the department during year 2011. The payments were processed and paid out of other expenditure votes and included in the total was an amount of K27,450 obtained as cash advance in favor of officers but is yet to be acquitted;
- The department paid a total of K105,351 being various allowances as per the contract of employment agreement for senior officers. However, related paid vouchers were removed from files and hence could not be vouched in audit to verify the authenticity of payments made;
- A total of K100,751 was paid to various catering services to cater for luncheon, dinner, farewell party, christmas party and refreshments. However, proper acquittal documents were not always attached with the paid vouchers;
- In 16 instances, lease agreements to commit the department to pay property rental fees to various real estate agents totaling K195,863 were not sighted on file; and

- Payments totaling K1,105,224 were made for minor contractors for various works carried out during the year 2011. An examination of the payment vouchers with related records and documents revealed the following matters of concern:
  - The department had no proper system in place for the evaluation and awarding of minor contracts pertaining to repair, maintenance, plumbing and electrical fitting;
  - Details of contract agreements entered into between the department and contractors were not sighted at the time of audit;
  - Payments were raised based on quotations provided by the contractors and were often paid in advance;
  - Work specification and costing if any were not forwarded for audit; and
  - Work completion certificates if any were not provided for audit verification.

### Management Response

*The management took note of the audit findings and recommendation and stated that; the current arrangement for only one section 32 officer has been changed and the Chief Magistrate as the Chief Accounting Officer is now in charge of all expenditure decisions until proper appointments can be made as delegated Section 32 officers.*

*Funds committed to arrange for funeral cost came under two (2) activities; Human Resource and Magistracy and in addition, the use of statutory declaration was due to events happening at the village level.*

*In regard to payments to various catering services, it has been noted that in future, the purpose and the guest list will be attached to the payment voucher.*

*On the issue of rental of properties, at least there is some form of agreement in place before the occupant has moved into occupying the property.*

*On the issue of Minor Contracts for repair and Maintenance, the management took note of audit findings and the matters will be looked into and resolved in future.*

### Development Budget

In the 2011 budget, the department was allocated K1,253,626 from the total appropriation of K3,951,500 for the development budget. As per the department records the total expenditure incurred at the year-end was K955,611.

A review of selected payments and the related records and documents revealed the following observations:

- The annual work plans were not made available for audit although requested. In the absence of annual work plans, it was not possible to link and identify targets and assess achievement of set objectives/outputs;
- The department did not have a project steering committee in place as required;

- The department did not have guidelines governing the use of project funds. In addition, procedures relating to screening, assessing, monitoring and acquittals could not be ascertained due to non submission of such policy or guidelines furnished for audit;
- The status or progress reports on projects if any were not made available to audit although requested. As such, AGO could not ascertain the status of each project and whether the funds allocated had been utilized in accordance with implementation guidelines;
- No quarterly budget review for development budget was reported in the department's quarterly budget review for 1<sup>st</sup>-4<sup>th</sup> Quarter 2011 for the project;
- The cheques were manually processed and related paid vouchers were kept by the Agency, hence, AGO was unable to verify the payment vouchers;
- The monthly bank reconciliations if any were not provided for audit verification;
- No management reports were provided for audit assessment or verification; and
- Development funds (PIP) were used to meet department's recurrent expenditures. AGO viewed these payments as irregular in nature and used for unbudgeted expenses.

### Management Response

*The only report not made available was the bank reconciliation for the month ended 31 December, 2011 and this was due to bank not sending the statements in spite of numerous requests.*

## HUMAN RESOURCES- PAYROLL AND SALARIES

A general assessment of the human resources management revealed the following:

### *Job Description*

- Job descriptions were not updated; and
- The job descriptions were not sufficiently defined in terms of reporting lines and not linked with an effective performance management system and division work plan.

### *Training Plan*

- Training is provided to staff on an ad-hoc basis and is not linked to the staff appraisal where staff development matters should be recorded; and
- According to available records produced by the human resources noted the following matters were:
  - There was no evidence to suggest that the training and management plan (if any) were submitted to Department of Personnel Management as required;

- Training reports were not sighted nor being forwarded to DPM for the purpose of keeping statistics of the type of trainings given. This would enable the Department of Personnel Management to determine whether officers were receiving the training suited to the Department concerned;
- The training plan for 2010/2011 dated 27 July 2009 outlining expected outcomes and outputs noted that not all activities were completed as planned; and
- The department had no comprehensive training and management plan for 2011.

#### *Casual Employees*

- There were nine (9) full-time casual employees. All were stationed in the Provinces and paid through PGAS. They were employed for a specific period, however, have continued working and their performances were yet to be reviewed. The management should have liaised with Department of Personnel Management to have these casuals put on Alesco/Concept payroll as it is inappropriate to continue paying out of PGAS.

#### *Performance Appraisals*

- The appraisal process does not allow information feedback;
- Information gathered from performance appraisal had no linkage to remuneration and promotion;
- There was no plan of action to improve performance where necessary;
- No reports were submitted to the management informing them of overall standard of performance and highlighting problems; and
- There was no commitment from management in support of performance appraisal procedures.

#### *Contract Officers*

- Contracts of employment for six (6) senior officers had expired however; officers were acting on those positions for over twelve months as at the time of audit in August 2012. Gratuity entitlements were inappropriately paid to the officers through PGAS without a valid employment contract. In addition, AGO was unable to determine if management had taken any action to rectify this anomaly.

### **Management Response**

*Not responded.*

### **TRUST ACCOUNT**

The Magisterial Services maintains a trust account called “Lands Dispute Settlement” trust account. An examination of the trust account with the related records and documents revealed the following;

- Magisterial Services requested Department of Finance for assistance to establish the trust account in PGAS but no response was received to-date. However, the trust account continues to operate outside the PGAS which is in violation to the provisions of the trust instrument; and
- Requested accounting records were not furnished for audit review.

In the absence of the trust account records, AGO was unable to verify the receipts and payments on trust account funds for the year under review.

### Management Response

*Not responded.*

### ADVANCE MANAGEMENT

Audit review of payments, recordings, and acquittal of advances revealed the following weaknesses:

- 124 advances totaling K166,504 remained unacquitted as at 31 December, 2011;
- Subsequent advances ranging from two (2) to four (4) were issued to officers totaling K73,654 while their previous advances remained unacquitted;
- Cash advance of K10,300 for funeral expense was acquitted through use of statutory declaration;
- Three (3) officers who were paid travel and meals allowances acquitted their advances without the related travel documents attached;
- Cheque numbers were not captured in the register of advances for identification purposes;
- The financial delegate did not review the advances register on a regular basis to take appropriate actions as required; and
- No follow up actions were taken to remind officers to acquit their long outstanding advances.

### Management Response

*The issues raised by the audit have been taken seriously by the department. The department will continue to ensure that this weakness is improved.*

## DEPARTMENTAL RESPONSE

The Department responded to most of the field audit report issued on reported findings and their comments were stated accordingly.

## CONCLUSION

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

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

## 16. NATIONAL JUDICIAL STAFF SERVICES

### OVERVIEW

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

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

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

### FINDINGS

#### BUDGETARY AND FUNDS CONTROL

Requested records and documents pertaining to cash-flow management, budgetary and expenditure control were not made available for audit verification. As such, audit could not ascertain whether:

- Cash flow and budgetary documentation were prepared;
- Revenue estimation was realistic;
- Expenditures incurred followed legislative requirements;
- Expenditure was made in accordance with the appropriation act; and
- Management controls over expenditure were sound.

#### Budget against Actual

A review and analysis of total actual expenditure against budgeted items noted that the Service had incurred over-expenditure by K15,107,717.

The review and analysis of payments noted that 24 payments totaling K1,349,489 were charged to wrong expenditure items.

### Management Response

*The management whilst acknowledging the audit findings stated that the documents may vary from other government departments as the third arm of government. Hence, the process is not strictly in accordance to the PFMA.*

### BANK RECONCILIATION

No Bank Reconciliation Statement for the whole year 2011 was made available for audit verification. As such, audit was unable to carry out the necessary audit checks.

### Management Response

*Perpetual bank reconciliation that is an integral part of the excel-based claims and cheque register was given. The format of the bank reconciliation is due to the fact that it is used as a management report. Despite the format it can be tested through re-performance. The Internal Audit team will be auditing the cash book for 2012, hence the AGO's may review their working papers.*

### ASSET MANAGEMENT

A review of the Service's fleet of motor vehicles noted the following:

- NJSS's Asset Management Division was inactive;
- A motor vehicle noted to be under repair was at a workshop. Thus, audit was unable to physically verify its existence;
- 16 motor vehicles that have been in use for more than 5 years due for replacement were still in use; and
- Log books were not properly maintained.

### Management Response

*The management acknowledged the audit findings and stated that responsible officers have been taken to task to take appropriate corrective measures.*

### PROCUREMENT AND PAYMENT PROCEDURES

A sample of 34 payments over K8,000 totaling K3,104,196 were selected on a random basis and verification of the payments with related records and documents revealed the following:

- 3 payments totaling K348,614 were not made available and could not be vouched in audit.
- FF3s & FF4s were not signed for correctness in respect of 4 payments totaling K149,338;



- In 10 instances totaling K526,163; less than 3 quotations were obtained for payments exceeding K5,000;
- In 15 instances totaling K1,334,483; no receiving documents or acknowledgement of receipts were attached;
- No invoices were attached to substantiate 3 payments totaling K80,197; and
- Six (6) payments totaling K1,105,811 were made without consultancy/contract documents attached with related paid vouchers.

### **Management Response**

*Management, whilst acknowledging the audit findings stated that actions will be taken once the files are reviewed.*

## **ADVANCE MANAGEMENT**

### **Funding from NJSS**

#### **Overseas Travel**

- 5 instances totaling K166,137 had no cheque numbers in the register for ease of reference;
- In 38 instances totaling K405,340, the related paid vouchers were not examined and/or certified by financial delegates; and
- 38 advances totaling K551,076 remained outstanding as at December, 2011.

## **PRIOR YEAR'S AUDIT RECOMMENDATION**

### **Reporting Requirements**

*All NJSS Activities are furnished to the Judiciary which then is incorporated in the Annual Judges Report and is presented to the Head of State. The Head of State presents it to the Speaker of Parliament who then tables it in Parliament.*

*The Annual Judges Report for 2010 was in progress as at the time of completion of this audit.*

### **Asset Management**

NJSS Assets Management System (AMS) has been installed, and went live in April 2011 but still had technical issues. NJSS had sought assistance from PNG-Australia Law & Justice Partnership to acquire a specialist to look into and accelerate the reviewing of the AMS.

*Current liaison plans from Assets Division and NJSS Management is indicative and progressive.*

## DEPARTMENTAL RESPONSE

The above matters were referred to the Secretary of the National Judicial Staff Services and responses received have been incorporated in this report where appropriate.

## CONCLUSION

In general, there were some signs of improvement with input from the Internal Audit Unit in the system and operations of controls within the National Judicial Staff Services compared to previous years which is commendable.

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

## 17. PARLIAMENTARY SERVICE

### OVERVIEW

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

The *Parliamentary Service Act of 1997*, was enacted to implement Section 132 of the Constitution by making provision for and in respect of a Parliamentary Service. The functions of the Parliamentary Service are to provide:

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

### FINDINGS

#### BUDGETARY AND FUNDS CONTROL

##### *Comparative Analysis of Expenditures incurred (PGAS Reports vs TMS Reports)*

A comparison of the 2011 expenditure vote summary print out produced by the National Parliamentary Service against the expenditure statement produced by the Department of Finance (TMS 330, period 12, 2011) showed a variance in actual expenditure of K68,577,730. The Parliamentary Services did not provide a reconciliation to explain the differences between the comparative records.

#### BANK RECONCILIATION

##### *Bank Accounts*

The National Parliamentary Services operated five (5) bank accounts namely; MP's Advances Account; NP Home Ownership Account; Operating Account; Salaries & Pensions Account and NP Rehabilitation Trust Account. AGO noted the following lapses:

- There were no monthly bank reconciliation's done for the Imprest Account and the National Parliament Home Ownership Account for the year under review.
- A review of bank reconciliations for the National Parliament's Operating Account, Salaries & Pension Account and Members Advance Account for the period ending 31 December, 2011 and 31 October, 2011 revealed that:
  - The PGAS system generated cashbooks were not attached together with the monthly bank reconciliations for audit examination and verification of balances reported;
  - The Schedules of un-presented cheques and credits in bank but not cashbook were not prepared and attached to the respective monthly reconciliations;
  - Cover letters were not attached or sighted for the monthly banks reconciliation statements as proof of monthly bank reconciliations being submitted to the Department of Finance as required;
  - Various funds transfers made to and from the Imprest Account, NP Home Ownership account and the Opposition Account to the Operating Account and Salaries & Pension Account since 2007 including other direct debits were yet to be posted in PGAS; and
  - Total un-presented cheques in the Members Advances Account as at 31 October, 2011 of K455,933 were made up of cheques issued in 2008 and 2009.

AGO noted that timely reporting and updating of the cashbooks were not done and weaknesses were noted in the reconciliation of all bank accounts.

## **ASSET MANAGEMENT**

Audit review of assets register and related records revealed the following unsatisfactory matters:

- A manual assets register was not updated with new assets purchased;
- There was no process in place to administer the assets purchased or disposed or traded in;
- No periodic stock takes were conducted to account for fixed assets since 2006; and
- There was no internal assets policy or guidelines in place.

The above issues were reported in prior reports, however, no action was taken by the management to address the matters raised.

*Financial Instruction Part 32, Asset Management* clearly provides procedures and processes that must be in place to enhance and ensure accountability of assets. This is a clear breach or non-compliance of Financial Instructions relating to Asset Management.

## **PROCUREMENT AND PAYMENT PROCEDURES**

An examination of 38 payment vouchers totaling K839,665 selected randomly together with related records and a review of the procurement and payment procedures in operation revealed the following irregularities:

- The Parliamentary Service did not maintain a Quotations Register;
- The government authorized purchase orders known as the Integrated Local Purchase Order & Claim Forms (ILPOC) were not used to make purchases in all 38 instances totaling K839,665;
- Prior approval from the financial delegate, certifying and examining officers were not obtained before effecting payments in 10 instances totaling K508,615;
- In six (6) instances, totaling K78,460 less than three (3) written quotations were obtained for payments above K5,000 in order to achieve economy and efficiency were not obtained;
- The goods and services received note (G&SRNs) from the suppliers or services providers were not sighted to confirm that the goods paid for were actually received in all of the 38 payment vouchers that were tested;
- 63 motor vehicles totally K4,261,451 were hired from private hire car companies and also from individuals, within the National Capital. However, it was noted that no such special circumstance notices were indicated or attached with the paid vouchers for the NCD vehicle hire as required per Part 31 paragraph 27 of the Financial Management Manual. Hence, the payments were considered as irregular;
- In ten (10) payments totaling K8,797,971 made to several individuals, law firms and companies for services provided to the Parliamentary Services. However, contract agreements if any were not made available for audit although requested; and
- Audit noted that the Speaker made various contributions through donations and financial assistance to various groups or organisations totaling K3,914,455. Of the total, K2,575,957 was paid to the speaker as entertainment allowance which appeared to be abnormal expenditure.

## **TRUST ACCOUNT**

National Parliamentary Rehabilitation Trust Account.

- The Parliamentary Service maintains a National Parliament Rehabilitation Trust Account that was established in 2006 for the purpose of rehabilitating the Parliament House. This trust account was established in 2006 and was supposed to cease in 31 December, 2009 per the trust instrument but apparently it was in operation after the nominated cessation date.
- The trust account was closed however, relevant documents such as the Departmental Head's report of the trust account to the Minister responsible for Parliamentary Service and the Minister's approval for closure of the account was not furnished for audit examination.

- Whilst perusing the 2011 cash book relating to the National Parliament Imprest Account, audit noted that a sum of **K20 million was improperly transferred** from the **Parliament Rehabilitation Trust Account** into the Imprest Account in December, 2011. This transfer was against the trust instrument which states that any funds remaining after the completion of the project was supposed to be transferred into WPA (Consolidated Revenue Fund) and not to any other account. Audit was informed that the account was closed after the transfer; however, bank reconciliations and bank statements were not sighted for confirmation. The trust account was illegally operated for the last three (3) years since 2009. Any surplus fund should have been transferred to the Consolidated Revenue Fund as per the instrument and the *Financial Management Manual* and not to any other account.

## IMPREST ACCOUNT

The Imprest Account was established to service only emergency situations and the daily float of the account at any one time was supposed to be at K30,000. The Imprest Account is a Cheque Account (BSP-1000062305) and is operated outside of PGAS.

### *Monies Transferred into Imprest Account in 2011*

Large sums of monies were transferred into this account from the five (5) various other accounts maintained by the National Parliament aggregating to K31,888,000. Details are as shown below:

No	Account Name	Account #	Amount Transferred
1	MP's Advances Account	BSP-1000492905	2,400,000
2	NP Home Ownership Account	BSP-1000062306	1,460,000
3	Operating Account	BSP-1000062302	3,028,000
4	Salaries & Pensions Account	BSP-1000492904	-
5	NP Rehabilitation Trust Account	ANZ	20,000,000
	<b>Sub-total</b>		<b>26,888,000</b>
	Add: Grants from Government	Treasury & Finance	5,000,000
	<b>Total Monies paid into Imprest Account in 2011</b>		<b>31,888,000</b>

- These transfers were deemed improper as the transfers were made in excess of the set threshold amount of the Imprest Account which is **K30,000**; and
- Government Grants of **K5,000,000** was also credited into the Imprest Account rather than the Operating Account.

### *Payments made out of the Imprest Account*

Monies were drawn from the account for the purposes of:

- Donations to political parties, organizations and individuals;
- Entertainment allowances for the Speaker;
- Electoral visit allowances for the Speaker;

- Salaries;
- Legal fees;
- Various purchases of medical drugs, mobile phones, etc;
- Salary advances;
- Financial assistance for medical;
- Motor vehicle hires; and
- Security surveillance allowances, and so forth.

These payments were made as opposed to the objective of the account to service only emergency payments. The account held millions of kina rather than the intended float of K30,000 at any one time.

Examination of the cash book maintained for the Imprest Account together with related documents and a review of the procurement and payment procedures in operation revealed the following irregularities:

- Large payments were made out of the imprest account which should have been paid out from the operating account and is contrary to the purpose of the imprest account. For instance, a total of K12,878,994 was paid as Legal fees in 2011 to various law firms and payments made to the Clerk and Speaker totaling K69,420 and K2,401,744 respectively, were to be paid from the operating account instead of the imprest account. Details are as shown in the table below:

Various Law Firms	Particulars	Amount (K)
Various Law Firms	Legal Fees	12,878,994
Clerk	Donations	69,420
Speaker	Donations/Entertainment Electoral visit & Financial Assistance	2,401,744
		<b>15,350,158</b>

- The cash book maintained was deficient in that details relating to date, payee and particulars of the cheques were not recorded. This was noted in six (6) instances totaling K363,234;
- In 29 instances, payments totaling K1,887,762 were paid and recorded as “CASH” to business organizations and individuals instead of the name of the company or individuals as required in the *Public Finances (Management) Act, 1995*;
- AGO selected 64 samples of payments from the 2011 cashbook maintained totaling K14,656,110 together with related records and a review of the procurement and payment procedures revealed the following salient matters:
  - 35 of the 64 paid vouchers totaling K11,640,331 were missing from the file;
  - Invoice from a service provider was not stamped with company stamp as proof to show that the payment was genuine and the general expense form was not examined and certified as correct by the respective officers. Amount paid was K147,831;

- Scope of work and completion certificate was not attached for a payment of K16,500 made to a cleaning company;
- Section 32 Officers' approval was not obtained in four (4) instances totaling K470,000 prior to effecting the payments. Included in these table are three payments that were not examined and certified as correct; and
- Payments were not examined and certified by authorised officers prior to effecting payments in five (5) instances totaling K958,526.

## ADVANCE MANAGEMENT

No advance register was maintained in 2011 to account for 184 advances paid during the year totaling K1,242,939.

- During our previous audit (2010) it was noted that a total of K3.7 million worth of travelling advances issued were not registered and monitored for acquittal purposes. Of the 123 advances tested, 24 officers were issued with more than one travelling advance. Audit was uncertain whether these officers have acquitted their first advances prior to obtaining their second advances due to non-maintenance of an advance register.

This is a serious breach of the *Public Finances (Management) Act*, and the *Financial Management Manual*. This issue has been raised in prior the reports remained unresolved.

## DEPARTMENTAL RESPONSE

Prior to issuing the management letter, the audit findings were discussed with the management and the concerned Officers. Furthermore, the management letter issued was also addressed to the Clerk of Parliament.

The responses to the issues raised in the management letter were not received, at the time of writing this report in June, 2013.

## CONCLUSION

In general, there were no significant improvements in the system and operation of controls within the Department compared to the previous years. The shortcomings noted in the past audits continue to exist which indicates that the management had not taken any action to correct the deficiencies reported.

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



## 18. DEPARTMENT OF NATIONAL PLANNING AND MONITORING

### OVERVIEW

The mission of the Department of National Planning and Monitoring is to co-ordinate the development of the national development policies and monitor their implementation, co-ordinate the process of strategic planning for effective utilization and management of resources, and to translate politically endorsed national objectives and strategies into development programs and projects, to achieve sustainable development which will meet the aspirations of the people. In this process, the department carries out five broad functions:

- Broad community consultation and policy development and analysis;
- Determination of the Medium Term Development Strategy and preparation of Medium and Annual Plans;
- Resource sourcing and annual capital budgeting;
- Monitoring and evaluation of implementation of policies and programs as well as post implementation impact of projects; and
- Provision of technical support to the provinces in implementing the Provincial Government reform.

### FINDINGS

#### BUDGETARY AND FUNDS CONTROL

A comparison of the expenditure summary generated by the Department of Finance (TMS Report) against the expenditure summary print out from the Integrated Financial Management System (IFMS) revealed the following:

- There was a difference of K53,251,697 in actual expenditure between the TMS report of K191,254,787 and the IFMS report of K244,506,484 expenditure summary printout. The IFMS report only captured the actual spending; and
- A total of K727,691 was paid out of the development budget allocation funds for gratuity and retrenchment payments which were supposed to be paid out of the re-current budget allocation.

Audit was informed that funds from the development budget were used because the intended funds for the specific re-current expenses were over expended or used to cater for other expenses.

#### *General Comment*

The Department should commit and expend on the amount allocated as per the warrant authorities issued with regard to its cash flows and cash ceilings for each month so as to avoid over commitment and over expenditure. Further, transfers from Development Budget funds to recurrent expenditure should be avoided.

## **BANK RECONCILIATION**

AGO's audit recommendations since 2008 regarding the preparation of monthly bank reconciliations were not considered and implemented. The audit observation during the 2009 and 2010 audits showed that the bank reconciliations were short by two (2) months in 2009 (up to October) while the whole year's bank reconciliations were not performed in 2010 and no monthly bank reconciliations were done for year 2011.

As a result the monthly bank reconciliation statements were in arrears by more than two (2) years which reflected poor and bad financial management by the Department.

## **ASSET MANAGEMENT**

A review of the internal control systems relating to the efficient and effective management of assets of the Department revealed the following:

- Although there was a register maintained in 2008 the Department did not record assets (both existing and newly bought) since 2009. This register has not been updated since 2008;
- Audit randomly selected a sample of 33 assets totaling K861,989 that were purchased in 2011 including three (3) motor vehicles (Land Cruisers totaling K578,588). These assets were not captured in the asset register; and
- It was also noted that attractive items such as laptops and latest mobile phones (iPhone 4-32 GB Touch Micro Sim) were bought at will without properly identifying the need.

This also reflects poor management and control of assets purchased and in the custody of the department.

## **PROCUREMENT AND PAYMENT PROCEDURES**

### *Re-current Budget Findings*

AGO made the following observations from the 33 paid vouchers that were randomly selected for audit test to ascertain whether the department complied with the procurement guidelines:

- There was no quotations register maintained by the Department, evidence of receipt of goods on the payment vouchers or accompanying documents was rarely provided and three written quotations were not always obtained;
- Verbal quotations were not recorded for the amounts below the K5,000 threshold. In this regard, audit noted that three (3) verbal quotations were not obtained in ten (10) instances totaling K58,575;
- Six (6) payments totaling K120,768 were made based on pro-forma invoices;
- The finance form 4 (FF4) was not examined for correctness and certified for payments by the appropriate officers in 26 instances totaling K814,528; and

- A total of 11 paid vouchers totaling K334,709 were noted to be missing from the files, as a result audit was unable to verify the payments made.

#### *Motor Vehicle Hire*

AGO noted that DNPM spent more than K6 million for vehicles hired in 2011.

- Audit was informed that the vehicles were hired due to the political changes which resulted in the change of the departmental head so private hire vehicles were done as a security measure. Also additional hired vehicles were used as security escorts by police officers for Senior Officers; and
- There were instances where vehicles were hired without obtaining appropriate approval from management by various senior officers. Audit also noted that a list of hired vehicles was not kept thus creating information gaps and leading to mounting debts.

AGO was in view that the magnitude of expenditure incurred on hired vehicles of K6 million in one year was considered extravagant.

#### *Development Budget – Findings*

Audit randomly selected 60 paid vouchers totaling K164,674,464 and subsequent verification of vouchers together with related records and documents revealed the following weaknesses:

- Supporting documents such as supporting letters from the stakeholders, for technical & complex proposals and feasibility studies as required by Section 7.1 of the PIP guidelines were not filed together with the paid vouchers in six (6) instances totaling K12.3 million. Claims should only be passed for payments when all relevant supportive documents are attached to the claims;
- In 17 instances company or business certificates (Certificate of Incorporation) were not sighted to ascertain that companies paid were actually registered;
- In 15 instances totaling K51.45 million, payments were effected without the finance form 3 & 4 being properly completed and as such audit could not ascertain whether appropriate officers had approved the payments; and
- Audit noted 32 paid vouchers totaling K99.3 million were not in file. 19 of these vouchers were claimed to be with the Task Force Sweep Team and three (3) vouchers totaling K15.9 million were noted by the Task Force Sweep Team to be missing.

### **HUMAN RESOURCE AND PAYROLL**

A review of records maintained by the human resource and payroll management division disclosed the following matters:

- AGO noted that 16 senior officer's contracts had expired for over six (6) months;
- Audit reviewed a sample of 24 payments relating to gratuity payments in 2011 and noted the following;

- Four (4) of the 20 payments were made through Integrated Financial Management System (IFMS) and not through the concept payroll system;
- 20 of the 24 gratuity payments were made using funds allocated to the development budget instead of the re-current budget.
- Six (6) Retrenchment payments totaling K540,599 were paid through the development budget rather than the re-current budget; and
- Recreational leave entitlements totaling K431,562 was paid from the development budget funds specifically belonging to the Institutional Capacity Building Project.

#### *General Comment*

Financing re-current expenditures from the development budget funds is illegal as per the Public Financial Management Manual. This showed that the department had spent beyond its cash ceilings and lacked control over decision making in expenditure.

### **TRUST ACCOUNTS**

Audit review of the trust accounts maintained and managed by the department with the relevant documents and records revealed the following short-comings:

- AGO noted that the estimates of subsidiary trust accounts – commercial banks for 2011 were not provided to the Department of Finance by the respective trust managers;
- The 2011 annual work plan stated that direct control, custody and reporting were outsourced to the trust section of the Department of Finance; however, when audit queried Department of Finance, the advice was that trust section of the Department of Finance did not manage the trust accounts. The Department of Finance only issued trust codes and placed reliance on the department (DNPM) to provide monthly bank reconciliations to Finance as stipulated in the Financial Management Manual; and
- The DNPM's housing scheme was funded through a grant of K6 million from the Institutional Capacity Building Program (Development Budget). This money is said to be in a trust account at a commercial bank; however, details of the account and bank reconciliations were not provided to confirm the availability of funds in the account.

### **ADVANCE MANAGEMENT**

Audit examination of the advances register, acquittal forms and other related records and documents pertaining to the management of advances revealed the following weaknesses:

- Advances in most instances were not strictly paid from the travel and subsistence vote item 121, but were paid from the other vote items;
- Advances paid from the vote item 121 per the 2011 IFMS transaction printout amounted to K1,618,911 whilst the advances recorded in the advance register amounted to only K755,120.

The difference of K863,790 indicated that the register of advances was not updated regularly and on a timely basis;

- In 83 instances, advances totaling K387,089 (per the register) were still outstanding. Reminders (only 1<sup>st</sup> and 2<sup>nd</sup>) were sent to the respective officers but were yet to be acquitted;
- Of the total un-acquitted advances K218,719 was related to second advances made whilst the first advances were still outstanding. Officers have taken more than two (2) advances while their first acquittals were still outstanding, the highest being five (5) advances by one officer in 2011. All of which are yet to be acquitted; and
- Of the 83 total outstanding advances, 14 related to cash advances totaling K94,531. The department did not maintain a separate cash advance register, hence, audit was unable to determine whether the cash advances were properly acquitted or recovered.

## DEVELOPMENT BUDGET

The Department of National Planning and Monitoring incurred expenses from the following five (5) projects in 2011 to cater for various re-current activities such as payment of recreational leaves, gratuities, retrenchment payments, vehicle hires, consultation fees and legal fees.

No	Projects/Program	Revised Appropriation	Warrant Authority	Actual Expenditure (DNPM)	Variance
1	Institutional Capacity Building	17,157,525	17,157,525	17,613,785	- 456,260
2	Policy Design, Planning & Programming	2,699,900	2,700,000	2,719,379	-19,379
3	Economic Corridor Development	25,411,600	25,411,600	8,612,864	16,798,736
4	Specialist Hospital Feasibility Studies	15,839,050	15,839,050	7,820,703	8,018,347
5	MDG & Aid Coordination	<u>8,115,900</u>	<u>8,115,900</u>	<u>338,643</u>	<u>7,777,257</u>
<b>Total</b>		<b><u>69,223,975</u></b>	<b><u>69,224,075</u></b>	<b><u>37,105,374</u></b>	<b><u>32,118,701</u></b>

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

- The 2011 development funds allocated through the Public Investment Program was K314,144,000. Of these, total development funds used to fund projects and programmes in 2011 was K177,391,180 whilst a total of K37,105,374 was used to fund re-current activities of DNPM;
- A total of K6 million was allocated from the Institutional Capacity Building program to fund the department's housing scheme, however, audit was informed that this money was in a trust account but relevant documents were not provided for audit;
- Project reports were not furnished for audit review, although formally requested for and followed up on several times. Audit, therefore, was unable to ascertain whether PIP guidelines were adhered to when funds were spent; and
- Development funds are tied to projects and are supposed to be acquitted; in this case, the expenses incurred were of re-current nature; therefore audit could not attest whether the expenses incurred were project related.

## DEPARTMENTAL RESPONSES

The reported findings were brought to the attention of the Secretary through a management letter delivered on 3 December, 2012.

At the time of writing this report in June, 2013 the management had not responded to the management letter.

## CONCLUSION

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

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

## 19. NATIONAL STATISTICAL OFFICE

### OVERVIEW

The National Statistical Office is the central statistical authority of the State and is responsible for the development of arrangements for providing statistical information services to meet the needs of the community for information on which to base policy, planning and management decisions.

The statistical service is governed by the *Statistical Services Act, 1980* which came into force on February, 1981.

Subject to this, the powers, functions, duties and responsibilities of the National Statistical Office includes;

- The collection of data and compilation, analysis and dissemination of statistics and related information produced from that data, concerning the activities and condition of the people and the physical and social system in which they live; and
- Co-ordinating the operation of State agencies in the collection of data and the compilation, analysis, dissemination and publication of statistics and related information produced from that data.

### FINDINGS

#### BUDGETARY AND FUNDS CONTROL

Audit noted that NSO was not adhering to the financial instructions, in that Funds were drawn in access of the Warrant Authorities in 14 instances totaling K577,900 in the 2010 fiscal year. In addition, a comparison of the 2010 Expenditure Summary printout (PGAS) against the Treasury Management System (TMS 100) revealed unexplained variances as detailed below;

PARTICULAR	EXPENDITURE PER PGAS	EXPENDITURE PER TMS 100	VARIANCES
Initial Expenditure	4,823,300	4,793,300	30,000
Revised Expenditure	6,251,100	5,051,300	1,199,800
Warrant Authorities	5,248,700	4,670,800	577,900
Actual Expenditure	5,640,584	5,882,045	-241,461

- Comparison of the TMS ledger against PGAS for 2011 financial year was not possible due to records not being furnished for audit; and
- Audit noted that 36 payments were charged to incorrect vote items totaling K379,852 in 2010.

## Management Response

*This is noted that as of the date of this report we will not move funds from one item to another. In regard to the information above we are taking into consideration and will put some control measure on this matter. The Transfer of funds is done only when we see that there is no funds in that particular vote or item. Transfer is done per Section 4 transfer in (PFMA).*

*It is correct that in 2011 when PGAS was implemented we did not do any monthly reconciliation between the PGAS and TMS. We have engaged some professional staff in our accounts branch in the restructure and we hope all this outstanding reconciliation will be done by this year 2013.*

*We are taking all this matters into consideration that NSO will adhere to financial instructions and budgets to avoid unbudgeted spending.*

## ASSET MANAGEMENT

Audit review of assets register maintained and related documents revealed the following weaknesses;

- The Assets Register was not properly maintained in that it did not have necessary information, such as date of purchase, cost of asset, and name of custodian as required, consequently audit was unable to confirm whether assets purchased in both 2010 and 2011 totaling K162,927 had been recorded in the respective register;
- The NSO bought mobile phones costing K28,804 both in 2010 and 2011. Audit requested for a loans register as well as any official document regarding purchase and management of phones but were not provided for audit. In the absence of the register's audit was unable to verify the existence of the mobile phones purchased;
- Audit noted that NSO Officers had claimed a sum of K58,986 as fuel reimbursements for the year under review. The significant payments for reimbursement of fuel expenses reflects lack of control over fuel consumption by the management; and
- From the PGAS generated expenditure transaction report, it was noted that a total of K57,537 was spent on servicing the vehicles in 2010 and early 2011. However, noted that the departmental fleet was parked and not operational due to non maintenance and repair work carried out. In addition, the fleet register was not provided for audit, despite being requested for. The total repair cost of K57,537, therefore, cannot be substantiated.

## Management Response

*The NFS (consulting firm) was engaged and set up the asset register which was submitted to the audit team during the audit. We are now updating NSO asset register and will submit to audit. The updated list will be provided to audit when it is finalized.*

*The Management is considering this and will take appropriate action that all assets are registered in their respective asset categories to ensure accountability.*



*We are also compiling the fleet register and will submit to audit. Note that all NSO vehicles are not running in good condition.*

*It is true and correct that all NSO vehicles were damaged and are sitting idle in the NSO yard. All this vehicles are on BOS and they will be sold out through tender process this year (2013). This is why we were hiring private vehicles to do surveys, data collection and other office runs.*

*We have already appointed an officer to manage all NSO fleet in accordance with the Finance Management Manual.*

## **PROCUREMENT AND PAYMENT PROCEDURES**

AGO randomly selected a sample of 45 payments totaling K834,084 relating to 2010 and 2011 and subsequent examination of paid vouchers disclosed the following irregularities;

- 36 payments totaling K736,241 relating to 2010 could not be verified as the paid vouchers were missing; and
- Similarly, nine (9) paid vouchers totaling K99,240 relating to 2011 transactions were not sighted.

### *Consultancy Payments*

National Statistical Office engaged five (5) consultants in 2010 and 2011 at a total cost of K698,980.

- No contract agreements were sighted in audit. Paid vouchers were also missing from the files, hence audit was unable to verify the payments made; and
- Audit did not sight evidence of work done by a consultancy firm relating to Asset Management Restoration. AGO is not sure whether there was any work done because the Asset Register was not provided for audit at the time of audit (November, 2011).

### *Vehicle Hire*

- 16 payments totaling K122,012 were made for private hire of vehicles without obtaining three (3) written quotations. A total of K93,000 was spent on vehicle hire during the year under review; and
- A total of K43,050 was spent to hire vehicles for three (3) senior officers whose contracts did not provide for motor vehicles as entitlements.

## **Management Response**

*In future NSO will engage genuine consultants and tie them to terms of reference to safe guard the interest of the office and state.*

## **HUMAN RESOURCE MANAGEMENT AND PAYROLL SYSTEM**

A review of personal files and related records disclosed the following discrepancies:

- The NSO's five (5) year Training Plan (2011-2015) did not contain vital information such as;

- A Summary of the overall training objectives;
  - Significant past training achievements/short-falls and the manner in which these outcomes have impacted upon the current Training Plan;
  - A Summary of training needs and priorities; and
  - A statement of training priorities designed to focus on the core business responsibilities and activities.
- The NSO maintained two (2) separate files for its employees; Personal files were kept by the finance and administration and training files were maintained by the Training Officer. Whilst, the latter was well kept and locked away in a cabinet, the personal files were kept visible and accessible to all finance and administration officers, hence, confidential personal information could be misused;
  - It was noted during audit that employee history cards were not maintained by the office;
  - Most of the personal files did not contain the necessary information such as the employee qualifications, references of previous employers, CVs and other important information;
  - Audit selected a sample of 32 Officers that were paid recreation leave fares in the 2010 and 2011 (January to September) amounting to K254,549. None of these officers had contributed ten percent (10%) towards the cost of fares immediately prior to proceeding on recreation leave thus contrary to General Order 14.47- 49;
  - An officer's last leave was due in 2009; however he claimed his leave entitlements in both 2010 and 2011 totaling K25,319. The explanation was that a total of K9,442 was an outstanding entitlement in (2009) whilst the balance of K15,877 were for total leave entitlements paid in advance. This practice was in violation of requirements laid down in the General Orders;
  - In another instance, an officer was paid K2,000 transport allowance which was contrary to the NSO Minute issued on the 28 January, 2009 which stated that NSO would allocate only K1,000 in assisting families at the port of arrival to their place of origin; and
  - Another officer joined the NSO as a casual employee on the 28 April, 2009 as a Data Entry Operator and was a casual employee at the time of audit. The General Orders under section 14.43(a) on recreational leave fares, clearly states that the officer applying should have continuously served for a period of two (2) years outside his home district commencing from the date of his/her appointment to the Public Service. It was clear that the officer was a casual employee and his appointment to the public service was not permanent. Hence, payment of K24,029 was deemed improper; and
  - Overtime payment vouchers were missing from the files in five (5) instances totaling K6,785.

### Management Response

*The management responded that audit observations in relation to training, personal files and the non deduction of 10% on recreational leave fares were acknowledged and addressed.*

*We will also take appropriate action to recover the duplicate leave warrants from these 32 concerned officers through their salary and in future we will properly scrutinize the claims and approve payments.*

*We will also take appropriate action to recover the money from the officers who were not eligible to claim overtime.*

*We will also take appropriate action to recover the money from these six (6) casual officers from their salary.*

## **ADVANCE MANAGEMENT**

Audit examination of records maintained in respect of payment, recording and acquittal of advances revealed the following shortcomings;

- A Local Audit Query (LAQ) was issued on 28 September, 2011 requesting the advance register but was not provided for inspection. Consequently audit was unable to review the register(s) and comment on the maintenance of the register(s); and
- In the fiscal years 2010 and 2011, 77 advances totaling K265,106 and 64 advances totaling K261,796 were paid respectively. These advances were not registered and remained un-acquitted as at 31 December, 2011.

### **Management Response**

*It is true and correct that NSO does not maintain an advance register. As of the date of this audit report we will update the advance register to make sure that all advances are registered and should be acquitted on time. Also all advances paid relating to travelling overseas and domestic travels will be recorded in the register of advances and be controlled and managed by the financial delegate. We are noting that no second advance will be entertained when the first advance is outstanding. We will also locate the file and submit to audit as soon as possible. The related vouchers will also be made available to audit as requested.*

*We have already assigned an officer to keep track of advances paid to ensure that officers should comply with financial management manual. The management is aware and will take appropriate actions to ensure that advances paid will be properly accounted for and acquitted.*

## **DEPARTMENTAL RESPONSE**

The Department had responded to the audit findings reported in the management letter issued and their responses have been incorporated accordingly.

## **CONCLUSION**

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

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

## 20. OFFICE OF THE PUBLIC SOLICITOR

### OVERVIEW

The Office of the Public Solicitor is a constitutional office established by the constitution to provide legal assistance to the general public who cannot afford the high cost of legal services provided by private legal firms. The Office operates a trust account to cater for funds deposited by the clients and to make payments in accordance with the purpose of the trust account. The Solicitor General is required by the trust instrument to prepare the statement of receipts and payments annually and maintain such records as stipulated in the trust instruments and related regulations.

### FINDINGS

#### FINANCIAL STATEMENT

*Statement of Receipts and Payments for the year ended 31 December, 2010.*

This statement was intended to show the Public Solicitor's Trust Account balances as derived from the records maintained by the Office and bank balances as at year end. The statement showed the trust account cashbook balance of K456,073, as reflected below:

Particulars	Amounts (K)
Opening Cash Book Balance (01/01/2010)	385,750
Add: Receipts	409,959
Less: Payments	339,636
Closing Cash Book Balance (31/12/2010)	<b>456,073</b>

- The Public Solicitor's Office maintains its records in the accounting software, Mind Your Own Business (MYOB). It was from these records that the financial statements have been prepared. A review of the Statement of Receipts and Payments and notes to the financial statements revealed the following:
  - The notes to the financial statements were too general and did not show enough details to show which ledgers the figures on the notes were derived from. Therefore, audit could not determine an audit trail from the notes to the individual ledgers;
  - The general ledger details maintained in MYOB provide a detail of the figures on the financial statement, however, AGO did not sight the original source documents that were used to update the ledgers. Hence, audit could not verify if the amounts and payments/receipts details shown on the general ledger truly represented the transaction's that had occurred; and
  - The Statement of Receipts and Payments Audit File for 2010 was not properly filed and ready for audit review at the time of the audit. Therefore, it was difficult to match the figures reflected on the financial statements with those recorded on the ledgers.

- The *Lawyers Trust Account Regulation 1990* clearly states that the “*financial year*” is a period of 12 months ending on 28, February, however, the Financial Statement that was furnished for audit had financial year period ending 31 December, 2010. This was a breach of the Lawyers Trust Account Regulation.

## **BANK RECONCILIATION**

The *Finance Management Manual Volume 2 Section 11.4* and the *Lawyers (Trust Account) Regulation 1990* states the guidelines and procedures that should be followed when maintaining a cash book and preparing bank reconciliation statements.

### *Cash Book*

A review of the cash book and related records disclosed the following matters:

- The general ledger details maintained in MYOB in respect to receipts did not capture correctly the actual receipts as per the official receipts’ book. The receipt numbers were pre-generated from MYOB instead;
- Monthly bank reconciliations provided to audit were done based on the information kept on the excel spread sheet and not from information generated from MYOB; and
- Monthly bank reconciliations prepared using the information on the excel spread sheet were not done separately, as they were presented together with the cashbook and did not have proper supporting documentation such as schedules and copy of the bank statement to substantiate the balances shown on the bank reconciliation.

### *Bank Reconciliation*

A review of the records maintained in relation to monthly bank reconciliation statements revealed the following discrepancies:

- The copies of monthly bank reconciliation statements for the Public Solicitor’s Trust Account were not submitted to the Department of Finance as required under the *Public Finance Management Manual Part 3 Section 4.7*;
- The format of the monthly bank reconciliation prepared based on the excel spread sheet records was not consistent with the standard format. It was noted that the bank reconciliations produced were reproduction of bank statement balances, thus the Office lacks skills and knowledge in preparing standard bank reconciliations more like a cashbook summary and a bank balance summary for the year-to-date at any given month; and
- In the 2009 Audit Report, the management agreed to have the bank reconciliation statement prepared monthly and certified by a senior officer. Audit has noted that there was no evidence that the bank reconciliation statements were prepared and reviewed at the end of each month.

*Monthly adjusting journal entries*

Audit noted that the amounts of the original cheques that were cancelled were not journalized into MYOB for completeness purposes. AGO has not gained sufficient assurance over the completeness of the MYOB general ledger reports.

**PROCUREMENT AND PAYMENT PROCUDURES**

*Financial Management Manual Part 12, 13 15 and 17* and the *Lawyers (Trust Account) Regulation 1990 Part 3(4)* clearly states the guidelines and procedures that a government organization should be following in the procurement and payment of goods and services.

A review of the accounts and records relating to the payments totaling K339,636 for the year 2010 disclosed the following weaknesses:

- Out of the 51 payments totaling K338,252, 29 paid vouchers totaling K232,598 were not sighted during audit. Consequently, AGO was not able to verify the authenticity and propriety of these payments and to determine whether the payments made were in accordance with the requirements provided in the trust instrument and the *Public Finances (Management) Act, 1995*;
- In ten (10) instances, re-current expenditure totaling K25,582 were paid out of the trust account instead of the operating account which is in violation of the Trust Instrument; and
- There was no evidence of segregation of duties in the Corporate Services Division. Only one officer prepares receipts & payments journals, cashbook and bank reconciliation. The officer also prepares the budget and also enters all the information into the MYOB. This is a serious breach of the *Public Finance Management Manual, Part 12*.

**RECEIPTS AND REVENUE**

The *Financial Management Manual Part 10* and the *Lawyers (Trust Account) Regulation 1990 Section 7(1-4)* clearly states the guidelines and procedures that a government organization should be following in the collection of public monies.

A review of the revenue collected totaling K409,959 for the year 2010 was carried out and the following irregularities were noted:

- Out of 27 receipts totaling K409,959 for 2010, 20 receipt copies for revenue received (excluding interest) totaling K200,997 were not sighted during the audit;
- A receipt book was maintained, however, the receipt book numbers were not always registered in the receipt journal. There was no audit trail from the receipt book to the receipts journal due to incomplete referencing;
- The receipts provide insufficient particulars to identify transactions in respect of the type of money received. For instance, the cheque numbers were not stated on the receipts. Audit noted that in seven (7) instances totaling K207,762 copies of bank deposits slips or approved journal entries were not attached to the receipts and filed away for audit for record purposes. Therefore,

audit could not ascertain if the revenue deposited in the bank were actually done by the actual payee; and

- The Public Solicitor's cost reimbursements (i.e of non related trust payments that were paid out of the trust account) were not clearly referenced in the receipts journal and cash book leaving no audit trail or proper breakup of the reimbursement. Therefore, audit was unable to determine the cheques which the reimbursements were made from.

### **Trust account compliance**

AGO review included tests to ascertain whether key provisions of the *Public Finances (Management) Act 1995*, *Trust Instrument* and the *Lawyers (Trust Account) Regulation* were adhered to in the operation of the trust account. The following irregularities were noted:

- In 38 instances, payments totaling K83,240 were in breach of the objectives stated in the trust account instrument. Such a payment included travel allowances, accommodations, airfares, hire cars, and hire of venues for functions; and
- Trust ledgers maintained in respect to Client Account Ledgers were not in accordance with the requirements as specified in the *Lawyers (T/A) Regulations Section 10(2) (6)*;
- It was noted that the client trust ledgers were not updated to correctly reflect transactions for an individual client; and
- A computerized ledger summary for the year 2010 was furnished for audit. AGO, however noted that the account ledgers were not maintained individually where ledgers are balanced and carried forward to the next month.

## **DEPARTMENTAL RESPONSE**

The office has not responded to the audit findings reported in the management letter issued, up to the time of writing this report in June, 2013.

## **CONCLUSION**

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

## 21. OFFICE OF RURAL DEVELOPMENT

### OVERVIEW

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

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

### FINDINGS

#### BUDGETARY AND FUNDS CONTROL

##### *Analysis of Appropriation vs Actual Expenditure*

An analysis of the total appropriations against the actual expenditures for year 2011 by each vote item of the department noted that all expenditure vote items were within their total warrant allocations except for vote item no. 141, (Retirement Benefits & Pensions) which incurred an over expenditure of K8,172.

#### HUMAN RESOURCE MANAGEMENT

Audit examination of selected personal files and related records revealed the following weaknesses:

##### *Casual Employees*

- Four (4) casual employees' salaries or wages tax declaration forms were not completed and filed. Consequently appropriate income taxes were not deducted from the salaries.

##### *Contract Permanent Employees*

- Relevant records and salary history cards were not updated in respect of three (3) officers; and
- Ten (10) officers' personal files did not have copies of the salary and wages tax declaration forms even-though they were tax payers where salary variations were also made to their salaries during the year 2011.

##### *Payroll Reconciliation*

Audit was advised that monthly payroll reconciliations were done manually by the department based on the payroll printout received from the Department of Finance in 2011. The following were observed in this regard:



- There were no records maintained in the computer as the officer responsible had no knowledge of what format the reconciliations would be presented from; and
- The payroll reconciliation for casual officers was not done fortnightly for the year 2011.

## **PROCUREMENT AND PAYMENT PROCEDURES**

Audit selected 40 payment vouchers totaling K287,562 on random sample basis from October to December, 2011 (in 4<sup>th</sup> quarter) and subsequent verifications of paid vouchers and related documents revealed the following irregularities:

- Eight (8) payments totaling K63,145 were not vouched due to payment vouchers missing from the files. Consequently audit was unable to verify the propriety of payments made;
- Five (5) paid vouchers totaling K19,465 had no financial delegate signature(s) sighted on the payment vouchers to verify the genuineness of the payments made. This is a breach of requirements in the Financial Instruction's Manual;
- There was no certifying officer's signature in seven (7) instances totaling K45,483 with one (1) of the payments having the highest amount of K21,637;
- There was no authorized requisition officer's signature in two (2) instances totaling K5,495. Of that total, K5,095 was spent on a trip taken by the Minister and the Executive Officer from 25-29/12/11 during the festive season where all offices were closed for official business until the following new year; and
- The department did not maintain a quotation register for the year under review as required.

## **ASSET MANAGEMENT**

### *Assets Register*

Audit review of the Master Assets Register for the years 2009/2010 and 2011 with stock-take records for 2011 noted the following:

- The assets register was not maintained properly in that there were incomplete information under the columns for total cost, cheque number, invoice number, supplier, physical location and the custodian (or officer responsible); and
- A stock-take report based on the survey of asset items issued to individual officers who comprised of 71 as staff on strength (SOS) revealed that only 20 officers (28%) responded while the remaining 51 officers (72%) of the department did not respond. This rendered the annual stock report as incomplete.
- All assets purchased during the 4<sup>th</sup> quarter totaling K425,792 were not recorded in the master assets register for 2011. This total also included the purchase of three (3) new vehicles costing K377,000 which were not recorded;

- Attractive items such as mobile phones, digital cameras, television screen and printers purchased in year 2011 were also not recorded; and
- Audit views that there is lack of internal controls in maintaining the master assets register and as such, could result in valuable assets being misplaced, stolen or damaged without the knowledge of management.

## MOTOR VEHICLES

Audit review of the vehicle register (hard copy) provided noted the following:

- The register was not properly maintained in that the relevant information on the number of vehicles procured and there was incomplete recordings of vehicle details under column headings, model number, cheque number and invoice number; and
- Motor vehicles that were tendered, traded-in and or stolen were recorded in the register with no additional comments verifying the vehicles' current status.

A physical verification of the 15 vehicles owned by the Department revealed the following matters:

- A Toyota Hilux (Reg# ZRD – 028) was recorded as stolen and further checks noted the following;
  - The Loss Report provided by the Manager HRM did not include the officer's drivers license status and number, as per *FMM Part 31 Purchase and Replacement of Motor Vehicles, Division 1 – Policy, section (10 [ii])*; and
  - No effort was made to follow-up with the Police on the status of the stolen vehicle up to the time of audit in November, 2012. The last follow up made by the department was on 08/11/2011 by the Administrative Assistant which was about 12 months (or 1 year) ago. This reflects lack of commitment over the safe custody of state assets by the management.

## ADVANCE MANAGEMENT

An audit examination of the advance registers and related records revealed the following weaknesses:

### *Advance Register 2011*

- The Department maintained two (2) advance registers for 2011, a book register (hard-copy) and a computerised register (soft-copy) and the review of the two (2) registers disclosed that the hardcopy advance register was not maintained properly in that details of records in respect to column for dates, names and signatures were not provided for;
- In 61 instances, advances totaling K87,435 remained unacquitted as at 31 December, 2011 and up to the time of audit in November, 2012;
- In 19 instances, cash advances amounting to K130,476 remained outstanding as at year end;

- A total of 179 travel advances totaling K267,186 were stated as acquitted in the advance register for 2011. Of that total, only 29 travel advances totaling K49,572 were acquitted in the 4<sup>th</sup> Quarter from October to December. A 100 per-cent (100%) testing was done to confirm and verify if they were properly acquitted and the following discrepancies were noted:
  - An advance totaling K10,800 under cheque number 14156 had no acquittal forms sighted in the acquittal file; and
  - 12 advances totaling K11,719 had no supporting documents such as, written explanations for extended stays, cheque butts and travel documents attached to substantiate that the travels were taken.
- Six (6) travel advances totaling K4,156 were paid for travel plans that were cancelled. Of that, a cheque totaling K3,156 paid for travel to Mt Hagen was cashed however, the travel was cancelled by the a/Secretary. The officer responsible did not acquit nor repay the money in this regard; and
- Two (2) cash advances totaling K10,700 were cancelled for trips not taken in the 4<sup>th</sup> quarter of 2011. The cheques issued were cashed by the officers' responsible without any acquittals made or repayment of the monies received.

## **RURAL DEVELOPMENT PROGRAMS**

### *DSP/PSG Acquittals*

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

### *Administration of DSG/PSG (Discretionary Funds)*

Audit review of the records maintained disclosed the following:

- The cheque payment register for DSG/PSG Discretionary funds for year ended 31/12/2011 was incomplete. Of the 22 cheques totaling K5,500,000 issued in the 4<sup>th</sup> quarter period, 11 cheques totaling K2,750,000 had no details of the name or signature of the issuing/paying officer; and
- From the grant report evaluation committee (GREC) for PSG/DSG acquittals clearances for the months of October to December, 2011, three (3) districts were not yet cleared for any further payment. However, according to the cheque register for 2011, two (2) of the districts were paid K250,000 each without the required clearances made.

### *DSIP MONITORING 2011*

The DSIP funds should be used purposely for inspection, monitoring and assessing of projects, in accordance with the administrative guidelines and other enabling legislations and relevant Finance Instructions in line with the *Public Finances (Management) Act, 1995*.

Audit review of records maintained disclosed the following short comings:

- From the expenditure transaction details (ETD) downloaded 26/09/2012, a total of 107 transactions totaling K384,671 were spent under the DSIP Monitoring Fund in the 4<sup>th</sup> quarter from October – December, 2011. Although various trips were made to Wewak, Kokopo, Goroka, Hoskins, Mt. Hagen, Vanimo and Pomio, the field visit reports were not provided for audit verification to establish work undertaken in relation to DSIP monitoring.

## DEPARTMENTAL RESPONSE

The findings were brought to the attention of the Director in the Management Letter issued, however, no responses were received at the time of writing this report in June, 2013.

## CONCLUSION

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

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

## 22. DEPARTMENT OF PERSONNEL MANAGEMENT

### OVERVIEW

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

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

### FINDINGS

#### BUDGETARY AND FUNDS CONTROL

##### *Recurrent Budget*

A comparison of the 2011 expenditure vote summary printout maintained by Department of Personnel Management with the expenditure statement on TMS 330 produced by Department of Finance for the year ended 31 December, 2011 revealed significant variances between expenditure statement balances. Details as shown below:

##### **Variances in Expenditure Balances**

Particulars	Expenditure as per DPM record (K) (PGAS)	Expenditure as per DoF record (K) (TMS 330)	Variance (K)
Revised Appropriation	216,944,500	200,350,000	16,594,500
Warrant Authority	33,529,500	200,390,000	-166,860,500
Actual Expenditure	26,130,508	28,246,105	-2,115,597

The variances indicated that no reconciliations were performed between the two (2) ledgers as required.

In addition, the expenditure statement (TMS 100) produced by Department of Finance for the year ended 31 December, 2011 revealed expenditures in excess of warrant authorities issued under vote item number 212 - wages totaling K292,085 in the recurrent budget.

#### Management Response

*The management acknowledged the audit findings and stated that the ownership of some items are entrusted to the Department of Finance and not with the Department. DPM does not have access to these inputs and outputs, however, the department provides the necessary data to the DoF in order for them to carry out these inputs and outputs.*

## BANK RECONCILIATION

Audit verification of the bank reconciliation statement for the month of December, 2011 revealed the following weaknesses:

- Cheques on bank statement not in cashbook amounting to K269,000 were not cleared at year end. This balance features a cheque numbered 22034309 that was manually raised and issued on the 26 November, 2003 but was not captured in the cash book;
- Other items (debits) totaling K2,408,073 as per schedule 6 contained details of payments per bank statement in excess of cash book records (overpayments) and debits in cash book not in bank statements. The amount of K2,408,073 represented mostly cancelled cheques with unidentified journal entries, variances caused by posting errors, overstatements, reversal entries, double posting and non-listing of cheques in cash book which dated back to year 2000, remained outstanding;
- Credits in bank statement not in cash book aggregated to K3,281,641 and consisted of reimbursements from the main public account totaling K3,281,641 were not posted in the cash book as required;
- Unpresented cheques amounting to K20,557,361 remained outstanding as at year end. The unpresented cheque total included 169 cheques amounting to K192,820 which remained outstanding for the period ending 31 December, 2011, and 8671 stale cheques aggregating K3,226,130 that were issued during the period 1997 to 2010; and
- Other items (Credits) totaling K970,902 were not cleared as at 31 December, 2011. Other items represented cancelled cheques, without journal entries being raised to clear them from the cash book. Some of the cancelled cheques dated back to year 2000.

### Management Response

*The management whilst acknowledging the audit findings stated that the PGAS Administrator at DoF is the only person that has the authority to access the PGAS system to carry out write ons and offs and the staling of unpresented cheques. Corrective measures have been taken to address these important issues.*

## ASSET MANAGEMENT

Audit review of the assets registers and related records maintained disclosed the following anomalies:

- A total of K309,470 was paid to a consultant for software and user fee licenses for an asset management inventory system. Discussions with responsible officers revealed that payments were made without a review on actual work done by the consultant. As a result, the department paid for a demo version that could not be used by the department. In addition, a total of K52,054 was paid to finance officers for overtime to create the department's asset register in the system only to have all the data erased days later as it was a demo version. Audit could not verify the basis for engaging the supplier as there was no contract agreement; and
- Procurement of fixed assets totaling K5,025,767 did not follow GoPNG procurement guidelines which resulted in assets not properly accounted for.

## Management Response

*The management acknowledged the audit findings and stated that due to the importance of this issue and lack of capacity within the Department, a decision was made to outsource to a qualified and suitable consultant. Payments made to the consultant were in accordance with periodic reviews on the actual work.*

### *Motor Vehicle Management Fleets Register*

- The register was incomplete and did not meet all the requirements set out in Part 32 division 1 paragraph 3 of the PFMM;
- The total value of vehicles were not provided;
- BOS reports were not provided for old and damaged vehicles that were to be replaced; and
- The department did not maintain log books and a maintenance register for all its motor vehicles.

## Management Response

*The management acknowledged the audit findings and stated that corrective measures have been taken.*

## PROCUREMENT AND PAYMENT PROCEDURES

Audit selected a sample of 32 paid accounts totaling K2,026,023 and testing of the payment vouchers revealed the following discrepancies:

- Seven (7) paid vouchers totaling K388,072 were not made available although requested and hence, the validity of payments made could not be vouched in audit;
- Eight (8) payments totaling K191,800 were made with less than three (3) written quotations from the vendors, which is contrary to the requirements of the financial regulations;
- Four (4) payments totaling K49,367 were not supported by written quotations;
- The requisitions were not signed by an authorised requisitioning officer for two (2) payments totaling K35,200;
- A payment on a requisition totaling K257,004 was not authorised by the financial delegate as evidence of availability of funds while another four (4) paid vouchers totaling K572,004 were also not authorised by the financial delegate;
- 18 payments totaling K995,090 were not supported by receipts to confirm the actual delivery of goods and services received;
- Four (4) payments totaling K79,360 were made without tax invoices;

- 11 payments totaling K870,955 were made to various consultancy firms, however, contract agreements if any, between the department were not sighted; and
- In two (2) instances, total amounts paid to contractors exceeded the invoiced amounts by K49,200 and K3,000 respectively.

### Management Response

*The management whilst acknowledging the audit findings stated that the discrepancies indicate the failure and incompetence of the Department in the recruitment of suitable candidates to these important roles. The Department has now recruited qualified and suitable candidates.*

## HUMAN RESOURCE MANAGEMENT

Audit examination of selected personal files and related records disclosed the following discrepancies:

- Review and preparation of contract renewals for contract officers was not done promptly;
- The Department did not have a five (5) year training plan;
- The salary history cards were not up-dated for all 24 employees;
- The employee personal files were kept out in the open and exposed to unauthorised persons;
- Two (2) officers did not contribute to Nambawan Super and pay necessary income tax;
- The Secretary was paid motor vehicle allowance and also had access to hired vehicles totaling K237,600 which clearly indicated that the senior officer was receiving double benefits; and
- No monthly payroll reconciliations were done for year under review.

### Management Response

*The management acknowledged the audit findings and stated that the department is the trustee of the Public Service General Orders and is specifically tasked with the responsibility that it complies with this important statutory requirement. The Department would like to apologise for the incompetence in regard to audit queries raised and ensure that corrective measures are taken to address the queries.*

## ADVANCE MANAGEMENT

### Travel Advances

Audit selected a sample of 228 Travel Advances totaling K410,965 and subsequent review of the advances register and acquittal files revealed the following weaknesses:

- In 51 instances totaling K88,663, advances were not recorded in the advance register;
- In 42 instances totaling K104,726, advances remained outstanding for 2011;



- Six (6) officers were paid subsequent advances totaling K77,010 whilst, their prior advances remained unacquitted;
- Advances dating back from years 2005 to 2010 remained un-acquitted in 49 instances totaling K120,204;
- In 40 instances totaling K53,967, acquittal forms were not reviewed by financial delegates as required; and
- In three (3) instances totaling K5,820, there were no boarding passes attached to substantiate that the officers had actually travelled.

### Management Response

*The management acknowledged the audit findings and stated that corrective measures have been taken.*

#### Cash Advances

A review of selected sample of 17 cash advances totaling K47,337 revealed the following weaknesses:

- In 14 instances totaling K23,707, audit could not sight these payments in the register maintained;
- Six (6) out of the 17 cash advances totaling K47,337 lacked receipts, telegraphic transfer receipts to prove that payments were made to the service providers. All these payments were made to the paymaster; and
- A payment for K7,473 did not agree with the actual cheque amount which was K9,407, resulting in unexplained difference of K1,934.

## DEPARTMENTAL RESPONSE

*The above matters were reported to the department and the responses were incorporated in this report.*

## CONCLUSION

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

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

## 23. DEPARTMENT OF PETROLEUM AND ENERGY

### OVERVIEW

One of the major objectives of the Department of Petroleum and Energy is to advise and assist the Minister in the development of relevant policies in accordance with legislative requirements and to support the Government's efforts to develop the Nation's petroleum industry by promoting, monitoring and regulating all activities directly related to exploration and developing of petroleum resources in Papua New Guinea.

Another major program/objective of the Department is to formulate and implement appropriate action plans for Energy Management Section suitably integrated with development planning in other economic sector activities. This includes liaising with other government agencies involved in rural infrastructure development by adopting an integrated approach to energy planning and rural development.

### FINDINGS

#### BUDGETARY AND FUNDS CONTROL

A comparison of the 2011 expenditure vote summary printout maintained by the Department of Petroleum and Energy with the expenditure statement (TMS) produced by Department of Finance for Period 12, 2011 revealed significant variances between statement balances.

##### *Variance in Expenditure Balances*

Particulars	TMS330	PGAS	Variances
Revised Appropriation	13,675,700	23,635,900	-9,960,200
Warrant Authority	13,675,700	17,633,400	-3,957,700
Actual Expenditure	13,103,894	17,570,272	-4,466,378

AGO is concerned that the Department did not reconcile the two ledgers to arrive at accurate balances for the year.

##### *Expenditures in Excess of Authorisation*

Expenditure statement produced by the Department of Finance for the month of December, 2011, revealed expenditures in excess of warrant authorities under four (4) expenditure vote items totaling K38,487.

The Department should ensure that all expenditure is within approved warrants.

## BANK RECONCILIATIONS

### *Drawing Bank Account*

The Department has carried out timely bank reconciliations in respect of its drawing account; however, the review of the bank reconciliation for the month of December, 2011 revealed the following matters of concern:

- There was no evidence that the bank reconciliation statement was checked and reviewed by an independent senior officer to attest its accuracy;
- Cheques on bank statement not in the cash book amounted to K204,570, of which K200,000 was a fraudulent cheque (no. 99998) pending investigation;
- Debits in the bank statement not in cash book totaling K40,000 was not identified and cleared in the Cash Book;
- Unidentified journals for dishonored and cancelled cheques that were presented at the bank amounted to K1,513,230;
- Reimbursement received not journalised and posted to the cash book totaled to K5,406,754;
- Un-presented cheques as at 31/12/2011 amounted to K8,182,054; and
- The cash book revealed an overdraft ending balance of K11,912,631 as at 31 December, 2011.

These reconciling items should have been investigated and cleared so that an accurate cash book balance is determined.

### *Trust Accounts*

In addition, the department operated eight (8) trust accounts of which bank reconciliations were not prepared for both years 2010 and 2011. Refer details below;

No	Name of Account	Bank	Branch	Opening Balance As at 31/12/2010. (K)	Closing Balance As at 31/12/2011 (K)
1	Kutubu Petroleum Royalty Trust Account	ANZ	Waigani	48,179,531	71,771,104
2	Gobe Landowners Benefits Trust Account	ANZ	Waigani	5,719,007	7,694,947
3	Moran Petroleum Royalty Trust Account	ANZ	Waigani	6,441,485	15,410,460
4	Central Moran Petroleum Development Levi Trust Account	ANZ	Waigani	15,040,268	33,021,099
5	Hides Petroleum Royalty Trust Account	ANZ	Waigani	3,613,065	4,258,748
6	Konebada Petroleum Park Authority	ANZ	Waigani	39,053,108	19,369,446
7	Petroleum Outstanding MOA Commitments	BSP	Waigani	38,753	-
8	Rural Electrification	-	-	-	-

Since the bank reconciliations of the above trust accounts were not made available for audit examination, AGO was not able to reliably confirm the respective ending balances.

## ASSET MANAGEMENT

A review of the asset register and related records disclosed the following weaknesses:

- The asset register was not properly maintained in that:
  - The asset register was not updated regularly as required;
  - The register had incomplete/missing information in the column of model no., derial no., and physical location as the Department had offices in Konedobu (Secretary/Petroleum office), Gordons (Energy office) and Waigani (Finance);
  - Custodian of assets were not indicated on the register provided; and
  - State and condition of assets listed could not be verified due to incomplete details.
- No physical stock take was undertaken for the years 2010 & 2011; and
- Total assets purchased in the years 2010 and 2011 equaled K239,751 and K63,422 respectively which were not recorded in the register maintained.

## PROCUREMENT AND PAYMENT PROCEDURES

Audit examination of 46 paid vouchers totaling K2.47 million selected on sample basis and related records revealed the following irregularities:

- The Department did not have a procurement policy in place;
- The file containing the specimen signatures of the financial delegates was not provided although requested;
- Audit noted that a quotations register was not maintained. In addition, audit observed that in most instances, three quotes for procurements above K5,001 and below K300,000 were not obtained;
- 18 paid vouchers totaling K1,481,419 were not provided for audit verification and as a result audit was unable to verify the propriety of the payments made;
- A payment of K305,996 for accommodation charges was paid under ‘paymaster’ instead of paying directly to the service provider’s;
- A sum of K150,000 was paid to an electronics company to supply electronic equipment and consumables. A review of a paid voucher revealed the following discrepancies:
  - This company was not known to be a reputable supplier of office equipment; computer & consumables. Since there was no competitive bidding, it is not known whether the Department received value for the payment made; and

- The company was charging GST, however copies of the company's registration and certificate of compliance were not provided, to enable AGO to determine if this company was properly established.
- Consultancy payments were made to two (2) contractors totaling K112,000 and K150,000 respectively. Similarly, audit noted that a total of K222,062 was paid to the consultants in 2010. In respect of these payments, an approval from the consultancy steering committee was not obtained prior to engagement, progress reports or completion reports of projects undertaken were not attached to attest work carried out, no company profiles were attached to show if these companies were registered with IPA, and a contract (if any) was not sighted for their engagements. Hence, audit consider these payments as irregular; and
- A total of K313,392 was paid to a security firm for security services provided during year 2010 and paid in year 2011. The expenditure was unbudgeted.

## **HUMAN RESOURCE MANAGEMENT AND PAYROLL**

Audit review of personal files and related record disclosed the following short-comings:

### *Maintenance of Employees Records*

- There was no logbook or checklist maintained to control the movement of personal files. Audit further noted that personal files for employees were left lying on the floor;
- Regular up-dating of employees' records such as the salary history card, recreation leave records, HDA and sick leave records were not done. In some instances the updates were behind by two (2) years;
- Personnel files for casuals employees were not provided for audit, despite requests made; and
- The personal files for 24 officers were not folioed and cross referenced. Further, these personal files had no tax declaration forms for tax purposes stored in them.

### *Certification of Payroll*

- Certification of payroll was not done due to Divisional and the Branch heads within the Department not submitting information to the Human Resource Division with regards to fortnightly work and attendance time reports of their staff in a timely manner.

### *Higher Duty Allowance (HDA) & Special Domestic Market Allowance*

- On seven (7) occasions HDA payments could not be verified as the relevant paid vouchers were missing.

### *Contract Officer's Gratuity Payments*

- Contract officers of the Department were paid gratuities from the PGAS system in 13 instances. However, the personal files and contract of employment were not made available for audit to ascertain the correctness of the payments effected.

#### *Recreation Leave Entitlements*

- In 14 instances payments in lieu of recreation leave totaling K32,897 were paid to current officers of the department, which is in breach of the General Order – 14.39 which states that payments be made only to those who cease to be officers of the department.
- Total leave entitlements paid to a senior officer for K22,151 was viewed by audit as highly irregular due to the circumstances noted below in which the payments were made:
  - Double payment of K12,127 was noted since the cashier cheque raised was not cancelled; and
  - Reimbursements of K5,024 and K5,000 to the same officer for travel purposes were not supported with appropriate documentation.
- In two (2) instances, two (2) Senior Officers were paid outstanding recreational leave for PMV fares totaling K7,200 and K11,200 respectively in Central Province. These payments were irregular in nature due to the fact that PMV fares within Rigo District in Central Province were far less than what has been paid. Senior Officers of the department were in breach of the *PMF(A)* and using their position to misuse public funds;
- In 37 instances, birth certificates were not attached to justify the claiming leave fare tickets for dependents whether they were 19 years of ages or below;
- The department failed to provide four paid vouchers totaling K22,106 for recreational leave entitlements paid out; and
- Ten (10) dependents claimed were all above 19 years of age.

#### *Employment of Casual Staff*

- The quarterly budget review report revealed that 67 casuals engaged continued to be paid under PGAS and not Concept Payroll as required. According to the casual listings, there were 72 casuals, a difference of five (5) could not be explained; and
- Analysis of the 72 casuals with regards to their dates of commencement revealed that 28 names on the Casuals listings had no commencement dates.

### **TRUST ACCOUNTS**

Audit review of records maintained in respect of trust accounts operated by the Department disclosed the following matters of concern:

- Paid vouchers pertaining to the operation of seven (7) trust accounts were maintained by the Department of Finance. This was clearly in breach of all the trust instruments that operation and running of these trust accounts would be the sole responsibility of Department of Petroleum and Energy; and
- Due to non availability of payment vouchers' audit was unable to verify payments made out from the seven (7) trust accounts (as listed below) to ensure that the funds were paid to rightful landowners and for intended purposes as per the trust instruments.

No	Trust Account	Bank Reconciliation Received	Payments from Trust Amount	Years
1	Central Moran Development Levy Trust Account T/A	31/12/10	38,738,877	2009/2010
2	Hides Petroleum Royalty Trust Account	31/12/10	824,569	2010
3	Moran Petroleum Royalty Trust Account	31/12/10	4,864,428	2010
4	Kutubu Petroleum Royalty Trust Account	31/12/10	35,930,548	2010/2011
5	Gobe Landowner benefits Trust Account	31/12/10	4,508,198	2010/2011
6	Petroleum Outstanding MOA Commitments Trust Account	31/12/10	Nil	2010/2011
7	Konnebada Petroleum Park Authority Working Group Trust Account	31/12/12	1,768,739	2010/2011
	<b>Total</b>		<b>86,635,359</b>	

## ADVANCES MANAGEMENT

A review of the advances register and the payment, recording and acquittal of advances revealed the following weaknesses:

- AGO noted that there was no registers maintained for the different advances such as salary, petty cash and travel allowances;
- In 100 instances, it was noted that cash advances totaling K36,130 were given to employees for funeral assistance;
- In 12 instances, payments totaling K1,508,800 were paid as cash advances;
- A total of K1,072,998 was paid as advances in 2010, however, due to the absence of the register, the outstanding advances as at date of audit could not be ascertained;
- Eight (8) advance payments totaling K47,185 were neither recorded in a register nor acquitted;
- A payment of K305,996 for accommodation charges paid under 'paymaster' was noted to be an advance, hence should be acquitted accordingly. These payments could not be accounted for in the absence of acquittal documents; and
- In 43 instances totaling K3,238,538 made through Paymaster as MoA cash advance payments in 2011. These payments were not accounted for in the register as no register was maintained.

The project liaison payments made through the paymaster in the form of advances were considered improper and could result in misappropriation of funds.

The project liaison payments were to be paid through the trust co-ordinators appointed for the seven (7) trust accounts with payments captured on the records.

## DEPARTMENTAL RESPONSE

Prior to issuing the management letter, the audit findings were discussed with the management and the concerned officers. Furthermore, the management letter issued was also addressed to the Secretary.

At the time of reporting no management responses were received on the audit issues reported, although, ample time was given for the response.

## CONCLUSION

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



## 24. DEPARTMENT OF POLICE

### OVERVIEW

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

The Department is expected to fulfill its mission in the context of the *Police Force Act, 1998* and other relevant legislations as follows:

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

### FINDINGS

#### BUDGETARY AND FUNDS CONTROL

##### *Relocation*

- Audit noted that the Department did not prepare monthly reconciliation statements to reconcile differences between PGAS records and TMS ledgers for years 2010 and 2011.

##### *Comparison of Warrant Authority and Actual Expenditure (TMS)*

- Expenditures aggregating K19,468,088 incurred were in excess of warrant authorities. Audit noted that reconciliations of PGAS and TMS were not conducted over the years and remained an issue indicating lapses in internal controls.

#### BANK RECONCILIATION

##### *Drawing Bank Account/Cash Book*

- The Department of Police did not compile its bank reconciliations from October to December, 2011 and as a result the bank reconciliations were in arrears by more than three (3) months. This indicates weaknesses in timely reporting of bank reconciliations in the department

## **ASSET MANAGEMENT**

A review of the internal control systems relating to the efficient and effective management of State assets owned and used by the department revealed the following concerns:

- Assets were maintained by a different division and a master assets register was not maintained;
- No stock take of assets was carried out for the fiscal years 2010 and 2011;
- Disposal of Assets (if any) in 2010 and 2011 could not be ascertained; and
- Purchases of motor vehicles in 2010 totaling K1,259,319 were not recorded in the Assets Register.

## **PROCUREMENT AND PAYMENT PROCEDURES**

The examination of the payment vouchers with other related records relating to 2010 and 2011 noted the following observations.

- Audit noted that in 90 instances, paid vouchers totaling K13,351,120 were missing and could not be verified;
- In four (4) instances in 2010, paid vouchers verified lacked important supporting documents such as copies of certificates of incorporation with IPA and certificates of compliance from IRC to warrant the releasing of 10% withholding tax. It was also not known if these companies were registered to collect GST. In addition, six (6) construction companies did not attach completion reports to attest work carried out;
- Also, in nine (9) instances, payments totaling K407,123 in 2011, there were no attachment of progress or completion reports and inspection reports for construction projects carried out as supporting documents to warrant request for payments. Furthermore, seven (7) construction companies were noted to have not attached documents such as certificates of incorporation with IPA and certificates of compliance from Internal Revenue Commission;
- K10 million was incurred by the Department for repairs of it's fleet of vehicles within the country in 2010. No contracts vetted by the Justice and Attorney General's Department were sighted for provision that such services were entered into by the Department with these service providers. In most cases the Department was dealing with less reputable companies to provide such services which is open to fraudulent transactions;
- In all instances in 2010 and 2011, private hire of motor vehicles were done without obtaining consent from the Plant and Transport Board (PTB). The management must observe this requirement when making private hires in view of economy buying practices.

## PAYROLL AND HUMAN RESOURCE MANAGEMENT

Audit review of personal files and related records disclosed the following weaknesses;

- Certification of fortnightly pays should be done by appropriate branch/divisional & sectional heads for proof of attendance and fortnightly duties and responsibilities discharged prior to recommending to Director Human Resources for pays to be processed. The above procedure on payroll certification process was not followed; and
- For accuracy and completeness of the payroll expense, the department should reconcile its item 111 expenses against that of the TMS monthly reports produced by Department of Finance. Audit noted that the Department did not carry out the payroll reconciliation as well as the general reconciliation between the PGAS and the TMS reports for other expenditure vote items.
- The review of expenditure reports for 2010 revealed that a total amount of K5,250 was paid to casuals through the paymaster using expenditure votes 121,135 and 136 which were earmarked for operational expenses and not personal emoluments.
- Audit noted in an instance where recreational leave fares (PMV fares) paid to an officer travelling from Port Moresby to Rigo District and return totaled K7,200. Similarly, PMV fares for seven (7) officers also to the same District ranged from K120 to K660 where the rates are not consistent and amounts to fraud.

## TRUST ACCOUNT

The Department of Police maintained four (4) different trust accounts within the Department. The trust account's accounting records and related information were requested through the officers responsible for trust accounts. The following observations were made on the trust accounts maintained by the Department;

### *(a) Police Mess Trust Account*

- There were no records furnished to audit for the Police Mess Trust Account for the year ending 31/12/2011. Consequently, audit was unable to verify receipt and payment transactions in-respect of the trust account for the year under review.

### *(b) Police Helicopter Trust Account*

- There were no records furnished to audit for the Police Helicopter Trust Account for the year ending 31/12/2011.
- The Police Helicopter was reported to have been leased to Helifix, however, the lease agreements vetted by the Commissioner were not made available to audit for verification. The record of receipts and payments arising from these lease arrangements were not provided for audit verification.

### *(c) Police Operations Trust Account*

- The Police Special Operations Trust Account was not properly maintained and supported by copies of cash book balances for the year ending 31/12/2011.

- The bank reconciliations were not authenticated by a competent officer affirming its accuracy.

*(d) Police Housing Trust Account*

- The Police Housing Trust Account was not properly maintained and supported by copies of cash book balances for the year ending 31/12/2011.
- Separate cheques were printed for the Police Housing Trust Account and receipts and payments were not recorded in the PGAS system contrary to paragraph 5(a) of the trust instrument dated 3 October, 2007.
- Payment records totaling K60,791,605 made during the period from 25/06/08 to 18/12/2012, paid out from the Police Housing Trust Account and payment of K11,400,000 relating to the same trust account made during the period 24/09/2010 to 21/12/2011 totaling to K72,191,605 were not made available; therefore the audit was unable to vouch them to ensure whether procurement procedures consistent with Finance Instruction no.2 of 2008 dated 25 January were observed. In view of the above, propriety and authenticity of the payments made could not be established in audit.
- Two (2) payments made for K2,000,000 and K3,000,000 respectively totaling K5,000,000 were paid to two companies. The cheques were picked up by two members of Parliament respectively for the construction of police barracks, police houses and police station, in their electorates. However, audit noted that there were no progressive reports and completion certificates on file to confirm that the respective projects had been completed.
- In 46 instances of transfers totaling K11,940,283 were made out of the Drawing Account to the Police Housing Rehabilitation Trust Account in 2010. The reason for transferring these funds from the Departments Drawing account to the relevant trust account was unknown.

## ADVANCE MANAGEMENT

An examination of the advance register and acquittal vouchers pertaining to advances paid to Departmental officers during the 2010 and 2011 financial years revealed the following weaknesses:

Audit noted that the advance register for 2010 was not updated. A comparison was made between the expenditure details transaction and the register maintained revealed the following matters.

- Advances totaling K279,554 paid during 2010 remained unacquitted as at the date of audit (22 March, 2011).
- In 2011, advances totaling K358,934 remained un-acquitted as at the date of audit (22 March, 2011).
- Secondary advances paid without acquitting the first advances totaling K145,806 and K342,852 in the years 2010 and 2011 respectively, were contrary to Part 20, paragraph 12.11 of the Manual of Financial Procedures which states that “no second advance is to be made when the first is outstanding”.

- Audit noted in 910 instances totaling K1,101,932 that advances paid were not registered in the advance register contrary to Section 5(1)(b) of the *Public Finances (Management) Act, 1995*, as amended, rendering the register incomplete and unreliable.
- Audit noted that in seven (7) instances, advances totaling K9,200 were not supported with proper and complete acquittal documents.

## DEPARTMENTAL RESPONSE

The Department has not responded to the management letter issued, at the time of writing this report in June, 2013.

## CONCLUSION

In general, there were no marked improvements in the system and operate of controls within the department compared to previous years.

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

## 25. DEPARTMENT OF PRIME MINISTER AND NATIONAL EXECUTIVE COUNCIL

### OVERVIEW

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

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

### FINDINGS

#### BUDGETARY AND FUNDS CONTROL

A review of the Department's budget allocation relating to various expenditure area/accounts revealed the following matters of concern:

- The TMS 330 report for period 12 (run-date 07.03.2012) generated by the Department of Finance noted that funds were incurred in excess of CFC issued under 23 expenditure votes totaling K3,127,070. Of that total, K2,547,944 related to item 111 (Personal Emoluments). Personal Emoluments are normally retained by the Department of Finance and expended, however, no subsidiary ledger accounts were maintained by the Agency to ascertain the accuracy of these payments;
- The Department continues to charge different vote items where there are funds available to cater for other expenditure vote items. Furthermore, other programs funds were used to cater for other programs. The Department should have identified savings in expenditure vote items within an activity and requested for a Section 4 Transfer from the Department of Treasury for approval. Examples noted below;
  - K4,554,400 was paid for by the state to cater for the then Prime Minister's medical referral overseas including expenses for those accompanying him. These payments were made out of the Development Budget which is contrary to set legislation; and

- The Department paid K187,612 for the purchase of one vehicle. An amount was charged of K150,000 was charged to the appropriate vote while the additional payment of K37,612 was charged to operational materials and supplies vote. The payments charged to other votes only create unbudgeted expenses and also was a breach of financial regulations.

### Management Response

*Regarding expenditure in excess of the available funds, in line with approved budgets and cash flows ensures that the commitment and expenditure of funds is within authorized allocations for those funds within the department's control.*

*On issues regarding item 111 (Personal Emolument), these expenses are reported in the government payroll system and the warrants for these expenses are controlled by Department of Finance. The reason for the apparent expenditure against votes that do not appear in the budget book is that the establishment in the Payroll system, maintained by the Department of Personnel Management (DPM), is not up-to-date, and despite repeated attempts by this department little progress has been made in rectifying the problem. Over-expenditure against this item was also attributable to the change of Government in August 2011, which resulted in the payout of existing ministerial staff – these are payments of entitlements beyond the control of the department.*

*On subsidiary ledgers for item 111 to track expenditure maintained by Department of Finance, we will undertake a project in conjunction with DPM to align the payroll systems (establishment and staff on strength) with the Department's authorized activities (budget). Also we will liaise with Department of Finance to establish a process for the reporting (journals) and reconciliation of payroll to PGAS.*

*The audit finding of the continued practice of charging expenditure to incorrect item codes is accepted. Measures have been put in place and will not be repeated in future.*

### CASH MANAGEMENT

The Department operates a Drawing Account (No. 4311-6139) with the Bank of Papua New Guinea. A review of the bank reconciliation statement for the month of December, 2011 with the related records and documents revealed the following:

- The bank reconciliation statement disclosed reconciling items totaling K24,940,039 in credits which needed to be investigated, cleared and adjusted in the cash book; and
- The bank reconciliation statement was prepared by an officer who also performed the duties of the Accountant. The reflected control weakness over segregation of duties.

### Management Response

*All outstanding adjustments in the Bank Reconciliation Statement that were noted in the report have been cleared whilst a permanent appointment is yet to be made due to current recruitment program in progress.*

## ADVANCE MANAGEMENT

A review of the advance register and related records disclosed the following weaknesses:

- A total of 806 advances were paid up to November, 2011 totaling K7,082,697 as per the register (soft copy). Out of that total, 408 advances totaling K5,091,462 (72%) remained outstanding as at the time of audit in November, 2011;
- 155 advances paid amounting to K861,260 were not recorded in the advance register (soft copy) which also remained outstanding. Of the total, 17 advances totaling K262,224 were made in favor of the paymaster while another 26 advances totaling K198,430 in favor of the paymistress, such a practice was considered improper;
- Similarly, a total of 1627 advances amounting K6,447,038 were reported as outstanding as at 31 December, 2010. Of the total, 1437 advances amounting K5,481,996 (85%) were unacquitted and remained outstanding as at the time of audit in November, 2011;
- In 141 instances, the Department continued to issue additional advances to officers who failed to acquit their first advances totaling K4,169,713;
- All the acquittal forms with the supporting documents for the year 2011 were not properly filed away, hence, made it difficult for audit trail;
- Audit noted that the Department had been paying significant amounts to the Paymaster and paymistress as cash advances totaling K3,046,981. These cheques were cashed by the Paymaster or paymistress and paid to officers of the department for various purposes. There was no evidence of receipt of such monies by claimants. Under these circumstances, possibility of any misappropriation cannot be ruled out. This practice should be discouraged and crossed cheques should be drawn in favor of payees in all instances;
- There was no segregation of duties as only one officer was involved in maintaining the records of advances and performed the tasks of raising paid vouchers (FF4s'), recording, payment and filing of acquittals forms; and
- The financial delegate had not taken follow up action to remind officers to acquit their advances.

### Management Response

*In terms of deficiency in the advance register (soft copy), it has been updated and regularly reviewed by the financial delegate. In addition, measures have already been undertaken for officers to acquit within required time frame upon return from duty travel. Failure to do so will result in placement for recovery action.*

*Overall, the department agreed with the audit findings and stated that immediate changes will be made to procedures affecting future advances and acquittals, following the implementation of an Advances and Acquittals Management Policy as recommended while efforts will be directed towards clearing 2011 outstanding acquittals.*



## ASSET MANAGEMENT

Audit review of the assets register maintained together with the related records revealed the following weaknesses:

- The assets register was deficient in that the details of assets were not indicated in the register particularly; total cost, estimate of economic life, preventative maintenance history and physical location. This was also highlighted in our previous years report however, no remedial action was taken to rectify this anomaly;
- The annual stocktake of assets was not undertaken for the year, 2011;
- 85 assets totaling K575,902 were not recorded in the Register;
- A draft Asset Management Policy with respect to acquisition, distribution, maintenance and disposal of assets was yet to be finalized and approved by the Management at the time of audit in November, 2011;
- 14 vehicles with private registration number plates were not supported by evidence of approval from the Secretary, Department of Transport as required; and
- Two (2) vehicles were reported missing and the whereabouts of them could not be established, one vehicle was stolen and burnt and recommended for write off, while seven vehicles were disposed. However, both Police investigation and Board of Survey reports if any were not made available for audit although requested.

### Management Response

*The Board of Survey reports not sighted for vehicles that were stolen and /or disposed was a failure by Police for not providing the relevant report to the Department.*

*Recommendations regarding management of assets, an asset management project has been initiated and the project will be commenced.*

## PROCUREMENT AND PAYMENT PROCEDURES

### Recurrent Budget

A sample of 200 payments over K5,000 were selected on a random sample basis to ascertain the effectiveness of the processes of acquiring goods and services and the effectiveness of the payment processes relating to claims received from suppliers. An examination of the payment vouchers with the related records and documents revealed the following observations:

- A total of K1,472,935 was paid as financial assistance from the recurrent budget to various organizations and individuals during the year 2011. These were discretionary funds for which the Prime Minister or the Department was obliged to make as commitments to various organizations and individuals. The nature of expenses paid included school fees, cash advances, funeral expenses, disaster and medical appeal were personal in nature. There was no system in place to monitor and screen applicants as well as no policy in place for such discretionary funds, hence these could result in the Department not working within a standardized and acceptable operating framework thus causing confusion in dealing with such financial commitments;

- 13 payments totaling K80,557 were made in relation to higher duty allowances while another 146 totaling K910,621 were made for payment of gratuities. These allowances were processed and paid out of the expenditure votes or from PGAS instead of from the payroll system of which they were unbudgeted;
- The Department paid a total of K3,311,414 for hire of motor vehicles from private organizations and individuals without references from PTB of the Department of Works; and
- A total of K603,413 was paid for hotel accommodation in NCD. Of the total, K329,363 was incurred by the Department while K274,050 was spent by Parliamentary Services. The payments incurred included outstanding accounts for 2010, advance/additional payments, bills included food, soft drinks, telephone charges, miscellaneous charges or lump sum payments and further, no supporting letter was attached stating the reasons for accommodation, payments on pro-forma invoice and charging to other votes. In the case of funds incurred by Parliament Services, a listing was not attached with the payment voucher to confirm the actual number of officers accommodated and payment was settled based on the quotation provided by the hotel. The significant payment of hotel accommodation and related charges reflected lack of control over funds appropriated by the Parliament.

### Management Response

*In terms of hire of motor vehicles, a comprehensive Vehicle Management Policy has been developed and brought into effect through Circular Instruction and is currently being implemented by Finance and Administration staff. The Policy complies with Finance Instructions and good procurement practices, and includes strict guidelines for the hire of vehicles within the NCD.*

*The Secretary advised that audit findings regarding the payment of personal emoluments namely higher duty allowances through PGAS are in the process of being addressed. Also internal circular instruction has been issued directing all payments for personal emoluments be paid through the payroll system, with the exception of casual and overtime payments.*

*The Secretary accepted the audit findings on expenditures made to the PM's Office from both Recurrent and Development budgets. However, as mentioned earlier, these payments relate to the previous Administration.*

### Development Budget (PIP)

There were four (4) projects administered by the Department of Prime Minister and National Executive Council in year 2011. Out of the total, only two (2) were selected and these were; The Prime Minister's Commitments or Pledges which was wholly funded by GoPNG and the Community College which was counter-funded.

According to the 2011 Budget, the Prime Minister's Commitment or Pledges was appropriated K20,000,000 to ensure that the Prime Minister delivered his duties and responsibilities successfully to achieve the required objectives and targets both domestically and internationally on behalf of Papua New Guinea while Community College was appropriated K5 million by the PNG government under item 135 and K46,906,000 was co-funded under item 139.

Our review of the two (2) projects revealed the following:

*Monitoring and Reporting Process*

- The annual work plans if any were not made available to audit although requested. In the absence of annual work plans it was not possible to link the budget to identify targets and indicators to assess achievement of set objectives/outputs;
- The Department did not have a Project Steering Committee in place as required. Therefore, in the absence of establishing a committee, meetings if any conducted during the year could not be reviewed;
- The Department did not have a Ministerial Policy or guidelines governing the use of such as screening, assessing, monitoring and acquittal procedures so that Project Funds were spent for intended purposes; and
- The status or progress report on projects if any were not made available to audit although requested. As such, AGO could not examine the genuineness of the reporting system or to ascertain the status of each project whether the funds allocated had been utilized in accordance with implementation guidelines.

*Prime Minister's Commitment and Pledges*

The Department received K1.5 million of the K20 million under Grants and Transfer to Public Authority that was appropriated for in the 2011 Budget. The following matters were noted:

- The analysis of expenditure transaction details revealed that from the total of K1.5 million only K462,859 was incurred to pay for the related expenses while K1,044,147 was incurred to cater for the Department's recurrent expenditures. AGO viewed these payments as irregular in nature and unbudgeted expenses. Further, there was no specification stating the nature of expenditures to be drawn under this Development Budget. In the absence of proper guidelines governing the use of these funds such behaviour in expenditure could lead to misappropriation and may not serve its purpose for which it was appropriated for. This indicated that there was no control over the use of development funds;
- Out of the sample of 25 transactions selected for audit review, the following matters were noted;
  - Nine (9) paid vouchers totaling K345,442 were not completed by the officers responsible for certification, commitment clerk for availability of funds on requisition, examining officer, and Section 32 officer respectively;
  - A total of K106,483 was paid to assist in funeral expenses to the then Minister's brother which was unbudgeted for;
  - In 13 instances, paid vouchers totaling K724,002 were not signed by the receiving officer as evidence of actual goods or services procured and delivered to the department;
  - In 17 instances, paid vouchers totaling K897,586 were not signed by the claimant as evidence of goods or services procured and delivered in good condition;

- Five (5) payments totaling K115,398 were made without obtaining three (3) written quotations from various vendors prior to making purchases;
- Seven (7) payments totaling K343,396, were made based on quotations obtained from the vendors instead of original tax invoices;
- 24 payments totaling K1,096,414 were made without any supporting document at all;
- A cheque payment for K143,255 was made for a Toyota Land Cruiser to be used as an ambulance. The transaction was solely arranged by a senior officer of the department. It was noted that the receipts, delivery docket or either acknowledgement letter was not attached to the claim as evidence of vehicle being delivered and received by the recipient. As such, the status of the vehicle could not be ascertained;
- A sum of K27,546 was paid to a travel agent without supporting documents such as the travel itinerary; and
- A total of K42,882 was paid to a restaurant for luncheon, dinner, entertainment and including outstanding invoices incurred in previous years. However, the listings and the acquittals were not attached with the paid vouchers to confirm the correct number of guests. It was noted that the Department placed orders either for takeaways or in the restaurant and was invoiced to make payments.

### *Community College*

The Department was allocated K5 million under this project that was appropriated for in the 2011 Budget. The following matters were noted:

- The analysis of expenditure transaction details revealed that from the total of K5 million, only K540,497 was incurred to pay for the related expenses while K3,681,978 was incurred to cater for the Department's recurrent expenditures. AGO viewed these payments of K3,681,978 as irregular in nature and unbudgeted expenses. In the absence of proper guidelines governing the use of these funds such expenditure behaviour could lead to misappropriation and may not serve its purpose for which it was appropriated for; and
- Some of the major payments made were not related to the Development Budget as noted below:
  - A total of K90,092 was paid to a company for construction of 86x2.1meter high spiked fence and also construction of a high retaining stone wall at the Prime Ministers' residence in Boroko. In this regard, the following matters were noted;
    - only one (1) quotation was obtained,
    - no contract agreement sighted,
    - payment raised based on quotation provided by the contractor and paid in advance,
    - work specification and costing not prepared and approximated for subsequent check by the Department,

- work completion certificate was not sighted to confirm satisfactory completion of the works paid for.
- A sum of K70,871 was paid to a security firm for security services provided for the months of February and March, 2011. In this regard, audit noted that contract agreement, if any, was not provided to substantiate the payment;
- A sum of K173,984 was paid to a construction company for the work carried out on the flooring, ceiling, and tiling of the Prime Minister's office. In this regard audit noted that;
  - only one quotation was obtained,
  - no contract agreement was sighted,
  - payment was raised based on quotation provided by the contractor and was paid in advance,
  - work specification and costing was not prepared and provided for subsequent check by the Department and work completion certificate not sighted to support satisfactory completion of the work s paid for.
- A sum of K500,000 was paid out of the Development Budget under Community College to Police Trust Account. The payment was for the urgent funding of Police operations in Lae. However, justifications such as NEC Decisions as well as the recommendations from the Department of Police concerning the security situation in Lae were not attached with the paid voucher. It was also noted that no acquittals were sighted to suggest that funds paid were used for intended purpose;
- A sum of K199,100 was paid to a company for the TV Profile of the Parliament elect Prime Minister. No quotations from the respective service providers on the specifications of the service were provided so that the Department could choose the lowest bidder as per the *PFM Act*;
- A total of K153,161 was paid for food and drinks at a restaurant while K16,491 at another. However, the listings and the acquittals were not always attached with the paid vouchers to confirm the correct number of guests. It was noted that the Department placed orders either for takeaways or dinned in the restaurant and invoiced the Department to make payments. Similar instances were also reported in the Recurrent Budget;
- Three (3) payments totaling K360,063 were made without obtaining three (3) written quotations from reputable suppliers;
- Five (5) payments totaling K442,383 were made without tax invoices attached with the payment vouchers; and
- Eight (8) paid vouchers totaling K845,524 were not certified and two (2) payments totaling K267,122 were not examined to confirm the legitimacy of claims prior to processing the payment.

## Management Response

*The Secretary agreed with the findings/recommendations on the shortcomings of the management of development funds as lack of a Project Steering Committee, policy/guidelines and project reporting. However, these funds are slightly different to other development funds in so much as their use is at the discretion of the Prime Minister, and disbursements are directed through the Office of Prime Minister. In addition, the Secretary has directed the Acting Deputy Secretary Corporate Services to liaise with Department of National Planning & Monitoring to discuss where responsibility for this activities best resides and how they should be progressed.*

*The lack of written quotations, insufficient supporting documentation, unsatisfactory completion of finance forms and failure to obtain confirmation of goods/services received from the receiving officer in all instances is acknowledged in respect of Prime Minister's Commitment/Pledges. The Secretary has directed Corporate Services that the process improvements that have been initiated for recurrent expenditure are to also apply to expenditure of development funds.*

*Whilst the Secretary in accepting our concern about the level of expenditure and the use of development funds in assisting with funeral expenses to the then Acting Deputy Prime Minister, we note that the Prime Minister's Office support for funerals for senior politicians and public figures is a long-standing practice. I would reiterate my earlier comment that the requests were approved by the Office of Prime Minister and Section 32 Officer and accountability for decisions related to these expenditure rests with these officers, rather than other departmental management.*

*The report concerning about the appropriateness of expenses related to the previous PM's private residences is noted, and as stated previously accountability for these decisions rest with the approving authorities.*

*The report regarding expenditure for the TV Profile for the current Prime Minister has been acknowledged and as outlined in responses to previous sections, we are reviewing/restructuring the department's procurement and payments systems and processes to ensure good procurement practices and compliance with GoPNG financial legislation and supporting instructions is achieved.*

*The lack of written quotations, insufficient supporting documentation, and unsatisfactory completion of finance forms for expenditure from this fund is acknowledged in respect of under Community Development. Improvement actions for procurement/payment processes will also apply to all GoPNG funding sources. The Secretary has directed Acting Deputy Secretary Corporate services to liaise with DoT and DNP&M to ensure that funds are transferred/available within the appropriate vote, whether from recurrent of development funds prior to commitment of expenditure.*

## SALARIES-PERSONNEL

A review of personal files and related records revealed the following matters of concern:

- Training is provided to staff on adhoc basis. However, training is not linked to the staff appraisals where staff development matters should be recorded. This could cause staff to miss out on their professional development resulting in a skills shortfall within the Department;
- Training reports were not sighted nor forwarded to DPM for the purpose of keeping statistics of the type of training received by public servants. This would enable the Department to determine whether officers employed in the Public Service were receiving the training suited to them in



serving the Department and allow for officers to undergo such training as identified by the departmental Staff Development and Training Committee;

- The Department had no Comprehensive Training and Management Plan for 2011 and onwards. Instead a 2006 - 2009 submission (TMP) was currently in use to identify training for officers who were still incumbents since 2006;
- Some of the training undertaken during the year 2011 were outside the budgetary provisions or either not being fully achieved due to funding constraints;
- Multi skilling was not practiced to ensure that there was more than one person that could fulfill the duties of a position or that there were alternate choices in promotional situations. This could be easily achieved through structured relief through higher duties when personnel were on leave;
- There were approximately 108 fulltime casual employees. Out of the total, 47 were held against vacant positions and paid through concept while other 61 were paid through PGAS with no policies in place in relation to their employment. Generally, they were employed for specific periods of time only, however, have continued working and their performances were yet to be reviewed and appropriate action taken; and
- A number of senior staff contracts had expired however, still were paid gratuity.

### Management Response

*Issues reported in regards to the HR management namely, no evidence of Training and Management Plans, a weak staff appraisal system without evidence that it is linked to objective performance criteria and inappropriate use of casuals in vacant positions will be addressed. In addition, whilst accepting the recommendation and in terms of review of the HR functions, actions are progressing within PM&NEC to improve on where it is lacking.*

### TRUST ACCOUNTS

The management had reviewed the existence and status of ten (10) trust accounts and through its findings had recommended to Department of Finance to take drastic measures on the existence of the trust accounts:

Based on the Departments assessment on each of the trust accounts, five (5) trust accounts out of the ten (10) were directly managed by the Department. A review of each account with the related records and documents revealed the following observations:

- The trust instrument for National Planning Task Force Trust account was not furnished to audit and in the absence of the trust instrument, the legal basis for the existence of the trust account could not be ascertained;
- Out of the five (5) trust accounts directly managed by the Department, bank reconciliation statements for the three (3) trust accounts were not sighted;
- Three (3) of the trust accounts with bank accounts were not operating through the PGAS system as required by the Trust Instruments;

- From the 23 samples of transactions selected for audit review, relating to the Strengthening Assistance Facility for Institutional Strengthening & Public Sector Reform Related Activities Bank Trust account, the following were noted:
  - 12 paid vouchers totaling K207,767 were not furnished. As a result audit was unable to vouch the propriety of payments made;
  - Eight (8) paid vouchers totaling K59,861 were not examined, certified and also not supported by quotations and tax invoices as required; and
- According to the Department of Finance records of the 2010 Public Account the National Planning Trust Account was still active and the last transaction took place in 2010. However, the related accounting records were not furnished for audit review, although requested and such records are stated below:
  - Cash book (2010);
  - Bank reconciliation statements (Jan-Dec 2010);
  - Specimen signatures;
  - Bank statements;
  - Paid vouchers; and
  - Cheque butts.

### Management Response

*The department has indicated that some form of communication has been established with the Department of Finance regarding the status of trust accounts, and accountability for management and reconciliation of these accounts however, no response has been forthcoming. The Secretary further stated that, for those trust accounts managed by the Department, internal instructions have been issued to ensure reconciliations are prepared as required.*

*Some of the trust accounts that were created and managed outside the Department were no longer in operation. Subsequently, the accounts area had no control over the acquittals to Department of Finance. Also the Secretary has directed Acting Deputy Secretary Corporate Services to immediately follow-up with the Department of Finance to ascertain how this can be progressed.*

*In relation to the issue of Trust Account Policy, one will be drafted once the Internal Audit Unit is properly established. In addition, initial discussions have been held with the Department of Finance Internal Audit to seek assistance to set up an Internal Audit Committee and also Internal Audit Unit.*

*Bank reconciliations for the Trust Account under Department's control not submitted for review has been accepted. This is one area that has to be improved and significant progress has been made.*

*The Department expressed concerns regarding monthly bank reconciliation and copies forwarded to Department of Finance. Finance Branch of the Department has been directed to ensure monthly reconciliation is done and without fail.*



## DEPARTMENTAL RESPONSE

The department had responded to the findings in the audit management letter issued and their responses are incorporated accordingly.

## CONCLUSION

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

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

## 26. DEPARTMENT OF TRANSPORT

### OVERVIEW

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

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

The Department is expected to fulfil it's mission through the following activities:

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

### FINDINGS

#### BUDETARY AND FUNDS CONTROL

A comparison of the 2011 Expenditure Summary produced by the Department (PGAS) as against the Expenditure Statement generated by the Department of Finance (TMS) revealed the following variances;

<u>Particular</u>	<u>EXP. AS PER PGAS</u> (DOT) (K)	<u>EXP. AS PER TMS</u> (DOF) (K)	<u>VARIANCES</u> (K)
Revised Appropriation	75,376,700	75,893,400	-516,700
Warrant Authorized	66,897,700	75,614,800	-8,717,100
Actual Expenditure	56,794,988	63,113,604	-6,318,615

Audit noted that there were no reconciliations of the TMS reports of the Department of Finance against the departments PGAS reports on a monthly basis in 2011. As a result there were significant variances between records maintained by the Department and Department of Finance.

Audit also noted that in six (6) instances, expenditures totaling K435,084 were expended in excess of their warrant authorities issued as per Department of Finance reports as detailed below:

Vote	Total Warrant (K)	Total Expenditure (K)	Over (K)
259.3501.2701.10608.211000	112,500	192,185	-79,685
259.3501.2701.10610.211000	64,700	74,425	-10,725
259.3501.2701.10612.211000	100,000	335,465	-235,465
259.3501.2701.10613.211000	225,700	273,876	-48,176
259.3501.2701.10620.211000	91,600	150,004	-58,404
259.3501.2701.10631.211000	98,400	101,029	-2,629
<b>Total</b>	<b>692,900</b>	<b>1,127,984</b>	<b>-435,084</b>

## BANK RECONCILIATION

Department of Transport operates a drawing bank account (# 4311-6155) with the Bank of Papua New Guinea. An examination of the bank reconciliation statement for the month of December, 2011 and the related records and documents revealed the following matters of concern:

- The bank statement received from the Bank of Papua New Guinea disclosed a NIL bank balance as at 31.12.2011, however, the reconciled cash book balance reported an overdrawn balance of K14,907,204.
- The bank reconciliation statement examined noted other reconciling items that needed to be adjusted and cleared:

Description	Amount (K)
Credits in bank statement not in cash book	10,581,757
Un-presented cheques	4,338,545
Cheques on bank statement not in cash book	13,098

- The un-presented cheques referred to above included 54 stale cheques issued during the year 2010 totaling K361,454 which was not written back to the cashbook by way of journal entries.

## ASSET MANAGEMENT

Audit review of the assets register and related records disclosed the following weaknesses.

- Verification of the expenditure transaction detail report for 2011 revealed a total of K430,651 expended in procuring various assets for the Department. These assets were not recorded in the assets register contrary to Section 5(1)(g) of the *Public Finances (Management) Act, 1995*, rendering the register null and void where no reliance can be placed on the assets register to reflect its accuracy.
- Assets Register was updated only up to 31/12/2008.
- There was no stock take done for the year under review to establish the condition, location and existence of all assets owned by the Department as at 31 December, 2011.

## PROCUREMENT AND PAYMENT PROCEDURES

AGO noted the following weaknesses in the Department's procurement procedures:

### *Financial Delegation*

The specimen signature files relating to the Financial Delegate, certifying and examining officers were not made available to audit although requested, contrary to section 4(d) of the *Audit Act, 1989 as amended*.

### *Pro-forma Invoices*

- In general observations, the Department was still making payments based on quotations or pro-forma invoices and faxed copies instead of original tax invoices;

### *Hire of motor vehicles from private sources*

- In 2011 a total amount of K184,996 was spent on private hire of vehicles without approval from Plant & Transport Board of the Department of Works as required;

### *Payments done to Paymaster*

- Payments totaling K790,155 were made payable to the Paymaster in 311 instances. It was noted that expenditures such as travelling allowances, gratuities, payment for functions and Christmas party were incurred under cheques made payable to the paymaster instead of the respective employees, advance holders or goods and services providers;

### *Gratuity not paid from the Correct Expenditure votes*

- Audit noted that a Gratuity payment of K6,693 was firstly paid out of the wrong expenditure vote item and secondly, the payment was made to the paymaster instead of the appropriate officer which amounts to misappropriation contrary to the *2010 Appropriation Act* for 2011 as it was provided for in that respective vote;

### *Report on overseas travel expenses*

- Audit had noted a total expenditure of K34,060 as payment for travelling allowances, accommodation expenses, clothing allowances, visa costs, and transportation expenses for two (2) senior officers of the Department who travelled to USA in November/December of 2011. Audit had neither sighted a travel itinerary consistent with the approved planned activity of the Department for this trip nor relevant supporting documents for this trip;

### *Travel Agents*

- AGO also noted that in 123 instances, two (2) Travel Agents were paid a total sum of K636,615 to conduct travel arrangements for the Department. Contractual agreements or standing arrangements to regulate service arrangements with these firms were not made available for audit verification.

## HUMAN RESOURCES AND PAYROLL

Audit assessment of the human resources management revealed the following:

### *Preparation of Wages*

- Review of the wages sheet for pay 20 and 24 revealed that the financial delegate did not sign or approve the wages sheet for pay 24.

### *Employment of Casual Staff*

- It was noted that the Department engaged a total of 96 casual employees' in 2011, who were put under two (2) different systems of payment for their wages. Details are as follows:

	2009	2010	2011
<b>ALESCO Payroll System</b>	14	38	38
<b>PGAS System</b>	38	43	58
<b>Total Casuals</b>	<b>52</b>	<b>81</b>	<b>96</b>

Human Resource formalities for the engagement of 38 casuals paid under Alesco payroll were in place. However, a review on the 58 casual employees personal files paid under the PGAS revealed that the 58 casuals on PGAS had no proper files and employee numbers.

### *Higher Duty Allowance*

AGO noted that a total of 12 Officers were paid Higher Duties Allowances (HDA) as at the time of audit. The following were noted of the HDAs paid:

- An officer of the Department was continuously been paid higher duty allowance, despite the lapse of the acting appointment period; and
- Four (4) Officers were on higher duties allowances since 2008 as the department failed to employ qualified persons with the relevant skills and experiences. The incumbents should have been made permanent after three (3) months when the department was unable to attract qualified people.

## ADVANCE MANAGEMENT- (Travel allowances & Goods/ Services)

An examination of the records maintained in respect advances revealed the following weaknesses;

- Travel Advances were not acquitted in 131 instances, totaling K496,097.
- In six (6) instances, second advances were given to officers, despite the first advances paid remained un-acquitted totaling K13,889. This is contrary to *Part 20 paragraph 12.11 of the FMM* which states that "No second advance is to be made when the first advance is outstanding.
- In an instance, the acquittal form did not have the signature of the financial delegate & divisional head totaling K2,511, meaning that the financial delegate did not approve that particular acquittal.

- No follow up action had been taken to remind officers to acquit their advances and where there was long outstanding advances, no recovery actions were taken by way of salary deduction.
- A bulk of completed acquittal forms were not filed away and were noted lying unattended to. It was explained that this was due to the current officer responsible for advances being promoted to Accountant (Revenue) and the officer appointed to perform the duties of Travel Clerk going on leave. Whilst audit acknowledges the acute manpower shortage as an issue, audit could not understand why there was no attempt in filing away these forms for safe keeping, contrary to Section 5(b) of the *Public Finances (Management) Act, 1995*, as amended which states that “paid accounts and records relating to the function and operation of the Department are properly maintained”.
- There were instances identified where officers had resigned without acquitting the advances. These advances were not deducted from their entitlements or Nambawan Super contribution which reflects non-compliance by the office in charge of human resources.

### DEPARTMENTAL RESPONSE

The matters were brought to the attention of the Secretary through the management letter, however no management responses were received at the time of writing this report in June, 2013.

### CONCLUSIONS

The results of our audit indicate that overall, there were significant weaknesses in the control framework.

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

## 27. DEPARTMENT OF WORKS AND IMPLEMENTATION

### OVERVIEW

Main programs of the Department of Works and Implementation are:

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

### FINDINGS

#### BUDGETARY AND FUNDS CONTROL

A comparison of the expenditure vote summary for the period ending 31/12/11 generated by Department of Finance and the expenditure vote summary maintained by Department of Works and Implementation revealed the following unexplained balances;

Particulars	DoF (TMS 330) <u>K</u>	DoW&I (Oracle Sum) <u>K</u>	Variances <u>K</u>
Original Appro.	531,961,000	631,961,000	-100,000,000
Revised Appro.	548,458,000	631,944,600	-83,486,600
Warrant Auth.	548,827,300	419,964,200	-128,863,100
Actual Expend.	281,092,101	400,882,608	-119,790,507

*Note: Comparison of TMS 330 and ORACLE balances (revised appropriation and warrant authority from TMS 330 include donor funds)*

- It was noted that the differences were partly due to double reporting of the expenditure relating to maintenance votes in both the development and recurrent reports produced by the department from the appropriation to the actual expenditure, thus not reflecting a correct report by the Department.

The fourth quarter budget review report reflected the same thus indicating non-performance of reconciliation as required.

## **BANK RECONCILIATIONS – Boroko Drawing Account**

An examination of the Bank Reconciliation for the month ending 31 December, 2011, for the Boroko Drawing Account revealed the following irregularities:

- There were adjustments from 2010 totaling K2,817,149, which audit could not verify the details on the bank reconciliation to support the adjustments;
- Deposits not in general ledger totaling K3,170,354 needed to be investigated, identified and cleared including manual cheques totaling K2,613,499 in bank but not in the general ledger;
- Un-presented cheques totaling K37,046,599 included stale cheques aggregating K2,783,844 that should be cleared by journalizing back into the general ledger;
- There were also instances where only figures appeared without narrations to say what the amounts represented; and
- Bank reconciliations relating to the Boroko Drawing account were not prepared and submitted to Department of Finance on a timely basis as per the *Public Finances (Management) Act, 1995* requirements.

## **ASSETS MANAGEMENT**

A review of the Information Technology (IT) Equipment register and the PTB Asset register (Fleet register) maintained by the department and related records revealed the following weaknesses:

- The registers were not updated with purchases of IT equipment, vehicles and disposals for the year under review;
- The registers were noted to be deficient in that the dates of purchases and dates of disposals were incorrect and that there was no record of custodian and state or condition of asset;
- No stock take was carried out in 2010 and 2011; and
- Assets relating to office furniture and equipment purchased in 11 instances totaling K17,160 were not recorded in the asset register, as required.

## **PROCUREMENT AND PAYMENT PROCEDURES**

An examination of 68 payments totaling K22,050,230 from the Boroko Drawing account together with related records and a review of the procurement procedures in operation revealed the following matters:

- In four (4) instances, payment vouchers totaling K6.28 million were not provided for audit examination, although requested and as a result audit was unable to substantiate the validity of the payments made;



- A payment of K65,330 made to a company for accommodation was effected using photocopied documents and no other correspondence and approval from appropriate authority were sighted to validate such payment;
- Eight (8) payments totaling K879,867 were made on photocopies and not the original documents as required. Included were four (4) payments totaling K800,000 that were made to individuals instead of the registered customary land group for payments relating to the use of customary land; and
- Audit did not sight contract agreements in relation to nine (9) payments totaling K533,830 to substantiate the payments. These payments were in relation to legal fees, maintenance and rental agreements.

## **HUMAN RESOURCES MANAGEMENT**

An examination of records pertaining to human resource management and payment of salaries, wages and allowances revealed the following discrepancies:

- A review of the 2011 fourth quarter (4<sup>th</sup>) recurrent budget review report on staffing against the Staff Establishment Register revealed that the approved structure for public servants was 1,627 positions, however, audit noted that there were 2,544 employees on the concept payroll, resulting in 917 unfunded positions on the payroll;
- The selection and recruitment process in relation to the Department's restructure approved in 2009 was yet to be finalized three (3) years after the approval. Audit noted that the slow process had affected the other areas in the department such as establishing a contract review committee and finalizing a training plan;
- An examination of 11 selected employee files and related records revealed that in all 11 instances, history cards were not updated with data including salaries, recreation leave, miscellaneous leave and sick leaves. Some history cards were last updated in 2004; and
- Employee files were kept in cabinets which were not locked. It was noted that files were lying on the floor or hanging off the shelves and all employees from the payroll division had access to them. Security of the confidential Employee Files was at stake especially when the payroll branch did not have a proper security system.

## **TRUST ACCOUNTS- Bank Reconciliations**

A review of 17 active Trust Accounts and related records maintained by the department revealed the following matters:

- In all instances, the trust account bank reconciliations statements were not prepared and reviewed in a timely manner as specified in *Part 19 of the Public Finances (Management) Act, 1995*; and
- Reconciling items such as Deposits in Bank not yet in General Ledger and other items such as bank fees were yet to be cleared in the bank reconciliation of 13 trust accounts.

## ADVANCE MANAGEMENT

A review of Travel Advance registers (soft & hard copy) maintained for the year 2011 and related records revealed the following weaknesses:

- The two (2) advances registers (manual/computerized) did not agree; the manual register had 520 entries recorded, while computerized register had only 391 entries recorded indicating poor advance management;
- The registers were not updated regularly, for instance advances were acquitted but not recorded and cheque numbers were not recorded in a number of instances;
- Outstanding advances for year ended 2011 amounted to K329,482 in 342 instances as per the computerized advance register;
- Out of a sample of 12 advances acquitted per the register, acquittal documents were not sighted in seven (7) instances totaling K10,365, thus audit could not verify the validity of the record in the register;
- Acquittal files were not properly filed away for proper audit trail but were kept in in-trays; and
- The financial delegate did not review both registers that were maintained by the department. This issue has been raised in the prior audit reports and remains unresolved.

### *Development Expenditure*

A review of the Development Expenditure and related records against the PIP guidelines revealed the following matters:

- Quarterly budget review reports for 2011 were not prepared and submitted to the Department of National Planning and Monitoring as required under the PIP Guidelines. The fourth quarter report was only prepared after audit requested for the report.
- The 4<sup>th</sup> Quarter Budget review report that was provided to audit was incomplete and did not have sufficient information such as the work activities achieved, compared against the specific outputs that were listed in the work plans and cash flow submissions for 2011 as required.
- The department has in place a review committee called the Capital Works & Maintenance Review Committee (CWMRC). The review committee only held one meeting at the end of the year 2011, in spite of, DNPM advice no.1/2010 and the PIP guidelines which requires the committee to meet at least twice a year to discuss the progress of the projects. Audit noted that only one meeting was held due to funding limitations.

### *Compliance to Procurement and Payment Procedures*

AGO only inspected the records of projects implemented and monitored at the Boroko, DoW&I headquarters. There were 14 projects under Boroko HQ totaling K194,102,583. Further checks relating to procurement and payment procedures were directed only at the expenditure relating to the *National Priority Road Maintenance* and *National Bridges Maintenance Projects*.

An examination of four payment vouchers totaling K14,654,191 selected randomly and a review of the procurement and payment procedures revealed that except for payment to a company for K277,585 all other payments were noted to be in order such as the approved proposal, CFC and approved funding minutes were all correctly authorized and attached to the payment voucher. This particular company did not have the certificate of compliance attached to verify for tax registration and as such the payment of K277,585 was made without deducting the 10% GST to be paid to IRC.

## DEPARTMENTAL RESPONSE

The Department has not responded to the audit findings reported in the management letter issued, up to the time of writing this report in, June, 2013.

## CONCLUSION

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

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

## 28. SUMMARY OF DEPARTMENTS AND AGENCIES AUDITED

No	Name of Department	AUDIT YEARS	
		(2011)	(2012 – Planned)
1	Agriculture and Livestock	✓	✓
2	Attorney General	✓	✓
3	Commerce and Industry	✓	✓
4	Community Development	✓	✓
5	Correctional Services	✓	✓
6	Defence	✓	✓
7	Education	✓	✓
8	Electoral Commission	✓	✓
9	Environmental and Conversation	x	x
10	Finance	✓	✓
11	Foreign Affairs and Trade	✓	✓
12	Governor General	x	x
13	Health	✓	✓
14	Higher Education	✓	✓
15	IRC – Taxation	✓	✓
16	Lands and Physical Planning	✓	✓
17	Labour & Industrial Relations	x	x
18	Magisterial Services	✓	✓
19	National Judiciary Services	✓	✓
20	National Parliament	✓	✓
21	National Planning & Monitoring	✓	✓
22	National Statistics Office	✓	✓
23	Office of Public Solicitor	✓	✓
24	Office of Rural Development	✓	✓
25	Office of Workers Compensation	x	x
26	Personnel Management	✓	✓
27	Petroleum and Energy	✓	✓
28	PNG – Bureau of Customs	x	✓
29	Police	✓	✓
30	Prime Minister & NEC	✓	✓
31	Provincial & LL Government Affairs	SUSPENDED	✓
32	Public Services Commission	x	x
33	Mineral Policy and Geo Hazard	x	x
34	Transport	✓	✓
35	Treasury	x	✓
36	Works & Implementation	✓	✓
	TOTAL	27/36	29/36

**Key:**

Departments Audited / Planned	✓
Departments Not Audited / Planned	x


\* The AGO was unable to complete all its assigned audits in 2011 due to serious resource constraints. However, you will note that there was an improvement as 27 audits were completed in 2011 compared to 18 in 2010.

## 29. ACKNOWLEDGEMENT

I would like to acknowledge the professionalism and commitment of my staff in undertaking the audit work that is reflected in this report. Their efforts have ensured the audit work program is on track and enabled preparing this report in a short period of time.

The co-operation and the assistance rendered by all Heads of Departments and Agencies, and their staff is also acknowledged.

Finally, I would also like to thank the Chairman and the members of the Public Accounts Committee for their continued interest and support for my Office.



**PHILIP NAUGA**  
*Auditor-General*