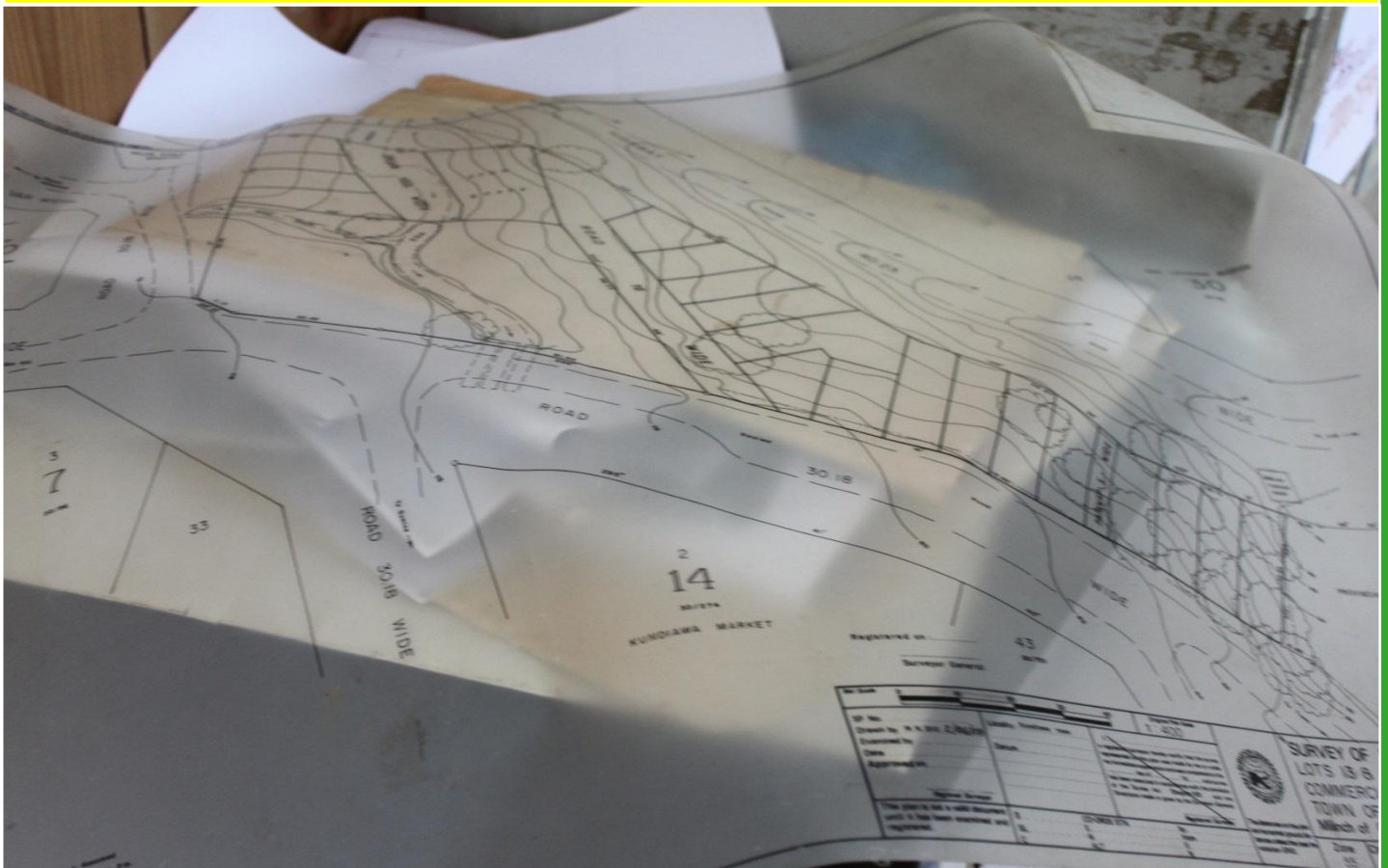




Performance Audit on Land Geographic Information System Upgrade



Auditor-General's Office of Papua New Guinea

**Performance Audit on the Effectiveness of
Department of Lands and Physical Planning
on Managing Land Geographic Information
System (LAGIS) Upgrade for fiscal years
2008-2016**



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OFFICE OF THE AUDITOR-GENERAL

The Honorable Job Pomat, MP
Speaker of the National Parliament
Parliament House
Waigani
National Capital District

Dear Mr. Speaker,

In Accordance with the provision of Section 214 of the National Constitution of the Independence State of Papua New Guinea, and the Audit Act of 1989 (as amended), I have undertaken an Audit examination within the key government agency, Department of Lands and Physical Planning of Papua New Guinea.

I submit the report of this audit and the report is titled **“Performance Audit on Land Geographical Information System Upgrade”**.

Following its tabling in Parliament, the report will be placed on the Auditor General’s Office website homepage <https://www.ago.gov.pg>

Thank you

Gordon Kega
Acting Auditor General-CPA

3 | Auditor General’s Office Papua New Guinea

Land Geographic Information System Upgrade Performance Audit

Table of Contents

EXECUTIVE SUMMARY	6
BACKGROUND	6
OBJECTIVE OF THE AUDIT	6
CONCLUSION	6
FINDINGS	8
KEY FINDINGS BY CHAPTER	8
RECOMMENDATIONS	10
CHAPTER 1 INTRODUCTION	12
BACKGROUND	12
OBJECTIVE OF THE AUDIT	14
SCOPE	14
METHODOLOGY	14
CHAPTER 2 PROGRAM DESIGN	15
INTRODUCTION	15
CHAPTER 2 FINDINGS	17
ESTABLISHING THE NEED	17
PROCUREMENT APPROACH	18
CONTRACT EXECUTION	19
PROJECT INITIATION	21
CHAPTER 3 PROGRAM GOVERNANCE FRAMEWORK	22
INTRODUCTION	22
CHAPTER 3 FINDINGS	23
DLPP GOVERNANCE FRAMEWORK	23
PERFORMANCE MONITORING AND REPORTING FRAMEWORK	25
CHAPTER 4 CONTRACT MANAGEMENT OF LEAP	27
INTRODUCTION	27
CHAPTER 4 FINDINGS	29
CONTRACT DOCUMENTATION	29
FINANCIAL MANAGEMENT	31
CURRENT STATUS OF LEAP	34
CHAPTER 5 OTHER FINANCIAL MANAGEMENT ISSUES UNCOVERED	36
TRUST ACCOUNT THAT HOLDS LEAP FUNDS.	36
QUESTIONABLE PAYMENTS MADE OUT OF THE TRUST ACCOUNT THAT HOLDS LEAP FUNDS.....	36

Acronyms

ASM	Annual Support Maintenance
AGO	Auditor General's Office
BSP	Bank of South Pacific
BRS	Business Research Study
COI	Certificate of Inexpediency
DLPP	Department of Lands & Physical Planning
ECM	Enterprise Content Management
GIS	Geographical Information System
GOPNG	Government of Papua New Guinea
KPI	Key Performance Indicator
KUT	Key User Testing
LEAP	LAGIS Enhancement Application Program
LAGIS	Land Geographical Information System
NCDC	National Capital District Commission
NLDTF	National Land Development Taskforce
P&R	Property Rating
PNG LIS	PNG Land Information System
PID	Project Initiation Document
PAC	Public Accounts Committee
PFMA	Public Finance Management Act
QA	Quality Assurance
UAT	User Acceptance Testing
TOR	Terms Of Reference

Executive Summary

Background

The Department of Lands and Physical Planning (DLPP) is the Department in charge of all land matters in Papua New Guinea. The Department's mission is to contribute to social and economic growth through facilitating the equitable distribution and productive use of land. The DLPP is mandated to manage state land in Papua New Guinea, which totals to about 3 per cent of the total land mass.

DLPP implemented a Land Geographical Information Management System (LAGIS) in 1994. However, it was identified as having a number of shortcomings, which lead to a proposal to initiate the LAGIS Enhancement Program (LEAP) in 2006.

Objective of the audit

The objective of the audit is to assess the effectiveness of the Department of Lands and Physical Planning (DLPP) in administering the LEAP project. The audit examined:

- Whether the design of LEAP was robust and provided effective mechanisms for delivering the project's objectives;
- DLPP's management of the contract to deliver the program and any variations;
- DLPP's monitoring and reporting of LEAP.

Conclusion

DLPP's design, governance and management of the LAGIS Enhancement Program (LEAP) was ineffective. DLPP failed to follow the requirements of the Public Finance (Management) Act (PFMA) for a major procurement, did not establish an effective governance and monitoring framework, and had inadequate controls for managing the contract.

Program Design

The LAGIS Enhancement Program (LEAP) proposal was submitted in June 2006, to address deficiencies and improve capacity by redeveloping the complete system to align it with a more effective and efficient workflow processes.

A Certificate Of Inexpediency (COI) was sought to use a selective tender rather than an open tender for the procurement, which was a breach of the and the PFMA requirements for issuing a COI. DLPP and Technology One Limited (TOL) entered into an agreement in 2008 for LEAP. However, clearance was not sought from State Solicitors Office for the LEAP agreement as per the requirements in the PFMA.

The DLPP should have ensured that a proper study of the upgrade in the form of a cost and benefit study took place to identify the costs and benefits of undertaking such a program

upgrade. DLPP's failure to follow the Government's procurement requirements exposed the Government to financial and legal risks.

Corrective measures must always be undertaken to ensure that procurement of services comply with the laws and regulations of a country. The attitude to have COIs issued for procurement of services should not be entertained or encouraged at any level.

Program Governance

The development of guidelines for LEAP by TOL was sound. Importantly, they clearly identified what needed to be done to ensure delivery of the LEAP within the time frame and with the resources identified. However, the audit team did not find evidence that the governance framework was effectively implemented by DLPP.

Also, notably absent from the governance framework were strategies for measuring and evaluating the extent to which the program successfully achieved the programs outcomes.

The failure for managing and reaching the target shows that management practices needs improvements and priorities set by the organisation have to be realistic with proper resource allocation and control measures in place.

Contract Management

DLPP and TOL should have compromised between what they wanted to accomplish and what they were actually able to deliver. The inability of LEAP to be delivered on time due to the different reasons given in variation 1, variation 2 and variation 3 shows this.

Audit found that there was a serious breakdown of control measures for safeguarding financial records of accounts at DLPP. DLPP did not receipt or maintain a central source of information about reports due and received (and assessed) for the LEAP. A break down in controls poses a high risk of mismanagement practices that can lead to fraud.

Due to TOL withdrawing their services in 2013 for DLPP's non-payment of invoices, the system remained incomplete until 2016 when the audit was conducted.

Given the amount of resources that the Government has already spent on LEAP, which currently totals to K11 million, it is advisable that DLPP, should consider taking corrective measures to properly take record of all work that has been done, the current state of the program and what it can do to ensure that a functioning and reliable land management system is developed to effectively and efficiently manage land resources in Papua New Guinea.

Findings

Key Findings by Chapter

Program Design

Establishing the need

- While DLPP outlined the need in its funding request, a cost benefit analysis should have been undertaken by DLPP to identify the current needs of the system and also to identify the short to long term costs that DLPP will have to undertake such an activity.

Procurement approach

- In 2006, DLPP made a submission to Department of National Planning and Monitoring to have LAGIS upgraded by TOL. Proper tendering processes stipulated under the PFMA were not adhered to when DLPP sought to engage TOL.
- The DLPP submission led to the issuing of a Certificate of Inexpediency (COI) in
- 2008 to undertake the procurement from TOL. The COI itself being issued for the reasons given by DLPP for LEAP was also a breach of the provisions to issue COIs under the PFMA.

Contract execution

- Audit review found that in place of a contract, a Solutions Agreement was drawn up by TOL that was signed by the Chairman of CSTB in July 2008. Clearance was not sought from State Solicitors Office for the LEAP agreement as per the requirements in the PFMA.

Project initiation

- Following the signing of the Solution Agreement in July 2008, there were a number of delays in initiating the LEAP. In December 2010, DLPP and TOL signed a Project Initiation Document Certificate to initiate the LEAP.

Program Governance

DLPP governance framework

- 3.1 To govern LEAP, TOL developed the Project Initiation Document in 2010 which sets out the boundaries for managing and implementing the program. However, in assessing the relevant processes in place to plan, organize, communicate LEAP activities, audit found that essential pieces of a strong governance framework were missing.

Performance monitoring and reporting framework

- 3.2 DLPP advised AGO that it did not have a plan for measuring and evaluating the extent to which LEAP had achieved the desired outcome of the program. Audit review of the files found that no documentary evidence of progress meetings and no evidence of weekly progress reports.

Contract Management

Contract documentation

- Audit found that there was a serious breakdown of control measures for safeguarding financial records of accounts at DLPP. Audit made numerous attempts to access records, but was told they could not be located. Audit was not able to carry out the necessary tests to ensure that the expenditures undertaken for LEAP project team were made in accordance with the project.
- Audit found that DLPP did not receipt or maintain a central source of information about reports due and received (and assessed) for the LEAP.

Financial management

- Audit review of DLPP files found that a total of 2 variations to the Solution Agreement was done in 2011 and 2013. The original contract value was K2,573,346 and total paid for the project so far is K11,159,836 which is K8,586,490 (334%) over the original contract value.
- A total of 3 breach notices were issued by TOL for the breach of the Solutions Agreement with regards to payment of bills for services rendered for LEAP. As a result of DLPP failure to comply with the breach notices, TOL have stopped providing LEAP solution to DLPP.
- Audit found other financial management issues with the use of the Trust Account that holds LEAP funds.

Current Status of LEAP

- The Upgrade went live in November 2013. However, the system had to be turned off again because it still had some defects that needed correcting. Audit confirmed with DLPP management that currently LAGIS only captures Land Records up to 2012.
- Due to TOL withdrawing their services in 2013 for DLPP's non-payment of invoices, the system remained incomplete until 2016 when the audit was conducted. At that time audit confirmed that system infrastructure was incomplete.

Recommendations

Recommendation 1; Paragraph 2.22

Client Response: Agreed (Paragraph 2.23)

The AGO recommends that DLPP update its internal control framework to ensure it follows the requirements of the PFMA and any other relevant legislation for future major procurements undertaken by the DLPP.

Recommendation 2; Paragraph 3.24

Client Response: Agreed (Paragraph 3.25)

The AGO recommends that DLPP develops plans that effectively monitor program progress against planned performance and seek early resolutions of significant issues that have the potential to adversely impact on the effective and efficient implementation of the LEAP.

Recommendation 3; Paragraph 4.9

Client Response: Agreed (Paragraph 4.10)

To provide greater clarity and support effective organisational oversight of LEAP implementation, the AGO recommends DLPP:

- Explores options for improving the quality and consistency of the financial data included in the periodic reports so that management can detect and highlight grey areas concerned with projects/programs
- Develop key performance indicators that inform an assessment of achievements against the program objective, and determine the performance data required, and collect and analyse this data.
- Establish a Centralised Data System at the DLPP to act as a control mechanism to capture any data regarding project work done, payment of work done, and milestones for KPI's.

Recommendation 4; Paragraph 4.23

Client Response: Agreed (Paragraph 4.24)

To provide greater clarity and support effective organisational oversight of LEAP implementation, the AGO recommends DLPP:

- Explores options for improving the quality and consistency of the financial data included in the periodic reports so that management can detect and highlight grey areas concerned with projects/programs
- Develop key performance indicators that inform an assessment of achievements against the program objective, and determine the performance data required, and collect and analyse this data.

- Establishes a Centralised Data System at the DLPP to act as a control mechanism to capture any data regarding project work done, payment of work done, and milestones for KPI's.

Chapter 1 Introduction

Background

Department of Lands and Physical Planning (DLPP)

- 1.1 The Department of Lands and Physical Planning (DLPP) is the Department in charge of all land matters in Papua New Guinea. The Department's mission is to contribute to social and economic growth through facilitating the equitable distribution and productive use of land.
- 1.2 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.
- 1.3 The DLPP is mandated to manage state land in Papua New Guinea, which totals to about 3 per cent of the total land mass. The other 97 per cent of land is customary land held by tribal groups under customary tenure.
- 1.4 Before the introduction of computerization in 1994, state land was managed manually. This hampered effective management of land by the Department. The challenges faced then by the Department were:
 - Double allocation of plot to applicants;
 - Missing/Incomplete data about applicants; and
 - Distributed information about applications.Due to the abovementioned challenges, the Department found it imperative to automate the processes involved in management of state land in Papua New Guinea.
- 1.5 DLPP's Corporate Plan 2013-2016 outlines its objective to "Ensure that all information pertaining to land information is accurate and that all processes for land transactions are fully automated so that prudent land dealings are practiced"¹.

Land Geographical Information Management System (LAGIS).

- 1.6 The initial design and development of LAGIS system began in 1994 and continued up to 1997/1998. The last modifications were carried out on the system in 1999. LAGIS is the core Land Management System that DLPP uses to manage all registered land information in Papua New Guinea, which as mentioned earlier totals to about 3 per cent of the total land mass. The database structure is built on an Oracle 9i platform with an Oracle Developer 2000 front end.

¹ DLPP Corporate Plan 2013-2016

- 1.7 LAGIS has been identified as having a number of major shortcomings and flaws, including:
- System functions not operating correctly due to corrupt LAGIS system files;
 - Expensive licensing and maintenance costs, coupled with the DLPP's lack of
 - in-house Oracle expertise; and
 - LAGIS only recording part of the lands information with other records, such as topographic maps, still kept in hard copy.

The LAGIS Enhancement Application Program

- 1.8 In 2005 the Government of Papua New Guinea commenced a process of review of policy, law and land reform. This process included the commencement of the National Land Development Taskforce and specifically the Land Administration Committee. The outcome of the review was the National Land Development Taskforce Report, which included major recommendations on Enhancement of LAGIS.
- 1.9 In response to this report, the LAGIS Enhancement Application Program (LEAP) proposal was submitted in June 2006, to address deficiencies and improve capacity by redeveloping the complete system to align it with a more effective and efficient workflow processes.
- 1.10 Among other things, the objectives for the project included increasing revenue collection and processing, increased reliability of the system and improved capacity to interface with Finance and Treasury systems.

Relevant Audit reviews

- 1.11 Auditor General's Office (AGO) conducts routine compliance audits of Government Departments. Compliance audit looks into the level of compliance that Departments have with the current laws, regulations and policies. The DLPP compliance audit in 2014 highlighted some areas of concern in how the development funds were being used on LAGIS and LEAP.
- 1.12 This audit was the first time that AGO had done a Performance audit on the LAGIS and the LEAP. Public Accounts Committee (PAC) had identified shortcomings with the program administration and the transparency of the decision making processes for LEAP. As such, the PAC recommended that AGO include the DLPP audit of LEAP as one of the audits for 2016. The PAC will be looking closely at the results of this audit to assess the program's progress.
- 1.13 The Auditor-General accepted this recommendation and initiated the LEAP performance audit review.

Objective of the audit

The objective of the audit is to assess the effectiveness of the Department of Lands and Physical Planning (DLPP) in administering the LEAP project. The audit examined:

- Whether the design of LEAP was robust and provided effective mechanisms for delivering the project's objectives;
- DLPP's management of the contract to deliver the program and any variations;
- DLPP's monitoring and reporting of LEAP.

Scope

The audit focused on the operations and implementation of the LEAP by DLPP and the contractor covering years 2008-2016.

Methodology

The audit of land management was planned and conducted in accordance with the International Auditing Standards adopted by Auditor General's Office of Papua New Guinea. Sufficient and appropriate audit procedures have been conducted and evidence gathered to support the audit conclusion provided and contained in this report.

The probability of significant errors, fraud, non-compliance, and other exposures was considered during the planning phase of the audit. Audit methodology includes:

- Interviews with DLPP staff, structured consultation with DLPP Managers and LAGIS consultants;
- Examining and review of DLPP and LAGIS reports, plans, procedural and organisation documents and files;
- Review of relevant budget papers; and
- Inspection of LAGIS/LEAP infrastructure.

Chapter 2 Program Design

This chapter examines the program design, procurement and contract execution for LEAP and the failure of the DLPP to follow the requirements of the Public Finance (Management) Act.

The LAGIS Enhancement Program (LEAP) proposal was submitted in June 2006, to address deficiencies and improve capacity by redeveloping the complete system to align it with a more effective and efficient workflow processes.

A Certificate Of Inexpediency (COI) was sought to use a selective tender rather than an open tender for the procurement, which was a breach of the Public Finance (Management) Act (PFMA) and the requirements for issuing a COI. DLPP and Technology One Limited (TOL) entered into an agreement in 2008 for LEAP. However, clearance was not sought from State Solicitors Office for the LEAP agreement as per the requirements in the PFMA.

The DLPP should have ensured that a proper study of the upgrade in the form of a cost and benefit study took place to identify the costs and benefits of undertaking such a program upgrade. DLPP's failure to follow the Government's procurement requirements exposed the Government to financial and legal risks.

Corrective measures must always be undertaken to ensure that procurement of services comply with the laws and regulations of a country. The attitude to have COIs issued for procurement of services should not be entertained or encouraged at any level.

Introduction

2.1 Projects involved in the expenditure of public monies are subject to applicable financial management legislation. The Public Finance (Management) Act 1995 (PFMA) provides a framework for proper management of public money. This framework includes requirements governing the process by which decisions are to be made.

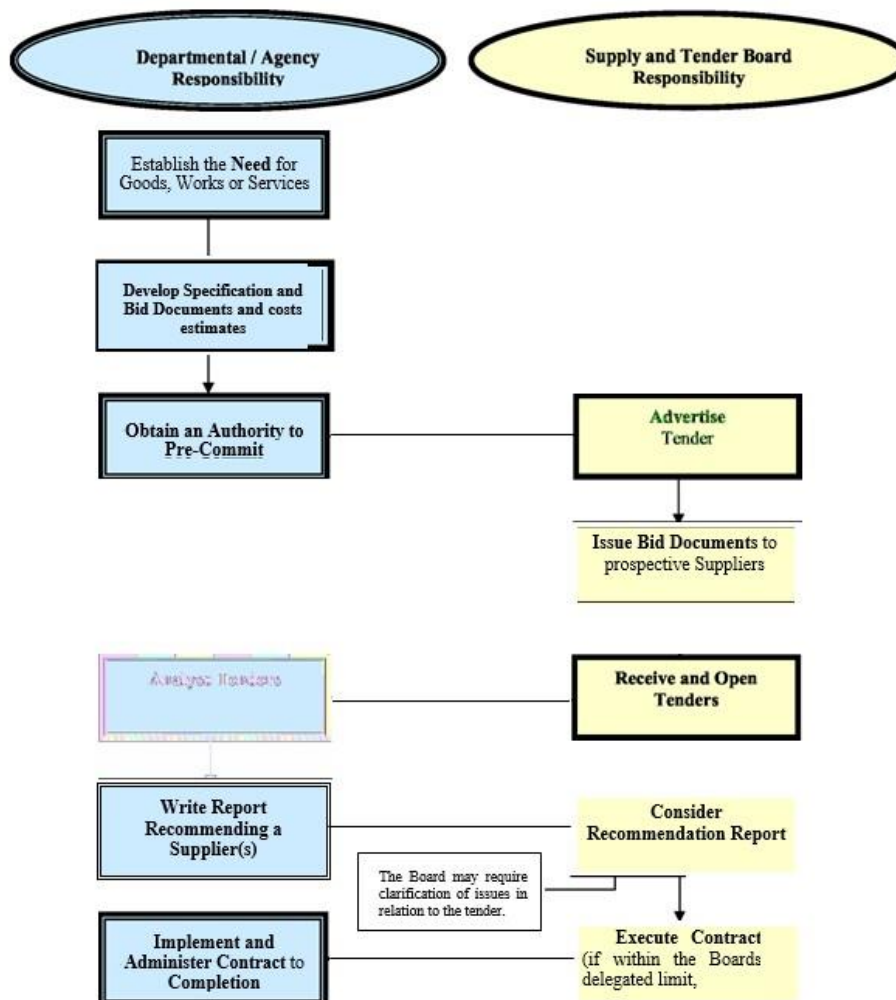
2.2 The Department of Finance's Financial Management Manual Part 13 states²:

2. Section 40 of the Public Finances (Management) Act prescribes that goods, works and services with a value greater than K300,000 are to be purchased through a public tender process as the public tender process provides government with the best chance of obtaining a "value for money" outcome.
3. Public tenders involve the widespread advertising of opportunities to supply the government with the goods or services required. They promote competition. This differentiates them from selective tenders, expressions of interest and other procurement mechanisms.
4. Selective tenders are NOT allowed as they restrict the level of competition.

² Department of Finance, Financial Management Manual, Part 13, Sub-section 2

- 2.3 Figure 1 outlines the public tendering process for major procurements. This figure shows that Departments are responsible for establishing the need, developing specification and bid documents, analysing tenders and recommending a supplier. The Central Supply and Tender Board (CSTB) is responsible for managing the tender process, making a decision about the preferred supplier and executing the contract.

Figure 1 Public tendering process: Source Financial Management Manual, Part 13



Chapter 2 Findings

Establishing the need

- 2.4 In response to the National Land Development Taskforce report, the DLPP undertook an exercise to identify suitable lands administration information systems to assist in the development and improvement of its technical capabilities.
- 2.5 Between 2005 and 2007, DLPP held discussions with an Australian software company, Technology One Limited (TOL), regarding its Proclaim One Lands and Geographic System. According to documents gathered during audit, DLPP approached TOL in 2007 requesting a proposal to upgrade the LAGIS system with its property management software.³
- 2.6 The funding request from DLPP outlined the need for enhancement of the LAGIS system, specifying the following shortcomings of the current system:
- The LAGIS system had expensive licensing and maintenance costs due to the reasons that it was run on an Oracle system.
 - Added to this is the DLPP's lack of in-house Oracle expertise to handle the numerous and ongoing system issues and problems was costing DLPP a large amount of money every year to have experts address the issues.
 - LAGIS maintained partial information while other records such as topographic maps among others were still kept in hard copy.
 - LAGIS consisted of a number of modules that were not sufficiently integrated to serve DLPP's business needs and requirements and did not address document management requirements.
 - Business workflow systems had not previously been properly configured and as such the system was very ineffective and inefficient.
 - LAGIS specifications and functions were out of alignment with a similar system used by the National Capital District Commission, which created boundary related disputes for title owners that were costing the Government millions of kina each year.⁴
- 2.7 The DLPP funding request noted that "A re-design and re-development of the LAGIS system is essential and vital to the survival of the Department" and "will save millions of Kina for [the Government of Papua New Guinea] in the long term and will increase DLPP's capacity to handle more than 3% of the customary land in an effective and efficient".⁵

³ LAGIS Replacement Project Terms of Reference.

⁴ DLPP Funding Request, quoted in LAGIS Replacement Project Terms of Reference, pp. 7–8.

⁵ DLPP Funding Request, quoted in LAGIS Replacement Project Terms of Reference, pp. 7–8.

- 2.8 The funding request also noted that “a solution from Technology One would allow DLPP to realize an excellent fit for the business needs now and in the future”.⁶

Cost Benefit Analysis not done before the LEAP submission

- 2.9 While DLPP outlined the need in its funding request, a cost benefit analysis should have been undertaken by DLPP to identify the current needs of the system and also to identify the short to long term costs that DLPP will have to undertake such an activity. By undertaking such steps the DLPP could have come up with sound management decisions for a system that should have been rolled out in the time frame given the amount of resources the Government of Papua New Guinea has used on this project.

Procurement approach

PFMA Breached to issue COI for a procurement of a service that can be supplied by different suppliers

- 2.10 In 2006, DLPP made a submission to Department of National Planning and Monitoring to have LAGIS upgraded by TOL. Proper tendering processes stipulated under the PFMA were not adhered to when DLPP sought to engage TOL. DLPP did not initiate a tender process to identify suitable suppliers. Its approach to TOL was a selective tender, which is not appropriate for a major procurement.
- 2.11 The DLPP submission led to the issuing of a Certificate of Inexpediency (COI) in 2008 to undertake the procurement from TOL.
- 2.12 Section 40, (3), (b) of the PFMA provides the CSTB with the powers to “certify that the inviting of tenders is impracticable or inexpedient”. CoIs may be issued only for:
- Natural Disasters
 - Defence Emergencies
 - Health Emergencies
 - Situations of Civil Unrest
- 2.13 Simply stating that the procurement is urgent is not acceptable for a CoI⁷.
- 2.14 The justifications provided by DLPP for the CoI were that the LEAP procurement was urgent and TOL were the only supplier that could provide the service. However, provision of a land management information system is a service that can be provided by a number of suppliers. The COI itself being issued for the reasons given by DLPP for LEAP was also a breach of the provisions to issue COIs under the PFMA.

⁶ DLPP Funding Request, quoted in LAGIS Replacement Project Terms of Reference, p. 7.

⁷ Public Finance Management Manual Part VII

- 2.15 The LEAP should have been publicly tendered as per the requirements in the PFMA. Laws and regulations are there to safeguard the interests of Papua New Guinea and also to promote good governance and value for money.

Contract execution

- 2.16 Audit review found that in place of a contract, a Solutions Agreement was drawn up by TOL that was signed by the Chairman of CSTB.
- 2.17 On the 24th of July 2008 DLPP engaged in a Solution Agreement with TOL for a business solutions system to upgrade the current land information system, LAGIS. \$2 million Australian Dollars was set aside for the program. The Solution Agreement included the payments to TOL as outlined in Table 1 below.

Table 1 Payments for Services and Licence Fees from DLPP/TOL Solutions Agreement

Payment	Amount
Mobilisation Fee invoiced on signing of the Agreement	AUD \$76,572.75
Annual Support & Maintenance Fee	AUD \$189,367.40
Implementation Services	AUD \$1,020,970.00
Software and Licence Fees	AUD \$852,920.00

Clearance of Solution Agreement was not sought from State Solicitor Office

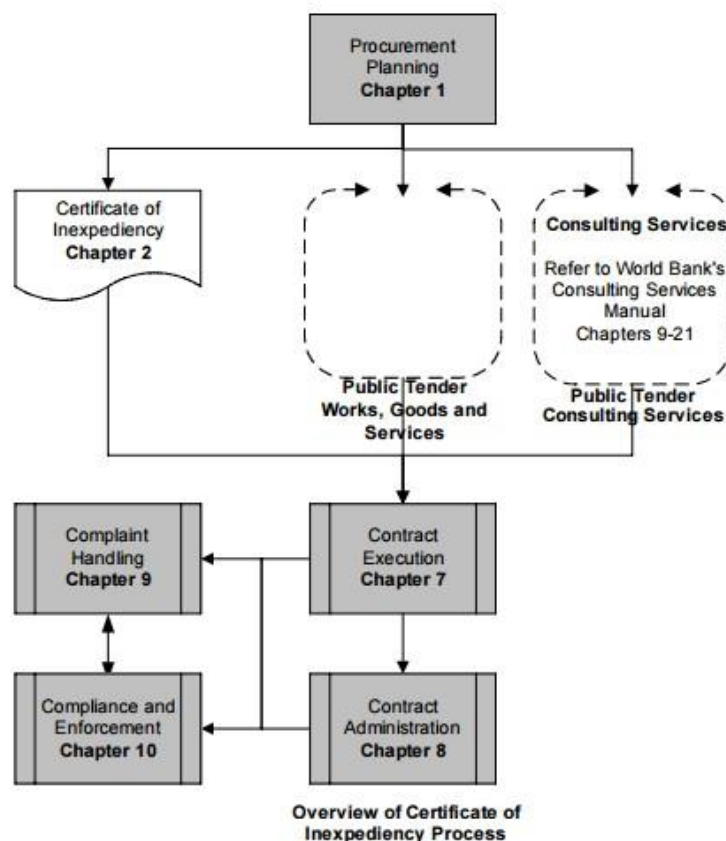
- 2.18 Clearance was not sought from State Solicitors Office for the LEAP agreement as per the requirements in the PFMA. Failure to obtain clearance for a contract exposes the Government of Papua New Guinea to significant financial and legal risks.
- 2.19 Under the PFMA contract execution requirements, the State Solicitor must sight all contracts before they are executed, unless a template contract that has previously been given blanket approval by the State Solicitor is used. In this circumstance, a copy of the signed contract must be lodged with the State Solicitor for information.⁸
- 2.20 Section 40 of the PFMA states that
- “Whilst the application of the CoI is to respond to emergency situations, normal procurement practices cannot be ignored. Accordingly, agencies that implement contracts under a CoI must prepare contract documentation in accordance with Chapter 7. It is strongly recommended that standard conditions of contract (as issued by CSTB) are used as these documents are pre-approved by the State Solicitor”⁹.

⁸ Department of Finance, Financial Management Manual, Part 13, Sub-section 3

⁹ Public Finance Management Act Section 40

2.21 Even if the procurement is raised under a CoI, it is still a contract. Therefore a contract document is required. Also, as shown in Figure 2 below, contract administration, complaint handling and compliance and enforcement still apply to CoI Contracts.

Figure 2 Overview of COI Process: Source PFMM Part VII



Recommendation 1

2.22 The AGO recommends that DLPP update its internal control framework to ensure it follows the requirements of the PFMA and any other relevant legislation for future major procurements undertaken by the DLPP.

Response

2.23 Agreed.

Project Initiation

- 2.24 Following the signing of the Solution Agreement in July 2008, there were a number of delays in initiating the LEAP. According to documents gathered during audit, the delays were due to complexities in the contract signing, release of foreign exchange processes, technical issues, key staff leaving and other administrative and communication issues.¹⁰
- 2.25 On the 14th of December 2010, DLPP and TOL signed a Project Initiation Document Certificate to initiate the LEAP. The Project Initiation Document outlined Key Milestones in relation to the LEAP and the estimated completion dates for the projects, which are outlined in Table 2 below.

Table 2 Key Milestones for LEAP Project: Source TOL Project Initiation Document

Milestone	Estimated Completion Date
Project Initiation Document	Mid October 2010
Process Overview (Phase 1)	February-Mid July 2010
System Initiation	October 2010
BRS Process and proof of Concept (Phase 1, Stage 1)	August 2010
Configuration (Phase 1, Stage 1)	Mid November 2010
BRS sign off (Phase 1, Stage 1)	Late April 2011
Key User Training and sign off (Phase 1, stage 1)	Late February 2011
User Acceptance Testing Sign-off (Phase1, Stage 1)	Late April 2011
End user training completion, (Phase 1, Stage1)	June 2011
Go Live Phase 1	December 2011

¹⁰ Technology One Limited Project Initiation Document, pp. 4–5.

Chapter 3 Program Governance Framework

This chapter examines the program governance framework established for LEAP including and shortcomings identified in respect to its administration.

The development of guidelines for LEAP by TOL was sound. Importantly, they clearly identified what needed to be done to ensure delivery of the LEAP within the time frame and with the resources identified. However, the audit team did not find evidence that the governance framework was effectively implemented by DLPP.

Also, notably absent from the governance framework were strategies for measuring and evaluating the extent to which the program successfully achieved the programs outcomes.

The failure for managing and reaching the target shows that management practices needs improvements and priorities set by the organisation have to be realistic with proper resource allocation and control measures in place.

Introduction

- 3.1 Good governance is recognized as a platform for achieving development potential, implementing effective and efficient systems and ensuring good management through all levels of society. It is generally accepted that good governance is based on a set of principles that include: accountability; transparency; and efficiency. Land has always been subject to corruption, poor public management and incoherent and inconsistent legal frameworks in Papua New Guinea; and in addressing these challenges it is important that appropriate governance frameworks are implemented.

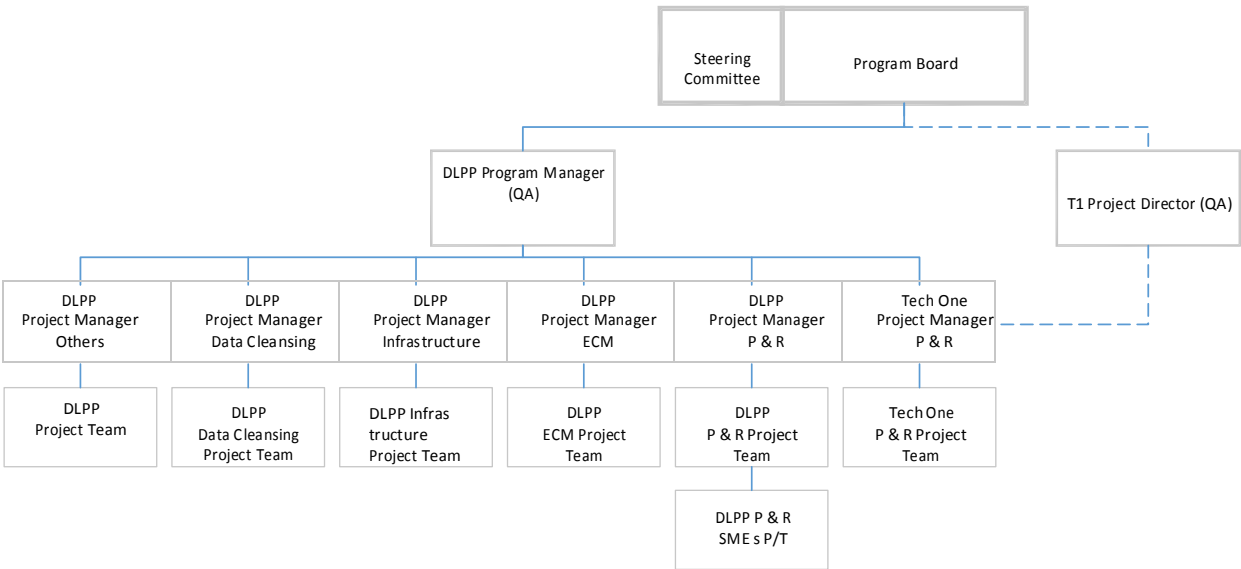
Chapter 3 Findings

DLPP governance framework

Project Initiation Document

3.2 To govern LEAP, TOL developed the Project Initiation Document in 2010 which sets out the boundaries for managing and implementing the program. Figure 3 below shows the structure of the project team that was established to manage LEAP.

Figure 3 Project structure for LEAP: Source TOL Project Initiation Document¹¹



Steering Committee

3.3 As a sub-set of the Program Board, DLPP and TOL established a Steering Committee. The make-up of the Committee is shown in Table 4

Table 3 Make-up of the LEAP steering committee: Source TOL Project Initiation Document

DLPP	TOL
Secretary-Chairman	Project Director
Acting Chief Information Officer	Project Manager
Chief Physical Planner	
Project Manager	
Program Manager	
Project Management Advisor	

¹¹ Technology One Limited Project Initiation Document, p. 15.

- 3.4 The Steering Committee's role, as outlined in the Project Initiation Document, was to:
- Define and articulate corporate vision and goals including vision for information systems, communication and Technology.
 - Assures and provides funding and resources for the project within the works program.
 - Final authority on decisions where conflict and/or department priorities must be decided.
 - Provides program with required support to ensure all management and staff understand project mandate and priority;
 - Provides overall planning and management for the program
 - Monitors the schedule and budget of all projects within the program.
 - Provides Quality Assurance (QA)-especially for business requirements; and
 - Assists with identifying staff for assignment to projects from business areas.¹²
- 3.5 The Steering Committee was established to work closely with the TOL on a day to day basis, monitoring and reporting on the progress of LEAP. However, during the course of the audit, no minutes of meetings or reports from the committee were made available to the audit team. Audit obtained interviews with two of the committee members and found that records pertaining to how the committee operated were not properly kept and were not made available for audit. Audit also found that some members of the committee have subsequently left the Department and getting information from them was not possible at the time of audit.
- 3.6 Audit noted that the roles and responsibilities of those steering the project are not clearly defined. Workers were just picked randomly to assist where needed and then go back to carry on with their normal duties. The constant movement of officers between the program and their normal day to day work was one of the main factors that contributed to the delays in delivering the program.
- 3.7 Audit queried if there were strategies or a governance framework developed to guide LEAP and found that DLPP did not come up with strategies such as procurement policy, asset management policy, or project guidelines etc., to manage LEAP and relied on the agreement that was drawn up by the service provider TOL.
- 3.8 Despite the PID setting clear management guidelines, audit found that the Steering Committee was not effective in ensuring that the project stayed within the deliverable time frame with the resources available.
- 3.9 Despite having the LEAP as part of DLPP's corporate priorities, the failure in managing and reaching the target shows that management practices need improvements and priorities set by the DLPP have to be realistic with proper resource allocation and control measures in place.
- 3.10 Changes in management decisions as well as the inability of DLPP to ensure that the skilled human resources as well as the financial resources were available on time led to delays in setting a strong governance framework to effectively and efficiently deliver the program.

¹² Technology One Limited Project Initiation Document, pp. 16-17.

- 3.11 In assessing the relevant processes in place to plan, organize, communicate LEAP activities, audit found that essential pieces of a strong governance framework were missing.

Performance monitoring and reporting framework

Monitoring framework

- 3.12 For effective monitoring of as per National Planning and Monitoring Public Investment Program (PIP) guidelines, proponents are required to provide a range of financial and performance reports to enable DLPP to monitor the progress of projects and to manage financial risks. These include:
- *Progress reports* which describe how the project is progressing against agreed timeframe, objectives and budget.
 - *Annual/ Quarterly Reports budgets* which are to be provided before the start of the year and financial statements which are to be provided at the end of the year ¹³
- 3.13 In broad terms, progress reports would assist the DLPP to determine whether project outputs are being met or not.
- 3.14 The PIP Guidelines and the PFMA highlight the importance of developing a performance framework at the outset of a program. They should provide a good understanding of the mechanics of what is trying to be achieved and focus thinking, discussion and action around the desired outcome. Failure in establishing a performance framework can have a significant impact. If effectiveness indicators and targets are not developed prior to engagement of the contractor, it is difficult to collect relevant information to then assess effectiveness.

Audit finding

- 3.15 The primary mechanism used by DLPP to monitor the status and performance of LEAP was the assessment of information provided by TOL in accordance with the reporting requirements in the program agreement.
- 3.16 However, DLPP advised AGO that it did not have a plan for measuring and evaluating the extent to which LEAP had achieved the desired outcome of the program.

Regular project monitoring and reporting

- 3.17 The TOL Project Initiation Document outlined timeframes for regular project update meetings, as outlined in Table 4.

¹³ Department of National Planning and Monitoring, Public Investment Program Guidelines

Table 4 Meetings schedule as per the PID

Details	Meeting Time Frame
Project Management Team	Weekly- Updates from the field teams
Steering Committee	Every 2 weeks-
Program Board	Meet weekly-DLPP leadership function

- 3.18 The Project Initiation Document also recommends that process status reporting occurs to capture all key processes and activities throughout the program to identify progress made and identify any potential delays.
- 3.19 Project Managers are jointly responsible for compiling a status report which is a formal mechanism to review the health of the project inform all the stakeholders. It is the responsibility of the DLPP and TOL Project Manager to ensure that status reports are in place and up to date.
- 3.20 Audit found no evidence of meeting minutes or correspondences for this monitoring function. Audit review of the files found that no documentary evidence of meetings were found at DLPP.
- 3.21 No evidence of weekly progress reports was made available to the auditor during the course of the audit.
- 3.22 However, information gathered from TOL shows that the monitoring guidelines that were identified in the PID were not fully implemented as per the guiding timeframe in the PID.
- 3.23 Audit test of the monitoring activities found that the not all the activities stated in the PID were fully implemented due to problems of capacity as well as budget constraints and access to the funds allocated. There was also quite a bit of uncertainty at the Management Level relating to how the program should operate.

Recommendation 2

- 3.24 The AGO recommends that DLPP develops plans that effectively monitor program progress against planned performance and seek early resolutions of significant issues that have the potential to adversely impact on the effective and efficient implementation of the LEAP.

Response

- 3.25 Agreed

Chapter 4 Contract Management of LEAP

The chapter discusses the progress of the Management of the LEAP against its intended outputs and outcomes.

DLPP and TOL should have compromised between what they wanted to accomplish and what they were actually able to deliver. The inability of LEAP to be delivered on time due to the different reasons given in variation 1, variation 2 and variation 3 shows this.

Audit found that there was a serious breakdown of control measures for safeguarding financial records of accounts at DLPP. DLPP did not receipt or maintain a central source of information about reports due and received (and assessed) for the LEAP. A break down in controls poses a high risk of mismanagement practices that can lead to fraud.

Due to TOL withdrawing their services in 2013 for DLPP's non-payment of invoices, the system remained incomplete until 2016 when the audit was conducted.

Given the amount of resources that the Government has already spent on LEAP, which currently totals to K11 million, it is advisable that DLPP, should consider taking corrective measures to properly take record of all work that has been done, the current state of the program and what it can do to ensure that a functioning and reliable land management system is developed to effectively and efficiently manage land resources in Papua New Guinea.

Introduction

- 4.1 The PFMA provides a framework for implementing and managing contracts for major procurements. The PFMA Part 13 states¹⁴:

24	Principles of Delivery and Performance: A number of key principles are embodied in good contract implementation. These are detailed below:
a.	Accountability and Responsibility Once the contract is agreed and signed (in accordance with the law), both parties are legally accountable and responsible to carry out their respective responsibilities under the contract. The Contractor is responsible to carry out the works/goods/services as stated in the contract. [Government of Papua New Guinea] and its Contract Manager are responsible for duties including; providing access to sites and information, responding to requests and timely payments.

¹⁴ Department of Finance, Financial Management Manual, Part 13, Sub-section 7

b.	<p>Timeliness</p> <p>Both parties are required to undertake duties in a timely manner. The contract will normally state the time within which these responsibilities are to be carried out. However regardless of whether stated in the contract or not, respective responsibilities must be actioned in a reasonable timeframe.</p>
c.	<p>Knowledge of Contract Administration and Contract Documents</p> <p>The Contract Manager must have a good working knowledge of contract administration within the relevant specialist field. The Contract Manager must have a comprehensive knowledge of the contract documents. Contractors will take advantage of Contract Managers who either have inadequate skills or do not understand the contract documents. Both the Contract Manager and Contractor must have a properly executed copy of the agreement.</p>
d.	<p>Good Documentation</p> <p>The Contract Manager administering the contract must maintain documentation to ensure the Contractor delivers the works/goods/services as stated in the contract and that accounting and payment details are clearly documented. During a contract disagreement or dispute, good documentation will assist with achieving a quick and fair solution.</p>

Chapter 4 Findings

Contract documentation

- 4.2 When deliverables are supplied, the Department should also provide documentation describing the quality assurance tests performed and evidence of compliance. The more detailed planning, the higher the chances of success. Each and every activity that is expected down the line gets due attention. Not only should this pre-planning be well documented, but also even after the project has taken off, if things don't exactly pan out as planned, the project manager should not hesitate to re-plan, avoiding project management failure, and readily incorporate the changed circumstances in their new version, so that future events are controlled.

No Financial records made available for audit scrutiny.

- 4.3 Audit found that there was a serious breakdown of control measures for safeguarding financial records of accounts at DLPP. Audit made numerous attempts to access payment records, obtain downloads of the cashbook, have access to minutes of meetings from LEAP activities with only partial information made available for audit despite numerous attempts by audit to access them. Audit was advised that records for LEAP were kept and managed separately and could not be located at the time of audit. The Project Steering Committee made all decisions regarding LEAP financials and kept all the records including minutes of meetings that were held.
- 4.4 Audit was not able to carry out the necessary tests to ensure that the expenditures undertaken for LEAP project team were made in accordance with the project. Documents requested during entry are listed in the Table 5 below.

Table 5 Table showing list of documents requested and those that made available to audit;

Documents Requested	Documents Made Available by DLPP
Annual Report 2012-2016	NO documentation provided
Departments Procurement Policy (if any)	NO documentation provided
Business Case for LAGIS Enhancement Application Program (LEAP)	NO documentation provided
Minutes of Meetings on LEAP	NO documentation provided
Cashbook for 2012-2015	NO documentation provided
Cashbook summary for 2012-2015	NO documentation provided
Variation Decisions and Payments Documentation	NO documentation provided
User Manual for LAGIS (Hard and Soft Copy)	Yes
Status/ Management Reports for LEAP	NO documentation provided

- 4.5 A break down in controls poses a high risk of mismanagement practices that can lead to fraud. Financial records should be kept and managed in a manner to ensure that there are document trails for expenditures undertaken by agencies, as stressed by part 2 of the PFMA. Failure by Government office holders, such as chief accounting officers, to adhere to the requirements in the PFMA are deemed as offences against the PFMA, punishable by fines up to K20,000 and subsequent dismissal from office.
- 4.6 The Department has to ensure that controls surrounding document management and safe keeping are properly adhered to and strengthened to comply with the relevant requirements of the PFMA.

DLPP does not maintain a central data system for LEAP

- 4.7 Audit found that DLPP did not receipt or maintain a central source of information about reports due and received (and assessed) for the LEAP. Having a central data system recording key contract data complements the department's as well as PFMA approaches of retaining copies of reports (and evidence of the assessment) on the project file.
- 4.8 It would be beneficial for DLPP to assess opportunities to put in place a more consistent approach to recording project information for monitoring projects or programs with details such as:
- Schedules of milestones reports, including their due dates;
 - Status of each milestones report (due, received or accepted); and
 - Details of funding, including amount, due date, date paid and next scheduled payment.

Recommendation 3

- 4.9 To provide greater clarity and support effective organisational oversight of LEAP implementation, the AGO recommends DLPP:
- Explores options for improving the quality and consistency of the financial data included in the periodic reports so that management can detect and highlight grey areas concerned with projects/programs
 - Develop key performance indicators that inform an assessment of achievements against the program objective, and determine the performance data required, and collect and analyse this data.
 - Establish a Centralised Data System at the DLPP to act as a control mechanism to capture any data regarding project work done, payment of work done, and milestones for KPI's.

Response

- 4.10 Agreed
- Yes because project managers of LEAP changed thus paper trail were not kept in an orderly manner.

- Major aspects were Financial aspect. Funding was a number one issues, delay in transfer of funds from PNG to Australia.
- 4.11 DLPP Finance Team was not providing accurate reports and also there were differences amongst the key officers working on the project thus hindering the smooth flow of the project as well as records were not kept in order.

Financial management

Variations to the Solutions Agreement

- 4.12 Section 32 (2) of the PFMA enables designated officers to approve variations to a contract regarding time, price, or other conditions within such limits as are specified in the Financial Instructions.¹⁵ Where a price change is greater than a 10 per cent increase, approval needs to be obtained from the CSTB.
- 4.13 Audit review of DLPP files found that a total of 2 variations to the Solution Agreement was done in 2011 and 2013. The original contract value was K2,573,346 and total paid for the project so far is K11,159,836 which is K8,586,490 (334%) over the original contract value. Details of which are shown in the Table 6 below.

¹⁵ Department of Finance, Financial Management Manual, Part 13, Sub-section 8

Table 6 Table showing the number of Variations on LEAP.

Variations	Date	Exchange Rates from BPNG	Australian Dollar	PNGKina Equivalent	Contracts
	26/02/2008	0.39350	AUD 1,012,612	PGK 2,573,346	Original Contract
1	3/03/2011	0.45795	AUD 839,826	PGK 1,833,881	Variation approved by CSTB
2	4/06/2013	0.48870	AUD 3,300,000	PGK 6,752,609	Paid by Lands Department
Total Paid			AUD 5,152,438	PGK 11,159,836	

Variation Invoices awaiting payments

Date	Exchange Rate	Variation Charged Australian\$	Equivalent in PNG Kina	Action Taken
18/12/2014	0.4773	AUD 1,730,000	PGK 3,624,555	Rejected by CSTB for payments

Outstanding invoices **AUD 1,730,000** **PGK 3,624,555**

If variance is paid, the new total spent on LEAP= PGK 14,784,391

Source: audited documents from DLPP

- 4.14 Audit found variations to the original Solutions Agreement. However, approval documentation from CSTB, Department of Finance and DLPP were not provided to the audit team.
- 4.15 Also, documentation that was sighted from CSTB included incorrect calculation of the exchange rates for dates paid for the original contract and variations.
- 4.16 Audit review of the variations found that most of the payments were related to consultation and administration costs by the Project Manager (TOL) that stemmed from delays in delivering LEAP.¹⁶

Letters of intent

- 4.17 Documentation from TOL shows 7 additional letters of intent were provided from TOL to DLPP for services that TOL provided between Variations 1 and 2. No records were provided by DLPP to indicate whether these payments were made.

¹⁶ TOL Deeds of Variation to Solutions Agreement, 21/03/2011 and 4/06/2013

Table 7 The tables shows the Letters of intent that were signed by the service provider TOL and DLPP on the scheduled payments for LEAP

No	Date	Detail	Total+GST
1	27/02/2013	Letter of Intent 1	\$ 148,998.30
2	15/03/2013	Letter of Intent 2	\$ 126,998.30
3	28/03/2013	Letter of Intent 3	\$ 126,998.30
4	15/04/2013	Letter of Intent 4	\$ 126,998.30
5	26/04/2013	Letter of Intent 5	\$ 126,998.30
6	21/05/2013	Letter of Intent 6	\$ 126,998.30
7	28/05/2013	Letter of Intent 7	\$ 126,998.30
Total			\$ 910,988.10

Breach Notices issued for Failure of DLPP to make payments on time

4.18 A total of 3 breach notices were issued by TOL for the breach of the Solutions Agreement with regards to payment of bills for services rendered for LEAP. The Solution Agreement states that pursuant to clause 7.1, and subsequent to the deed variation dated 21 March 2011, TOL fees must be paid within 30 days of the dated which an invoice is issued. If this is not met, then TOL will stop its provision of services pursuant to clause 10.1 of the solution agreement until such time payment is made.¹⁷

Table 8 Table below shows the breach notices issued with the dates and the total amounts issued to DLLP by TOL, last one dated 8/11/2013 totalling \$AUD 1,99,697

No	Date	Detail	Cost
1	2/12/2011	Breach Letter to Secretary DLPP	AUD \$495,710
2	30/03/2012	Breach Letter to Secretary DLPP	AUD \$308,577
3	8/11/2013	Breach Letter to Secretary DLPP	AUD \$1,199,697

4.19 As a result of DLPP failure to comply with the final breach notice, TOL stopped providing LEAP services to DLPP.

¹⁷ Breach notice from TOL and Solution Agreement for LEAP

Current Status of LEAP

LEAP upgrade went live and turned off again in 2013

- 4.20 The Upgrade went live in November 2013. However, the system had to be turned off again because it still had some defects that needed correcting. Audit confirmed with DLPP management that currently LAGIS only captures Land Records up to 2012.
- 4.21 Due to TOL withdrawing their services in 2013 for DLPP's non-payment of invoices, the system remained incomplete until 2016 when the audit was conducted. At that time audit confirmed that system infrastructure was incomplete.
- 4.22 In November 2017, the Government facilitated through the Attorney- General's office a meeting between DLPP and TOL to discuss reinstating the LEAP after four years of abandonment.

Recommendation 4

- 4.23 A revisit of the Projects direction is needed before a plan forward is done. DLPP is recommended to take into accounts its ability to deliver the project with the funds available. It is advisable that the following are considered when undertaking this;
- Amount of funds that DLPP have already spent, available for LEAP.
 - Clear goals and objective for the LEAP
 - Proper understudy of the resource and skill requirement for the program
 - Proper planning advisable at all aspects of the program
 - Support of the Executive Management of DLPP for LEAP and to ensure that a working, and up to date Land Information Management system is developed

Response

- 4.24 Agreed
- 4.25 There were 3 different contracts with 3 different payments. The 1st one was the initial contract, the 2 others were variations. As there were variations new contract figures were set.
- 4.26 DLPP was not fully aware of the breach notices because records were not up to date.
- 4.27 DLPP and Technology one are still disputing over why the system was shutdown. Tech 1 has ,however now refuse to assist DLPP to have the system turned on until DLPP pays its outstanding Annual Supports Maintenance (ASM) fee which are in total up to K1.3 million for the period of 2015-2016 and 2016- 2017.
- 4.28 DLPP in 2016 March and September sought legal advice from state solicitor on whether we have a good case against Tech 1 as Tech 1 will not assist DLPP to turn on the system or find out what happened to cause the system to shut down unless we pay the for an inoperable system .

- 4.29 However ,DLPP is currently having discussions with treasury ,state solicitor and Tech 1 on how best we can resolve this issue without going to court as DLPP has been operating manually for the last 3 years and a half year and it's been unmanageable
- 4.30 Land Geographical Information System has records of land Dealings up to 2013 this was migrated into property & Rating (P&R) for LEAP. LAGIS was shut down after the migration and then in December 2013 P&R was shut down. Currently both LAGIS and P&R are offline and Lands Department is without a System.

Chapter 5 Other financial management issues uncovered

Trust Account that Holds LEAP Funds.

- 5.1 LEAP program funds records for years 2006-2014 were not made available to audit. However, DLPP made available the Bank South Pacific (BSP) trust account named, Department of Lands And Physical Planning, which holds funds for development as well as land mobilisation grants in it.

Table 9 Department of Lands & Physical Planning BSP Business Cheque Account # 1001577517 Details of receipts in 2015.

Posting Date	Cheque Number	Narrative	Credit
14/05/2015		OTML CHQ Deposit	7,000
8/07/2015		Steven Wood	3,000
14/10/2015		IPBC	50,000
		B/o Dept of National Planning	1,000,000
22/10/2015		BPNG Chq Dept of National Planning	1,500,000
30/11/2015		BSP Special Economic Zone	1,300,000
9/12/2015		BPNG Chq Dept of National Planning	1,500,000
20/01/2016		BPNG Chq Dept of Lands & Physical Planning	150,000
Total			<u>5,510,000</u>

Source BSP Bank statement print out for January 1 2015-12 April 2016¹⁸

Questionable Payments made out of the Trust account that holds LEAP funds.

- 5.2 Audit scrutinized the account and found that the account in 2015 had some questionable payments that were made out of it. Documentations relating to these payments were also not made available to audit.
- 5.3 Table 10 below shows the details of these queried payments.

¹⁸ BSP Bank Statement printout for Department of Lands & Physical Planning BSP Business Cheque Account # 1001577517

Table 10 **Questionable payments Totalling K1,782,761 million made from the Trust Accounts that holds LEAP funds**

Posting Date	Cheque #	Narrative	Payment
9/01/2015	1158670	Pom Armoured Security Services	375,521
20/02/2015	1159215	Pass Security	423,349
5/03/2015	1159293	Laguna Hotel	19,991
21/12/2015	308	Cash Advance for Repatriating Land Owners	963,900
			Total 1,782,761

Two payments (K375,521 and K423,349) totalling K798, 870 Paid for security services to Pom Armoured Security Services and Pass Security in 2015

- 5.4 Security services require a contract between the provider and the DLPP. PFMA clearly states the processes required for engaging or procuring such services.
- 5.5 It also relies on the funding for a program or expenditure item whether it was budgeted for or not in the current financial year.
- 5.6 All recurrent expenditures are to be funded from the recurrent budget of the Department. The table above clearly shows two payments made to two different security firms totalling K798, 870 from the trust account. Whether the proper controls surrounding these payments were followed remains unanswered because the payment documents relating to them were not made available to audit therefore testing of the figures and transactions was not possible.

K963,900 paid to repatriate Land Owners

- 5.7 This payment coming out of the Trust account through a cash advance is a cause for concern because the amount of funds made available as cash advance. All trust accounts payments require acquittal accompanied by the relevant supporting documents.
- 5.8 This payments paid out in cash creates an environment whereby the level of risk for funds misapplication is greatly increased.
- 5.9 The trust account was created with a purpose and the trust instrument sets the boundaries on the type of expenditure that can be undertaken.
 1. Details of how the payments were made and to whom the payments were made, whether proper procedures and controls were followed to make these payments and if there are any documents showing the acquittal of the cash paid remains unclear.

2. The Government of Papua New Guinea funds totalling almost a K1 million was used and accountability of it has to be established by DLPP.

Recommendation

A proper investigation into this expenditures is required to Government funds are properly accounted for.

Appendix 1

List of Figures

Figure 1	Public tendering process: Source Financial Management Manual, Part 13.....	16
Figure 2	Overview of COI Process: Source PFMM Part VII	20
Figure 3	Project structure for LEAP: Source TOL Project Initiation Document.....	23

List of Tables

Table 1	Payments for Services and Licence Fees from DLPP/TOL Solutions Agreement.....	19
Table 2	Key Milestones for LEAP Project: Source TOL Project Initiation Document.....	21
Table 3	Make-up of the LEAP steering committee: Source TOL Project Initiation Document.....	23
Table 4	Meetings schedule as per the PID.....	26
Table 5	Table showing list of documents requested and those that made available to audit;.....	29
Table 6	Table showing the number of Variations on LEAP.....	32
Table 7	The tables shows the Letters of intent that were signed by the service provider TOL and DLPP on the scheduled payments for LEAP.....	33
Table 8	Table below shows the breach notices issued with the dates and the total amounts issued for	33
Table 9	Department of Lands & Physical Planning BSP Business Cheque Account # 1001577517 Details of receipts in 2015.....	36
Table 10	Questionable payments Totalling K1.8million made from the Trust Accounts that holds LEAP funds.....	37