



Performance Audit Report on Payments and Acquittals of Service Improvement Programs (SIP)



**Performance Audit on the Effectiveness of Payments and
Acquittals of Service Improvement Programs (DSIP, PSIP and
LLGSIP) for the Fiscal Years 2013- 2016.**



Telephone: 301 2200 Fax: 325 2872 Website: www.ago.gov.pg Email: agopng@ago.gov.pg

25 November, 2019

The Hon. Job Pomat, MP

Speaker of the National Parliament

Parliament Haus

WAIGANI

National Capital District

Dear Mr Speaker,

In accordance with *Section 214* of the *Constitution* of the *Independent State of Papua New Guinea*, and the *Audit Act 1989*, I have undertaken an audit of selected aspects of the Payments and Acquittals process of the Service Improvement Programs over the period 2013-2016.

I submit the report of this audit which is titled *Performance Audit on the Effectiveness of Payments and Acquittals of Service Improvement Programs (DSIP, PSIP and LLGSIP) 2013-2016*.

Following its tabling in Parliament, electronic copies of the report will be available on the Auditor-General's Office homepage <https://ago.gov.pg/>.

Yours sincerely,

Gordon Kega- MBA, CPA

Acting -Auditor-General

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Acronyms and Definitions

SIP	Service Improvement Program- covers (DSIP, PSIP and LLGSIP)
DSIP	District Service Improvement Program
PSIP	Provincial Service Improvement Program
LLGSIP	Local Level Government Service Improvement Program
DIRD	Department of Implementation and Rural Development
DoF	Department of Finance
OLPG and LLG	Organic Law on Provincial Government and Local Level Government
AGO	Auditor General's Office
DDA	District Development Authority
PFMA	Public Finance Management Act 1995 (as amended)
MTDP	Medium Term Development Plan
DSP	Development Strategic Plan
NEC	National Executive Council
CACC	Central Agency Coordination Committee
PIP	Public Investment Program
MBC	Ministerial Budget Committee
CRF	Consolidated Revenue Fund
Consolidated Revenue Fund	The account into which all the revenue of the State which the Parliament has the power to appropriate are paid and kept by Department of Finance.
Public Debt Committee (PDC)	A committee set up within the Treasury and Finance Department to make important decisions to allocate funds to the agencies on a monthly basis. The committee is also tasked to monitor and report on cash availability at the Consolidated Revenue Fund to disburse in a given month.
PNG	Papua New Guinea
JDP and BPC	Joint District Planning and Budget Priority Committee
JPP and BPC	Joint Provincial Planning and Budget Priority Committee
NEFC	National Economic Fiscal Commission
PG and LLG	Provincial Government and Local Level Government
Vison 2050	Vision 2050 is a framework which sets out PNG's long term strategies to guide future direction for the country and reflect the aspirations of the people of PNG. Available at https://www.treasury.gov.pg/html/publications/files/pub_files/2011/2011.png.vision.2050.pdf

Summary and Recommendations

Background

1. In 2007 the PNG National Government allocated K10 million to each of the Districts to be managed through a District Services Improvement Program (DSIP). The funding has continued at this rate each year since then, although not all districts have received their full entitlement over the period. Subsequently, the National Government established the Provincial Services Improvement Program (PSIP) in 2013 with the allocation to each Province of an additional K5 million for each District within the Province. More recently, Local Level Governments have also been allocated K500,000 each through the Local Level Government Service Improvement Program (LLGSIP). The Service Improvement Programs (DSIP, PSIP and LLGSIP) are intended to give effect to government decentralisation reforms in accordance with the Organic Law on Provincial and Local-Level Government (PG and LLG).
2. The purpose of the Service Improvement Programs is to provide for a holistic approach to service delivery, involving all stakeholders including Members of Parliament, National Departments and Agencies, Provincial and District Administrations and the recipients themselves (the people), taking into account the principles of ownership, affordability, sustainability and leadership. The primary objective of the programs is to make available minimum service delivery standards through the provision of infrastructure and facilities, including essential services such as health, education, law and justice, water and sanitation, transport, communication and rural electrification.
3. In order to address concerns about the program expressed by Members of Parliament and other stakeholders, a performance audit of selected aspects of the Service Improvement Programs was carried out covering the period 2013–2016. The objective of the audit was to determine whether there is:
 - Applicable legislation and a sound governance framework in place to manage the service improvement programs (DSIP, PSIP and LLGSIP);
 - Effective management of funding allocations and acquittals of payments made under the service improvement programs; and
 - Effective monitoring and reporting of service improvement program results against implementation plans.
4. The audit did not examine the management of funds at the Provincial, District or Local Level, but was focused on the central coordinating agencies.
5. In the early stages of the program DSIP funds were managed through a dedicated Trust Account within the Trust Division of the Department of Finance. In 2012 the Trust Account was closed and the funds were transferred to the Consolidated Revenue Fund (CRF) and managed together with other public funds. In total, the annual budget allocation for the DSIP is K890 million to fund 89 Districts whilst the PSIP and LLGSIP budget allocations are K445 million and K157 million respectively, to provide funding for 22 Provinces and 314 LLGs across the country.
6. Since 2013, the funding for DSIP and PSIP and the more recently introduced LLGSIP has been managed by the Department of Finance. Funds are released to respective Provinces, Districts and LLGs on a monthly or quarterly basis whilst the monitoring of acquittals and inspections of projects is coordinated by the Department of Implementation and Rural Development. The SIP

Administrative Guidelines and Finance Instructions require that the disbursement of SIP funds and payments shall be strictly upon receipt of the previous year's implementation and financial reports (acquittals) and subject to the availability of funds.

7. The Department of Finance (DoF) and the Department of Implementation and Rural Development (DIRD) jointly issue SIP Administrative Guidelines and Finance Instructions from time to time to govern the management and implementation of the program. As noted above, the key legislation that provided for the establishment of service improvement programs is the Organic Law on Provincial and Local-Level Government. The applicable legislation for the control of public funds is the Public Finance Management Act 1995 (as amended).

Overall Audit Conclusion

8. The AGO's review and assessment of the legislative and policy framework governing the establishment and operation of the various service improvement programs at the National and sub-National level show that in overall terms, the administrative arrangements are clear and comprehensive. In practice there are split responsibilities giving rise to uncertain accountability requirements which have acted to the detriment of the programs and there would be a case for the Government and the central agencies to consider simplifying the various policies, legislation and guidelines. The current arrangements for the DSIP, PSIP and LLGSIP include laws under sections 95A and B of the Organic Law on Provincial and Local-Level Government (OLPLLG); the *Public Finance Management Act 1995* (as amended), and various Administrative Guidelines and Finance Instructions jointly issued from time to time by the Department of Finance and the Department of Implementation and Rural Development (DIRD).

9. Any review of the service improvement program might also consider the way the various sub-national service improvement programs are itemised in the Appropriation Acts, which provide the legal authority for the approved budget. At present the funding for DSIP, PSIP and LLGSIP are grouped together in the Appropriation Act with the inclusive total amount appropriated for each of the Provincial Governments. Poor visibility of individual budget funding allocations for the service improvement programs currently set out in the Appropriation Act can lead to poor governance and accountability. It is important that there is a sense of confidence and ownership within Districts, Provinces and Local Level Governments. Not only to assist sub-national administrations, but also for the sake of the people the programs are intended to assist. Clear lines of accountability are an incentive to assist in the proper management of the funds and discourage those that may consider manipulating the funds for other purposes.

10. The audit shows that the annual SIP payments made were significantly less than the amounts that had been appropriated through the budget process. There were very few records available to support the proper administration and management of the service improvement program, particularly in relation to decisions made on the allocation and distribution of funds to the respective Districts, Provinces and LLGs. In many cases SIP funds were unequally allocated and distributed. While there may be good reasons for some Provinces, Districts and LLGs to receive more funding than others, these reasons should be recorded in some way for accountability and review purposes, as well as to facilitate a shared understanding of the arrangements.

11. It is a requirement of the administrative arrangements that prior year allocations are to be acquitted prior to current year payments for the service improvement programs. However, for the year 2016 only 30 per cent of the 111 total Districts and Provinces submitted their acquittals to the

Department of Implementation and Rural Development for checking while 70 per cent remained outstanding. For the LLGSIP, there were no acquittal reports submitted to DIRD over the period 2013-2016. In most cases the acquittal reports were submitted late to DIRD and there were mismatches in most acquittal figures reported against original payment amounts disbursed by the Department of Finance. This is largely caused by a lack of resources and skills at the District and Provincial level in compiling acquittal reports. As well, there is a capacity and funding constraint experienced by DIRD causing delays in carrying out monitoring and compliance functions in a timely manner.

12. The decentralised nature of SIP funding arrangements means there is a requirement for sound corporate governance and accountability arrangements. This in turn drives the need for high levels of cooperation between the central agencies in the implementation of corporate governance strategies. These strategies must clearly identify possible fraud risks and how these risks will be managed and minimised. One way to minimise the risk of fraud and malfeasance is to regularly monitor and report on the program, and conduct reviews to address any shortcomings that emerge. However, the coordination arrangements between the Department of Finance and DIRD in terms of sharing data and information relating to SIP payments and acquittals was poor and largely ineffective. There is a gap between the process of monitoring of acquittals for SIP funds, managed by DIRD and subsequent payments being made, managed by Finance. The SIP Administrative Guidelines and Finance instructions are intended to address this problem, but the coordination arrangements are not operating as intended and should be reviewed.

Recommendations

Set out below are the recommendations identified during the course of this audit.

<p>Recommendation 1 Paragraph 2.14</p>	<p>To provide a stronger legislative basis for program funding, the AGO recommends that the Department of Finance and Department of Implementation and Rural Development work closely with the Treasury Department and the Central Agencies Coordination Committee (CACC) to ensure that the detail of funding allocations for the service improvement programs (DSIP, PSIP and LLGSIP) are clearly itemised and included in the Appropriation Bill for approval in Parliament.</p>
<p>Agency Responses</p> <p>DoF:</p> <p>Confirmed. <i>The budget line items for SIP (DSIP, PSIP and LLGSIP) funding allocation are included in the total amount appropriated for each of the Provincial Budget Allocations contained in the Appropriation Bill. The creation of Chart of Accounts (CoA) codes that aligns with the budget codes or Budget lines falls within the jurisdictions of Treasury Department. Treasury is responsible to allocate budget codes to all State Departments, Statutory Bodies and Provincial Governments to frame their budgets in line with the COAs. Department of Finance is responsible for fiscal implementation of the budget to respective State Agencies in line with the CoA codes created by Treasury. Finance has raised this issue numerous times with Treasury to create and allocate separate budget codes for respective grants that must be reflected in the Budget Book for each fiscal year. As we migrate from the use of Program Budget System (PBS) to IFMS in creating COAs, the IFMS system in future will enable creation of CoAs that should align with the separate budget codes for SIP funds.</i></p> <p>DIRD:</p> <p>Agree. <i>SIP has percentage allocation to key sectors however itemising as the law requires needs to be addressed as AGO report recommends. It is being explored together with Department of Finance (DoF) through the IFMS rollout to Provinces and Districts.</i></p>	

<p>Recommendation 2 Paragraph 3.20</p>	<p>To ensure that payments are allocated and distributed to the Provinces, Districts and LLGs in a transparent way and in timely manner and on an equitable basis, the AGO recommends that:</p> <ul style="list-style-type: none"> • The Finance Department develop clear policy criteria with transparent payment vetting process to be followed in the management and distributions of SIP funds, and • The Finance Department strictly adheres to the SIP Administrative Guidelines and Finance Instructions by ensuring that SIP payments are paid out to Provinces, Districts and LLGs only upon receipt of the certified acquittal reports of their previous funds allocated as recommended by DIRD.
<p>Agency Responses</p> <p>DoF:</p> <p>Confirmed. It was noted that there were no proper administration and management of SIP funds and unequal distribution of funds to respective Provinces, Districts and LLGs. The SIP funds transfers were inconsistent and not in compliance to Financial Instruction (DoF) and the Administrative Guidelines (DIRD) as most decisions were very much influenced by Politics. Also disbursement of next lots of SIP funds to Provinces and Districts should be based on submission of the previous acquittal reports by MPs. However, this was not complied with due to Political influence.</p> <p>Confirmed. Distribution of SIP funds at various levels were subject to political decisions. The distribution and payment of SIP funds for DSIP, PSIP and LLGSIP was entirely based on the then government's political decisions which directed Secretary Finance to deliberate and make payments accordingly. The disbursement of SIP funds should be left alone with the head of agency to deliberate in accordance with the established Financial Instruction and Administrative Guidelines. As such this had resulted in abuse of established processes.</p> <p>Confirmed. Department of Finance (DoF) and DIRD couldn't perform their mandated roles and responsibilities in management and coordination of SIP funds due to political interference. Under the existing SIP fund arrangements; Department of Finance is responsible specifically for providing direction and support in financial policy formulation, financial accounting system, financial management and accounting procedures and reporting requirement. Likewise, DIRD is responsible to coordinate SIP reviews and monitor and report on acquittals as per the projects inspections and verifications. The next lots of SIP funds were supposed to have been disbursed based on submission of acquittal reports on previous funds allocation. Although the roles and responsibilities of the both agencies were clearly stated in the Finance Instruction and Administrative Guideline, both policy guidelines were not complied with due to extreme political pressure. Only if the two agencies were left alone to do what they were mandated to do as per the Finance Instruction and Administrative Guideline without any political interference the SIP funding would have been better managed.</p> <p>DIRD:</p> <p>Agree. Department of Finance (DoF) should adhere to the Administrative Guidelines/Finance Instruction of SIP to instil good governance and accountability that will ensure delivery of impact services out of the 10% national budget appropriated to the sub-national administrations (22 Provinces, 89 Districts and 314 LLGs) over those years.</p>	
<p>Recommendation 3 Paragraph 3.21</p>	<p>The AGO recommends that the DIRD and its management should ensure that appraisals and certification of acquittal reports submitted by Provinces and Districts are completed in a timely manner and the acquittal database system is regularly updated with the monetary value of the acquittals submitted for management purposes.</p>
<p>Agency Response</p> <p>DIRD:</p> <p>Agree. DIRD has major staff under-capacity problem and inconsistent funding support for SIP implementation monitoring field patrols which has seriously affected its core mandate of supporting sub-national administrations in guiding service delivery.</p>	

<p>Recommendation 4 Paragraph 4.20</p>	<p>The AGO recommends that:</p> <p>(a) the DIRD should ensure that program coordination, monitoring and reporting of SIP funded projects at the sub-national level is completed on a regular basis and</p> <p>(b) quarterly and annual management status reports are compiled and submitted to government authorities for decision making purpose concerning the program as required under the SIP Administrative Guidelines and Finance Instructions.</p>
<p>Agency Response</p> <p>DIRD:</p> <p><i>Agree. However, DIRD takes its role seriously as evidenced by its five year corporate plan and yearly work plans but affected by inconsistent SIP implementation monitoring funds and under capacity of staff because the DIRD's Wing responsible for SIP coordination has less than 15 officers responsible for monitoring and reporting on the expenditure of K1.2billion or about 10% of the national budget appropriated to sub-national administrations each year.</i></p>	
<p>Recommendation 5 Paragraph 4.21</p>	<p>The AGO recommends to ensure effective submission of SIP acquittal reports by Districts, Provinces and LLGs; the DIRD should foster close coordination and working relationship with Department of Finance in terms of sharing data and information relating to monitoring reports and acquittals.</p>
<p>Agency Response</p> <p>DIRD:</p> <p><i>Agree with the findings. Main problem now continues to be the lack of coordination between DIRD and DoF to strictly comply with SIP Administrative Guidelines and its Finance Instructions to ensure the huge budget appropriations to sub-national administrations receiving SIP funds are based on performance instead of frontloading in contrary to the established guidelines and related laws.</i></p>	

1. Introduction

This chapter provides an overview of the Services Improvement Programs (DSIP, PSIP and LLGSIP) and the audit.

Background to Service Improvement Program (DSIP, PSIP and LLGSIP)

1.1 Service delivery in PNG has been affected by the progressive devolution of powers from the national government to sub national governments after independence. In 1977 the Organic Law on Provincial Government (OLPG) as passed, which provided authority for sub-national governments to provide and administer services. The OLPG attempted to decentralise responsibility for delivery of services, but it didn't clearly allocate responsibilities between the levels of government. Further decentralisation came in 1995 with the enactment of the Organic Law on Provincial Governments and Local Level Governments (OLPGLLG), which was a significant administrative change and was an attempt to clarify the responsibilities of provincial and local level governments. The 2014 District Development Authority Act was an amendment to the OLPGLLG and further decentralised administrative functions to the District level.

1.2 Prompted by these government decentralisation reforms, financial development programs and policy initiatives were designed and established to complement these reforms. Firstly, for the Districts funding was made available through the District Development Program (DDP) which then became the District Service Improvement Program (DSIP) in 2007, when the National Government allocated K10 million to each of the 89 Districts in Papua New Guinea. In 2013, the Provincial Service Improvement Program (PSIP) was introduced where Provinces were allocated K5 million per Open Electorate. More recently K500,000 was also allocated to each Local Level Government (LLG) through the Local Level Government Service Improvement Program (LLGSIP). In total, the annual budget allocation for the DSIP is K890 million to fund 89 Districts whilst the PSIP and LLGSIP budget allocations are K445 million and K157 million respectively, to provide funding for 22 Provinces and 314 LLGs across the country.

1.3 The purpose of the Service Improvement Programs is to provide for a holistic approach to service delivery, involving all stakeholders including Members of Parliament, National Departments and Agencies, Provincial and District Administrations and the recipients themselves (the people), taking into account the principles of ownership, affordability, sustainability and leadership. The primary objective of the programs is to make available minimum service delivery standards through the provision of infrastructure and facilities, including essential services such as health, education, law and justice, water and sanitation, transport, communication and rural electrification.

Agencies Key Roles and Responsibilities

1.4 The agencies with key roles and responsibilities in relation to the operations of the Service Improvement Programs are summarised in table 1 below.

Table 1: Service Improvement Programs – Roles and Responsibilities

Organisation	Key role (s) and Functions
National Parliament	Approval of the National Budget inclusive of the DSIP, PSIP and LLGSIP through the Appropriation Acts and related legislation.
National Executive Council (NEC)	Approve new policy as required and issue NEC Decisions on any changes regarding the policy and administration guidelines. Approval of SIP budget estimates.
Ministerial Budget Committee (MBC)	Setting parameters of the total envelope of budget funding including SIP. Making recommendations to the NEC in relation to the priority spending areas of Government.
Public Debt Cash Flow Committee (PDC)	Provides advice and recommendations on Government financing, debt and budget matters and monitor and report on Public Account cash flows on a monthly basis to the Secretaries of the Department of Finance and Treasury.
Central Agencies Coordination Committee (CACC)	The committee is chaired by Chief Secretary to the Government with membership including heads of Departments of Prime Minister and NEC, Treasury, Finance, National Planning and Monitoring, Personnel Management, Justice and Attorney General, and Department of Provincial and Local-Level Government Affairs. The CACC makes recommendations to the MBC and NEC on proposed budget funding.
Treasury Department	Formulate the Medium Term Fiscal Strategy (MTFS). Allocate and release warrants authorities of SIP. Coordinate and monitor budget and Fiscal Responsibility Reporting.
Finance Department	Specifically responsible for providing direction and support in financial policy formulation, financial systems development and maintenance, financial and accounting information processing, financial management and accounting procedures, monitoring of financial performance against the Budget, and legislative compliance and financial reporting requirements for the whole of Government.
Department of Implementation and Rural Development (DIRD)	Coordinate SIP reviews and monitor and report on acquittals as well as project inspections and verifications. Provide awareness and training at the sub-national level on acquittals compilation and reporting requirements. Undertake planning, budgeting and managing grants and projects under the Rural Development Program; provide oversight on the implementation of Micro-Public Investment Program (PIP), and coordinating reform processes and implementation at sub-national level.
Department of National Economic and Fiscal Commission (NEFC)	Conducts a periodic cost of services study to estimate the cost of government's services delivery obligations for grant calculation, policy development and budget purposes. The NEFC also reports on Provincial functional Grants.
National Planning and Monitoring	Develops and formulates SDP and MTDP and coordinate with DIRD and provide advice on new and ongoing development policy and programs.
Department of Works	Assist Districts and Provinces in provision of standards design and documentations including monitoring and supervision of projects.

1.5 The Joint District and Joint Provincial Planning and Budget Priority Committees (JDP/JPP and BPC) are responsible for overseeing all aspects of planning and budgeting for each District and Province.

About the Audit

1.6 Recently, there have been concerns raised by key government agencies and authorities, individual Members of Parliament and the media more broadly, about the administration of the Service Improvement Programs. There were also outstanding issues identified in earlier audit work conducted by the AGO relating to the delay and/or non-payments and acquittals of service improvement program funds.

1.7 Accordingly, the AGO considered the audit was important due to the significant amount of public funds allocated in the annual budget and spent on Service Improvement Programs (DSIP, PSIP and LLGSIP). The audit did not examine the management of funds at the Provincial, District or Local Level, but was focused on the central coordinating agencies.

Audit Objective

1.8 The objective of the audit was to determine whether there is:

- Applicable legislation and a sound governance framework in place to manage the service improvement programs (DSIP, PSIP and LLGSIP);
- Effective management of funding allocations and acquittals of payments made under the service improvement programs; and
- Effective monitoring and reporting of service improvement program results against implementation plans.

Audit Approach and Methodology

1.9 To address the audit objective, audit tests were developed in the following key areas:

- Evaluation of key policy documents including SIP Administrative Guidelines and Finance Instructions, Corporate Plans, Policy Papers and Budget Manuals, and relevant legislation;
- Examination and analysis of SIP actual financial payment records against annual budgetary appropriations, acquittal records and performance monitoring reports as well as review and assessment of systems, processes and procedures in place with Department of Finance and DIRD; and
- Confirmation through interviews and questionnaires with key responsible Officers at Department of Finance and DIRD.

Previous Audit Coverage

1.10 A previous AGO audit report *Service Delivery Performance in the Provinces of New Ireland and Milne Bay - 1 January 2013 to 31 December 2014* focused on the provision of services under the Provincial Services Improvement Program (PSIP), the District Services Improvement Program (DSIP) and the various Function Grants. The report made six recommendations to improve service delivery, including that finance instructions be strengthened to provide clearer guidance to Provincial and District Administrators and Treasurers and the need for proper recordkeeping and accountability in districts and provinces.

2. Service Improvement Programs – Governance Framework

This chapter considers key aspects of the Service Improvement Program's governance, including the roles and responsibilities of those parties involved in administering the programs.

Introduction

2.1 With budget appropriations exceeding K1.3 billion for DSIP, PSIP and LLGSIP each year, the administration of the services improvement program constitutes core business and a substantial commitment for the Government of PNG. It is therefore, expected that the responsible agencies have established and maintain a sound system of governance that will enable effective and accountable administration of funds within the specifications of the governing legislation and policies, as well as broader government legislation such as the *Public Financial Management Act 1995* (as amended).

Applicable Legislation

2.2 The specific legislation that gives effect to the creation and establishment of the service improvement program (DSIP, PSIP and LLGSIP) is the Organic Law on Provincial and Local-Level Government. Sections 91 (1) and (2) of the *Organic Law on Provincial and Local-Level Government* state that the National Government shall provide to the Provincial and Local-Level Governments, Grants in the form of Administrative Support grants; Development Grants, Town and Urban Services Grants; and Economic Grants. These Grants are to be provided annually to the Provincial Governments and Local-Level Governments.

2.3 *Sections 95A and 95B of the Organic Law on Provincial and Local-Level Government* provides for the District Support Grants and Provincial Support Grants respectively. Section 95A (1) (7) states that the National Government shall make a District Support Grant in respect of each Open Electorate which is to be used in accordance with District Support Grant Guidelines issued by the National Executive Council.¹ Sub-sections (2), (3), (4), and (5) provide that the minimum amount of District Support Grant shall not be less than K300,000 and/or K500,000 per Open Electorate and shall be determined by the NEC and National Economic and Fiscal Commission in consultation with the Head of the Department of Finance and the Head of the Department responsible for planning matters.

2.4 In determining the amount to be paid to respective open electorates, the National Economic and Fiscal Commission shall take into consideration the details of other grants made available to the Provincial Governments and Local-Level Governments. The National Government shall, within the first month of each quarter of each fiscal year, make a payment of all monies due for the purpose of the District Support Grant for that quarter to the Joint District and Joint Provincial Planning and Budget Priority Committees (JDP/JPP and BPC) committee and to the Member

¹ Section 95A (1), (7) of the OLPG and LLG stated that for each year the National Government shall out of monies lawfully available for the purpose, make a District Support Grant in respect of each Open Electorate which to be used in accordance with District Support Grant Guidelines issued by the National Executive Council from time to time specifying the purposes for which may be used, and the manner in which it shall be disbursed and accounted for, and other administrative arrangements pertaining to it.

representing the open electorate respectively. Section 95B (1) also states that the NEC shall, from time to time, issue Provincial Support Grant Guidelines.

2.5 The annual Appropriation Act passed in Parliament also provides authority for budget funding to be released for the service improvement program. Although there was no separate budget line item for either DSIP, PSIP or LLGSIP stated in the Act for the years under review (2013-2016); the AGO noted that the DSIP, PSIP and LLGSIP funding allocations are included with the total amount appropriated for each of the Provincial Government budget allocations contained in the appropriation.

2.6 Other legislation that has a role to play in the governance and control of public funds are the *National Constitution*, *District Development Authority Act 2014* and the *Public Finances (Management) Act 1995 (as amended)*. Section 211(1) of the Constitution states that all monies of or under the control of the National Government for public expenditure shall be dealt with and properly accounted for in accordance with the law. Section 117 of the *Public Finance (Management) Act* creates the legal authority for the Secretary of Finance to issue Financial Instructions for, among other things, the better control and management of public money and public property.

Governance and Policy Framework

2.7 As required under the relevant legislation; Finance Instructions and Administrative Guidelines were issued by the NEC, and the Departments of Finance, and Implementation and Rural Development at various stages to regulate each of the Service Improvement Programs. Finance Instructions were issued to guide agencies on the administrative management and spending of the service improvement program funds on a sectoral basis. Initially, Finance Instructions supported by an NEC Decision, directed that the spending of SIP funds would be broken down into six sectors with the following percentage allocations:

- 30% - Infrastructure Services Support,
- 20%- Health Service Improvement,
- 20% Education Service Support,
- 10%- Law and Justice Services,
- 10%- Economic Sector Support, and
- 10%- Administration.²

2.8 A later NEC Decision in 2014 and subsequent Administrative Guidelines and Finance Instruction, directed specific SIP funding allocation to additional sub-sectors including Public Servant Housing (District and LLG), Skill Gap Training (District and LLG), Communication Infrastructure, and Micro-Credit Scheme (Optional) to be included within the existing key sectors. The later SIP Administrative Guidelines provides that the funding percentage allocation of the sectors be left open and the level of funding received by the Sectors should reflect the needs and priorities of the Provinces and Districts. This was a significant departure from the previous Finance

² The 10% allocated for administration is further broken down as follows; 3% for general administration support (including JPP/JDP and BPCs and Project Management), 3% for MPs Electoral Support Fund, and 4% for project mobilisation costs including scoping, design and supervision.

Instructions and Guidelines discussed above which specified percentage funding allocations for sector programs.

2.9 The SIP Administrative Guidelines outline the key principles of the PSIP, DSIP and LLGSIP which are: greater ownership, affordability, value-adding, sustainability, leadership, and optimum resource utilisation. Underpinning the key principles is the Government's Policy of *Achieving National Equity in Development through the Strengthening of Basic Service Infrastructure*. The theme of the policy encapsulates the spirit of the PSIP, DSIP and LLGSIP and is directly related to the Ten Guiding Principles of the then Medium Term Development Plan (MTDP 2010-2015), DSP (2010-2030) and Vision 2050.³

2.10 The Organic Law on Provincial and Local-Level Governments and the Appropriation Act provides the legal basis and foundation for the establishment and operation of the service improvement program (DSIP, PSIP and LLGSIP). The AGO found that the governance and policy framework established to govern the service improvement program (DSIP, PSIP and LLGSIP) was clear. The SIP Finance Instructions and Guidelines provide a detailed framework for the governance and management of the service improvement program including requirements for strategic planning; coordination and management of the program, selection of projects to be funded by SIP; selection of service providers; payments and acquittals; the day-to-day management of funds; and ongoing management and supervision and monitoring of projects. As noted above, the audit did not extend to project implementation or the system of allocation of funds at the sub-national level.

2.11 The AGO noted that the Appropriation Acts, which provide the legal authority to fund the program, did not clearly state or separately itemise amounts allocated to DSIP, PSIP and LLGSIP. The Appropriation Act does contain a funding allocation for the service improvement program overall, but this means that the individual components allocated for DSIP, PSIP and LLGSIP are grouped together in the total amount appropriated for each of the Provincial Government budget allocations under the national budget. Under these conditions, neither the funding agencies, nor the recipients can adopt a systematic approach to monitoring to determine how much funding has been allocated or how much of a project has been implemented. It also means that there is a low level of confidence about whether or not the funding allocations will be received which impacts the sense of ownership and custodianship from the Districts, Provinces and LLGs that are responsible for implementing the projects.

Conclusion

2.12 The established governance and policy framework to regulate funding for the service improvement program is robust, sound and clear. Specifically the various Administrative Guidelines and Finance Instructions jointly issued by Department of Finance and DIRD from time to time to assist with management, control and accountability of the program.

2.13 Although the governance and policy framework is robust, the funding allocation system does not facilitate end-to-end financial management and lacks many desirable system controls for detecting inconsistencies in the amount of funds released compared to the funds appropriated. This inhibits the sub-national Government's ability to set and monitor local compliance with eligibility and reporting requirements. The current system also has many shortcomings from the central agencies' perspective as it also impacts on sound financial management practices. In particular, the system has no capacity for tracking allocations against budget or to identify incorrect

³ https://www.treasury.gov.pg/html/publications/files/pub_files/2011/2011.png.vision.2050.pdf

payments made from the schedules. This can increase the risk of duplicate payments, and cause uncertainty when updating project management records or processing variations.

Recommendation 1

2.14 To provide a stronger legislative basis for program funding, the AGO recommends that the Department of Finance and Department of Implementation and Rural Development work closely with the Treasury Department and the Central Agencies Coordination Committee (CACC) to ensure that the detail of funding allocations for the service improvement programs (DSIP, PSIP and LLGSIP) are clearly itemised and included in the Appropriation Bill for approval in Parliament.

Department of Finance Response:

Confirmed. The budget line items for SIP (DSIP, PSIP and LLGSIP) funding allocation are included in the total amount appropriated for each of the Provincial Budget Allocations contained in the Appropriation Bill. The creation of Chart of Accounts (CoA) codes that aligns with the budget codes or Budget lines falls within the jurisdictions of Treasury Department. Treasury is responsible to allocate budget codes to all State Departments, Statutory Bodies and Provincial Governments to frame their budgets in line with the COAs. Department of Finance is responsible for fiscal implementation of the budget to respective State Agencies in line with the CoA codes created by Treasury. Finance has raised this issue numerous times with Treasury to create and allocate separate budget codes for respective grants that must be reflected in the Budget Book for each fiscal year. As we migrate from the use of Program Budget System (PBS) to IFMS in creating COAs, the IFMS system in future will enable creation of CoAs that should align with the separate budget codes for SIP funds.

Department of Implementation and Rural Development (DIRD) Response:

Agree. SIP has percentage allocation to key sectors however itemising as the law requires needs to be addressed as AGO report recommends. It is being explored together with Department of Finance (DoF) through the IFMS rollout to Provinces and Districts.

3. Payments and Acquittals of SIP (DSIP, PSIP and LLGSIP)

This chapter examines the payment and acquittal process for the Service Improvement Program's financial framework, including the roles and responsibilities of those parties involved in administering the programs.

Background

3.1 Section 10 of the PFMA 1995 (as amended) explains that there shall be a Public Fund for the National Government as well as for each of the Provincial or Local-Level Governments established under the Organic Law on Provincial and Local-Level Governments. In the case of the National Government, the Public Fund consists of the Consolidated Revenue Fund and Trust Fund. For the Provincial, District and Local-level Governments the Public Fund consists of the Provincial Treasury Operating Account, the District Treasury Operating Account and LLG general revenue fund respectively. Public monies are paid into the respective accounts depending on the nature of the funds and how each funding allocations are intended to be used for service delivery under the respective program.

Management and Payments of DSIP, PSIP and LLGSIP

3.2 As noted in Chapter 2 above, at the inception of the Service Improvement Program, SIP funds were deposited into a Trust Account managed by the Department of Finance within the department's trust account division. This arrangement was in place until 2012, when the SIP Funds were transferred to the Waigani Public Account and managed by the Department of Finance, together with the Consolidated Revenue Fund. The funds are released to respective Provinces and Districts on a monthly and/or quarterly basis. Section 4.3 of the SIP Administrative Guidelines states that the disbursement of SIP funds to Districts and Provinces is strictly upon receipt of the previous year's implementation physical and financial reports (acquittals) and availability of funds.

3.3 The AGO examined the SIP financial records and information maintained at the Department of Finance as well as assessing the administration and management process involving the payments of DSIP, PSIP and LLGSIP. The audit found that a total of **K4.5 billion** was paid and disbursed by the Department of Finance to respective Districts, Provinces and LLGs for service improvement programs over the 4 year period under review (2013-2016). This amount is some K600 million less than the total budget appropriation of K5.1 billion over the same period.

3.4 The financial records show clearly that the annual SIP payments made over the 4 year period 2013-2016 (specifically payments for PSIP and LLGSIP) were less than the annual budgeted amount with significant variances noted in actual payments made against the appropriated amount. Similarly, Provinces and Districts may receive their allocations at different times of the year. In addition, there was no proper administration and management of SIP funds in relation to decisions made on the allocation and distributions of funds to the respective Districts, Provinces and LLGs.

3.5 This is a significant issue for the delivery of projects where progress is monitored and reported annually. Proper project management and final delivery depends to a very large extent on funding certainty. With very few provinces receiving 100 per cent of the funding necessary to carry

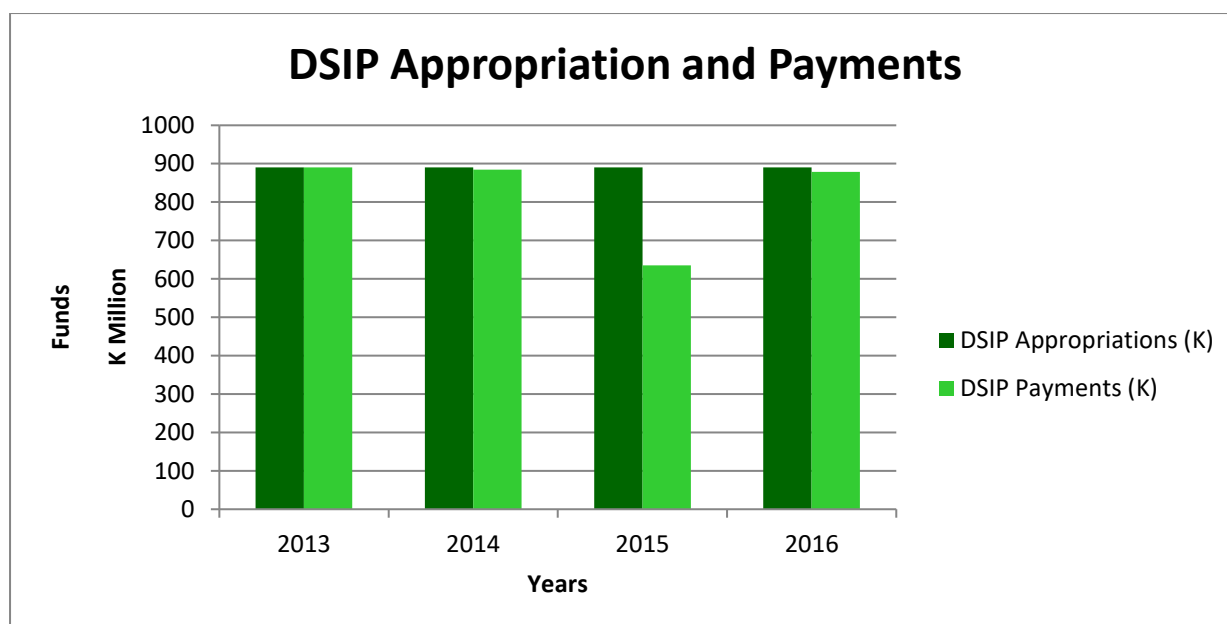
out projects means that provincial governments are required to provide additional funding from their own sources, if available. The extent to which this occurs varies from province to province.

3.6 Table 2 and Figures 1, 2 and 3 below show the variances between SIP appropriations and payments made over the 4 year period under review (2013 -2016).

Table 2: Service Improvement Program (DSIP, PSIP and LLGSIP) Appropriations and Payments

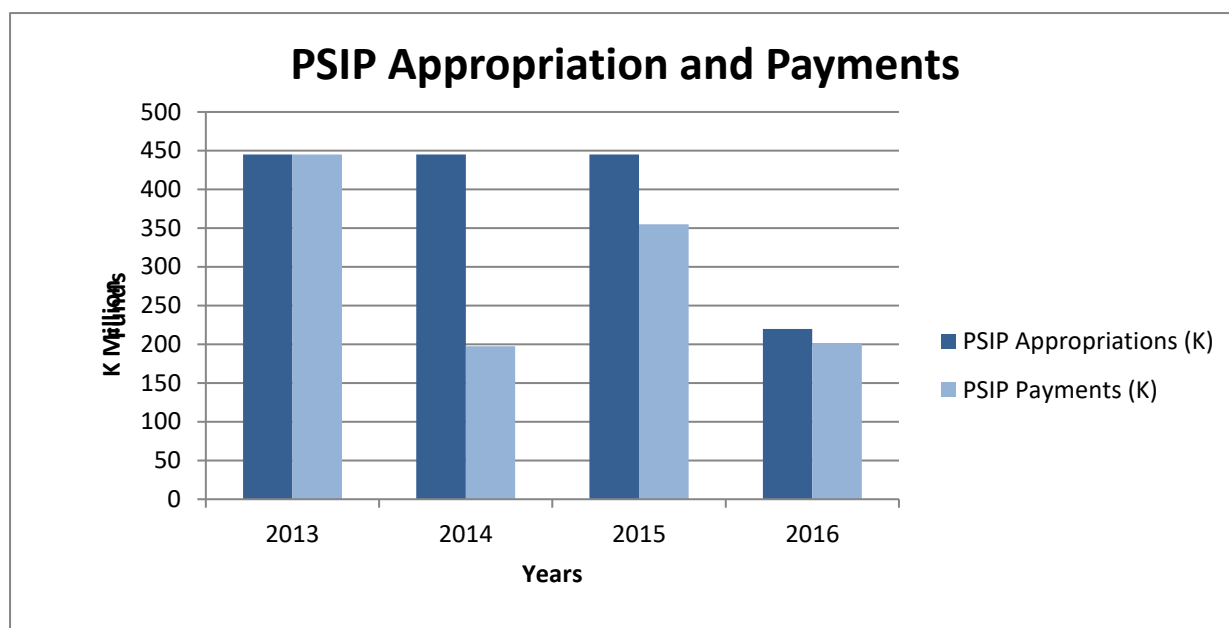
Year	DSIP			PSIP			LLGSIP		
	Approp'n (Kina)	Actual (Kina)	Variance (Kina)	Approp'n (Kina)	Actual (Kina)	Variance (Kina)	Approp'n (Kina)	Actual (Kina)	Variance (Kina)
2013	890m	890m	Nil	445m	445m	Nil	157,000	88,000	69,000
2014	890m	884.5m	5.5m	445m	197.5m	247.5m	157,000	138,350	18,650
2015	890m	635.1m	254.9m	445m	355.1m	89.9m	157,000	30,700	126,300
2016	890m	879m	11m	220m	200.9m	19.1m	157,000	31,367	125,633
TOTAL	3.56 billion	3.29 billion	271.4m	1.56 billion	1.19 billion	356.6m	628,000	288,417	339,583

Figure 1: DSIP Actual Payments and Appropriations by Year



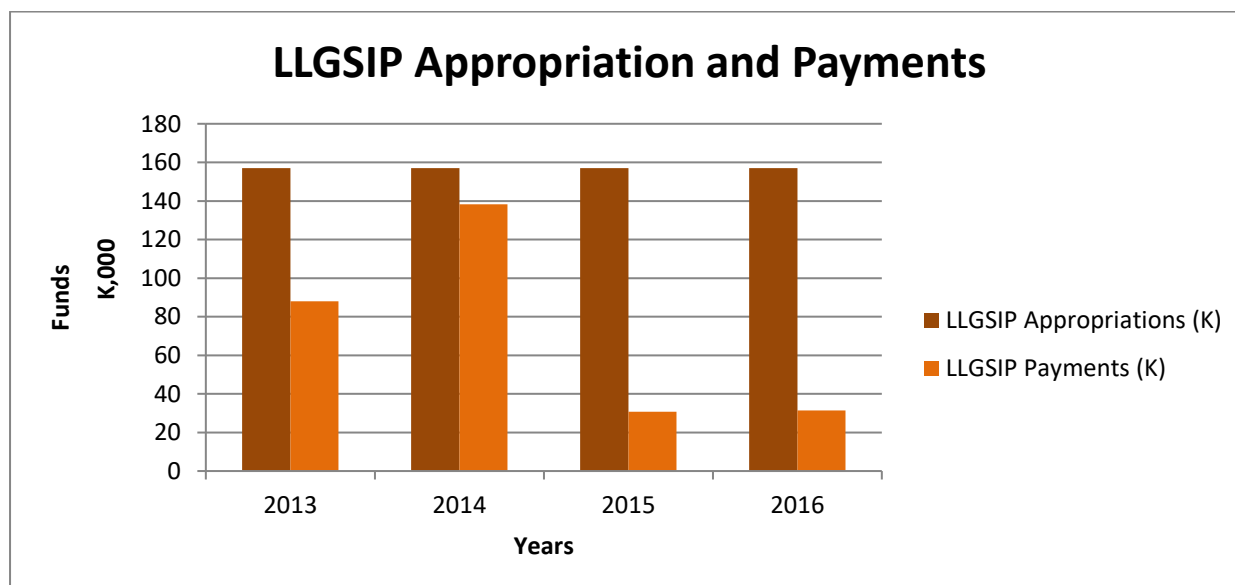
Source. AGO analysis

Figure 2: PSIP Actual Payments and Appropriations by Year



Source: AGO analysis

Figure 3: LLGSIP Appropriations and Actual Payments by Year



Source: AGO analysis

3.7 The audit also found that there was a lack of clear policy criteria and sound payment vetting processes in place. The AGO expected to find guidance from the Public Debt Cash flow Committee (PDC) and/or National Economic Fiscal Commission (NEFC) providing leadership and control over the processes to approve and decide on the monthly and/or quarterly allocation of SIP funds by the Department of Finance to the respective Provinces, Districts and LLGs as required under the OLPG and LLG. In the absence of guidance and control from the designated authorities, decision making around the distribution and payments of SIP funds to Districts, Provinces and LLGs is open to other influences.

3.8 A consequence of this arrangement is that SIP funds were frequently released and paid to Provinces, Districts and LLGs by the Department of Finance without prior receipt of certified acquittals of the previous funding allocation. This is a clear breach of SIP Administrative Guidelines and relevant Financial Instructions and the PFMA.

3.9 The overall system would operate in a more open and transparent way if the responsible agencies (Department of Finance and Department of Implementation and Rural Development) in charge of managing and coordinating the payments and monitoring acquittals of SIP funds worked more closely together to ensure the effective management of payments and acquittal of SIP funds.

Acquittals of DSIP, PSIP and LLGSIP

3.10 As required under the SIP Administrative Guideline 1B/2014 and relevant provisions of the PFMA, the acquittal of previous DSIP, PSIP and LLGSIP funds (both physical and financial reports) by Provinces, Districts and LLGs is important in order to qualify for the next round of funding allocations. As well, acquittals are an important control mechanism to aid in providing transparency and accountability of public funds. The Department of Implementation and Rural Development (DIRD) is the lead agency in charge of coordinating, monitoring and reporting rural development progress. It is responsible for the acquittal of DSIP, PSIP and LLGSIP funding and maintaining records relating to SIP for each fiscal year.

3.11 From the analysis of acquittals and other DIRD records, the AGO noted that the number of acquittals submitted by respective Districts and Provinces was slow over the period from 2013-2016. Most Districts and Provinces did not submit their DSIP and PSIP acquittal reports to DIRD for the fiscal years 2015 and 2016. Of the 111 total Provinces and Districts across the country, only 33 had submitted their PSIP and DSIP acquittal reports for the year 2016 whilst the other 78 remained outstanding. There were also a number of Provinces and Districts with outstanding acquittal reports for the years 2013 and 2014. At the time of audit fieldwork, for the LLGSIP there had been no acquittal records of any kind submitted to DIRD from any of the 314 LLGs in the country. These outstanding reports should be compiled and submitted to DIRD as required under SIP Administrative Guidelines and relevant financial management laws.

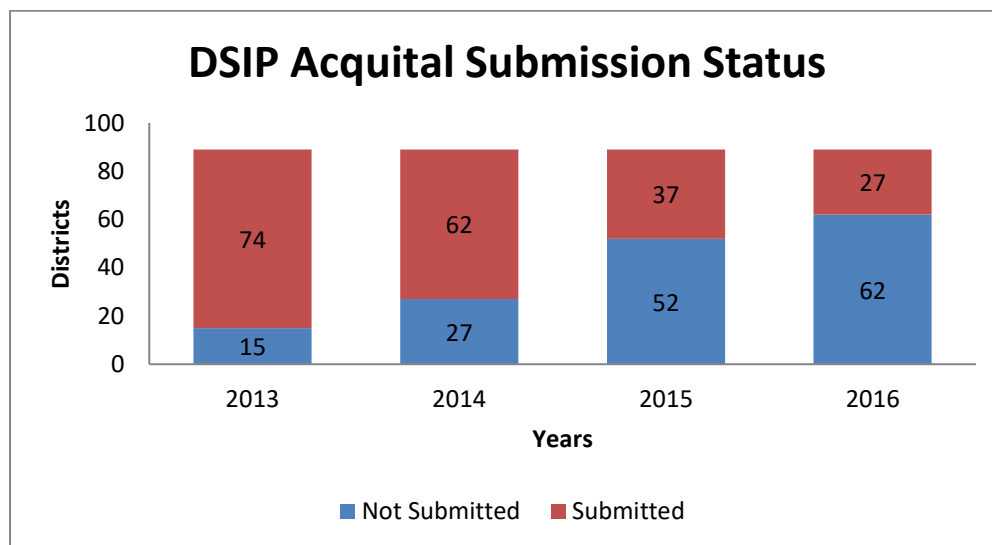
3.12 The table and graph below shows the summary of SIP acquittals status by Provinces, Districts and LLGs obtained and analysed during the time of audit early in 2018. Details of SIP acquittal status is attached as *Appendixes 1-3*.

Table 3: SIP Acquittal Status 2013-2016

		PSIP	DSIP	LLGSIP
1	2013- Acquittals not submitted	3	15	314
	2013- Acquittals submitted and appraised and monitored	19	74	0
2	2014- Acquittals not submitted	8	27	314
	2014- Acquittals submitted and appraised and monitored	14	62	0

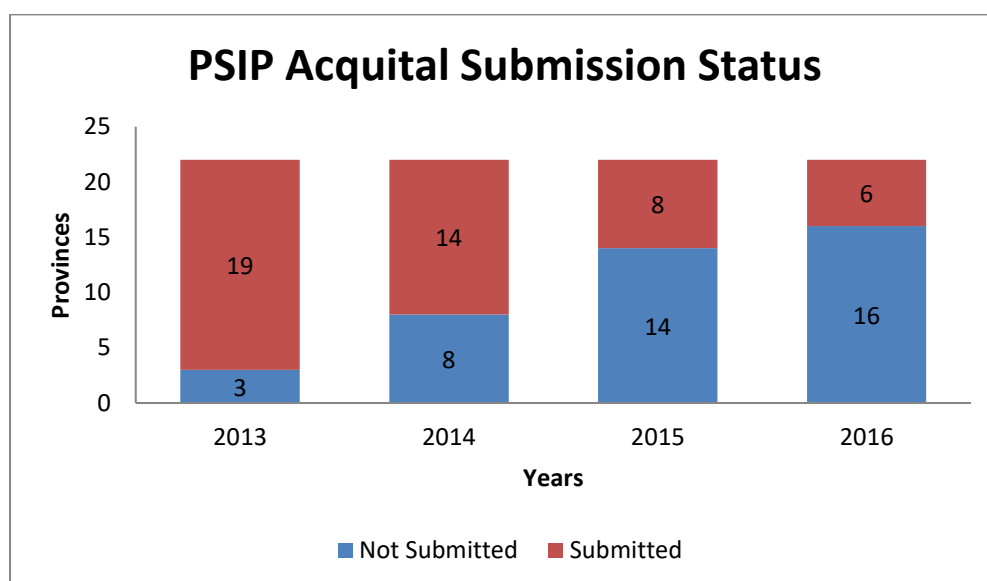
3	2015- Acquittals not submitted	14	52	314
	2015- Acquittals submitted and appraised and monitored	8	37	0
4	2016- Acquittals not submitted	16	62	314
	2016- Acquittals submitted and appraised and monitored	6	27	0

Figure 4: Acquittal status of DSIP



Source: AGO analysis

Figure 5: Acquittal Status of PSIP



Source. AGO analysis

3.13 Although a number of SIP acquittals had been submitted by Districts and Provinces to DIRD as outlined in the charts above, there were significant mismatches between the SIP payment amounts and acquittal figures reported for the years 2013 and 2014. For instance in 2014, Dei District in Western Highlands Province received a K10 million DSIP payment. However, from the acquittal status record maintained by DIRD, only K3.9 million was reported as having been acquitted. There is no record or explanation of the K6.1 million differences between the amount paid by the Department of Finance and the amount acquitted to DIRD.

3.14 At the end of 2017, the DIRD was still working on the appraisal and monitoring of acquittal reports for the years 2015 and 2016 that had been submitted by Provinces and Districts. As a result, the full and complete SIP acquitted amounts were not available for audit in the DIRD database system. The AGO noted that in most cases, acquittal reports were submitted late to DIRD and the required compliance checks conducted by the department are comprehensive and time consuming. It is also apparent that District and Provincial administrations do not feel obliged to submit acquittal reports in a timely way in order to comply with the annual timetable specified for SIP acquittal reporting requirements in the SIP Administrative Guidelines and Finance Instructions.

3.15 The variable level of compliance in the submission of SIP acquittal reports by Provinces, Districts and LLGs as well as the mismatches in acquittal figures against amounts paid is an indicator of poor management, and suggests the acquittal system is operating ineffectively. The AGO noted that there are insufficient skilled resources devoted to compiling acquittals at the Provincial and District level. This is compounded through a lack of capacity and funding within DIRD to enable the appraisal and monitoring of acquittals in a timely manner and to update the system records accordingly.

Conclusion

3.16 Section 10 of the Public Finance Management Act 1995 (as amended) requires the establishment of a Public Account for the National Government. The Organic Law on Provincial and Local Level Government also requires the establishment of an operating account for Provincial and Local – Level Governments. All public monies are to be paid into these public operating accounts contingent upon the nature of the funds to be used for public service delivery. The DSIP, PSIP and LLGSIP funds are managed by the Department of Finance together with the Consolidated Revenue Fund (CRF) and funds are paid to Provinces and Districts on a monthly or quarterly basis. It is also a requirement of the SIP Administrative Guidelines and Finance Instructions that the disbursement of SIP funds to the respective Provinces and Districts is to be strictly upon receipt of acquittal reports of the previous funding allocations.

3.17 The payment and acquittal process is not assisted by the lack of clear policy criteria and sound payment vetting processes in place. The AGO expected to find guidance from the Public Debt Cash flow Committee (PDC) and/or National Economic Fiscal Commission (NEFC) providing leadership and control over the processes to approve and decide on the monthly and/or quarterly allocation of SIP funds by the Department of Finance to the respective Provinces, Districts and LLGs as required under the OLPG and LLG. In the absence of guidance and control from the designated authorities, decision making around the distribution and payments of SIP funds to Districts, Provinces and LLGs is open to other influences.

3.18 The SIP annual payments were inconsistent with the annual budgeted amounts with significant variances noted in actual payments made against the appropriated amount. There were

few records available to support the decisions made on the allocation and distribution of funds to the respective Districts, Provinces and LLGs. In many cases DSIP, PSIP and LLGSIP funds were unequally allocated and distributed resulting in some Provinces, Districts and LLGs receiving more funding whilst others received reduced payments or in some cases nothing at all for their monthly/quarterly allocations. The AGO noted that payments can be delayed at times due to cash flow issues within the central allocating agencies. Nevertheless interruptions to or uncertainties around funding cause difficulties in the proper implementation of service delivery in the Provinces and Districts. At the same time, one of the key controls, the requirement to acquit previous SIP payments before new payments are made, is not enforced which is a clear breach of SIP Administrative Guidelines.

3.19 The AGO concluded that the process of management of SIP payments and acquittals was largely ineffective as the rules and procedures are either not followed or there are no penalties or consequences for non-compliance. In order to address the issues identified in the payments and acquittals of SIP (DSIP, PSIP and LLGSIP), the AGO makes the following recommendations.

Recommendation 2

3.20 To ensure that payments are allocated and distributed to the Provinces, Districts and LLGs in a transparent way and in timely manner and on an equitable basis, the AGO recommends that:

- The Finance Department develop clear policy criteria with transparent payment vetting process to be followed in the management and distributions of SIP funds, and
- The Finance Department strictly adheres to the SIP Administrative Guidelines and Finance Instructions by ensuring that SIP payments are paid out to Provinces, Districts and LLGs only upon receipt of the certified acquittal reports of their previous funds allocated as recommended by DIRD.

Department of Finance Response:

Confirmed. *It was noted that there were no proper administration and management of SIP funds and unequal distribution of funds to respective Provinces, Districts and LLGs. The SIP funds transfers were inconsistent and not in compliance to Financial Instruction (DoF) and the Administrative Guidelines (DIRD) as most decisions were very much influenced by Politics. Also disbursement of next lots of SIP funds to Provinces and Districts should be based on submission of the previous acquittal reports by MPs. However, this was not complied with due to Political influence.*

Confirmed. *Distribution of SIP funds at various levels were subject to political decisions. The distribution and payment of SIP funds for DSIP, PSIP and LLGSIP was entirely based on the then government's political decisions which directed Secretary Finance to deliberate and make payments accordingly. The disbursement of SIP funds should be left alone with the head of agency to deliberate in accordance with the established Financial Instruction and Administrative Guidelines. As such this had resulted in abuse of established processes.*

Confirmed. *Department of Finance (DoF) and DIRD couldn't perform their mandated roles and responsibilities in management and coordination of SIP funds due to political interference. Under the existing SIP fund arrangements; Department of Finance is responsible specifically for providing direction and support in financial policy formulation, financial accounting system, financial management and accounting procedures and reporting requirement. Likewise, DIRD is responsible to coordinate SIP reviews and monitor and report on acquittals as per the projects inspections and verifications. The next lots of SIP funds were supposed to have been disbursed based on submission of acquittal reports on previous funds allocation. Although the roles and responsibilities of the both agencies were clearly stated in the Finance Instruction and Administrative Guideline, both policy guidelines were not complied with due to extreme political pressure. Only if the two*

agencies were left alone to do what they were mandated to do as per the Finance Instruction and Administrative Guideline without any political interference the SIP funding would have been better managed.

DIRD Response:

Agree. *Department of Finance (DoF) should adhere to the Administrative Guidelines/Finance Instruction of SIP to instil good governance and accountability that will ensure delivery of impact services out of the 10% national budget appropriated to the sub-national administrations (22 Provinces, 89 Districts and 314 LLGs) over those years.*

Recommendation 3

3.21 The AGO recommends that the DIRD and its management should ensure that appraisals and certification of acquittal reports submitted by Provinces and Districts are completed in a timely manner and the acquittal database system is regularly updated with the monetary value of the acquittals submitted for management purposes.

Department of DIRD Response:

Agree. *DIRD has major staff under-capacity problem and inconsistent funding support for SIP implementation monitoring field patrols which has seriously affected its core mandate of supporting sub-national administrations in guiding service delivery.*

4. Monitoring and Reporting of DSIP, PSIP and LLGSIP

This chapter considers the Monitoring and Reporting requirements for SIP funding and program reviews.

Background

4.1 The decentralised nature of SIP funding arrangements coupled with a trend towards the outsourcing of functions in the provinces and districts has increased the opportunity for fraudulent activity. The requirement for sound corporate governance and accountability emphasise the need for high levels of cooperation between the central agencies in the implementation of corporate governance strategies. These strategies must clearly identify possible fraud risks and how these risks will be managed and minimised. One way to minimise the risk of fraud and malfeasance is to regularly monitor and report on the program, and conduct reviews to address any shortcomings that emerge.

4.2 Section 9.6 of the SIP Administrative Guidelines 1B/2014 requires that the DIRD shall coordinate SIP program reviews with the Department of National Planning and Monitoring, the Department of Finance, the Treasury, the Department of Provincial and Local Government Affairs and the Department of Works to physically verify reports from the Provinces, Districts and Local Level Governments when and where required.

4.3 Further, section 9.7 of the SIP Administrative Guidelines 1B/2014 also states that the DIRD shall provide quarterly implementation reports of both physical and financial status of the PSIP, DSIP and LLGSIP to the Central Agency Coordination Committee (CACC), the Department of National Planning and Monitoring, the Department of Provincial and Local Level Government Affairs and other relevant agencies.

4.4 The DIRD Corporate Plan emphasised the key roles and responsibilities that DIRD undertakes in relation to public service delivery which include;

- planning,
- budgeting and managing grants and projects under the Rural Development Program, and
- providing oversight on the implementation of the Public Investment Program (PIP) including the service improvement program (DSIP, PSIP and LLGSIP), and coordinating reform processes and implementation at the sub-national level.

Monitoring and Reporting of Projects

4.5 To comply with the requirements of the SIP Administrative Guidelines 1B/2014 and relevant Financial Instructions, the DIRD under its Corporate Plan and Organisational Structure, established a Monitoring Unit with regional offices that conducts routine monitoring and inspections of projects funded under DSIP, PSIP and LLGSIP. The Unit maintained a database system in MS Excel that incorporates records and data relating to SIP acquittals for each year, including project monitoring and inspection reports.

4.6 Based on annual work plans and programs, the Project Coordinators from DIRD are deployed to the Provinces and Districts to physically inspect and verify the projects to ensure that

the projects funded and reported actually exist and represent value for money. The monitoring and inspection of projects is usually completed after appraising the acquittals submitted by Provinces and Districts. A monitoring and inspection report is produced at the end of monitoring trips by the Officer in charge, which is then consolidated into quarterly and annual management reports showing the status of all the DSIP, PSIP and LLGSIP acquittals. These are subsequently passed to the Central Agencies Coordinating Committee (and NEC) and other relevant government agencies for information and decision making purposes as appropriate, concerning the service improvement program.

4.7 The audit found that the work plans and programs in use by the DIRD Monitoring Unit were soundly based. However, the actual implementation of monitoring and inspection work plans for the period under review (2013-2016) was less than expected. Most of the Provinces and Districts were not visited by DIRD project inspection teams to have their SIP funded projects inspected and verified. In 2016 only 16 Districts and 3 Provinces were visited by the DIRD project monitoring and inspection team which is only 17 per cent of the 111 Districts and Provinces across the country. Whilst the focus of the project monitoring and inspection was on DSIP and PSIP, the audit found that there was no monitoring and inspection of projects funded under LLGSIP for the period under review.

4.8 It was also noted that during the time of audit, most of the acquittal reports submitted by Provinces and Districts for the year 2015 and 2016 were not yet fully appraised and certified by DIRD. The MS Excel data base system had not been updated to capture the monetary value of the acquittals submitted by Provinces and Districts. The lack of progress in assessing and certifying acquittals in a timely manner made it difficult for the AGO to cross-check and verify the SIP acquitted amounts against the payment amounts disbursed by the Department of Finance as discussed in Chapter 3. The delays in monitoring and inspection of the service improvement program (DSIP, PSIP and LLGSIP) were largely caused by the late submission of acquittal reports by Districts and Provinces as well as funding constraints and capacity issues within DIRD, which adversely impacted on its ability to fund the travel necessary to effectively carry out project inspections in a timely manner.

Coordination between DIRD and Finance Department

4.9 The administration and management of DSIP, PSIP and LLGSIP at the national level was placed under the Department of Finance and DIRD. The Finance Department is responsible for managing and disbursing the payments to the Provinces and Districts whilst the DIRD is in charge of coordination, monitoring and reporting of SIP performance and acquittals. Splitting key roles and accountabilities between two different agencies (Finance Department and DIRD) in the management and monitoring of SIP presents a number of risks to successful program delivery. In order to establish the effectiveness of the monitoring and reporting oversight of the payments and acquittals process of the SIP funds, the AGO assessed the coordination between the two departments in the context of data and information sharing.

4.10 AGO review and assessment found that there was no close coordination between DIRD and the Finance Department in sharing of data and information relating to payments and acquittals of SIP funds as required under the SIP Administrative Guidelines and relevant Finance Instructions. The management controls were lacking as SIP funds were disbursed to Provinces and Districts by the Finance Department without receiving certified acquittals and monitoring reports from DIRD of the previous funding allocations. The monitoring and reporting of projects and acquittals by DIRD

has lagged and subsequent payments are made by the Department of Finance on a monthly or quarterly basis without prior knowledge of project status.

4.11 The AGO also found that the DIRD and other monitoring agencies such as the Department of Works were also not working in close cooperation to ensure effective monitoring of the SIP funds, which led to a breakdown in the controls surrounding the usage and accountability of SIP funds at the sub-national level.

Awareness and Training

4.12 Apart from monitoring and reporting of SIP acquittals, the DIRD is also required to carry out awareness of SIP Administrative Guidelines and reporting requirements as well as providing necessary training on capacity building at the Provincial and District level. The awareness and training carried out by DIRD was targeted towards equipping key personnel such as the provincial Treasurers and Administrators with the knowledge and skills required to compile acquittal reports and comply with administrative reporting requirements.

4.13 The AGO found that one of the factors contributing to the non-acquittal of SIP funds over the years was the lack of awareness and training provided by DIRD to the Districts and Provincial level on the SIP Administrative Guidelines and reporting requirements. Due to a low level of awareness of the potential for the provision of training and coaching by DIRD, most of the key personnel such as Treasurers and Administrators at the District and Provincial level did not have sufficient knowledge and skill required to compile acquittal reports to comply with SIP reporting requirements. The lack of funding within DIRD also contributed to the low level of awareness and training provided as it impacted on the Department's ability to fund monitoring trips to the Provinces and Districts in order to conduct training relating to the reporting requirements and compilation of acquittal reports.

Conclusion

4.14 The SIP Administrative Guidelines requires DIRD to coordinate program reviews with the Department of Finance and other relevant agencies and provide quarterly and annual management implementation reports covering both the physical and financial status of DSIP, PSIP and LLGSIP to the Central Agency Coordination Committee (CACC) and other relevant government agencies and authorities.

4.15 The DIRD Corporate Plan is an overarching strategic management tool that provides directions and a roadmap for the organisation to achieve its objectives. It also emphasises the key roles and responsibilities of DIRD in relation to public service delivery which is to provide oversight on the implementation of the Micro-Public Investment Program (PIP) including the service improvement program (DSIP, PSIP and LLGSIP) and coordinating reform processes and implementation at the sub-national level. The DIRD under its Organisational Structure also established a Monitoring Unit that conducts routine monitoring and inspection of projects funded under DSIP, PSIP and LLGSIP.

4.16 Although the DIRD conducted routine monitoring and inspections of projects and SIP acquittals, there was a level of under-performance in the implementation of monitoring plans and programs across the country. Many of the Districts and Provinces were not visited by DIRD to have their projects inspected and verified for the period under review (2013- 2016). There was also a lack of action taken by DIRD in appraising and certifying acquittals of reports submitted by

Provinces and Districts for the years 2015 and 2016 which made it difficult for the audit to cross check and verify the acquittal amounts against payments disbursed by the Finance Department.

4.17 The coordination between DIRD and the Finance Department in terms of sharing data and information relating to SIP acquittals and payments was ineffective. There was a gap in the monitoring process of payments and acquittals of SIP funds in which payments were disbursed by Finance Department without receiving certified acquittals reports from DIRD of the previous funding allocations. This is contrary to the SIP Administrative Guidelines and Finance Instructions. Coupled with a lack of coordination by DIRD with other monitoring agencies such as the Works Department there is some doubt that the controls designed to ensure effective monitoring of SIP projects have been effective. Moreover there was a lack of awareness and training carried out by DIRD at the sub-national level on SIP acquittals and administrative reporting requirements which contributed to a poor outcome of SIP acquittal reports submitted by Districts and Provinces over the years 2013-2016.

4.18 The AGO concluded that the monitoring and reporting of SIP acquittals and programs was largely ineffective as DIRD was faced with resourcing challenges in carrying out its monitoring roles and responsibility required under the SIP Administrative Guidelines and Finance Instructions. The delays in monitoring and reporting of SIP acquittals and programs was caused by various factors such as the lack of funding allocated in the budget to carry out monitoring as well as broader capacity and manpower issues experienced by DIRD. There was also a lack of awareness and training provided at the sub-national level to equip key personnel like Provincial Treasurers and Administrators with the necessary knowledge and skills required to prepare acquittal reports and comply with administrative reporting requirements.

4.19 In order to address the issues identified in the monitoring and reporting of SIP projects and acquittals, the AGO makes the following recommendations:

Recommendation 4

4.20 The AGO recommends that

- (a) the DIRD should ensure that program coordination, monitoring and reporting of SIP funded projects at the sub-national level is completed on a regular basis and
- (b) quarterly and annual management status reports are compiled and submitted to government authorities for decision making purpose concerning the program as required under the SIP Administrative Guidelines and Finance Instructions.

DIRD Response:

Agree. However, DIRD takes its role seriously as evidenced by its five year corporate plan and yearly work plans but affected by inconsistent SIP implementation monitoring funds and under capacity of staff because the DIRD's Wing responsible for SIP coordination has less than 15 officers responsible for monitoring and reporting on the expenditure of K1.2billion or about 10% of the national budget appropriated to sub-national administrations each year.

Recommendation 5

4.21 The AGO recommends to ensure effective submission of SIP acquittal reports by Districts, Provinces and LLGs; the DIRD should foster close coordination and working relationship with

Department of Finance in terms of sharing data and information relating to monitoring reports and acquittals.

DIRD Response:

Agree with the findings. *Main problem now continues to be the lack of coordination between DIRD and DoF to strictly comply with SIP Administrative Guidelines and its Finance Instructions to ensure the huge budget appropriations to sub-national administrations receiving SIP funds are based on performance instead of frontloading in contrary to the established guidelines and related laws.*

Appendixes - Details of SIP Acquittals Status 2013 - 2016

[illegible]

[illegible]

77	New Guinea Islands	ENB	Pomio	2	2013 SIP acquittal submitted & appraised/under appraisal	4	2014 Yet to submit SIP acquittals	7	2015 Yet to submit SIP acquittals	10	2016 Yet to submit SIP acquittals
78	New Guinea Islands	ENB	Rabaul	3	2013 SIP acquittal submitted, appraised & monitored	6	2014 SIP acquittal submitted, appraised &	7	2015 Yet to submit SIP acquittals	10	2016 Yet to submit SIP acquittals
79	New Guinea Islands	ENB	Kokopo	3	2013 SIP acquittal submitted, appraised & monitored	6	2014 SIP acquittal submitted, appraised &	7	2015 Yet to submit SIP acquittals	10	2016 Yet to submit SIP acquittals
80	New Guinea Islands	Manus	Manus Regional	2	2013 SIP acquittal submitted & appraised/under appraisal	5	2014 SIP acquittal submitted & appraised/under appraisal	7	2015 Yet to submit SIP acquittals	11	2016 SIP acquittal submitted & appraised/under appraisal
81	New Guinea Islands	Manus	Manus	3	2013 SIP acquittal submitted, appraised & monitored	6	2014 SIP acquittal submitted, appraised &	7	2015 Yet to submit SIP acquittals	10	2016 Yet to submit SIP acquittals
82	New Guinea Islands	NIP	New Ireland Regional	2	2013 SIP acquittal submitted & appraised/under appraisal	5	2014 SIP acquittal submitted & appraised/under appraisal	7	2015 Yet to submit SIP acquittals	10	2016 Yet to submit SIP acquittals
83	New Guinea Islands	NIP	Kavieng	3	2013 SIP acquittal submitted, appraised & monitored	6	2014 SIP acquittal submitted, appraised &	9	2015 SIP acquittal submitted, appraised & monitored	10	2016 Yet to submit SIP acquittals
84	New Guinea Islands	NIP	Namatanai	3	2013 SIP acquittal submitted, appraised & monitored	6	2014 SIP acquittal submitted, appraised & monitored	7	2015 Yet to submit SIP acquittals	10	2016 Yet to submit SIP acquittals
85	New Guinea Islands	WNB	WNB Regional	3	2013 SIP acquittal submitted, appraised & monitored	6	2014 SIP acquittal submitted, appraised & monitored	7	2015 Yet to submit SIP acquittals	10	2016 Yet to submit SIP acquittals
86	New Guinea Islands	WNB	Kandrian Gloucester	2	2013 SIP acquittal submitted & appraised/under appraisal	5	2014 SIP acquittal submitted & appraised/under appraisal	7	2015 Yet to submit SIP acquittals	10	2016 Yet to submit SIP acquittals
87	New Guinea Islands	WNB	Talasea	3	2013 SIP acquittal submitted, appraised & monitored	4	2014 Yet to submit SIP acquittals	8	2015 SIP acquittal submitted & appraised/under appraisal	10	2016 Yet to submit SIP acquittals
88	Southern	Central	Central Regional	2	2013 SIP acquittal submitted & appraised/under appraisal	4	2014 Yet to submit SIP acquittals	7	2015 Yet to submit SIP acquittals	10	2016 Yet to submit SIP acquittals
89	Southern	Central	Abau	2	2013 SIP acquittal submitted & appraised/under appraisal	4	2014 Yet to submit SIP acquittals	7	2015 Yet to submit SIP acquittals	10	2016 Yet to submit SIP acquittals
90	Southern	Central	Rigo	1	2013 Yet to submit SIP acquittals	4	2014 Yet to submit SIP acquittals	7	2015 Yet to submit SIP acquittals	10	2016 Yet to submit SIP acquittals
91	Southern	Central	Golala	2	2013 SIP acquittal submitted & appraised/under appraisal	4	2014 Yet to submit SIP acquittals	8	2015 SIP acquittal submitted & appraised/under appraisal	11	2016 SIP acquittal submitted & appraised/under appraisal
92	Southern	Central	Kairuku Hiri	1	2013 Yet to submit SIP acquittals	4	2014 Yet to submit SIP acquittals	7	2015 Yet to submit SIP acquittals	10	2016 Yet to submit SIP acquittals
93	Southern	Gulf	Gulf Regional	2	2013 SIP acquittal submitted & appraised/under appraisal	5	2014 SIP acquittal submitted & appraised/under appraisal	7	2015 Yet to submit SIP acquittals	10	2016 Yet to submit SIP acquittals
94	Southern	Gulf	Kerema	1	2013 Yet to submit SIP acquittals	4	2014 Yet to submit SIP acquittals	7	2015 Yet to submit SIP acquittals	10	2016 Yet to submit SIP acquittals
95	Southern	Gulf	Kikori	1	2013 Yet to submit SIP acquittals	6	2014 SIP acquittal submitted, appraised & monitored	7	2015 Yet to submit SIP acquittals	10	2016 Yet to submit SIP acquittals
96	Southern	Milne Bay	Milne Bay Regional	3	2013 SIP acquittal submitted, appraised & monitored	6	2014 SIP acquittal submitted, appraised & monitored	8	2015 SIP acquittal submitted & appraised/under appraisal	10	2016 Yet to submit SIP acquittals
97	Southern	Milne Bay	Alotau	3	2013 SIP acquittal submitted, appraised & monitored	6	2014 SIP acquittal submitted, appraised & monitored	8	2015 SIP acquittal submitted & appraised/under appraisal	11	2016 SIP acquittal submitted & appraised/under appraisal
98	Southern	Milne Bay	Kiriwina Goodenough	3	2013 SIP acquittal submitted, appraised & monitored	6	2014 SIP acquittal submitted, appraised & monitored	7	2015 Yet to submit SIP acquittals	10	2016 Yet to submit SIP acquittals
99	Southern	Milne Bay	Esa'ala	3	2013 SIP acquittal submitted, appraised & monitored	4	2014 Yet to submit SIP acquittals	7	2015 Yet to submit SIP acquittals	11	2016 SIP acquittal submitted & appraised/under appraisal
100	Southern	Milne Bay	Samarai Murua	3	2013 SIP acquittal submitted, appraised & monitored	4	2014 Yet to submit SIP acquittals	7	2015 Yet to submit SIP acquittals	10	2016 Yet to submit SIP acquittals
101	Southern	NCD	NCD Regional	3	2013 SIP acquittal submitted, appraised & monitored	4	2014 Yet to submit SIP acquittals	7	2015 Yet to submit SIP acquittals	10	2016 Yet to submit SIP acquittals
102	Southern	NCD	POM North West	3	2013 SIP acquittal submitted, appraised & monitored	4	2014 Yet to submit SIP acquittals	7	2015 Yet to submit SIP acquittals	10	2016 Yet to submit SIP acquittals
103	Southern	NCD	POM North East	3	2013 SIP acquittal submitted, appraised & monitored	4	2014 Yet to submit SIP acquittals	7	2015 Yet to submit SIP acquittals	10	2016 Yet to submit SIP acquittals
104	Southern	NCD	POM South	3	2013 SIP acquittal submitted, appraised & monitored	4	2014 Yet to submit SIP acquittals	7	2015 Yet to submit SIP acquittals	11	2016 SIP acquittal submitted & appraised/under appraisal
105	Southern	Oro	Oro Regional	3	2013 SIP acquittal submitted, appraised & monitored	6	2014 SIP acquittal submitted, appraised & monitored	8	2015 SIP acquittal submitted & appraised/under appraisal	10	2016 Yet to submit SIP acquittals
106	Southern	Oro	Sohe	3	2013 SIP acquittal submitted, appraised & monitored	6	2014 SIP acquittal submitted, appraised & monitored	8	2015 SIP acquittal submitted & appraised/under appraisal	10	2016 Yet to submit SIP acquittals
107	Southern	Oro	Ijivitari	3	2013 SIP acquittal submitted, appraised & monitored	6	2014 SIP acquittal submitted, appraised & monitored	8	2015 SIP acquittal submitted & appraised/under appraisal	11	2016 SIP acquittal submitted & appraised/under appraisal
108	Southern	Western	Western Regional	3	2013 SIP acquittal submitted, appraised & monitored	4	2014 Yet to submit SIP acquittals	7	2015 Yet to submit SIP acquittals	10	2016 Yet to submit SIP acquittals
109	Southern	Western	North Fly	1	2013 Yet to submit SIP acquittals	4	2014 Yet to submit SIP acquittals	7	2015 Yet to submit SIP acquittals	10	2016 Yet to submit SIP acquittals
110	Southern	Western	South Fly	1	2013 Yet to submit SIP acquittals	4	2014 Yet to submit SIP acquittals	7	2015 Yet to submit SIP acquittals	2016 Yet to submit SIP acquittals	
111	Southern	Western	Middle Fly	1	2013 Yet to submit SIP acquittals	4	2014 Yet to submit SIP acquittals	7	2015 Yet to submit SIP acquittals	2016 Yet to submit SIP acquittals	
Total				111		111		111		111	0