



**REPORT**  
**of the**  
**AUDITOR-GENERAL**  
**2015**  
**on the Public Accounts**  
**of**  
**Papua New Guinea**

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**PART I**  
**Public Accounts of Papua New Guinea**

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01 March, 2019

**The Honourable Job Pomat, MP**  
Speaker of the National Parliament  
Parliament Haus  
**WAIGANI**  
National Capital District

Dear Mr Speaker,

Under the authority of *Section 214* of the *Constitution* of the *Independent State of Papua New Guinea*, I have the honour to transmit to the National Parliament, *Part I* of my *Report* for the year 2015.

My report embodies the results of audit of the transactions for the year as reflected in the detailed statement of the receipts and expenditures of the Public Account of Papua New Guinea for the financial year ended 31 December 2015, submitted to me for audit, on which I have been unable to express an opinion.

Yours sincerely,

**GORDON KEGA, MBA, CPA**  
**Acting Auditor-General**





## Table of Contents

Summary and Recommendations .....	10
Recommendations .....	11
<b>1. Overview of the Public Accounts and the Audit Approach .....</b>	<b>14</b>
The Role of the Public Accounts of Papua New Guinea .....	14
Constitutional Authority .....	14
Auditor-General's Parliamentary Reporting .....	15
Preparation of the Public Accounts .....	15
Overview of Government Accounting .....	15
Accounting for Receipts and Payments .....	15
Trust Funds .....	16
Accounting for Assets and Liabilities .....	16
Audit Approach .....	17
Materiality and Audit Assurance .....	17
<b>2. Commentary on the Audit Opinion .....</b>	<b>18</b>
Overview .....	18
The Audit Report .....	18
Scope of the Engagement .....	19
Responsibility for the Preparation of the Financial Statements .....	20
Auditor-General's Responsibilities .....	20
The Audit Opinion .....	21
Limitation of Scope .....	21
Accounts and records .....	21
Other Legal and Regulatory Requirements .....	21
<b>3. Commentary on the Public Accounts .....</b>	<b>22</b>
Concise Financial Reporting .....	22
Departmental Audits .....	23
Corporate Governance .....	23
Corporate Plan and Annual Plan .....	23
Audit Committees .....	23
Quarterly and Annual Financial Reports .....	23
Annual Management Reports .....	23

Budgetary Control .....	24
Cash Management – Bank Reconciliation .....	24
Asset Management.....	25
Procurement and Payment Procedures .....	25
Trust Account Management.....	26
Management of Cash Advances .....	27
Audit Observations and Recommendations .....	27
Statement of Significant Accounting Policies .....	27
Appropriation Management .....	28
Appropriation Drawdowns .....	28
Recommendation 1 .....	28
Secretary’s Advance .....	28
Legislative Breaches of the Appropriation Acts.....	28
Cash Management.....	29
Bank Reconciliations .....	29
Waigani Public Account.....	29
Receiver of Public Monies (RPM) Account.....	29
Trust Account Management.....	29
New Trust Accounts established in 2014.....	29
Trust Account Reconciliations.....	29
Controls over Consolidated Revenue Fund Trust Accounts.....	30
Discrepancies identified in Statement C .....	30
Overdrawn Trust Accounts.....	30
Revoked Trust Accounts .....	30
Conclusion – Cash and Trust Account Management .....	30
Recommendation 2 .....	31
Recommendation 3 .....	31
Recommendation 4 .....	31
Recommendation 5 .....	31
Recommendation 6 .....	31
Recommendation 7 .....	31
Government Borrowings and Loans.....	31
Discrepancies Identified in Statement G.....	31

Discrepancies Between Statement G and Statement J .....	32
Discrepancies Between Statement G and Statement L.....	32
Creditor Confirmation of Government Borrowings .....	32
Memorandum of Understanding with NEC.....	32
<b>Recommendation 8 .....</b>	<b>33</b>
<b>Recommendation 9 .....</b>	<b>33</b>
<b>Recommendation 10.....</b>	<b>33</b>
<b>Investments .....</b>	<b>33</b>
Valuation of Investments .....	33
<b>Recommendation 11.....</b>	<b>33</b>
Discrepancies Identified in Statement E .....	33
Inconsistencies Between Statement A and Statement E.....	34
<b>Recommendation 12.....</b>	<b>34</b>
<b>Asset Management.....</b>	<b>34</b>
Losses and Deficiencies .....	34
<b>Recommendation 13.....</b>	<b>34</b>
<b>Revenues and Receipts .....</b>	<b>34</b>
<b>Purchases and Payments .....</b>	<b>35</b>
Operating Expenditure .....	35
<b>Recommendation 14.....</b>	<b>36</b>
<b>Other Matters .....</b>	<b>36</b>
Performance Reporting on Regions.....	36
<b>ACKNOWLEDGMENT.....</b>	<b>37</b>



## Summary and Recommendations

1. The Public Accounts of Papua New Guinea are an important element of open and accountable government. The presentation of the accounts to the Parliament fulfils a key stewardship obligation of the Government to report its financial performance during the reporting period. The purpose of this report specifically recognises the responsibility placed on entities to maintain effective control structures as part of good corporate governance. The AGO is committed to the timely reporting of significant matters to assist the Parliament in its oversight of government programs.

2. Generally, lack of timely reconciliations performed regularly throughout the year meant that significant effort was required at the end of the fiscal year to complete the financial statements for annual financial reporting purposes. As in previous years, there continues to be a need for greater discipline and management oversight in the financial statement preparation process. The results of the audit indicate that a number of entities are yet to implement the fundamental processes required for accurate and timely financial statement reporting.

3. The audit identified a number of significant matters around deficiencies in the application of the budgetary control framework. Specifically, there is a mandatory requirement that all reallocations of funds issued by the Secretary for Treasury under the Appropriation Acts are to be made available through Reports in the National Gazette. This requirement forms the legal authority and basis for the transfer of funds from one allocation to another. However, no such Directions were published in the National Gazette for the 2015 financial year. In the absence of the statutory approval from the Secretary for Treasury, transfers were not validated in accordance with the requirement of the Appropriation Act.

4. The audit also identified instances where trust accounts were operating in breach of the trust instruments, which requires transactions to be recorded in the responsible entity's general ledger. The absence of transactions in the general ledger meant that the balances of the trust accounts could not be verified.

5. Other significant issues that require attention and resulted in the inability to form an opinion on the Public Accounts include:

- inadequate employee and wages records—transactions in 16 out of 17 agencies indicated that no payroll reconciliations had been performed;
- there were discrepancies between the record keeping processes maintained by the Department of Finance and Statement C of the Public Account. The audit identified 355 trust accounts with bank accounts, however, no status reports were maintained by Finance Department on submission of bank reconciliations to confirm balances reported in Statement C.;
- three trust accounts were overdrawn;
- proper accounts and records were not maintained for investments totalling K12.3 billion. The audit was unable to determine that the movement in balances recorded in the general ledger were accurate; and
- there was a failure to maintain procurement registers, payment vouchers and other documentation to support payments, acquittals and advances in a number of agencies.

6. The challenge for entities now, is to embed sound financial management practices into their operations. These initiatives need to be achieved in a way that is cost effective and targeted at priority areas such as those outlined above. Taking such steps will enable entities to achieve a more efficient deployment of resources and will also contribute positively to corporate governance through an improved understanding of financial management issues.

7. The report makes a number of recommendations which are designed to address the major concerns in financial systems, controls and processes. The AGO will focus future audit activity on these areas to ensure there is improvement in the quality of the underlying control structures that support the reporting of public sector financial performance and accountability. This is also necessary for the efficient and effective management of public revenues and expenditures as well as to provide appropriate assurance to the Government and to the Parliament.

8. In addition to the significant matters affecting my ability to express an opinion, there are a number of issues arising from this financial statement report that need to be addressed by individual agencies, the Department of Finance and the Department of Treasury. Foremost amongst these is the need to improve the timeliness and quality of financial information, and ensuring that accounting processes operate as designed to reduce the risk of misstatement due to irregularities, errors or fraud. As in previous years, for many agencies, internal procedures need to be strengthened to ensure that the financial rules and the guidelines set by the government are followed. As well, there continues to be a need to enhance understanding of the accounting systems, including developing and fostering the appropriate skills and experience to perform effectively.

## Recommendations

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

<b>Recommendation 1</b> <b>Paragraph 3.39</b>	The AGO recommends the Department of Finance develop revised processes for the monitoring and control of agency expenditure. The process should include instruction and support to Government entities during the budgeting process.
<b>Agency Response: Department of Finance (DoF) notes the recommendations and will be taking corrective measures.</b>	
<b>Recommendation 2</b> <b>Paragraph 3.62</b>	The AGO recommends the Department of Finance ensures the timely completion and submission of bank reconciliations for all bank and trust accounts as required by the PFM Act. Where reconciliations are not provided in a timely manner, the Department of Finance should commence prompt follow up action, and ensure evidence of this action is retained for audit purposes.
<b>Agency Response: DoF notes the recommendations and will be taking corrective measures.</b>	
<b>Recommendation 3</b> <b>Paragraph 3.63</b>	The AGO recommends the Department of Finance undertake a stocktake of all Receiver of Public Money accounts and ensure that receipts recorded in each account are transferred in full to the Waigani Public Account. In addition, the Department of Finance should follow up on outstanding reconciliations and take appropriate action against those entities who fail to comply with reconciliation controls, as required by the Finance Instructions.
<b>Agency Response: DoF notes the recommendations and will be taking corrective measures.</b>	



## *Executive Summary*

<b>Recommendation 4</b> <b>Paragraph 3.64</b>	The AGO recommends the Department of Finance ensure that new trust accounts are properly captured in its existing systems.
<b>Agency Response: DoF notes the recommendation and will be taking corrective measure.</b>	
<b>Recommendation 5</b> <b>Paragraph 3.65</b>	The AGO recommends that the Department of Finance develop formal reporting and monitoring processes capable of ensuring departments and agencies compliance with Finance Instructions relating to reconciliations, trust accounts and bank accounts.
<b>Agency Response: DoF notes the recommendations and have taken corrective measures.</b>	
<b>Recommendation 6</b> <b>Paragraph 3.66</b>	The AGO recommends the Department of Finance ensure that appropriations are managed and monitored in accordance with the Finance Instructions and relevant internal policies and guidelines and that the expenditure is in accordance with appropriation limits set out in the Appropriation Act.
<b>Agency Response: DoF notes the recommendations and will be taking corrective action.</b>	
<b>Recommendation 7</b> <b>Paragraph 3.67</b>	The AGO recommends that the Department of Finance takes immediate action to remove revoked accounts from IFMS and prevent departments and agencies from continuing to use these funds.
<b>Agency Response: DoF notes the recommendations and will be taking corrective action.</b>	
<b>Recommendation 8</b> <b>Paragraph 3.78</b>	<p>The AGO recommends the Department of Finance:</p> <ul style="list-style-type: none"> <li>• undertake a reconciliation of balances reported in Statements G, J and L to ensure that amounts reported in the Public Accounts are reported consistently; and</li> <li>• develop a Loans Register to record movements in borrowings relating to treasury bills and inscribed stock so that appropriate records are maintained and can be used to prepare the Public Accounts.</li> </ul>
<b>Agency Response: DoF notes the recommendations and will be taking corrective action.</b>	
<b>Recommendation 9</b> <b>Paragraph 3.79</b>	The AGO recommends the Department of Treasury develop and maintain a Register of Guarantees so that loan guarantees can be properly managed and monitored. The development of a Register has been recommended by the AGO since 2008 with the Department of Treasury having made little progress with its implementation.
<b>Agency Response: No responses was received from DoT.</b>	
<b>Recommendation 10</b> <b>Paragraph 3.80</b>	The AGO recommends that the Department of Treasury develop a memorandum of understanding with the National Executive Council to provide details of each new guarantee, or amendments to existing guarantees, to comply with National Executive Council requirements.
<b>Agency Response: No responses was received from DoT.</b>	
<b>Recommendation 11</b> <b>Paragraph 3.84</b>	<p>The AGO recommends the Department of Finance:</p> <ul style="list-style-type: none"> <li>• implement systems capable of capturing and recording information to support the valuation methodologies used for each investment; and</li> <li>• undertake reconciliations between supporting documentation and the Statement F disclosure to ensure the accuracy and completeness of the balances reported.</li> </ul>
<b>Agency Response: DoF notes the recommendation and will be taking corrective action.</b>	
<b>Recommendation 12</b> <b>Paragraph 3.87</b>	<p>In relation to Statement E, the AGO recommends the Department of Finance:</p> <ul style="list-style-type: none"> <li>• verify the closing balances of all trust fund investments, and obtain</li> </ul>

## *Executive Summary*

	<p>documentation to support these balances;</p> <ul style="list-style-type: none"><li>• upgrade or replace the current information systems used to record trust fund investments so that proper records are maintained in future years; and</li><li>• update the disclosures in Statement A and Statement E to remove the liability transactions, consistent with the cash accounting policy.</li></ul>
<b>Agency Response: DOF notes the recommendations and will be taking corrective action.</b>	
<b>Recommendation 13</b> <b>Paragraph 3.90</b>	The AGO recommends the Department of Finance conduct an evaluation and overhaul of Government departments' management of public assets.
<b>Agency Response: DoF notes the recommendation and will be taking corrective action.</b>	
<b>Recommendation 14</b> <b>Paragraph 3.96</b>	<p>The AGO recommends the Department of Finance:</p> <ul style="list-style-type: none"><li>• improve its record keeping procedures to ensure supporting documentation and evidence of appropriate approvals are retained;</li><li>• establish processes to ensure lease agreements are retained, and develop a lease register to monitor the Government's lease obligations;</li><li>• establish a cheque register to monitor and control cheques issued by the Department; and</li><li>• undertake the necessary actions to finalise the lease arrangements on all occupied properties, and obtain the necessary signatures on lease agreements which have not been signed.</li></ul>
<b>Agency Response: DoF notes the recommendations and will be taking corrective action.</b>	



# 1. Overview of the Public Accounts and the Audit Approach

## The Role of the Public Accounts of Papua New Guinea

**1.1** The Papua New Guinea system of government depends, in part, on the availability of reliable and accurate financial information. The Public Accounts is a major source of annually reported and audited, financial information.

**1.2** The Government of Papua New Guinea is based on consent, formally given by representatives in Parliament through the annual appropriations of supply, approval of the budget, and passage of specific legislative proposals. Information on the intended benefits, cost and financial effects of government proposals is needed before Parliament gives its consent. Reporting of financial information is needed to provide a basis on which Parliament can make decisions for the effective and efficient use of its financial resources.

**1.3** Some financial limits apply in relation to the Parliament's appropriation framework and financial records are needed to demonstrate that legislative controls and processes, including underlying departmental policies and procedures, have been complied with. Another important limit is jurisdiction—the practice of granting separate appropriations for the National Judiciary and National Parliamentary Services facilitates the separation of control and promotes financial accountability of the Speaker, Minister and Public Service managers.

**1.4** Information provided in the Public Accounts provides a basic overview of the Government's fiscal operations, to assist with the good governance and proper operation of Government functions. However, the system is dependent on the quality of the information provided.

**1.5** The Department of Finance has embarked on a project of improving the central accounting and reporting systems, and the further development of departmental processes. Many of the matters included in my report highlight areas which the Department of Finance should address as part of this project.

## Constitutional Authority

**1.6** Section 214 of the Constitution of the Independent State of Papua New Guinea requires the Auditor-General to inspect and audit, and to report at least once in every fiscal year to the Parliament on the Public Accounts of Papua New Guinea. The Auditor-General is also required to report on the control of, and on transactions with or concerning, the public moneys and property of Papua New Guinea, and such other functions as are prescribed by or under a Constitutional Law. These functions are supported through and extended by the *Audit Act 1989*.

**1.7** Section 7, Sub-Section 2A, of the *Audit Act 1989* requires the Auditor-General's report to specify, among other things, whether the financial statements are based on proper accounts and records and are a fair representation of the financial operations for the period they cover. The Act sets out other matters that are to be covered in the Auditor-General's report such as the management of receipts and payments, investments of moneys and the acquisition and disposal of assets.



## **Auditor-General's Parliamentary Reporting**

**1.8** In accordance with the above requirements, audits are carried out and the findings are reported to the National Parliament in four parts:

- **Part I** – covers the audit findings, conclusions and recommendation on my audit of the Public Accounts of Papua New Guinea. This part explains the reasons supporting my inability to express an opinion on the Public Accounts. The audited financial statements and my audit opinion were provided to the Minister for Finance on 15 March 2019.
- **Part II** – covers the audit findings, conclusions and recommendations on my audits of National Government Departments, Instrumentalities and Agencies.
- **Part III** – reports on the results of the audits of Provincial and Local-level Governments, business arms of Provincial Governments and their subsidiary corporations.
- **Part IV** – reports on findings, conclusions and recommendations from audits of public bodies and their subsidiaries, state owned companies and state share-holdings in other companies.

**1.9** I also submit a copy of the AGO's Annual Report to Parliament in accordance with *Section 19 of the Audit Act 1989*.

## **Preparation of the Public Accounts**

**1.10** The AGO continues to work with the Department of Finance to improve the timeliness of financial reporting as indicated with the set of 2015 Public Account Financial Statements which was delivered to my office in May 2016, however, Statement F was delivered in November, 2016, thus indicating no improvement compared to November 2015 for the corresponding report from the prior year. The improvement in the timeliness of the financial statement preparation process, the completion of the audit, and the tabling of this report in the Parliament is positive. However, as reported in previous years, it is apparent that a number of entities see the preparation of financial statements as a once yearly process and not a continuous process where issues that have been raised in prior years need to be addressed and implemented over the course of the year. The AGO will continue to work with individual entities; however, it is my expectation that departments in receipt of public funding should be actioning financial reporting requirements in a more timely manner.

## **Overview of Government Accounting**

**1.11** Government accounts are maintained in accordance with the *Public Finance (Management) Act 1995* and the Finance Instructions issued by the Department of Finance. Receipts and expenditure are brought to account only when money is actually collected or when a payment is made. Cost of goods and services received in one year is brought to account in the year of payment and not spread over the years during which the good or service may be used. Similarly, for revenue and other forms of income, revenue recognition is deferred until the cash is received.

### **Accounting for Receipts and Payments**

**1.12** Where expenditure is incurred in the current year and a recovery is made, or a refund is received in a subsequent year, the recovery or refund will be credited to in the subsequent year's account. No attempt is made to increase the budgeted allocations by re-crediting the previous year's appropriation. However, expenditure is incurred in the current year, and the recovery, or refund, is

received within the same year, the recover or refund will be re-credited to the current year's annual appropriation.

**1.13** For returns of revenue, the appropriation framework does not allow the reversal of revenue previously recognised. Instead, all refunds are recognised as an expense under the relevant Appropriation Act.

**1.14** Where an international agency makes payments directly to a supplier on behalf of a government entity, and there is an expectation of repayment (i.e. a loan), both the loan revenue and the expenditure is brought to account in the Government's ledger.

### Trust Funds

**1.15** A distinguishing feature of the Government financial system is the concept of fund entities, which is derived from the legislative controls around public finances. Under the fund entities concept, government revenues and loans accumulate in a central fund, and withdrawals from the fund are used to meet expenditure only when authorised by the Parliament. If an obligation incurred during a particular year is not met during or before financial year end, the expenditure is carried forward and the obligation met from the following year's Parliamentary authorisation. The framework does not allow for unspent current year funding to be rolled forward. Parliamentary authorisations, known as appropriations, are annual but there are special dispensations within the framework to allow for ongoing funding arrangements, usually through a trustee structure. Under these arrangements, Parliamentary appropriations, either for start-up assistance in the form of initial working capital or budget subsidies for operations, are paid into a separate fund and the moneys in this fund are carried forward from year to year. Monies paid into trust funds are subject to a higher level of scrutiny and control by Financial Instructions compared to normal public expenditure.

### Accounting for Assets and Liabilities

**1.16** Since Government accounts are on a cash basis, it is important that subsidiary accounts are maintained to provide accurate and complete reporting of the Government's assets and liabilities. The following processes are expected to be implemented in every Government entity to properly record its assets and liabilities for reporting purposes:

- a) An asset register showing the date of acquisition for all assets with a purchase price of K1,000 and a useful life of more than one year. The asset register should record details of the asset's original cost, description of the asset, unique identifier (serial and model number). On disposal, the asset register should be updated for the date of disposal, method of disposal and any proceeds from sale;
- b) Debtors' accounts showing the name and address of each debtor, amount received and amount owing, receipt number and other useful descriptive information;
- c) Vendors' accounts showing accounts received from suppliers (or personal claims) and registered for payment, particulars of payments, and amounts still owing; and
- d) An advances ledger showing the date of the advance, payments made, amounts receipted, an acquittal of expenditure, and the advance holder's personal particulars.



## **Audit Approach**

**1.17** The audit of the Public Accounts is planned and conducted with the objective of identifying transactions which have not been properly recorded, or have not been accounted for in accordance with these principles. In addition, the audit is designed to test the design and operating effectiveness of key controls.

**1.18** My audits are conducted in accordance with internationally recognised Auditing Standards issued by the International Organization of Supreme Audit Institutions (INTOSAI).

## **Materiality and Audit Assurance**

**1.19** When planning an audit, there are two main factors that determine the nature and extent of the work required and audit procedures performed—materiality and audit assurance.

**1.20** Materiality represents a quantitative threshold calculated based on my assessment of whether the omission or misstatement of information would impact the economic decision making of the Parliament. The materiality threshold is set deliberately low in order to detect any potential omissions or misstatements.

**1.21** Where misstatements fall below the materiality threshold, the amounts are reported to the Department of Finance and the responsible Minister, however they do not require correction and I am able to provide an opinion that the financial statements are not materially misstated. Where misstatements exceed the materiality threshold, and the Department of Finance has not corrected the misstatement, I cannot provide an opinion that the financial statements are fairly presented, and will issue either a qualified opinion, or depending on the seriousness of the breach, I may be unable to express an opinion.

**1.22** The second factor, audit assurance, represents how “certain” I want to be that my audit is designed to detect aggregate errors that equal or exceed the materiality threshold. The auditing standards provide for two levels of audit assurance—limited assurance and reasonable assurance. My audit is planned and executed to provide reasonable assurance to the Parliament that the Public Accounts are free from material misstatement.

**1.23** The level of assurance is linked to the audit risk, with a higher risk resulting in a lower materiality threshold and expectation that a higher degree of audit testing will be required. An audit is not designed to test 100 percent of an entity’s transactions and accounts, but is designed based on my assessment of risk, and on the size and complexity of the entity. Many of the audit procedures undertaken involve testing a selection of transactions, either through targeted testing, or random sampling.

## **2. Commentary on the Audit Opinion**

**2.1** I was not able to express an opinion on the government's financial statements due to a material limitation of scope. I have expressed a Disclaimer of Opinion, which means that I was unable to obtain sufficient and appropriate audit evidence to support the fair presentation of the Public Accounts in accordance with the financial framework. The Government's financial statements provide a summarised financial overview of its various activities, which include:

- appropriation funds available, received and expended by state agencies;
- revenue received and expenditure incurred during the year;
- the cash position as at 31 December 2015;
- borrowings and investments made by state agencies;
- losses by state agencies; and
- a summary of lending and guarantees provided by state agencies.

**2.2** In my view, the Public Accounts of the Government of Papua New Guinea were not maintained and kept in accordance with government legislation. In addition, receipts and payments, investment of public moneys, and the acquisition and disposal of assets for the financial period ending 31 December 2015 have not been properly accounted for in accordance with the relevant legislation and these balances have not been able to confirm the completeness of the balances disclosed in the financial statements. Paragraph 2.7 further explains my reasons for not expressing an opinion.

### **Overview**

**2.3** In issuing my opinion on the Government's financial statements, it is important to understand that an audit provides reasonable assurance as to the accuracy and completeness and fair presentation of the financial statements in accordance with the applicable financial framework. An audit is undertaken using a risk based approach, and applies the concept of materiality. Those items which are larger in amount and higher risk will attract greater audit attention. It is possible that due to the risk based approach adopted, not all misstatements as a result of error or fraud will be detected. However, when issuing an opinion I am satisfied that I have obtained sufficient and appropriate audit evidence which leads to me believe that any undetected misstatements would not be material.

### **The Audit Report**

**2.4** My audit opinion is set out in accordance with international recognised auditing standards and includes the following requirements:

- an opening paragraph outlining the scope of the audit engagement;
- a paragraph outlining the responsibilities of those charged with governance for the financial statement audit;



- a paragraph outlining my responsibilities as the auditor; and
- a final paragraph setting out my opinion and the basis for my conclusion.

## Scope of the Engagement

**2.5** The scope identifies the financial statements covered by my audit and upon which I have expressed my opinion. A summary of each statement is outlined below.

<u>Financial Statements</u>	<u>Information Conveyed</u>
• Statement A	<b>Statement of Public Account Balances.</b> This Statement reports the Government's year-end cash position.
• Statement B	<b>Consolidated Revenue Fund—Receipts and expenditure.</b> This Statement summaries the receipts and expenditure for the year.
• Statement C	<b>Trust Fund Receipts and Expenditure.</b> This Statement reports the list of monies held by the Government on behalf of a third party.
• Statement D	<b>Statement of Sources and Application of Funds.</b> This Statement reports the sources and application of funds during the year.
• Statement E	<b>Trust Fund—Particulars of Investments.</b> This Statement provides details of trust fund monies that have been invested.
• Statement F	<b>Statement of Direct Investments, Capital Contributions an Equity Option Rights.</b> This Statement records the Government's investments and ownership in companies and statutory authorities.
• Statement G	<b>Statement of Public Debt.</b> This Statement reports amounts owed by the Government to third parties.
• Statement H	<b>Statement of Lending.</b> This Statement aims to show what is owed to the Government by other parties;
• Statement I	<b>Statement of Loan Guaranteed by the Government.</b> This Statement reports the value of loans and commitments where the Government has guaranteed repayment in the event of the borrower's loan default.
• Statement J	<b>Receipts classified under Heads of Revenue Estimates.</b> This Statement provides details of receipts as summarised in Statement B; and
• Statement L	<b>Expenditure classified under Appropriation Division.</b> This Statement provides details of expenditure as summarised in Statement B.

**2.6** The transactions used to produce Statements A, B, C, E, J and L are recorded and maintained by the Department of Finance in its accounting system, the Integrated Financial Management System (IFMS) while Statement D is maintained outside the IFMS. Statements F, G, H and I are drawn from the accounting system and other sources maintained by the Department of Treasury with input from other government entities.

In addition to my audit of information pertaining directly to each Statement, there are certain accounts, records, registers and control processes that provide assurance over the completeness of the information reported in the Public Accounts that I am required to audit. I have included commentary on these matters where necessary in my Report.

**2.7** I have also reviewed compliance with the financial legislative framework, particularly in relation to appropriation management, and provide commentary where breaches have been identified.

## **Responsibility for the Preparation of the Financial Statements**

**2.8** The Minister for Finance is responsible for the oversight of the Finances of Papua New Guinea and for causing the preparation of a detailed statement of the receipts and expenditure of the Public Accounts to be sent to the Auditor-General for audit. The Minister is also required to ensure that Parliament is informed of all transactions involving public monies through the presentation of the Public Accounts.

**2.9** The Secretary of the Department of Finance is responsible for the management of the financial affairs of the Government of Papua New Guinea. The Secretary is also responsible for the preparation and presentation of the Public Accounts and the information contained therein.

**2.10** Heads of Department of the Public Service are responsible for the efficient management of their Departments, including financial management.

## **Auditor-General's Responsibilities**

**2.11** My responsibility is to undertake the audit and obtain appropriate and sufficient audit evidence as required by the International Auditing Standards (ISAs) as issued by the International Federation of Accountants (IFAC). These standards ensure that my audit is conducted with appropriate rigour and professionalism.

**2.12** The main objective of the audit was to ensure that the reported financial statement balances materially agree with the accounts and records maintained by the Department of Finance, and to ensure that the balances fairly present and disclose the financial operations of the Government of Papua New Guinea during the financial year, at 31 December 2015. The audit of the Public Accounts included obtaining evidence through inspection, observation and the verification of some balances through third party confirmation.

**2.13** The results of the audits of material Government departments and agencies have also been considered as part of this audit.

**2.14** In addition, I have performed tests of controls, to assess the accuracy, completeness and reliability of balances and other financial information used during the financial statement preparation process. This audit is not designed to detect fraud, and therefore the results of my audit cannot be relied upon to identify and/or disclose all such matters. However, the audit was planned and executed so that I can have a reasonable expectation of detecting material misstatements resulting from irregularities, including error and/or fraud.



## **The Audit Opinion**

**2.15** The audit opinion outlines my conclusion on the Public Accounts, and outlines whether:

- The financial statements have been prepared in accordance with proper accounts and records; and
- Whether the financial statements present fairly the Government's financial position, results of operations and the financial requirements as required under the applicable financial framework and relevant legislation.

**2.16** Consistent with prior years, I am unable to form an opinion on the Government's financial statements for the 2015 financial year. Explanatory comments are outlined below.

## **Limitation of Scope**

**2.17** During the course of my audit I noted, a number of significant and material discrepancies that limited the scope of my audit. These limitations significantly affected the extent and depth of my audit coverage that I could not satisfy myself that appropriate audit evidence had been obtained, sufficient to form an opinion on the financial statements.

## **Accounts and records**

**2.18** I also noted during the course of the audit, deficiencies in the maintenance of proper accounts and records, and the absence, or poor implementation, of internal controls that limited my ability to verify the accuracy and completeness of the underlying transactions used to produce the financial statements.

## **Other Legal and Regulatory Requirements**

**2.19** In addition to the scope limitation and accounts and records issues, breaches of the Constitution and the *Public Finance Management Act 1995* were identified and reported. I noted non-compliance to keeping records and their transactions contrary to Finance Instructions and the *Public Finance Management Act 1995* and breaches of the Appropriation Act in regard to excess spending and monthly budget transfer Directions.

### **3. Commentary on the Public Accounts**

**3.1** The Department of Finance has put considerable effort into improving the year-end preparation process of the financial statements. This includes both improved documentation that supported and validated the financial statements balances, as well as maintaining a constructive relationship with the AGO.

**3.2** The AGO noted that some issues raised from previous years have been addressed. The efforts made by the Department of Finance in identifying all operating Trust Accounts and in developing processes designed to ensure compliance with legislative requirements is commendable. The AGO understands that it can take some time and significant departmental resources to fully implement the AGO's recommendations, and that the efforts in some areas are continuing.

**3.3** However, the number and magnitude of the audit issues identified in the course of the 2015 Public Accounts audit indicate that overall, there are ongoing significant weaknesses in the control environment both within the Department of Finance and in responsible agencies. In the AGO's view, the control activities, including delegations, authorisations, reconciliations, data processing, and IT system controls, were not sufficiently robust to prevent, detect fraud or correct errors.

**3.4** This chapter provides an overview of the control weaknesses and significant variances identified during the course of the audit. Each matter has been reported in detail to the Department of Finance's management team.

#### **Concise Financial Reporting**

**3.5** The preparation and publication of a comprehensive yet concise annual financial report, similar to reports published by private sector corporations, would assist the Parliament and the public sector stakeholders in obtaining a complete picture of the Government's fiscal position and outlook.

**3.6** At present, the financial statements of the Public Accounts of Papua New Guinea are not presented in accordance with an internationally accepted accounting framework, such as the International Financial Reporting Standards or the Cash Basis of Accounting Standards issued by the International Federation of Accountants (IFAC). At present, the Public Accounts are presented in accordance with a framework developed by the Department of Finance, and this needs to be updated.

**3.7** The AGO continues to work closely with the Department of Finance to identify improvements in the presentation of the Public Accounts. The AGO recommends the Department of Finance move towards a more internationally accepted presentation and disclosure model. The AGO acknowledges that this may take some time as the Department of Finance works with other Government agencies to further develop its internal financial reporting and control processes. The AGO also acknowledges that the Parliament and other users of the statements should also be consulted to ensure the needs of all users are addressed.



## **Departmental Audits**

**3.8** In forming my opinion on the Public Accounts, it is necessary to consider the impact of control weaknesses identified within Government departments and agencies. Identified control weaknesses reduce the level of confidence the AGO has that financial information is complete, accurate and reliable.

**3.9** A total of 17 departments and agencies were audited during the 2015 financial year. Departments and agencies are selected for audit based on the AGO's assessment of risk, and the materiality of the entity's balances in relation to the Public Accounts. The audits are designed to assess the entity's controls and compliance with the relevant financial framework, and assess the ability of the entity to produce complete, accurate and valid information for financial reporting purposes.

**3.10** The Section below provides an overview of the significant observations identified during the course of these audits.

## **Corporate Governance**

### **Corporate Plan and Annual Plan**

**3.11** The Government's financial framework requires all departments and agencies to have a corporate plan, and an annual management plan. Seven of the 17 audited departments did not have an annual management plan for 2015.

**3.12** Corporate and business plans are important as they set targets, and outline performance indicators, which assist with monitoring the performance of the entity. Departments without annual plans may have performance issues which in turn lead to ineffective and inefficient service delivery.

### **Audit Committees**

**3.13** Audit Committees play an important role in reviewing and advising on important components of an entity's corporate governance. An effective Audit Committee provides additional oversight of key audit functions and there are often strong correlations between the effectiveness of the audit committee and the effectiveness of an agency's control structures. The audit committee also reports directly to the head of the entity. The AGO noted that five out of 17 departments did not have a functioning audit committee during 2015.

### **Quarterly and Annual Financial Reports**

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

**3.15** The AGO confirmed during audit that there was serious non compliance during 2015.

### **Annual Management Reports**

**3.16** The *Public Service (Management) Act 1995* stipulates that entities must prepare an annual management report documenting whether the objectives of the entity were met during the preceding 12 months. The report must be submitted to the Department of Personnel Management (DPM) by 31 March each year.

**3.17** The AGO confirmed that 12 out of 17 departments did not submit the above mentioned report to DPM as required.

## **Budgetary Control**

**3.18** An effective financial management environment is demonstrated by strong integration of budgeting with the entity's priorities set out in the corporate plan and external accountabilities. Appropriations represent the primary source of revenue for all agencies. The efficiency of a department's cash management and budgetary controls are designed to ensure that information systems can produce accurate and complete information. Overall, the AGO audits identified that budgetary and funds management controls were generally inadequate. The common weaknesses observed related to:

- Lack of monitoring of cash receipts and payments in all audited departments during 2015. Departments did not prepare cash flow statements, and there were significant variances noted in almost all departments between the revised budget, the total of the warrant authorities and actual expenditure. The lack of monitoring increases the risk of funds being expended in excess of approved budgets and appropriation limits set by Parliament, resulting in breaches of the PFM Act and Appropriation Act.
- Expenses were recorded against the incorrect appropriation source. In addition, there were instances of funds being transferred between divisions and functions in breach of the Appropriation Act.
- None of the departments have reconciled the PGAS (the ledger accounts and records maintained by each department) to the IFMS, which captures all the financial transactions processed through the PNG Government Main Public Accounting System. These reconciliations should be performed monthly. This is a serious matter as the Public Accounts are prepared using information recorded in the IFMS. The AGO was unable to confirm the accuracy or completeness of information recorded in this system.
- Material variances in actual expenditures were noted in several agencies, which could not be explained by the department's management.

**3.19** These issues are serious in nature as the non-performance of key reconciliations, and the significant and material discrepancies between appropriations and expenditure has a significant impact on the Department of Finance's ability to prepare complete, accurate and reliable Public Accounts.

## **Cash Management – Bank Reconciliation**

**3.20** The financial framework requires departments to reconcile their bank accounts on a monthly basis. The reconciliations must be submitted to the Department of Finance within 14 days of month end. The common weaknesses observed related to:

- The majority of departments had not completed/performed monthly bank reconciliations; there were significant un-reconciled items which have not been followed up;
- In a number of departments, the finance officers were not qualified or sufficiently trained to be able to perform their functions; and
- There were instances where the reconciliations were not reviewed and certified as correct by a senior accountable officer.



## **Asset Management**

**3.21** Government departments and agencies spend significant amounts of money on assets, such as motor vehicles, computers and furniture and fittings. Departments are responsible for implementing policies and procedures designed to safeguard and protect the public assets within their control.

**3.22** The AGO reviewed key controls around assets in 17 departments and identified the following common control weaknesses:

- Asset Registers were either non-existent or they were poorly maintained in all audited departments. A properly maintained register reduces the risk of misappropriation due to fraud, and allows management to make decisions about the efficient and effective use of public assets. A register also records the physical condition and location of assets, and can record and plan for future maintenance and/or replacement;
- In all audited departments, there was no evidence of periodic stock takes being performed during the year. Stock takes are important to confirm the completeness of the register, and to ensure the existence of all assets. Stock takes also allow management to assess the condition of each asset and determine whether provision needs to be made for the asset's repair or replacement;
- Where asset registers were maintained, the AGO identified that a significant number of assets purchased during 2015 were not recorded in the asset register; and
- Controls around the management of vehicle fleets were extremely poor. There was no record of custodianship for vehicles when not garaged on the department's premises. There was no accountability or record for the use of the vehicle to ensure official vehicles were being used for proper purposes. In addition, there were no periodic repairs and maintenance schedules, or evidence of planning for the vehicle's future replacement.

## **Procurement and Payment Procedures**

**3.23** Payments in relation to operating costs are one of the largest areas of expenditure across Government. Effective procurement and payment controls are essential in ensuring the efficient and effective use of PNG Government resources. The AGO would expect to see, at a minimum, controls around the approval of expenses including delegation and authorisation limits, segregation of duties controls which separate the approval and processing of payments, procurement processes which include obtaining quotes from multiple independent vendors, and system controls which limit purchasing and payment functions within IT systems to a restricted number of approved departmental officers.

**3.24** The AGO identified a high degree of non-compliance with the Government's financial framework, and a lack of internal controls regarding the approval and processing of invoices. There were also serious deficiencies in record keeping, with source documentation unable to be provided for many transactions, a lack of procurement plans and a failure to obtain, or provide evidence of obtaining, quotations. Most significantly, the AGO was unable to find evidence, in almost all cases, of an officer confirming the receipt of the good or service prior to payment.

**3.25** The absence of effective controls significantly increases the risk of:

- unauthorised purchases, and a general failure to comply with delegation and authorisation limits;
- over-commitment of funds without a consideration of the department's available cash;
- fraudulent payments (including officers choosing vendors based on personal gain);

- duplicate payments due to error; and
- the purchase of inferior and/or over-priced goods and services.

### Human Resource and Payroll Management

**3.26** Human Resource (HR) Management processes encompass the day-to-day management and administration of employee entitlements and payroll functions. On average, salaries and other personal entitlements comprise approximately 20 per cent of the annual operating budget of the Government.

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

**3.28** The AGO reviewed key controls around HR and payroll processing in 17 departments and identified the following common control weaknesses:

- Payroll reconciliations, reconciling the cash disbursement to the general ledger and HR system were not performed in 16 out of 17 departments. This is consistent with prior year results which identified that a significant number of departments do not perform regular payroll reconciliations. Instead of maintaining their own records, these departments relied on transactional data obtained from the Department of Finance's IFMS. The absence of payroll reconciliation controls greatly increases the risk of error or fraud during the payroll process;
- Overall, there were poor controls around the updating of salary and allowances in personnel files. The AGO was unable to confirm that leave (recreation, sick etc.) and other allowances had been approved. It was also difficult to determine whether the current salary and allowances were correct, and that salaries and entitlements were paid in accordance with approved rates;
- Many departments demonstrated poor security of sensitive personnel information. Personnel files were left in an unsecured state on the floor; and
- The AGO noted instances where payments for rental accommodation provided to staff were in excess of contractual entitlements, and in some agencies, officers were provided with mobile phones and prepaid cards whilst receiving telephone allowances.

### Trust Account Management

**3.29** Departments are responsible for ensuring appropriate controls around the safekeeping and proper use of trust funds. The PFM Act requires that proper accounts and records be maintained for each trust account, and that receipts into and payments out of the trust account are recorded in accordance with the trust instrument. The Act also requires a trust account to be reconciled on a monthly basis, and a copy of the reconciliation to be provided to the Department of Finance.

**3.30** The AGO noted the following common control weaknesses:

- Consistent with prior years, almost all departments could not demonstrate that all receipts and payments recorded in the trust account were in accordance with the trust instrument;
- Four trust accounts were not properly recorded in the responsible department's accounting system. In addition, the AGO could not obtain evidence demonstrating that records were properly maintained, and there was insufficient monitoring of expenditure out of the trust



account;

- The majority of departments had not performed the monthly reconciliation for each month during 2015, and subsequently had not submitted the monthly trust account reconciliations to the Department of Finance; and
- Surplus funds standing to the credit of trust accounts were not invested in accordance with the PFM Act.

## Management of Cash Advances

**3.31** The financial regulations require all international and domestic travel and cash advances to be recorded in a register of advances, controlled and managed by respective Departments. The following significant issues were noted:

- Un-acquitted advances as at 31 December 2015 were in excess of K18.4 million in 16 audited departments. The AGO noted that many of these advances are long outstanding, and that multiple advances have been provided to officers even though the officer has failed to acquit the earlier advance;
- The AGO observed that there is a lack of documentation supporting the reasons for the cash advance, and that the agencies practises in providing advances to officers is highly irregular. It is the AGO's view that many of these advances (totalling K2.9 million across six departments) appear to be fraudulent in nature;
- The AGO was unable to confirm the completeness of the register. Even with poor record keeping, the AGO was able to identify K5.5 million in advances which had not been properly recorded on the register. The AGO estimates that the total cash advances issued and not properly acquitted is likely to be significantly higher than this figure; and
- The AGO could not sight evidence that the Department of Finance and responsible departments were actively pursuing officers to acquit the balances and recover outstanding amounts.

**3.32** The lack of oversight and controls around the management of cash advances poses a significant fraud risk to the Government. The AGO recommends the Department of Finance perform a review of the current system and consider developing processes and procedures which are easier to oversight and less prone to fraud.

## Audit Observations and Recommendations

**3.33** The remainder of this report provides a summary of the key audit observations and recommendations following my examination of the financial statements for the year ended 31 December 2015. The findings reported below relate to work performed in addition to the reviews conducted in each department, as discussed above.

## Statement of Significant Accounting Policies

**3.34** As disclosed in the Notes to the Accounts, the AGO observed that the accounting policies and practices followed in the preparation of the 2015 Public Accounts were based on requirements stipulated in the *Public Finances (Management) Act 1995* (PFM Act) and the Finance Instructions.

**3.35** The accounting policies and practices are the principles, bases, conventions, rules and practices adopted in preparing and presenting the statements. However, the Department of Finance has not published the financial framework for departments to follow. Further, the AGO observed

that Note 1.1 provided a general overview of the ‘cash basis of accounting’ but was not specific enough to inform the reader of the specific policies applied to the accounts.

## Appropriation Management

### Appropriation Drawdowns

**3.36** The AGO reviewed the appropriation draw downs of Government agencies and identified 13 instances where departments had spent in excess of their available appropriation set out in the *Appropriation Act*. This resulted in multiple breaches of the Act and additional expenditure in excess of K71.7 million, which had not been approved by Parliament.

**3.37** In addition, the AGO noted 51 instances where an entity’s expenses were significantly below their approved appropriation allocation. The AGO considers these to be examples of poor budgeting processes and a general lack of oversight and/or understanding of Government expenditure. A well planned budget should result in a break-even position with appropriations being fully spent each year to cover operating expenses.

**3.38** The commentary provided in Statement L indicates that much of the over-spending in appropriations could be avoided with better budgeting processes, and more education to agencies about their responsibilities for appropriation management.

## Recommendation 1

**3.39** *The AGO recommends the Department of Finance develop a revised processes for the monitoring and control of agency expenditure. The process should include instruction and support to Government entities during the budgeting process.*

### Secretary’s Advance

**3.40** The Secretary’s advance is a mechanism available to the Secretary of the Department of Finance to provide additional funding to entities when current funding is insufficient due to unforeseen circumstances. Section 3 of the *Appropriation (General Public Services Expenditure 2015) Act 2014* makes available a total amount of K50 million for this purpose.

**3.41** The AGO noted that a total amount of K133.7 million was advanced under *Section 3 of the Act*, resulting in an overspending of the available appropriation of K83.7 million, and multiple breaches of the *Appropriation Act*.

### Legislative Breaches of the Appropriation Acts

**3.42** *Section 12 of the Appropriation (General Public Services Expenditure 2015) Act 2014* requires the Secretary of the Department of Treasury to publish a monthly report of all appropriation transfers made under the Act, and to publish the report on the Department’s website. In addition, *Section 13 of the Appropriation Act* requires the Department of Treasury to provide copies of directions made in accordance with certain provisions of the Act to be provided at the conclusion of each quarter to the AGO.

**3.43** This information has not been provided to the AGO and the Department of Treasury had not prepared the monthly reports, in breach of the *Appropriation Act*. These are serious breaches of the Department of Treasury’s responsibilities as the information assists the AGO in its completion of the audit, and is important information for the Parliament and other stakeholders.



## **Cash Management**

### **Bank Reconciliations**

**3.44** Bank reconciliations are an important control designed to ensure that receipts and payments are accurately processed, and errors are identified, or any misappropriation of funds is detected promptly. Bank reconciliations are a mandatory control under the Finance Instructions and must be undertaken on a monthly basis, for all bank accounts. A review was undertaken to determine the extent to which the departments and agencies complied with the requirement during the 2015 financial year.

**3.45** Out of 17 departments and agencies reviewed during 2015, nine entities did not provide evidence that reconciliations had been performed, and eight entities had significant variances between their bank account and cash ledger which had not been followed up or resolved.

### **Permanent Advances and Cash in Transit**

**3.46** As at 31 December 2015, there were unreconciled amounts in excess of K340,000 in permanent advances and cash in transit relating to Area Finance Offices, which have been abolished. The Department of Finance should investigate these outstanding amounts, and undertake recovery action against agencies and/or individual officers where relevant.

### **Waigani Public Account**

**3.47** The Waigani Public Account (WPA) is the PNG Government's Main Operating Account. Although, the bank reconciliations were prepared for the months of January to December, 2015, the controls surrounding the person preparing and certifying the statements were lacking. Inconsistencies were noted in the dates and the signatures. In addition, huge unidentified balances were noted in all monthly reconciliations of which was not identified and analysed by audit due to unavailability of documents. This is a serious breach of internal control, and increases the risk of misappropriation due to error and/or fraud.

### **Receiver of Public Monies (RPM) Account**

**3.48** Money collected by the National Government must be deposited into a Receiver of Public Monies (RPM) bank account, which is transferred periodically into the WPA. All provinces are required to open an RPM bank account to enable financial transfers to the National Government. RPM bank accounts must be reconciled on a monthly basis.

**3.49** Of the 23 RPM bank accounts, 16 of the bank accounts were not reconciled during 2015. In addition, the AGO identified: six RPM bank accounts reported negative balances amounting to K25,602,581. Reliance cannot be placed on the year end balances due to records not made available.

## **Trust Account Management**

### **New Trust Accounts established in 2014**

**3.50** The AGO confirmed that 21 new trust accounts were created during the 2015 financial year. 17 trust accounts were not reported in Statement C.

### **Trust Account Reconciliations**

**3.51** Under *Section 19 of the PFM Act*, departments and agencies responsible for trust accounts must submit a monthly estimate of receipts and payments for each trust account to the Department of Finance. The AGO observed:

- No proper records kept and maintained by Department of Finance in regard to monthly bank reconciliations received by departments and agencies; and out of 67 trust accounts checked, only 16 submitted their monthly bank reconciliations for the year 2015.

**3.52** While the AGO acknowledges the progress made by the Department of Finance in addressing this issue from prior years, the significant reconciliation issues meant the AGO was unable to determine the accuracy of the cash balance held in the trust accounts.

#### Controls over Consolidated Revenue Fund Trust Accounts

**3.53** Not all trust accounts are operated through a bank account. Instead, a small number of trust accounts utilise funds drawn from the consolidated revenue fund (CRF), with the onus on the responsible department or agency to maintain proper accounts and records of receipts into, and payments out of, the trust account. AGO could not confirm the number of non bank accounts due to records not made available.

#### Discrepancies identified in Statement C

**3.54** Statement C reports the receipts and expenditure recorded in trust accounts. The AGO identified the following discrepancies, which need to be corrected by the Department of Finance:

- Nine out of 67 trust bank accounts checked did not agree to the balance reported in Statement C. This resulted in an overstatement of the cash balance by K228.8 million; and
- The inclusion of 17 trust accounts in Statement C, which were closed during 2015.

**3.55** In addition, the notes to the Public Accounts stated that cash at bank does not include bank accounts which could not be verified through bank reconciliation. The amount of the potential misstatement due to this control breakdown cannot be determined.

#### Overdrawn Trust Accounts

**3.56** The AGO also confirmed that three trust accounts were overdrawn during the 2015 financial year, resulting in an aggregate overdrawn balance of K1.84 million.

#### Revoked Trust Accounts

**3.57** The Department of Finance advised the AGO that 17 trust accounts had been closed or revoked during the 2015 financial year. The Finance Instructions require the Minister for Finance to approve the closure and/or revocation of trust accounts. The Department of Finance was unable to provide the AGO with a copy of the revocation request or the Minister's approval.

**3.58** The AGO also noted inconsistencies in the reporting of revoked accounts. A number of revoked accounts have been included in Statement C, while others have not.

**3.59** The lack of transparency and uncertainty around the status of these trust accounts increases the risk of misstatement due to fraud and/or error. The AGO also raised with the Department of Finance the potential that this process has resulted in a breach of the PFM Act and Appropriation Act. The Department of Finance has acknowledged that some revoked trust accounts have continued to operate well past the closure dates approved by the Minister.

#### Conclusion – Cash and Trust Account Management

**3.60** The lack of accountability over bank accounts, cash management and trust accounts is a serious breach of the PFM Act and Finance Instructions, which has prevented the AGO from forming an opinion on the fair presentation of the disclosure in Statement C of the Public Accounts. In particular, the Department of Finance should increase its focus on ensuring entities' compliance with



the Finance Instructions for the reconciliation of bank accounts, and where required, impose penalties on non-compliant departments and agencies.

**3.61** A number of actions are required to address the risks, as set out below.

## **Recommendation 2**

**3.62** *The AGO recommends the Department of Finance ensures the timely completion and submission of bank reconciliations for all bank and trust accounts as required by the PFM Act. Where reconciliations are not provided in a timely manner, the Department of Finance should commence prompt follow up action, and ensure evidence of this action is retained for audit purposes.*

## **Recommendation 3**

**3.63** *The AGO recommends the Department of Finance undertake a stocktake of all Receiver of Public Money accounts and ensure that receipts recorded in each account are transferred in full to the Waigani Public Account. In addition, the Department of Finance should follow up on outstanding reconciliations and take appropriate action against those entities who fail to comply with reconciliation controls, as required by the Finance Instructions.*

## **Recommendation 4**

**3.64** *The AGO recommends the Department of Finance ensure that new trust accounts are properly captured in its existing systems.*

## **Recommendation 5**

**3.65** *The AGO recommends that the Department of Finance develop formal reporting and monitoring processes capable of ensuring departments and agencies compliance with Finance Instructions relating to reconciliations, trust accounts and bank accounts.*

## **Recommendation 6**

**3.66** *The AGO recommends the Department of Finance to ensure that appropriations are managed and monitored in accordance with the Finance Instructions and relevant internal policies and guidelines and that the expenditure is in accordance with appropriation limits set out in the Appropriation Act.*

## **Recommendation 7**

**3.67** *The AGO recommends that the Department of Finance takes immediate action to remove revoked accounts from IFMS and prevent departments and agencies from continuing to use these funds.*

## **Government Borrowings and Loans**

### **Discrepancies Identified in Statement G**

**3.68** Statement G reports the Government's borrowings as at 31 December 2015 and shows the movement as a result of repayments and additional borrowings between the prior and current years. The AGO identified that the opening balance as at 31 December 2014 did not agree to the prior year audited accounts, resulting in a discrepancy of K23 million. This was not corrected by the Department of Finance.

**3.69** In addition, four loan amounts were adjusted by K77.9 million in total. However, no supporting documentation could be provided to show the reasons for these adjustments. All adjustments resulted in a decrease in the borrowing.

#### Discrepancies Between Statement G and Statement J

**3.70** As noted above, Statement G reports the Government's total borrowings. Statement J records total revenues received by the Government during the financial year. The movement in Statement G should reconcile, in part, to the revenue balance reported in Statement J. In relation to international borrowings, the AGO identified that:

- A sum of loan obtained by four creditors totalling K465.9 million reported in Statement G did not agree to the revenue disclosed in Statement J. This resulted in a net understatement of revenue of K66.8 million; and
- there was an understatement of K1.2 billion of revenue in Statement J, when compared to the borrowings reported in Statement G for treasury bills and inscribed stock.

#### Discrepancies Between Statement G and Statement L

**3.71** Statement G includes details of borrowings repaid during the financial year. To make a repayment, a valid appropriation must be available to draw the funds from the CRF. Statement L reports monies drawn from the CRF under an appropriation.

**3.72** The AGO could not reconcile the borrowings repaid as reported in Statement G, to the appropriations reported in Statement L, resulting in an overstatement of the appropriation balance of K32.3 million. In addition, the AGO could not reconcile the repaid borrowings to supporting documentation provided by the Department of Finance.

**3.73** Similarly, the interest repaid as reported in Statement G did not agree to Statement L, resulting in a variance of K10.4 million. In relation to other international repayments, the AGO identified total net discrepancies of K28.2 million between Statement G and Statement L, which could also not be agreed to the Loans Register (a variance of K24.6 million).

**3.74** For treasury bills and inscribed stock, there were variances in both the repayment of the principal and interest components of K915.1 million and K8.7 million respectively. In addition, the AGO observed that the Department of Finance did not maintain a Loans Register for these amounts.

#### Creditor Confirmation of Government Borrowings

**3.75** Due to the absence of supporting documentation, the AGO could not verify the Government's borrowings independently with the international lender. The AGO identified significant discrepancies of K111.7 million between the foreign-exchange adjusted lender balance and the balances reported in Statement G.

#### Memorandum of Understanding with NEC

**3.76** Statement I lists the Government guarantees provided over loans made to Statutory Bodies and other agencies. The AGO noted that the Department of Treasury does not maintain a register of guarantees, but rather requests the information at financial year end from all debtors. Statement I is updated to reflect the information provided by debtors.

**3.77** In addition, the Department of Treasury does not hold copies of loan documentation. The AGO was unable to verify the agreed loan amounts or repayment schedules, and could not confirm the completeness of Statement I.



## Recommendation 8

**3.78** *The AGO recommends the Department of Finance:*

- *undertake a reconciliation of balances reported in Statements G, J and L to ensure that amounts reported in the Public Accounts are reported consistently; and*
- *develop a Loans Register to record movements in borrowings relating to treasury bills and inscribed stock so that appropriate records are maintained and can be used to prepare the Public Accounts.*

## Recommendation 9

**3.79** *The AGO recommends the Department of Treasury develop and maintain a Register of Guarantees so that loan guarantees can be properly managed and monitored. The development of a Register has been recommended by the AGO since 2008 with the Department of Treasury having made little progress with its implementation.*

## Recommendation 10

**3.80** *The AGO recommends that the Department of Treasury develop a memorandum of understanding with the National Executive Council to provide details of each new guarantee, or amendments to existing guarantees, to comply with National Executive Council requirements.*

## Investments

### Valuation of Investments

**3.81** Statement F of the Public Accounts reports K12.3 billion worth of investments in Public Companies, Public Bodies and other organisations. Each investment needs to be fair valued using a methodology acceptable under the accounting framework. The Department of Finance was unable to provide any supporting documentation to show how each investment had been valued.

**3.82** As part of the AGO's audit of Statement F, the AGO was not provided with a formal Investment Register, relevant explanations or the required ledger records and the relevant documentation or details including the movements and the variances that occurred during the year.

**3.83** The unavailability of a register and records and the AGO's inability to verify the valuation methodologies have resulted in my inability to form an opinion on the completeness and accuracy of Statement F.

## Recommendation 11

**3.84** *The AGO recommends the Department of Finance:*

- *implement systems capable of capturing and recording information to support the valuation methodologies used for each investment; and*
- *undertake reconciliations between supporting documentation and the Statement F disclosure to ensure the accuracy and completeness of the balances reported.*

### Discrepancies Identified in Statement E

**3.85** Statement E provides details of trust fund investments as at 31 December 2015. The Statement reported a net decrease in three trust funds which could not be verified.

## Inconsistencies Between Statement A and Statement E

**3.86** Amounts reported in Statement E, are also reported as part of Statement A, as Statement A reports the Government's total cash holdings. The AGO reconciled the figures reported in each Statement and identified total discrepancies of more than K2.8 million. The discrepancies were raised with the Department of Finance who advised that the trust fund investment balances reported in Statement A included liability transactions, where cheques had been issued but not cashed by the recipient. This is in contravention of the cash accounting policy and should have been excluded.

## Recommendation 12

**3.87** *In relation to Statement E, the AGO recommends the Department of Finance:*

- *verify the closing balances of all trust fund investments, and obtain documentation to support these balances;*
- *upgrade or replace the current information systems used to record trust fund investments so that proper records are maintained in future years; and*
- *update the disclosures in Statement A and Statement E to remove the liability transactions, consistent with the cash accounting policy.*

## Asset Management

### Losses and Deficiencies

**3.88** The PFM Act sets out the requirements for the reporting of losses of public money and property, and also requires that public bodies maintain records and control over assets within its custody. The AGO notes that the 2015 Public Accounts did not report the losses and deficiencies for the year ended 31 December 2015. In addition:

- The accounts and records of 17 Government departments for 2015 revealed that these departments did not maintain proper and updated records of assets, or registers of losses and deficiencies; and
- Periodic stocktakes were not conducted in the majority of departments. The AGO observed that a significant number of departments did not maintain records of assets and as a result they were unable to accurately report assets that had been lost or stolen.

**3.89** The lack of monitoring and oversight of public assets represents a serious fraud risk to the Government.

## Recommendation 13

**3.90** *The AGO recommends the Department of Finance conduct an evaluation and overhaul of Government Departments' management of public assets.*

## Revenues and Receipts

**3.91** Statement J reports the total receipts classified by type. The AGO tests receipts in entities with the largest material receipt balances. In 2015, this consisted of the Internal Revenue Commission, the Customs Commission, and the Departments of Land and Physical Planning, Transport, and Labour and Industrial Relations. The work performed over the receipts collected by each entity was compared to Statement J.

**3.92** The AGO identified the following variances:



- a variance of K1.3 million relating to receipts collected by the Department of Labour and Industrial Relations;
- a variance of K21.5 million relating to receipts collected by Department of Lands and Physical Planning; and
- a variance of K543.48 million relating to receipts collected by the Department of Treasury.

**3.93** However, the AGO was unable to determine whether the records maintained by the Department of Finance (as reflected in Statement J) or the responsible entity were more accurate. In addition, as the IRC and the Customs Commission had not produced their annual reports as at the time of the audit in December 2016, the AGO was unable to verify the receipts recorded in Statement J pertaining to either entity.

## **Purchases and Payments**

### **Operating Expenditure**

**3.94** Each year, the AGO tests the controls and procedures around payments and expenditure, and assesses the reliability of the data recorded in the IFMS for financial statement purposes.

**3.95** In 2015, total expenditure as recorded in the IFMS was in excess of K1 billion. The AGO selected a sample of significant expenditure items within a number of Government departments and agencies and noted the following:

- The majority of the requested lease documentation, including copies of lease agreements, and the lease register, could not be provided despite multiple requests. Of the lease documentation provided to the AGO, there were multiple instances where lease agreements had expired, or were yet to be finalised, and there was no evidence that the lease agreements had been signed by all parties;
- Multiple instances where documentation supporting the payment could not be provided, the payment was not certified prior to processing, or the funds had not been properly committed or approved prior to payment;
- For expenses paid by cheque, there was no central cheque register and it was not possible to track whether an issued cheque had been collected by the payee; and
- Multiple instances where three quotations were not obtained prior to selecting the preferred vendor, in contrary to Department of Finance policy.

## Recommendation 14

**3.96** *The AGO recommends the Department of Finance:*

- *improve its record keeping procedures to ensure supporting documentation and evidence of appropriate approvals are retained;*
- *establish processes to ensure lease agreements are retained, and develop a lease register to monitor the Government's lease obligations;*
- *establish a cheque register to monitor and control cheques issued by the Department; and*
- *undertake the necessary actions to finalise the lease arrangements on all occupied properties, and obtain the necessary signatures on lease agreements which have not been signed.*

## Other Matters

### Performance Reporting on Regions

**3.97** Provincial and Local Level Governments are required to implement financial controls in compliance with the Finance Instructions. The Department of Finance monitors each region's compliance by determining a performance rating for each region. The AGO requested the Department to provide the AGO with copies of its Performance Ratings report for each region. Out of four regions requested, only two reports could be provided.

**3.98** The AGO reviewed the two reports and noted that, bank reconciliations have not been prepared and reviewed in a timely manner, and variances had not been followed up.

## **ACKNOWLEDGMENT**

I would like to thank my staff in undertaking the audit work that is reflected in this report. Their tireless efforts have enabled the preparation of this report.

The full co-operation and the assistance rendered to me by all Heads of Departments and their staff members is also acknowledged.

Finally, I would also like to thank the Chairman of the Parliamentary Public Accounts Committee and his staff for their continued interest and support of my Office.

**SIGNED AT WAIGANI THIS FIRST DAY OF MARCH, YEAR TWO THOUSAND AND NINETEEN.**

A handwritten signature in blue ink, appearing to read 'GK', with a stylized flourish.

**GORDON KEGA, MBA, CPA**  
*Acting Auditor-General*

10/2/10