



REPORT of the AUDITOR-GENERAL

PART II-2016-2015

**National Government Departments
and Agencies**

**On the Controls and on Transactions with or
concerning the Public Monies and Properties of
Papua New Guinea**



REPORT
of the
AUDITOR-GENERAL
2016-2015

**On the control of and on transactions
with or concerning the public monies and
property of Papua New Guinea**



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OFFICE OF THE AUDITOR-GENERAL

02 July, 2020

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

Dear Mr. Speaker,

In accordance with the provisions for *Section 214* of the *Constitution of Independent State of Papua New Guinea*, and the *Audit Act, 1989 (as amended)*, I have the honor to transmit to the National Parliament the Part II of my Reports for the years ended 31 December, 2016 and 2015.

The Combined Report deals with National Government Departments and Agencies on the control environment and on transactions with or concerning the public monies and properties of the state of Papua New Guinea in 2016 and 2015.

After the tabling of this Report in Parliament, I will put a copy of it on my website at <http://www.ago.gov.pg/publications>

Yours Faithfully,

GORDON KEGA, MBA, CPA
Acting Auditor-General

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LIST OF ACRONYMS

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

Foreword

This report, prepared as part of the audits of financial statements of major public entities, continues the AGO's focus on the importance of the internal control structure within entities, as a fundamental component of corporate governance. As such, this report examines the components of the internal control structure and reports findings relating to selected entities.

An internal control structure is integral to ensuring appropriate attention is directed at both performance and conformance issues and that there is alignment in key business objectives and the control environment, the security and utility of information systems, the adequacy of specific control processes and the key imperatives of financial management and reporting.

Control processes are the specific policies and procedures that ensure business and accounting processes operate as designed without irregularities, errors or fraud occurring. This issue is examined by reviewing the control processes such as reconciliation and approval checks that are in place over significant business and accounting processes covering appropriations, levies and taxes and other revenues, payment and benefit processing, payroll and other personnel costs, and significant assets.

Given this focus, attention is drawn to the significant risk, control and related management issues within operating and accounting processes and financial systems that support the financial reporting processes of selected entities for the years ending 2016 and 2015.

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

I would like to acknowledge the professionalism and commitment of my staff in undertaking the audit work which culminated in this report and in reporting back to the individual organisations concerned. I also record our appreciation for the cooperation of chief executive officers and other relevant entity staff in preparing this report.

ROLE OF THE AUDITOR-GENERAL – Introduction

Authority to Audit

Section 214 of the *Constitution of the Independent State of Papua New Guinea* requires the Auditor-General to inspect and audit, and to report at least once in every fiscal year (as provided by an Act of the Parliament) to the Parliament on the Public Accounts of Papua New Guinea. The Auditor-General is 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 have been strengthened by the *Audit Act, 1989 (as amended)*.

Section 3, Sub-section (4) of the *Audit Act, 1989 (as amended)*, states that: “the Auditor General shall in such manner and at such times as he thinks proper, inspect and audit all accounts that relate directly or indirectly to:-

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

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

Audit Coverage

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

- **Audit of 2016 and 2015 accounts** – the examination of statutory reporting, cash management practices, budgetary appropriations and in particular erroneous charges to itemized expenditure and year end processes. To support the audit of the Public Accounts for 2015 and 2016, 7 and 21 Departments respectively have been selected based on risk and significant budgetary appropriation, hence, to assess the reliability and accuracy of the reported expenditure and revenue in the Public Accounts.
- **The control environment in 2016 and 2015** - the examination of, controls surrounding procurement and payments, asset management, human resource management, management of advances, cash management and budgetary controls. Individual reports/management letters were sent to Departmental Heads to improve on the processes of the 2016 and 2015 control weaknesses. The results of these audits are detailed under the individual agencies included in this Report.

Responsibilities of Management

Departmental Heads are responsible for the efficient management of administrative services and are also responsible for keeping proper accounting and subsidiary records. In addition, the Departmental Head, in accordance with *Section 5 of the Public Finances (Management) Act, 2016 (as amended)* is also responsible for safeguarding the collection and custody of public moneys, that expenditure is properly authorized and applied to the purposes for which it was appropriated, and all expenditure was incurred with due regard to economy, efficiency and avoidance of waste.

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

Responsibilities of the Auditor-General

Section 3 of the Audit Act, 1989 (as amended) requires me to satisfy myself that:-

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

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

Other than in relation to my own staff and administrative control of my own Office, neither the Constitution nor any other legislation provides me any executive or directive powers over the

organizations subject to my audit. Although the evaluations and investigations performed under my direction assist the respective management in detecting weaknesses in controls and procedures, compliance in identifying causes of inefficiencies and uneconomic practices, and in recommending remedial measures, it is unethical for me to undertake executive responsibilities in relation to the formulation of accounting systems and policies or the setting of standards for administrative and accounting purposes. To assume such responsibilities may impede my independence and objectivity requirements in the performance of my primary functions.

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

CONTROLS ENVIRONMENT – Summary Results

Introduction

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

Control Environment – Sets the tone for an organization. Provides discipline and structure and strongly influences the control consciousness of its people. Key factors: integrity, ethical values and competence of its personnel.

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

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

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

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

The Audit of Internal Controls

The audits of 2016/2015 controls were designed to assess the reliability of control structures to produce complete, accurate and valid information for financial reporting purposes.

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

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

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

Corporate Governance

Corporate governance can be defined as the practices, principles and values that guide an entity and its operations every day, at all levels of the organization.

In the public sector environment, corporate governance is the framework established by the top management to ensure that the stakeholders, primarily the Parliament, the Government and the wider community, have assurance that the entity is fulfilling its responsibilities with due diligence and accountability.

Corporate Plan and Annual Plan

As stipulated in the *National Public Service General Orders 8.11* “the Departmental Head shall have in place at all times a Corporate Plan providing the future business strategies and planned objectives of his/her Department over a three to five year period. Based upon the Corporate Plan, and the programmed budgeting approach to managing his/her Departmental resources, the Department Head shall provide Annual Management Plans to meet requirements of the budgetary cycle”.

However, the result of the audits indicated that out of the 28 entities reviewed in 2016 and 2015, I found that 14 departments did not have in place Corporate Plans. Furthermore, 5 out of 7 and 13 out of 21 audited entities did not prepare Annual Plans respectively in 2016 and 2015. Corporate and Business Plans are important as they set the targets and performance indicators to assist with monitoring of achievements and taking corrective actions. Departments without these plans have difficulty in measuring performance which in turn leads to ineffective and inefficient service delivery.

Internal Audit Committee

Internal Audit is a key source of independent and objective assurance advice on an agency’s internal control and risk framework. Depending on the role and mandate of an Agency’s internal audit function, it can play an important role in assessing the adequacy of systems and processes that underpin an agency’s financial management.

From the AGO perspective, Internal Audit is an important component of the system of internal control. Because of similarities in the nature and scope of activities performed by internal and

external auditors, especially in the public sector, there are significant efficiencies to be achieved if external auditors are able to rely on the work of Internal Audit. An effective Internal Audit program should facilitate external audit to place greater reliance on their work, thereby making better use of overall audit resources.

In respect to 28 Departments that I reviewed, three departments did not have an Internal Audit function established. In the majority of cases there was insufficient capacity in trained staff and funding for Internal Audit to carry out its duties during the year. I also found that some agencies audit reports were overlooked by management and therefore, corrective/remedial actions were not taken to mitigate risks.

Audit Committees have an important role to play in reviewing and advising on important components of corporate governance. An effective committee has the potential to strengthen the agency's control structure and to assist the Chief Executive/Secretary to foster and maintain an appropriate control culture. Of the 28 Departments covered in 2016 and 2015, seven Agencies did not have an established Audit Committee in place.

Statutory Reporting

Quarterly and Annual Financial Reports

Part II Section 5 of the Public Finances (Management) Act, 1995 (as amended) 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, Department of Finance.

There is some confusion around the requirement to provide Quarterly and Annual Financial Management Reports, and as such there is some non-compliance to the requirements of Part 2, section 5 of the PFM Act, 1995 as indicated in the department and agencies audited in 2016 and 2015.

Annual Management Reports

Division 4 Section 32(a) of the Public Service (Management) Act, 2014 stipulates that:

“Each Departmental Head shall by 31st March in each year, prepare a report on the attainment of the planned objectives of his Department for the year ending 31st December preceding.”

Public Service General Order 8.12 reinforces this by directing that the Departmental Head is to forward to Secretary, Department of Personnel Management a report on the work and achievements of the Department in relation to the Corporate and Annual Management Plans.

Of the 16 Departments checked, only seven have submitted these reports for 2016 to the Department of Personnel Management. In 2015, all seven Departments checked did not

submit this report as required. Moreover, DPM had not acted on this non-compliance or had undertaken any follow up action.

I am of the view that if the results of the Annual Reports are not summarized, analyzed and tabled in the Parliament, the attainment of planned objectives at the nationwide level would not be properly monitored.

Budgetary and Fund Controls

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

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

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

- A lack of monitoring of expenditure in all 21 Departments in 2016 and 7 in 2015. Departments did not prepare cash flows statements on a regular basis to report on significant anticipated shortfalls or surpluses and to enable the Head of Department to make informed financial decisions. All Departments that were checked indicated non-reconciliation of their monthly PGAS/Oracle report against the IFMS General Ledger maintained by Department of Finance. Significant or material variances were noted at year end for 2016 and 2015 in the revised budget, WA and actual expenditure;
The lack of monitoring exposes the Public Accounts to the risk that monies could be spent in excess of the appropriation limit, resulting in breaches of the *PFM Act* and the *Appropriation Act* approved for the budget year;
- Incorrect expenditures were charged to Vote Items for which funds were not appropriated, either through use of incorrect expenditure codes or through journal entries. There were also instances of funds being transferred between Divisions and functions as at 31 December, 2016 and 2015, contrary to the *2015* and *2014 Appropriation Act*;

- A lack of reconciliation between the PGAS/Oracle and the TMS/IFMS which captures all the financial transactions processed through the PNG Government Main Public Accounting System;
- Each Government agency is expected to reconcile their records (PGAS) on both revenue and expenditure with the monthly records produced by the Department of Finance (IFMS). If there are any differences between the two records, journal entries are required to be raised by the Departments to make the necessary adjustments ensuring that both records have the same information on their respective ledgers;
- Transfer of Development Budget Appropriation into Trust Accounts before close of accounts was also evident in a few agencies; and
- Material variances in actual expenditure were noted in six entities amounting to K424.6 million in 2016 and 18 entities in 2015 totaling K408.1 million.

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

Bank Reconciliations

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

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

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

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

- Bank reconciliations were current in only 7 out of 21 Departments in 2016 and **4** out of 7 Departments in 2015. However, even in those entities, significant un-reconciled items were carried over for long period of time.
- In a number of Departments, the officers responsible for preparation of the bank reconciliations were not qualified and sufficiently trained.
- Not all Departments were submitting their bank reconciliation statements to Department of Finance within 14 days after the close of each month as stated in the *PFM Act*.
- Reconciling items on the respective reconciliation statements were not perused and cleared on a timely basis and of serious concern were the clearance of stale and un-presented cheques which continue to remain at the end of each fiscal year. K198.8 million and K17.8 million in 2016 and 2015 respectively were not verified and cleared.
- Stale Cheques totaling K7.4 million for two departments as at 31 December, 2016 were not cleared and written back to the respective cashbooks of the Departments and Agencies.

Procurement and Payment Procedures

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

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

During my audits, I noted that in most cases there was an extremely high rate of non-compliance with procurement and payment procedures. In the majority of entities there were no procurement plans or Quotation Registers maintained. Most importantly, monitoring of quality and quantity of goods and services received was not performed.

Other significant issues were:

- Payment vouchers were not examined for completeness and certified correct prior to processing for payment. These were noted in 11 entities aggregating K13.4 million in 2016.
- In 2016 and 2015 where detail testing was undertaken, missing vouchers were in excess of K50.7 million in 11 Departments and K22.9 million in six Departments respectively;
- Payments to suppliers were often made on pro-forma invoices and without required quotations. A number of agencies were making payments through this process; and
- Payments made without approval from the Gazetted *Section 32 Officers* amounted to K295,692 in five Departments and K158,368 in two Departments in 2016 and 2015 respectively.

The lack of controls over procurement and payments had significantly exposed the State to the risk of:

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

Asset Management

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

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

From the asset records of the 21 (2016) and 7 (2015) Departments audited, it was evident that:

- Asset Registers were either non-existent or they were not maintained properly in all entities. The lack of register exposes the entity to the risk that assets may not be utilized effectively, protected from physical deterioration or maintained properly;
- Periodic stock takes were not conducted to determine the accuracy of assets on hand in all entities. In most cases the physical condition and durability of assets held were not properly ascertained. The risk of assets being removed without authority or through theft was high in entities that did not conduct periodic stock takes;
- From the vouchers selected for testing, in excess of K19.6 million in 2016 and K10.9 million in 2015, I identified that payment details of unrecorded assets could not be traced to asset recordings, both resulting from lack of a register or simply not being recorded by any means; and
- Controls surrounding management of vehicle fleets were nonexistent. Custodianship of vehicles were not documented and identified to officers in possession, nor any review conducted on the custodial arrangements to ensure that the vehicles existed.

Advance Management

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

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

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

- Un-acquitted advances as at 31st December, 2016 and 2015 were in excess of K16.7 million in 2016 under 17 Departments and K2.2 million in 2015 under six Departments respectively. It was observed that most of these agencies issued further advances to officers whilst their previous advances remained outstanding;
- I observed the practice of entities paying significant amounts of cash to the Paymaster as cash advances was highly irregular. The cheques were cashed by the Paymaster/Paymistress and paid to officers of the Departments for various purposes. Such practice may have led to fraud as there was lack of documentation for an audit trail.
- Management of advances was very poor and there was no assurance over the completeness of the recorded balances. I identified K4.9 million unrecorded advances in 11 Departments and K351, 234 in three Departments in 2016 and 2015 respectively.

Human Resource Management

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

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

Common weaknesses identified across the entities were:-

- Although payroll is processed centrally by the Information Technology Division (ITD) of the Department of Finance for public servants, it is the responsibility of the Departmental Head to ensure the Department's payroll is accurate and complete. I observed that there were no payroll reconciliations performed by HR throughout 2016 and 2015 in Departments that were checked. Previous audits indicate also that not many agencies perform such reconciliations. The agencies did not maintain their own PGAS or Alesco ledger records but relied on the Department of Finance records. The lack of this key control can facilitate fraudulent payroll activities where payments processed outside the system such as manual cheques could not be easily detected in the absence of independent records and reconciliation;
- One of the important aspects of the HR function is to maintain records that demonstrate compliance with applicable human resource statutory and regulatory requirements, agency policy and agreements with other parties. Up to date records in respect of individual employees are vital and should be properly maintained. Testing of a sample of employee files in all Departments in 2016 and 2015 indicated that salary history cards were not updated on a regular basis with recreational leave, higher duties allowance, sick leave or tax declaration forms on dependents claimed;
- In some Departments, personnel files were generally not kept in a satisfactory manner. The files were left lying around on the floor area and not in a secure environment. There was a risk of loss of payroll, personal information or documents, damage to the files and also unauthorized access to payroll and personal information;
- It was a practice in some entities where rental accommodation for contract officers were paid to real estate agencies in excess of the respective contractual entitlements; and
- Audit also noted that in some entities where mobile phones and prepaid cards were purchased for contract officer's use, the officers were also receiving Telephone allowances as well.

Trust Account Management

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

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

Further, I noted other issues including:-

- The existence of four Trust Accounts and five Trust Accounts in 2016 and 2015 respectively that were not operating under the Department's PGAS accounting system and IFMS. As records are not properly maintained, monitoring of expenditure and compliance are not effectively performed;
- In most of the Departments with Trust Accounts, payments were made contrary to the Trust Instruments. These entities have also not submitted monthly reconciliations and statements of receipts and payment to the Department of Finance in respect of the Trust; and
- Surplus funds available in the Trust Accounts were not invested in line with the *PFM Act*. This was evident for most of the Trust Accounts administered by entities.

Conclusion

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

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

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

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

Unfortunately the results of the testing of accounts and controls in 2016 and 2015 revealed weaknesses of such magnitude that material error could have been processed or misappropriation and fraud could have occurred. The results of my audits indicate that the systems of internal control within Agencies were ineffective, contributing to further decline in the level and quality of services provided. The senior management of most entities reported in this Report had failed to exercise their financial management responsibilities adequately.

A broad range of internal control issues were raised with entities as part of this audit. In general, the results of the testing of controls in 2016 and 2015 were reflective of my Report for previous years and conclude that, overall, there continued to be significant weaknesses in entities' control environments. While a few entities have taken appropriate action to address reported audit issues, most entities have not made any attempts to address issues that have been outstanding for many years. Fundamental control activities, such as delegations, authorization, reconciliations, management oversight and monitoring, were not sufficiently robust to prevent, detect or correct errors or fraud. Consequently, there is significant uncertainty over the reliability, accuracy and legitimacy of the reported financial information for most entities.

Strong financial management is an essential part of any public sector Agency, however, weakness in financial management practices and processes help legitimize bad governance and divert funding and energy from development plans and achievement of national goals and priorities. The onus of responsibility in ensuring compliance with legislative, managerial and procedural requirements rests with the Heads of Agencies and their senior management. My audit Reports and management letters to Entities contain recommendations for the key issues identified during the course of my audits, and if implemented by management, would address and resolve most of the internal control weaknesses reported on.

The content of this Report summarizes the results of the audits of the 21 Departments in 2016 and 7 Departments in 2015 respectively. The individual audit observations and the appropriate recommendations were provided to each Department and Entity for their Management comments and corrective actions where necessary. For those Departments and entities that have responded, their comments have been included in this Report.

01. NATIONAL PARLIAMENTARY SERVICES 2016

OVERVIEW

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

The *Parliamentary Services Act, 1995* was enacted to implement *Section 132* of the *Constitution* by making provision for and in respect of a Parliament Service are to provide:

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

FINDING

CORPORATE GOVERNANCE

- The National Parliamentary Services (NPS) had a four-year Corporate Plan (2014-2017) in place, however, I was informed that the corporate plan was not officially approved since its formulation in 2014;
- The NPS did not prepare an Annual Management Plan for the year 2016;
- The 2016 Annual Report was also not prepared. This issue has been the same as highlighted in my Report of 2015; and
- The quarterly budget review reports and the annual financial management report were not submitted for my review.

BUDGETARY CONTROL

- The NPS had incurred expenditure totaling K154.3 million against Warrant Authorizations of K144.6 million resulting in over expenditure of K9.7 million; and
- The over expending was noted under 17 of the 20 vote items.

BANK RECONCILIATION – Drawing Account

My examination of the monthly bank reconciliation statements for the three bank accounts maintained by the National Parliamentary Services for the year 2016 revealed that in all three respective accounts, the bank reconciliation was not performed satisfactorily. They remained incomplete due to prior year cheques being unrepresented and stale cheques not cleared and cancelled.

PROCUREMENT AND PAYMENT PROCEDURES

Audit examination of payment vouchers and other related records relating to the procurement and payment procedures revealed the following discrepancies:

- I noted that the NPS had no file that contained the specimen signatures of responsible Requisition Officers, Commitment officers, Section 32 officers and signatures to the main accounts. Thus, I could not verify signatures on the Financial Forms used in the procurement and payment process;
- I noted a payment of K341,917 made to a service provider whose contract had expired in 2014;
- A payment made to a company totaling K297,000 as variation expenses for cleaning the external walls of the Parliament was incurred without the Authority to Pre-commit (APC) under the Parliamentary STB Act.;
- A payment was made to a company for K179,465 for audit of the NP CCTV. This payment was made without proper authority from the Clerk nor recommendation from Parliamentary STB; and
- Payments made to four companies totalling K3.17 million for various services did not go through National Parliament Supply & Tenders Board for approval. In addition, Contract Agreement between NPS and the individual companies were also not prepared.

HUMAN RESOURCES AND PAYROLL

- In 764 instances, casual salaries and wages totaling K648,452 were paid out of PGAS contrary to Finance Instruction;

- NPS has not been deducting 10% of the contribution towards the cost of air fares as required in the General Order. This was noted in as 20 instances that were examined;
- As at 31st December 2016, the total outstanding Salary Advance Debt in the Service stands at K3,129,157. Though, there have been recoveries done, the balance outstanding is very excessive; and
- I noted that there was no Training Plan in place to cater for training needs of the officers of NPS. However, trainings were being taken on an adhoc basis.

ADVANCE MANAGEMENT

- Acquittals had not been done within the required 14 days for overseas travel in 24 instances totaling K36,140,
- Similarly, acquittals were not done within the required 7 days of domestic travel in three instances totaling K57,514;
- In 18 instances totaling K131,700, additional advances were paid to officers whilst their previous advances were still outstanding; and
- 57 travelling advances totaling K199,229 remained outstanding as at 31 December 2016.

MEMBERS EMOLUMENTS

- A total of K862,925 was paid out in 21 instances in the names of Members of Parliament (MP) as school fee advances. This is contrary to requirements of SRC DETERMINATION which enforces that all advances taken by MPs should be made directly to schools or institution names; and
- According to SRC DETERMINATION requirements, all advances paid out during the year should be repaid by 31st December of the same year. I noted that of the total advances K1.6 million taken by MPs, only K 1.3 million was repaid while the balance amount of K336,241 remained outstanding as at 31st December 2016.

CATERING SERVICES

- I noted that the Bank Account maintained for the Catering Services had not been reconciled in 2016 and prior years. No financial statements was produced for this account; and

- Catering services awarded to a company did not have any contract agreement in place for the Lakeside Cafe.

DEPARTMENTAL RESPONSE

The above matters were brought to the attention of the Clerk of Parliament through a Management Letter. However; no responses were received at the time of writing this Report.

CONCLUSION

In general, there were no significant improvements in the system and operation of controls within the Parliamentary Service compared to previous years. The results of my audit indicate that overall, there were notable weaknesses in the control framework. The control activities such as delegations, authorisations, reconciliation, data processing, segregation of duties and management monitoring were not sufficiently robust to prevent, detect or correct errors or fraud.

Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

02. DEPARTMENT OF PRIME MINISTER & NATIONAL EXECUTIVE COUNCIL 2016

OVERVIEW

The Department's mission is to ensure that issues and concerns related to people are gathered, addressed and articulated through politically endorsed National Objectives, through which Department's Missions and Program Specifications are formulated and implemented. The major programs within the Department are:-

- Provision of administrative and support services to Ministers of the State;
- The provision of services in support of the Department's substantive programs including policy analysis and planning, provision of secretariat services to the Prime Minister, legal advice to the government and co-ordination and monitoring the implementation of government policies;
- Production of General National Gazettes, Special Gazettes, Public Service Gazettes, Documents and Accountable Forms for various Government Agencies; and
- Management of domestic and foreign intelligence collection and dissemination of intelligence as well as measures to provide security in the country's interest.

FINDINGS

CORPORATE GOVERNANCE

- The 2016 Annual Financial Management Report was not prepared; and
- The Annual Management Report was prepared. However, I was unable to ascertain whether the report was submitted to the DPM as required due to the non-availability of official correspondences between the two Departments.

BUDGETARY CONTROL

- I noted over-expenditure of K7.71 million under 15 expenditure vote items;
- I further noted expenditure incurred for wages and overtime totalling K853,491 which were not budgeted for in the annual appropriation;
- In addition, overtime and wages payments totalling K777, 927 were charged to incorrect Vote; and

- The revised budgetary appropriation for motor vehicles under vote item 273 was K300,000. However, the Department spent over K1.97 million during the year to purchase motor vehicles from vote item 227 which was meant for other operational expenses. A total of K1.68 million was spent in excess of the appropriated amount.

BANK RECONCILIATION – Drawing Account

My verification of the December, 2016 bank reconciliation statement for the Drawing Account and related records revealed the following:

- The Cash Book Closing Balance of K70.13 million comprised of un-presented cheques totalling K70 million dating back to 2015 and, Reversals, Journals and Adjustments totalling K89,622. These items should have been investigated and cleared instead of carrying forward;
- Delays in submitting monthly Bank Reconciliations to DoF ranged from 2-6 months; and
- Bank reconciliations for the months of January, February and October 2016 were not prepared.

PROCUREMENT AND PAYMENT PROCEDURES

- I noted several vehicle hire payments totalling K584,400 were paid to a hire car company. This company was owned by an employee of the Department of which I did not sight any form of declaration of conflict of interest in file as required;
- I noted that payments made to two service providers totalling over K2.79 million were based on individual invoices of K50,000 or less. I was unable to verify if there existed contract agreements since they were not sighted on file; and
- In two instances, payments for officers allowances were raised through paymaster totalling K572,600 and not to officers entitled to the allowances. Furthermore, I noted that there was no individual listing of personnel to which allowances were paid to.

HUMAN RESOURCES AND PAYROLL

- I was unable to verify and confirm whether 10 overtime payments totalling K500,231 were approved. These payments dated back to 2013 and 2015;
- I noted that the Employment Contracts for two officers had expired in 2011 and not renewed up to the period under review, 2016; and
- Airfares were paid to officers' dependents without birth certificates to verify their ages in 23 instances totalling K266,179.

ASSET MANAGEMENT

Audit Review of the Asset Management System revealed the following:

- The Fixed Asset Register was incomplete and unreliable as the required details or particulars such as date, cheque number, asset class, custodian, description and unit cost were not indicated for some assets purchased in 2016 and in prior years,
- Five assets purchased during the year totaling K19,902 were not registered in the fixed asset register; and
- The Motor Vehicle Register was incomplete and deficient in that, details such as registration number, custodian and allocation of seven motor vehicles purchased during the year totaling K928, 451 were not recorded.

ADVANCE MANAGEMENT

A review of Advance register and other related records revealed the following observations:

- Three officers were issued further advances in nine instances whilst their previous advance remained un-acquitted; and
- In 16 instances, cash advances totaling K320,377 were paid thru the Paymaster and not directly to the officers entitled to the advances. Furthermore, I noted that all these advances were either partly acquitted or not acquitted at all and still remained outstanding as at 31 December, 2016.

TRUST ACCOUNT MANAGEMENT

The Department administered a total of six Trust Accounts. The following discrepancies were noted relating to these trust accounts.

- The Trust Instrument for the 'APEC OP PLAN 2018' was not submitted to me for review. Hence, in the absences of the Trust Instrument, I was unable to determine the binding and legality of this Trust account;
- I was unable to ascertain the propriety of all payments totalling K10.71 million paid out of the 6 trust accounts as sample selected payment vouchers were not provided; and
- A comparison of four Trust bank reconciliations for the month ending 31 December, 2016 and the bank statements revealed a total variance of K2.74 million unrepresented cheques which need to be adjusted and cleared in the cash book.

DEPARTMENTAL RESPONSE

The findings were brought to the attention of the Secretary in the management letter issued. No responses were received at that time of writing this Report.

CONCLUSION

In general, there was little improvement in the system and operation of controls within the Department compared to previous years.

The results of my audit indicate that there were notable weaknesses in the control framework. The control activities such as delegations, authorisations, reconciliations, data processing, segregation of duties and management monitoring were not sufficiently robust to prevent or detect error or fraud.

03. DEPARTMENT OF FINANCE 2016

OVERVIEW

The Department of Finance has two major programs: -

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

FINDINGS

CORPORATE GOVERNANCE

- I noted that a corporate plan had not been formulated since the Department's previous Corporate Plan (2013 to 2015) lapsed.
- An Annual Management Plan for 2016 was not formulated to guide the management to meet the requirements of the budgetary cycle for 2016.

BUDGETARY CONTROLS

The Reports generated through the IFMS revealed significant differences noted in actual expenditures in IFMS 8202 (Expenditure by Department/activity type/item), 2157 (Cheque listing and invoice application) and 2222 (total expenditure for National Departments) Reports for the DoF.

BANK RECONCILIATION

Since the inception of the IFMS in 2011, the reconciliations for the DoF Drawing Account have never been performed.

PROCUREMENT & PAYMENT PROCEDURES

Audit examination of selected payments and related records and documents revealed the following discrepancies:

- 18 paid vouchers and supporting documents for payments totalling K1.56 million were missing and were not provided for my verification;

- The Financial Delegate had not duly signed on the FF3 and FF4 to authenticate the validity of a payment of K19,640;
- In 15 instances, payments totalling K364,417 were not approved and certified by the Certifying Officer; and
- In 39 instances, three written quotes were not obtained for payments totalling K1.78 million.

ADVANCE MANAGEMENT

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

- Unacquitted Cash Advance were noted in 14 instances totalling K82,500 as at 31 December, 2016;
- The dates in which the advances were acquitted were not recorded;
- 181 advances totalling K317,172 paid to officers during the year were not recorded in the register. Prior year advances totalling K64,709 were also not recorded;
- The 2014 Internal Audit Report on Advance Management in DoF also indicated serious non-compliance issues by the Management. However, there has not been any improvement to date.

ASSET MANAGEMENT

Audit examination of the Asset Register and related records and documents revealed the following irregularities:

- The registers reviewed were incomplete and did not have records of all assets acquired and owned by the Department aggregating K1.77 million;
- A review of IFMS 8202 (Cheque listing and invoice application Report) revealed in 65 instances, assets valuing K1.28 million were purchased using incorrect expenditure vote items; and
- I noted that the Department did not have in place internal policy/guideline on the management of its assets.

HUMAN RESOURCE & PAYROLL

A review of records and documents relating to Human Resource and Payroll revealed the following discrepancies:

- In 76 instances totalling K377,523, overtime payments were paid from incorrect expenditure vote items; and
- Payment of overtime to officers above the pay grade 10 was evident in 2016.

TRUST ACCOUNTS

The Department of Finance administers 32 Trust Accounts of which 22 are Trust Bank accounts and 10 Non-bank Accounts.

A review of the IFMS reports and related documents revealed the following discrepancies:

- The Trust account balances and details of all the trust accounts administered by the DoF for the year 2016 were not provided;
- A trust account listed as inactive in my 2015 Audit was to be closed and revoked had movements of funds totaling K2.81 million during the year 2016;
- The monthly bank reconciliations statements for the all the trust accounts administered by the Department were not made available for my review;
- I noted that a temporary Cash Adjustment Account was opened to cater for expenditures totalling K7.21 million. Approval for the operation of this temporary trust account was not made available to audit; and
- Material payments for programs were made through the cash adjustment accounts to facilitate payments bypassing the established budgetary process.

DEVELOPMENT BUDGET

Audit review of the Development budget Programs expenditure revealed the following discrepancies:

- A total of K12.55 million was expended out of development budget for the year 2016. I noted, all the paid vouchers for these payments were not on file. As such I was unable to ascertain the validity of these payments and whether established procurement procedures were complied with.

DEPARTMENTAL RESPONSE

The reported findings were brought to the attention of the Secretary through a management letter. However, the management letter responses were not received at the time of writing this Report.

CONCLUSION

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

Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure.

04. DEPARTMENT OF TREASURY 2016

OVERVIEW

The Department's mission is to plan the economy and manage financial resources in order for the Government policies to be implemented in the people's best interest. Major program areas are:

- Study and analyse macroeconomic variables (fiscal, monetary, foreign exchange and employment) and prepare policy option papers and monitor the implementation of Government's macroeconomic policy directives;
- Provision of services in support of the Department's programs, including coordination and preparation of the Government's annual budgets;
- Provide policy analysis and advice on the management of public debt; and
- Assist in setting revenue and expenditure targets.

FINDINGS

CORPORATE GOVERNANCE

- The Department has a Chief Internal Auditor, however, the Internal Audit Unit is not fully functional; and
- The Department is yet to establish an Audit Committee as the law requires.

CASH MANAGEMENT

The Department maintains its bank reconciliations electronically, however, the July to December 2016 bank reconciliations were yet to be compiled as at time of my audit.

BUDGETARY CONTROL

- IFMS 2157 (Expenditure by department/activity type/item report) revealed that under 12 economic items, the Department had incurred expenditure totaling K57.53 million exceeding Warrant Authorities totalling K54.67 million under the recurrent budget by K2.86 million for the year 2016; and
- From a sample of 21 payments I examined, I noted that 16 of these payments totalling K4.02 million were charged to incorrect Vote Items.

- My verification of the Departments' budget documents revealed that there was no budget allocated for Grants, Subsidies and Financial Assistance. However, during the year, a total of K5,142,210 was paid out for dependent subsidies, financial assistance and grants in 13 instances. These payments were paid out of the training Vote Item 227 and other operational expenses Vote Item 228. Thus, I view as incorrectly charging of expenditure which is in breach of stipulated regulations.

ADVANCE MANAGEMENT

- The advance register provided was incomplete as it did not indicate the Acquittal dates and follow up action taken for the Outstanding advances;
- I noted that 87 domestic and overseas travel advances totaling K618,124 remained outstanding as at 31st December 2016. This represented 45% of total advances issued in 2016;
- Five officers were issued second travel advances totaling K83,174 whilst their previous advance remained un-acquitted. All these outstanding advances related to overseas travel; and
- The delays in the acquittal of 21 advances ranged from a minimum of 10 to a maximum of 335 days.

ASSET MANAGEMENT

I noted that the Department did not maintain a "Fixed Asset Register", therefore, the accuracy and completeness of existing assets and the assets purchased during the year 2016 could not be ascertained.

PROCUREMENT & PAYMENT PROCEDURES

I selected a sample of 50 payments totalling K5,576,091 expensed in 2016 and noted the following discrepancies:

- In 12 instances, vehicle hire payments totalling K87,430 were made without obtaining three written quotations;
- Requisition and General Expenditure Forms were not sighted for consultancy services paid to an individual totalling K78,253;
- The Financial delegate approval for three payments totaling K107,900 were not sighted;
- In 14 instances totalling K124,217, the Certifying Officer did not certify the payments as correct;

- Section 32 Officer's approval was not obtained for a Recreation Leave warrant paid to a Travel Agency totalling K16,564;
- nine payments totalling K54,250 were made to an individual for vehicle hire. A company search on the IPA website revealed the individual paid had no company registered with IPA;
- A contract for security services was entered into with a security firm for a period of 6 months valued at K174,570. Six payments totaling K351,670 were made during the year of which I could not ascertain the validity and authenticity of the excess of K177,100 as there were no variation advices or contract variation records/documents provided;
- The required Certificates of Compliance (COC) for six vehicle hire companies were not sighted in the payment vouchers for 19 payments totaling K142,615 which also included 10% GST. Without the COC, the Department should not pay 10% GST, instead, should withhold and remit directly to IRC;
- I noted that nine payments totalling K375,017 were paid to Consultants during the year 2016. The consultant's reports on work performed were not attached to the payment voucher for my verification;
- In 23 instances, payments totaling K679,828 were made without the use of Government ILPOC. In the event of a dispute, the Department faces the risk of paying for bad deals. The acceptance by suppliers of an ILPOC executes a minor contract and becomes legally binding on all parties. Thus, the Department should encourage its suppliers to deal with the National Government through utilizing normal commercial trading arrangements in the procurement of goods and services;
- I noted 12 payments totaling K83,380 were made to five private hire car companies without the approval from the Plant and Transport Board (PTB) as is stipulated in Part 17 of the *FMM*; and
- a total of K833,841 paid to five contractors for various services provided to the Department, four payments totalling K434,102 did not have minor contracts prepared as required. Each of these engagement payments were in excess of K50,000;

HUMAN RESOURCE & PAYROLL

- I noted that a payment was made to a number of casual officers which amounted to K58,413. However, necessary documents relating to this payment were not provided for my review and verification;
- I noted in six instances that short term contract officers (casuals) were paid recreational leave entitlements amounting to K11,583 of which they are not entitled to receive;

- Four overtime payments totaling K23,881 were paid to officers occupying positions above salary Grade 10. This is contrary to requirements in the General Orders;
- I noted that the required birth certificate, as evidence of family dependents were not attached to the paid vouchers for eight recreation leave payments totaling K75,028; and
- A total of K163,850 was paid as recreation leave fares in 24 instances during the year 2016. My examination of related records revealed that the stipulated 10% of gross salary contributions towards cost of airfares by officers had not been deducted.

DEPARTMENTAL RESPONSE

The reported findings were brought to the attention of the Secretary through a management letter and the management is yet to respond at the time of writing this report.

CONCLUSION

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

Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

05. REGISTRY OF POLITICAL PARTIES 2016

OVERVIEW

The Registry of Political Parties and Candidates is a Constitutional Office created by the Constitution and Organic Law on the Integrity of Political Parties and Candidates to manage the affairs of political parties in the country. It acts as the administrative unit to the Integrity of Political Parties and Candidates Commission (IPPC).

The Registry of Political Parties is the administrative unit of the Commission with yearly funding from the Consolidated Revenue Fund. The Registrar is the Head of the Registry and shall be responsible to the Commission for the administration of the Registry, the administration of the terms and conditions of employment of executives of Registered Political Parties and the performance of such functions and duties as are required by the Organic Law on the Integrity of Political Parties and Candidates.

FINDINGS

CORPORATE GOVERNANCE

- The Office of the Registry of Political Parties (ORPP) has an internal audit function which was manned by one staff;
- According to the 2016 Annual Report, the Internal Audit Unit had conducted seven audits: However, no audit reports were provided; and
- There were no annual audit plans and programs for the year under review.

REPORTING REQUIREMENT

- No evidence to suggest that first and second quarter budget review reports were presented to DoF as required;
- Third and fourth quarter budget review reports were not produced;
- No Annual Financial Management Report was produced and submitted to DoF as required;
- The Annual Management Report was yet to be submitted to the Head of State as required.

BUDGETARY CONTROLS

- Perusal of the IFMS Report 2157 (expenditure by department/activity type/item Report), revealed over expenditure of K1.3 million for funds allocated under the Recurrent Budget.

BANK RECONCILIATION

- No Bank Reconciliations were performed nor submitted to the DoF for the 2016 financial year.

PROCUREMENT AND PAYMENTS PROCEDURES

I randomly selected a total of 63 transactions valuing K1.75 million from the 2016 transaction details which revealed the following weaknesses:

- Three payment vouchers totaling K33,822 were not furnished for my verification; and
- An amount of K33,200 was paid for consultancy services. I noted that the contract attached was unsigned and the invoiced amount was only for K14,800.

ADVANCE MANAGEMENT

A review of the advance register furnished to me revealed the following discrepancies:

- The register was not updated;
- The Advance Register has not been reviewed by the Financial Delegate;
- The Advance Register was incomplete as it lacked vital such as date of payment and acquittal dates, FF4 reference number and signature of advance holder;
- In 59 instances advances totaling K264,560 remain unacquitted as at 31 December, 2016; and
- A total of nine advance holders received second or more advances while their previous advances remained outstanding.

ASSET MANAGEMENT

My review of a Master Assets Register maintained by the ORPP during the year under review revealed the following issues:

- The register was not reviewed by the Financial Delegate;
- The Asset Register was incomplete and had not been updated;

- No proper stock-take was carried out during the year under review;
- The Fleet Register maintained by the ORPP was incomplete. Most of the vehicles purchased during the year under review were not recorded; and
- From the Fleet Register provided, I noted that six vehicles were registered under private number plates.

HUMAN RESOURCE AND PAYROLL

- The Registry did not have a Training Plan for 2016;
- The Registry did not prepare and submit to DPM any training report of the Registry for 2016;
- Salary History cards were not updated to reflect correct annual salaries; and
- No payroll reconciliations were done during the 2016 financial year.

DEPARTMENTAL RESPONSE

The above matters were reported to the Registrar of the Office of the Registry of Political Parties. The Office responded to my management letter and respective responses are appended accordingly.

CONCLUSION

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

06. OFFICE OF THE PUBLIC SOLICITOR 2016

OVERVIEW

Pursuant to Section 177 (2) of the Constitution, “the functions of the Public Solicitor are to provide legal aid, advice and assistance for persons in need of help by him, and in particular-

- (a) To provide legal assistance to a person in need of help by him who has been charged with an offence punishable by imprisonment for more than two years;
- (b) Notwithstanding the provisions of Section 176 (5) (establishment of offices) he shall provide legal aid, advice and assistance to any person when directed to do so by the Supreme Court or the National Court;
- (c) In his discretion in any matter, whether of a criminal or civil nature provided that such assistance shall be-
 - (i) Limited to advice and preparation of documents in any proceedings in respect of which an Act of the Parliament prohibits legal representation of any party to the proceedings; and
 - (ii) Granted in accordance with an order of priorities relative to the resources of the Public Solicitor laid down by an Act of the Parliament.”

In addition to the statutory responsibilities, the Public Solicitor must use its best endeavor and limited resources (funding and capacity) “to provide legal advice and assistance to impecunious persons in all fields of laws.” The Public Solicitor provides legal representation to almost all accused persons charged with an “indictable offence” in Papua New Guinea.

FINDINGS

CORPORATE GOVERNANCE

- The Office of the Public Solicitor did not provide for my review, the Annual Activity Plan and the Annual Management Report for 2016;
- The Office of the Public Solicitor did not have an Internal Audit Function; and
- The First and the Fourth Quarterly Budget Review Reports were not furnished to me for review.

BUDGETARY CONTROL

IFMS was rolled out in November 2016. Prior to that, the Office was using the PGAS Accounting System. The IFMS 8202 - cheque listing and invoice application Report (November to December 2016) and the PGAS report was provided for my review.

- A total of K3.025 million was expended against authorized warrants of K2.7 million indicating an over expenditure of K328,259 under 9 items of the vote.

BANK RECONCILIATIONS

- The Office of the Public Solicitor maintains a drawing account with BPNG. The bank reconciliations for the months of November and December were not produced due to the transition from PGAS to IFMS. Thus, I was not able to ascertain the cash book balance as at 31 December, 2016.

PROCUREMENT & PAYMENT PROCEDURES

Audit examination of 58 payments totalling K183,317 selected on random sample basis revealed the following irregularities:

- Three payments valuing K14,905 could not be authenticated as the vouchers were not provided for my review;
- General Expenditure Forms (FF4) were not duly approved by the financial delegate in nine instances totaling K27,557; and
- The Section 32 officer approval was not obtained for a payment made to a company for accommodation valuing K10,748.

ASSET MANAGEMENT

A review of the Asset Registers for office furniture and office equipment (including IT Equipment) maintained by respective provincial offices of the Office of the Public Solicitor revealed the following:

- Only 13 out of the 21 Public Solicitor's Offices maintained asset register;
- The registers were not updated to the current year, rather some were updated up to 2011, 2012, 2013 and 2014;
- The registers were incomplete and lacked vital information such as the purchase dates, the purchase price and the cheque numbers; and

- Due to the incomplete registers maintained, it was not possible to verify whether the assets purchased in 2016 to the value of K154,620 were recorded in the respective asset registers.

ADVANCE MANAGEMENT

- An Advance Register was NOT maintained by the Office of the Public Solicitor as per Part 20 of the Financial Management Manual (FMM).

HUMAN RESOURCE & PAYROLL MANAGEMENT

- I noted that six recreational leave warrants totalling K15,499 were paid without valid dependent identification documents such as birth certificates to substantiate the payments made;
- A total of K13,895 was paid as overtime to senior officers with positions ranging from Grade 12 to Grade 16 in 16 instances contrary to the Public Service General Order 13.68; and
- Gratuity payments were effected on expired Contract Agreements for two officers aggregating K27,134

DEPARTMENTAL RESPONSE

The above audit findings/observations were brought to the attention of the management; however, no response was received at the time of preparing this report.

CONCLUSION

The results of the audit indicate that overall, there were weaknesses in the control framework. I noted that the control activities, such as delegates, segregation of duties, reconciliations and management monitoring were not sufficiently robust to prevent, detect or correct errors or fraud. Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

07. DEPARTMENT OF JUSTICE AND ATTORNEY-GENERAL 2016

OVERVIEW

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

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

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

FINDINGS

CORPORATE GOVERNANCE

I noted that the management of the Department did not provide responses to the internal audit findings; and

- The Department had an active Internal Audit Committee, however, during the year only two out of the four required audit committee meetings were held.

BUDGETARY CONTROL

- A comparison of the IFMS Report 2157 (expenditure by Department/activity type/item) for the period ended 31st December 2016 against the DJAG generated IFMS report 8202 (cheque listing and invoice application Report) revealed an Expenditure Variance of over K12.4 million between both records; and
- I noted that 15 expenditure transactions totalling K22,333 were charged to in-correct vote items during the 2016 financial year.

PROCUREMENT & PAYMENT PROCEDURES

Audit examination of selected paid vouchers and related records and documents revealed the following irregularities:

- The appointment instruments pertaining to appointment of Section 32 officers and other financial officers, such as certifying officer examiner and requisition officer were not provided for my review and confirmation;
- The authorization and supporting documentations of 27 payments totalling K7.94 million could not be authenticated as the vouchers were not provided for my review. I was not able to determine whether the entire procurement process had been adhered to when these payments were made;
- In 49 instances totaling K2.38 million the General Expenditure Forms (FF3 &FF4) were not duly approved by the authorized financial delegates;
- The authorized requisition officer approval was not obtained in 22 instances totaling K1.13 million;
- The Section 32 officer approval was not obtained in four instances valuing K192,961; and
- The Department did not obtain the required three quotations in six instances totaling K375,195.

ASSET MANAGEMENT

A review of the Asset Register and related records and documents revealed the following discrepancies:

- Vehicle register maintained was incomplete, vital information such as cheque numbers, date of purchase and the name of the custodian to vehicles were not indicated;
- The master register for the Department's asset was not updated;
- Over K1.3 million (excluding motor vehicles) purchased by the Department during the year were not registered in the respective asset registers maintained;
- Review of the Board of Survey (BOS) documents furnished to me revealed the following matters of concern:
 - The vehicles were not put on Public Tender;
 - Of the 14 vehicles approved for BOS, only seven were reported to have completed the BOS process. The BOS report was not dated nor signed. Hence, the exact number of vehicles disposed could not be clearly ascertained;
 - Receipts and documentation of the successful bidders for the 7 vehicles totaling K59,000 were not furnished to me; and

- Approval was given for the disposal of six vehicles in 2016; however, these vehicles were not registered in the Fleet Register that was maintained by the Department.
- Despite a ban imposed by the Secretary, on the purchase of mobile phones, five mobile phones valued at K16,498 were purchased.

ADVANCE MANAGEMENT

A review of the records and documents relating to Human Resource and Payroll revealed the following discrepancies:

Advances totalling K1.29 million was paid during the financial year under review. The following discrepancies were noted:

- The advance register maintained did not capture the dates of acquittal, hence, I could not verify whether acquittals were made within the required timeframes;
- In 233 instances, advances paid totalling K382,552 were not registered in the advance register;
- Advances totalling K212,149 remained un-acquitted as at 31st December 2016;
- In 34 instances, officers were paid subsequent advances totalling K111,843 while their previous advances remained outstanding; and
- The advance register was not reviewed by a financial delegate to ensure it was updated and complete.

HUMAN RESOURCE & PAYROLL MANAGEMENT

A review of records and documents relating to Capital Investment revealed the following discrepancies:

- DJAG did not fulfill its statutory requirement to formulate an Annual Training Plan;
- The Department had been sending its employees for various training courses without a proper training needs analysis done;
- Wages and salaries were continued to be paid to four officers long after they had left the Department;
- Overtime was paid to senior officers occupying positions ranging from Grade 12 to Grade 16 contrary to the General Orders;
- The Department's payroll was not reconciled as required every fortnight; and

- Employee records were not properly maintained and updated. Salary history cards were not updated to reflect the correct annual salary paid, recreation leaves taken, HDA and Sick leave.

CAPITAL INVESTMENT (DEVELOPMENT BUDGET)

A review of the records and documents relating to Capital Expenditure revealed the following discrepancies:

- Minutes of Project Steering Committee Meetings held in 2016 were not furnished to me;
- The DOF maintained IFMS record captured an over expenditure of K20,680;
- There was an expenditure variance of K455,544 between the IFMS 2157 (expenditure by department/activity type/item) Report and the IFMS 8202 (cheque listing and invoice application) Report; and
- Development budget funds totalling K522,251 were used to fund Re-current activities.

DEPARTMENTAL RESPONSES

The above matters were reported to the Secretary of the Department. The Department has responded to the findings reported in the Management Letter and their responses were incorporated accordingly in this Report.

CONCLUSION

In general, there was no marked improvement in the system and operation of controls with the Department compared to the previous years. The results of the audit indicate that overall, there were significant weaknesses in the control framework. The control activities such as delegation, authorisation, reconciliations, data and payroll processing, management monitoring were not sufficiently robust to prevent, detect, or correct error or fraud.

08. DEPARTMENT OF CORRECTIVE INSTITUTIONAL SERVICES 2016

OVERVIEW

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

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

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

FINDINGS

CORPORATE GOVERNANCE

- No Senior Management meeting minutes were provided for audit review;
- Audit observed that the Internal Audit Unit (IAU) had only one Officer at the time of audit. This issue has been the same as highlighted in the 2015 audit;
- The Internal Audit Plan was not formally approved by the Departmental Head;

- The Internal Audit Unit lacked the manpower capacity to fully implement its annual planned activities and assist in ensuring sound corporate governance processes are in place;
- Of the eight audits planned for the year, only one audit had been undertaken. In addition, the audit report was not formally approved by the management for the implementation of recommendations made;
- Although the Department had an audit committee in place, it had not been functioning as required;
- Quarterly Budget Review Reports and Annual Financial Management Report were not provided to audit for my review; and
- The Annual Management Report was produced; however, Audit was unable to confirm whether the report was submitted to the Department of Personnel Management due to the correspondences between the two Departments not being provided for review.

BUDGETARY CONTROL

- The Expenditure Statement produced by DoF (*IFMS 2157 – expenditure by department/activity type/item Report*) as at 31 December, 2016 indicated over expenditure of K20.33 million under 18 individual vote items; and
- ‘Wages’ payments totaling K391,674 were made regardless of this vote item not being budgeted in the annual appropriation.

BANK RECONCILIATION –Drawing Account

- Monthly bank reconciliations for the 2016 were never prepared. This has been an issue since September 2014

ADVANCE MANAGEMENT

According to the IFMS 8202 expenditure report, a total of K1.5 million had been paid out as Cash and Travel advances during the year. Audit was unable to confirm if these advances were recorded or acquitted due to the non-availability of the Advances Register and Acquittal files.

ASSET MANAGEMENT

- According to the IFMS 8202 expenditure report, a total of K286,228 worth of fixed assets including a motor vehicle worth K61,769 was purchased during the year. Audit was unable to confirm if these assets were recorded in their respective registers or locate their physical location due to the non-availability of the Asset registers;

- The Assets Management Policy, if any, was not provided for review; and
- There was no stock take of assets carried out in 2016.

PROCUREMENT & PAYMENT PROCEDURES

I selected a sample of 112 paid vouchers totalling K14.3 million to ascertain whether proper procurement procedures were complied with and the following discrepancies were noted:

- Payment vouchers for 44 payments totaling over K6.6 million were not provided for audit review although requested;
- A payment K494,544 was made to a supplier for server hardware upgrade at CIS headquarters. However, I noted that there was no minor contract agreement in place for the transaction. Furthermore, this payment was raised and paid towards the end of the year when Accounts were about to be closed;
- In two instances, there were no supporting documents such as invoices and quotations to substantiate payment of K40,440; and
- In two instances, payments totaling K29,250 were paid to service providers without first obtaining quotations.

HUMAN RESOURCE & PAYROLL MANAGEMENT

- The Department's Training Plan, if any, was not provided for audit review. However, the Department had internal and external training programs with set procedures and processes for staff development,
- I noted that nine officers training fees totalling K42,256 paid by the Department were not on the approved list for external training;
- Personnel files for two contract officers were not provided for my review;
- Employment Contracts for five officers were not sighted in their personnel files;
- Seven contract officers' performance appraisals were not attached in their Employment Contract to ascertain whether performance reviews were undertaken prior to their appointments;
- There was no payroll reconciliation done between DoF and the Department's payroll;
- According to the IFMS 8202 expenditure report for 2016, amount totaling over K3.89 million was paid as pension. However, the following deficiencies in the management of pensions by the Human Resources Division were noted:

- No updated list of Pensioners who were paid during the year,
- No updated list of Deceased Pensioners,
- No updated list of Spouses on Pension,
- No proper records for Pension Payments; and
- No proper records of reconciliation between bank payments and the Department.

TRUST ACCOUNT

A review of the GOPNG Correctional Services Prison Industrial Trust Account reveals the following observations:

- Bank reconciliations were prepared for the months of January to December, 2016. However, these monthly bank reconciliations were never reviewed by a senior competent officer for the purpose of ascertaining correctness and accuracy,
- As reported in 2014 and 2015, there was still no evidence in the form of official correspondences between the DoF and DCIS to suggest that copies of the monthly bank reconciliations were submitted to DoF as required;
- Paid vouchers for three payments totaling K7,061 were not sighted in file. I was unable to verify the validity of these payments;
- In 23 instances, payments totaling K67,607 were neither examined nor certified prior to payment;
- No minor contract agreement was sighted in file for a payment of K61,270. This was in relation to purchase of towels and tissues for detainees at Bomana; and
- Payments totalling over K1 million were made in contravention to the purpose of the trust account as outlined by the Trust Instrument.

DEVELOPMENT BUDGET EXPENDITURE

During the period under review, the DCIS had only one project funded under the PIP called the 'CS Infrastructure', to fund the maintenance and construction of four projects infrastructures:

A review of the IFMS 8202 expenditure report revealed 30 instances or payments totaling K2.6 million that were not related to infrastructures in the selected provinces.

As per the Trust Deeds, the Department had a trust account "Correctional Service Development Project GoPNG Fund Trust Account" in place to hold PIP funding. However, I noted that the 2016 Development funds for CIS under the budgetary appropriation were not deposited into the trust account. Funds released by the Department of Treasury by warrant authority were directly paid into the Departments operating account and was paid via IFMS

which maybe be susceptible to being used on operational expenses in contravention to its intended purpose.

DEPARTMENTAL RESPONSE

The findings were brought to the attention of the Commissioner in the management letter issued. However, DCIS management did not respond accordingly.

CONCLUSION

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

Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

09. NATIONAL INTELLIGENCE ORGANIZATION 2016

OVERVIEW

The National Intelligence Organization (NIO) is the intelligence agency of Papua New Guinea.

It was established by the National Intelligence Organization Act, an Act of Parliament in 1984. As defined by the Act (art.7), the Organization's functions are to "collect, collate and process intelligence information", and provide the authorities with "timely, accurate and impartial assessments, forecasts and reports in respect of:

- (a) matters affecting the maintenance of good order in the country;
- (b) the combating of seditious enterprises, espionage and sabotage and the provision of warning of potential military attack, armed incursions into the territory of Papua New Guinea or the use of military pressures against Papua New Guinea;
- (c) the preservation of national sovereignty and the detection of any attempts by a foreign power or person to engage in political, military or economic activities contrary to Papua New Guinea's interests;
- (d) the prospects for world and regional, political, economic and social stability in so far as these could have implications for, or could affect, Papua New Guinea; and
- (e) future trends of the availability of resources and of prices as these could have implications for Papua New Guinea.

FINDINGS

CORPORATE GOVERNANCE

- I noted that there was no Internal Audit Unit for the Organization as it was not catered for in the current organizational structure. A mini restructure which included the establishment of the unit was approved in 2014. However, it was yet to be funded at the time of audit;
- Whilst the Quarterly Budget Review reports for the first, second and third quarter were prepared and submitted to the Treasury Department as required, I noted that the Fourth Quarter Review Report was not prepared; and
- I noted that the Organization did not prepare its Annual Financial Management Report and its Annual Management Report for 2016.

BUDGETARY CONTROL

A review of the IFMS 2157 expenditure summary report as at 31 December, 2016, revealed that a total of K5.8 million was expended against total warrant authorisation of K4.73 million resulting an over-expenditure of K1.1 million in the recurrent budget for the year.

BANK RECONCILIATION – Drawing Account

The Organization has a drawing account with Bank of PNG, however, the Organization's bank reconciliations for 2016 were not provided to me for review as they were not updated at the time of audit.

PROCUREMENT AND PAYMENT PROCEDURES

- The Organization did not have a Procurement Plan and Quotations Register in place;
- Two payments totaling K8,674, were not examined and approved by the Section 32 Officer;
- In 11 instances, payments totaling K317,726 related to Special Operations undertaken by the Organization. A review of the payment vouchers revealed the following observations:
 - All payments were made through the paymaster;
 - No documentation was attached to indicate the breakup of the usage of funds; and
 - There was no internal policy in place to guide the expenditure and the acquittal of the funds.

HUMAN RESOURCES AND PAYROLL

I requested for 15 officers' personnel files for audit including other records and documents relating to the Human Resource and payroll function of the Organisation and the following irregularities were revealed:

- I noted that there was no Training Plan in place for 2016;
- I noted in 15 instances, officers paid recreational leave fares had not been deducted 10% of their substantive gross as their contribution towards their fares. This is contrary to the requirement in the General Orders;
- I noted that personnel files were not properly maintained as required in the General Order; and
- In 12 instances, officers with Salary Grades above 10 were paid overtime contrary to the requirements in the General Order.

ASSET MANAGEMENT

- I noted that the Organization did not maintain a Fixed Assets register or Loan register for attractive items. Hence, assets purchased totaling K32,178 were not recorded for accountability purposes by management;
- The Vehicle Register maintained did not capture the required information as stipulated in the FMM such as;
 - Particulars (Model, Serial Number, etc.),
 - Cost, Estimate of Economic Life,
 - Corrective Maintenance History,
 - Preventative Maintenance Requirement and
 - The custodian of the vehicle
- According to the Motor Vehicles Register, 6 motor vehicles were purchased in 2014 and were classified as un-road worthy and recommended for disposal. However, I was not able to sight any valuation report detailing the conditions and reasons for disposal as the information was not provided for review.

ADVANCE MANAGEMENT

- I noted that the Organization did not maintain an advance register in 2016. Hence, all 53 travel advance payments totaling K955,184 paid during the year remained unrecorded and outstanding; and
- No proper acquittal files were maintained.

DEPARTMENTAL RESPONSE

The results of the audits were reported to the Director of the Organization in a management letter. However, the management did not respond up to the time of writing this report.

CONCLUSION

The results of audit and the number and magnitude of control weaknesses identified in the course of my audit indicate that overall, there were significant weaknesses in the control framework. The control activities such as delegations, authorisations, reconciliations, segregation of duties, system access or data processing, management and monitoring were not sufficiently robust to prevent, detect or correct error or fraud.

10. DEPARTMENT OF EDUCATION 2016

OVERVIEW

The Department of Education's (DoE) broad mission is to prepare and develop a literate, educated and skilled person. The mission of the Department as defined by the National Executive Council is:

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

FINDINGS

STATUTORY REPORTING

I noted that the Department did not prepare an Annual Financial Management Report.

BANK RECONCILIATION

A review of the December 2016 Bank Reconciliation statement of the Drawing Account revealed the following:

- The cash book had a negative year-end balance of K9.84 million which represented over committing of funds beyond available cash funds;
- Stale cheques totaling K7.27 million should be written back to the cash book;
- The bank reconciliation statements were not signed and certified by the financial delegate.

PROCUREMENT AND PAYMENT PROCEDURES

Examination of selected payments and related records and documents revealed the following discrepancies:

- Payment vouchers for three payments totaling K120,209 were not submitted or furnished to audit for review; and

- Three written quotations were not sighted in 11 instances totaling K758,882.

HUMAN RESOURCES AND PAYROLL

Audit examination of the HR and Payroll function including a sample of ten overtime payments totalling K254,000 revealed the following observations:

- Payroll reconciliation was not performed on a fortnightly basis as required by the Department;
- Payment vouchers and supporting documents for five overtime payments totalling K177,263, made under Paymaster were missing and not furnished to me; and
- The DoE had engaged a total of 39 casuals over the years, however, their personnel files and other supporting documentation were not provided to audit, hence, I could not verify the terms of their engagements with the Department over these years.

ASSET MANAGEMENT

No Assets Register was maintained during the year 2016.

ADVANCE MANAGEMENT

Examination of 52 randomly selected Travel and Cash Advances totaling K433,499 paid during the year under review revealed the following observations:

- In 33 instances, advances paid in 2016 totaling over K226,000 were not recorded in the Advance Register maintained by the department;
- I noted that 312 advances totaling K414,622 recorded in 2016 remained Unacquitted; and
- In 24 instances, officers were given second advances while their previous advances totaling K109,000 remained outstanding.

TRUST ACCOUNT MANAGEMENT

The DoE administers six Trust Accounts. Audit examination of these trust accounts and related records and documents revealed the following irregularities:

Technical Vocational Education & Training (TVET) Impact Project Trust Account

- The bank balance as at 31st December 2016 was K2.33 million. According to the Trust Instrument, this trust account should have ceased to operate at the end of 2016;

- There was a transfer of K4.51 million made into this trust account and the same amount was later transferred out after a month without approval from DoF; and
- Copies of specimen signatures to this trust account were not provided for my verification.

Tuition Free Fee (TFF) Education Subsidiary Trust Account

- In the absence of the Trust Instruments, it was not possible for me to verify whether the transactions valued at over K544 million were in line and in conformity with the requirements of the Trust Instrument.

Tuition Free Fee (TFF) Education Subsidiary Trust Account – Westpac Bank

- In the absence of the Trust Instruments, I was unable to verify whether the transactions in this account valued at over K10 million were in line with and in conformity with the requirements of the Trust Instrument; and
- The bank reconciliation statements for the nine months were not provided to audit for verification.

Tuition Free Fee (TFF) Education Subsidiary Trust Account- ANZ Bank

- In the absence of the Trust Instrument, I was unable to verify whether the transactions in this trust account valued at over K18 million were in line and in conformity with the requirements of the Trust Instrument; and
- The bank reconciliation statements for nine months were not made available for my verification.

DEVELOPMENT BUDGET (PIP FUNDING)

The DoE coordinated the four PIP projects during the year under review. A review of these PIP project report and other related records revealed the following observations:

Education Training & HRD 1

- Quotations/Invoices were not attached to the payment vouchers in the files; and
- Paid vouchers for five payments totalling over K342,000, relating to “marking of the 2016 Grade 12 National Exam papers” were missing and could not be provided to me.

Education Training & HRD 2

- In 12 instances, Payment vouchers totalling K613,659 were not provided to me.

Polytechnic College-Guime

- Eight Paid vouchers totalling K1 million were missing and were not provided to me.

DEPARTMENTAL RESPONSE

The above matters were brought to the attention of the Department through the Management Letter. However, no responses were received up to the time of writing this Report.

CONCLUSION

The results of the audit indicate that overall, there were significant and serious weaknesses in the control framework. I noted that there were weaknesses in Procurement, Advance Management, Procurement and Human Resources and Payroll. The control activities such as delegations, authorisations, reconciliations, segregation of duties, system access and management were not sufficiently robust to prevent, detect or correct errors or fraud.

11. DEPT OF HIGHER EDUCATION, RESEARCH, SCIENCE & TECHNOLOGY 2016

OVERVIEW

The Department of Higher Education, Research, Science & Technology (DHERST) function, as mandated by legislation is to provide services to Higher Education. The Department's mission is to foster, enhance, and promote quality higher education for social, economic and technological development of Papua New Guinea.

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

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

FINDINGS

CORPORATE GOVERNANCE

- The DHERST had prepared only the first quarterly budget review report. The second, third and fourth quarterly budget review reports were not submitted for my review;
- The Annual Financial Management Report was compiled and submitted late to the Secretary, Department of Finance (DoF) in May of 2018 which is contrary to the timeframe stipulated in the *PFMA*;
- The Annual Report for the fiscal year ended 2016 was not produced. I was informed that this was due to the prolonged student strikes in the State Universities in 2016. In the absence of this report, I was unable to assess the outcomes of the planned activities and their performances; and
- The 2016 Annual Audit Plan and Audit Reports (if any) were not provided me.

BUDGETARY CONTROL

- The IFMS 2157 (expenditure by department/activity type/item Report) revealed over expenditure totaling K19.8 million under 18 Expenditure Vote Items; and

- Comparison of IFMS 2157 (expenditure by department/activity type/item Report) and IFMS 2152 (all expenditure by agency at vote level by personnel emoluments and Goods and services Report) revealed differences in the expenditure figures indicating a total variance of K18.73 million.

BANK RECONCILIATION

A review of the bank reconciliation statement for the month as at 31st December 2016, revealed the following un reconciled items:

- Credits in Bank statement not in cash book of K478,350 yet to be written back to the cash book; and
- Unpresented Cheques totaling K3.10 million.

PROCUREMENT AND PAYMENT PROCEDURES

I randomly selected a sample of 72 payments totaling K27.7 million to ascertain the levels of compliance with procurement procedures and the following observations were made:

- Five instances totaling K66,745 did not have IFMS generated Purchase Orders and Delivery Slip attached. I could not confirm and verify requisitions raised on the system were duly approved by financial Delegate and Section 32 officer accordingly;
- The Finance Form 4 (FF4) was not attached to the payment vouchers in 24 instances totaling K503,751; and
- Payment vouchers for eight payments totaling K15.09 million were not made available for my review.

ADVANCE MANAGEMENT

- A total of 146 advances amounting to K107,215 paid during the year were yet to be acquitted; and
- Thirty Officers were issued advances totaling K96,989 whilst their previous advances remained un-acquitted.

ASSET MANAGEMENT

- Out of 12 assets purchased during the year, nine assets valued at K81,140 under the office equipment register were not registered in the Assets Register;

- There was no transport policy, no vehicle usage log book and no register for costs involved in running the Department's vehicle fleet; and
- No physical verification of assets or periodical stock-takes was conducted for assets owned by the Department. I could not ascertain whether the assets purchased, including those acquired in former years, were still in existence and in the custody of allocated officers/Divisions.

HUMAN RESOURCE & PAYROLL

- Proof of payroll certifications were not provided to me for verification of control over payment of salaries and wages before these were processed at the DoF systematically each fortnight in 2016; and
- Copies of attendance registers maintained by the divisions within the Department to monitor the movement of staff were not provided for my review;
- The Department did not maintain a Roster for recreational leave proposed to be taken by each officer for the year;
- Payment vouchers for three payments to travel agents totaling K15,887 for recreational leave fares were not made available for my review; and
- The required documentations such as Tax Declaration, Marriage Certificate and Birth or Adoption Certificates were not attached to the payment vouchers to validate seven payments totaling K34,444 paid as recreational leave to the officers.

TRUST ACCOUNTS

I noted that the DHERST maintained four trust accounts using the PGAS system: The following discrepancies were noted:

Higher Education Sector Improvement Program Trust Account (HESITA)

Review of this trust accounts revealed the following weaknesses:

- Payment vouchers for two payments totaling K133,528 were not made available;
- Two payments totaling K996,011 did not have Finance Form 3 (FF3) attached to the payment vouchers;
- Bank Reconciliations for the months of January and February 2016 were not available for my review; and

- I could not verify/confirm that the monthly bank reconciliation statements were submitted to the Accounting Frameworks and Standards Division of the DoF as required due to the lack of correspondence pertaining to this.

Higher Education Sector Rehabilitation Trust Account

Review of this trust account revealed the following:

- In 22 instances, payment vouchers totaling K6.89 million did not have Finance Form 3 (FF3) attached;
- Finance Form 4 (FF4) were not examined and certified in 13 instances totaling K3.8 million;
- Contract agreements were not sighted in six instances for payments totaling K1.87 million;
- Bank Reconciliations for the months of January and February for year 2016 were not available for my review; and
- I could not verify/confirm that the monthly bank reconciliation statements were submitted to Accounting Frameworks and Standards Division of the DoF as required due to the lack of correspondence pertaining to this.

Trade skills Scholarship Trust Account

Review of this trust account revealed the following lapses:

- Payment vouchers for 3 payments totaling K73,976 were not made available for my review;
- Finance Form 3 was not attached to five payment vouchers totaling K134,848; and
- Trust Account bank reconciliation statement for the months of January and February for year 2016 were not available for my audit.

DEPARTMENTAL RESPONSE

The above findings were brought to the attention of the Secretary through a Management Letter. The Management acknowledges the Report and agrees to address the issues and recommendations.

CONCLUSION

The results of the audit indicate that overall, there were significant and serious weaknesses in the control framework. The control activities such as delegations, authorisations, reconciliations and segregation of duties, were not sufficiently robust to prevent, detect or correct errors or fraud.

12. DEPARTMENT OF HEALTH 2016

OVERVIEW

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

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

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

FINDINGS

CORPORATE GOVERNANCE

- The Internal Audit Unit (IAU) is understaffed by 5 vacant positions;
- The IAU had an Audit Plan which was well documented and outlined however; there were no internal audit reviews performed in line with this audit plan;
- No Quarterly budget review Reports were provided for my review; and
- The DoH had compiled the Annual Management Report, however, there was no documentary evidence to substantiate that this report was submitted to DPM and the CACC as required.

BUDGETARY CONTROLS

The IFMS 2157 (expenditure by department/activity type/item) report revealed an over expenditure of over K52.2 million arising from 11 expenditure vote items.

CASH MANAGEMENT –Bank Reconciliation

- The monthly bank reconciliations were not submitted to DoF as required by the *FMM* on timely basis; and
- The December bank reconciliation statement disclosed significant unrepresented cheques totalling K73.83 million. These included 36 stale cheques totalling K99,124 which should have been investigated, cleared and adjusted in the cashbook in order to reflect an accurate cash book balance at year end.

ADVANCE MANAGEMENT

Examination of the Advance Register and related records revealed the following discrepancies:

- In 701 instances, advances paid in 2015 totaling over K2.1 million remained outstanding as at 31 December 2016; 336 of these outstanding advances totaling over K1.6 million were still not recorded in the Advance Register;
- The salary advance register was not updated and lacked vital information such as, the recovery start and ending date, amount agreed with officers to be deducted and balance outstanding as at 31st December, 2016;
- Advances totaling K618,147 paid out during the year 2016 were not recorded in the Advance Register;
- In 207 instances, travel advances paid in 2016 totaling K432,972 remained un-acquitted as at 31st December 2016;
- In 668 instances, advances for both 2015 and 2016 totalling over K1 million were unacquitted/ outstanding as at 31st December 2016;
- In eight instances totalling K9,661, officers were paid second or more advances while the previous advances were still outstanding or unacquitted;
- There were delays noted in the acquittal of advances ranging from 12 days to more than 1 year in 25 instances totalling K45,597; and
- I noted in 23 instances totalling K210,646, payments for accommodation and vehicle hires

were made to individuals instead of paying to registered companies.

ASSET MANAGEMENT

Examination of the Asset Register and other related records for the financial year 2016, revealed the following discrepancies:

- The Department's asset procurement function is still decentralized. Thus, there were no control mechanisms in place to record and account for every asset purchased;
- Prior year audit issue of 264 un-recorded asset valued at over K5.1 million still remained unresolved or unrecorded as at 31st December, 2016;
- No stock take was conducted during the financial year 2016. This issue was reported in my 2014 and 2015 reports;
- In 15 instances totalling K193,620, the assets purchased in 2016 were not recorded in the Assets Register;
- In 40 instances, the serial/model *numbers* of attractive items valued at K259,673 were not recorded beside each item description as required in asset management;
- Vehicle log books were not maintained to account for use of vehicles on daily runs against fuel costs;
- I noted that the details of three vehicles were missing from the Register of which the status were not provided to me; and
- Six of the 76 registered vehicles did not have the "Z" plate number as required.

PROCUREMENT & PAYMENT

I examined a sample of 82 paid vouchers totalling over K6 million and other related records/documents and noted the following:

- No Quotation Register was maintained by the Department during the year under review;
- Payment vouchers for nine payment totalling K211,977 were deemed missing, thus could not vouch the validity of these payments;
- In 21 instances, payments totalling K2.89 million were made without any Minor Contract Agreements;
- There were no Business Certificates and COC attached with the payment vouchers in 45 instances totalling over K3.75 million;

- In 12 instances totalling K301,273, there were no evidence of three written quotations being obtained prior to purchases being made;
- I noted payments were made on Pro-forma invoices instead of tax invoices in 24 instances totalling K399,968;
- Delivery dockets were not attached to show receipt of goods purchased in five instances totalling K68,041;
- In three instances totalling K87,439, approvals were not sought as required from Government Printing Office prior to the engagement of private printers for printing services;
- Claims were not examined by the examiner in 22 instances totalling K2.69 million; and
- In 19 instances totalling K1.30 million, claims were not certified by the Certifying Officer.

HUMAN RESOURCE & PAYROLL MANAGEMENT

A review of records and payments relating to Human Resource and Payroll revealed the following irregularities:-

- No approval from DPM was sighted for the current organizational structures implemented in 2010;
- There was no approval from DPM for the endorsement of the structure to be loaded into the HR Payroll system;
- The organizational structure listed Deputy Secretaries on Grade 20 which is inconsistent with General Order requirements for implementing agencies, which is Grade 19;
- I noted that non-reconciliation of the payroll is a recurring issue. This issue has never been resolved by the management as noted again in my current audit. The management also failed to conduct man power reconciliation and report to DPM on a quarterly basis as required; and
- I noted that the Department did not comply with the General Order requirements by having in place an annual training plan and report for the 2016 financial year.

DEVELOPMENT BUDGET (PUBLIC INVESTMENT PROGRAM)

- Minutes of the Project Steering Committee meetings, if any, were not made available for my review; and

- Acquittal or progress/status report covering the 2016 funding of 2 projects totalling K6 million were not made available for my review.

GRANTS AND SUBSIDIES

The grant register and other related records reveal that during the period under review, amounts totaling K2.53 million were paid out as grant payments to four institutions.

- No acquittal reports were received from the recipients of grants totaling K2.16 million; and
- Except for the Arawa School of Nursing, there were no MOU or an Agreement between the State, the Department and the various Recipients of the Grants.

DEPARTMENTAL RESPONSE

The above findings were brought to the attention of the Secretary through the Management Letter. However, no responses were received up to the time of writing this Report.

CONCLUSION

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

13. DEPARTMENT OF LANDS AND PHYSICAL PLANNING 2016

OVERVIEW

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

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

FINDINGS

CORPORATE GOVERNANCE

- Copies of Annual Management Report, Quarterly and Annual Financial Reports, if any, were not submitted for my review.
- The Annual Internal Audit Plan for 2016 and Internal Audit Reports, if any, were not provided.

BUDGETARY CONTROL

A comparison of Authorised Warrants against the total Expenditures in the IFMS 2157 (expenditure by department/activity type/item Report) revealed a significant net variance of K2.2 million in 13 instances. This indicated that the Department overspent against the authorised warrants allocated.

CASH MANAGEMENT – Drawing Account

- The Department maintains a Drawing bank account with Bank of Papua New Guinea. Monthly bank reconciliations for this account for all 12 months of 2016 were not prepared.

REVENUE COLLECTION

- According to the Department's Collector's Statement Summary for 2016, revenue totalling over K21.48 million had been collected under 13 revenue codes.

I noted that the total revenue reported above excludes the revenue collections of the provincial and regional offices as well as those collected by the Department of Finance during the year under audit scrutiny. This indicated to me that the total revenue disclosed by the Department in the Summary Statement was incomplete and thus was inaccurate,

- The LAGIS system was used to manage land information and the revenue collection; however, I was informed that the system has not been operational since 2013. Consequently, revenue data such as land lease rental rates and outstanding leases were maintained manually on Microsoft Excel.

PROCUREMENT AND PAYMENT PROCEDURES

I reviewed procurement and payment procedures on 36 selected payments totalling K3.65 million and noted the following matters of concern:

- no specimen signatures were kept on file for verification of signatures on the cheques and related section 32 Officers;
- in 13 instances, payment vouchers with values totalling K1.54 million were not provided and were deemed missing;
- A payment of K39,191 made to the Paymaster for miscellaneous outstanding payments was not approved by the Section 32 Officer;
- In five instances, payments totaling K313,403 were not approved by the Authorized Requisition Officer;
- In 29 instances, payments totaling K2.36 million were not duly certified and examined by the responsible officers; and
- In six instances, three quotes were not obtained for payments totaling K162,521.

HUMAN RESOURCES AND PAYROLL

- Fortnightly Payroll reconciliations between the Department's record and Alesco reports were not done;
- The Department did not maintain a register of all gratuity payments made to contract officers;
- The Department did not maintain a recreational leave roster to facilitate effective management, control and monitoring of recreational leaves of the employees;
- Personal files were not provided for me to verify the propriety of recreational leave fares paid to six officers' nominated travel agents; and
- Employee History Cards were not sighted in the personal files to confirm the eligibility and validity of leave fares totalling K12, 822 paid to travel agents for two officers.

ADVANCE MANAGEMENT

- In 125 instances, advances paid out totalling K288,135 were not acquitted;
- In 62 instances, advances totalling K188,823 were paid to 24 officers who had outstanding advances or who had not acquitted advances paid to them previously; *and*
- Supporting documents such as boarding passes and accommodation receipts were not sighted on file in 12 instances to substantiate travel acquittal status totalling K93,775.

TRUST ACCOUNT

The Department administers the *Land Reform Program Trust Account* which is maintained with the Bank of South Pacific. I reviewed the trust accounts documents and records and noted the following observations:

- According to the Trust Instrument, the expiry date for this trust account was 21st December 2012. No trust instrument was sighted by audit to suggest that the expiry date for this trust account had been extended. Hence, the trust account was operational without a valid trust instrument;
- Financial records for this trust account such as, cash book, bank statements, transaction ledgers, payments vouchers and others were not furnished. As such, I could not ascertain whether the transactions such as receipts and payments made out of the trust account were related to the purpose intended for; and
- The monthly bank reconciliation for the trust account was not prepared by the Department for the year under audit scrutiny.

ASSET MANAGEMENT

- Assets totaling K143,399 were purchased using incorrect expenditure vote items in five instances;
- Assets recorded in the Asset Register were not serially numbered; and
- No stock take and or physical Reports were provided to me to suggest that periodic stock-take of the assets owned by the Department were undertaken on a regular basis.

DEPARTMENTAL RESPONSE

The Department did not respond to my audit findings reported in the management letter issued up to the time of writing this report.

CONCLUSION

Result of the 2016 audit indicates that there were significant weaknesses in the control framework. The control activities such as delegations, authorisations, reconciliations, data processing, segregation of duties, and system access were not sufficiently robust to prevent, detect or correct errors or fraud.

Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

14. DEPARTMENT OF PETROLEUM AND ENERGY 2016

OVERVIEW

One of the major objectives of the Department of Petroleum and Energy is to advise and assist the Minister in the development of relevant policies in accordance with legislative requirements and to support the Government's efforts to develop the Nation's petroleum industry by promoting, monitoring and regulating all activities directly related to exploration and developing of petroleum resources in Papua New Guinea.

Another major program/objective of the Department is to formulate and implement appropriate action plans for Energy Management Section suitably integrated with development planning in other economic sector activities. This includes liaising with other government agencies involved in rural infrastructure development by adopting an integrated approach to energy planning and rural development.

FINDINGS

CORPORATE GOVERNANCE

- The Department did not have a Corporate Plan or an annual Activity Plan which is a breach of the General Orders;
- The Internal Audit Unit (IAU) was not functioning satisfactorily. The following anomalies were noted:
 - There was no approved Internal Audit Plan,
 - There were no audit reviews and reports, and
 - No Audit Committee was established to oversee the independence of the IAU.

REPORTING REQUIREMENT

- Quarterly Reports and Annual Financial Management Report were not provided. In the absence of these reports, I could not comment on the financial management of the Department; and
- There was no Annual Management Report for 2016. I could not comment on the attainment of the planned objectives. Also, I could not confirm whether the Department had submitted this report as required to the Secretary, Department of Personnel Management in relation to Corporate and Annual Management Plans.

BUDGETARY CONTROL

I reviewed the Expenditure Statement on IFMS 2157 report produced by DoF and noted that the Department incurred over expenditure of K7.98 million.

BANK RECONCILIATION

A review of bank reconciliation statements and other related records revealed the following discrepancies:

- I was provided with soft copies of the bank reconciliations for January to November, 2016 thus the certification by the Financial Delegate could not be ascertained; and
- The December bank reconciliation was not prepared due to the transition period from PGAS to IFMS November 2016. Hence, I could not report on the reconciled bank balance as at 31st December, 2016.

PROCUREMENT AND PAYMENT PROCEDURES

A review of the procurement and payment procedures together with related records revealed the following irregularities:

- The Department did not have a Procurement Plan or Procurement Policy in place to ensure that the department abides with fundamental principles of the Procurement Framework and Principles;
- No documents/records relating to the “specimen signature of Financial Delegates” for the department in 2016 financial year was made available for my review;
- No quotation register was maintained by the department to register both verbal and written quotations;
- Payment vouchers for 26 payment totaling K1.72 million were not provided. I could not confirm the validity of these payments;
- In two instances, payments totalling K205,000 were made without *Minor Contract Agreements*;
- In 21 instances, payments totalling K772,106 did not have *IPA Business Certificates* and *Certificates of Compliance* attached to the payment vouchers to prove that the Goods and Service provider were registered with the IPA;
- Written Quotations were not obtained in six instances totalling K110,386;

- In 20 instances, payments totalling K852,608, were made without tax invoices to substantiate the amounts paid;
- In two instances totalling K113,230, claims were not certified by the certifying officer; and
- In two instances, claims totalling K124,880 were not examined by the examiner.

ADVANCE MANAGEMENT

A review of the Advance Register and related records revealed the following irregularities:

- In 36 instances, advances totaling K218,769 were not recorded in the Advance register;
- Advance totaling K1.53 million remained un-acquitted as at 31st December 2016;
- In 79 instances totaling K670,787, the Department continued to issue second or more advances to officers who failed to acquit previous advances paid to them; and
- In 70 instances totaling K544,448 travel advances were paid through the paymaster.

ASSET MANAGEMENT

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

- The Department's asset procurement function was decentralized. Thus, there was no control mechanism in place to record and account for all assets purchased;
- Prior year (2014) audit issue of un-recorded assets worth K1.21 million remained unresolved as at 31st December, 2016;
- Nine payments of attractive items totaling K39,269 remained unrecorded in the register;
- The Asset Register lacked vital information such as dates of purchase, model numbers, cost of assets and preventative maintenance records as required by legislation;
- The Department did not have in place a Motor Vehicle Operational Directive to govern the operational use of Departmental Vehicles;
- No vehicle log book was maintained. In the absence of motor vehicle usage log book, audit could not comment on the usage of official vehicles;
- The Fleet Register recorded three new vehicles however; I could not ascertain the total number of vehicles purchased due to lack of documentation including incomplete information such as cheque number, date of purchase etc. missing from the Register;

- The Department disposed 12 vehicles however; no BOS reports were made available for my review in regards to the disposal made; and
- A Losses and Deficiency report was not maintained by the Department to account for loss/theft of assets including motor vehicles.

HUMAN RESOURCE & PAYROLL MANAGEMENT

Audit examination of the HR and Payroll function including a review of 24 samples of recreation leave payments totalling K283,308 together with other related documents revealed the following irregularities:

- Five short term contract officers were paid a total of K194,626 under company names instead of their own names to avoid the normal personal salary/wages tax;
- The wages sheets for casual employees were not authorized and certified by the financial delegate;
- Formal recreational leave application forms were not sighted for payments totalling K44,049 thus, indicating approval not obtained prior to making these payments;
- Six officers claimed and were paid recreational leave entitlements totalling K58,346 for 13 dependents without birth certificates as proof to indicate they were below the age of 18 years;
- Recreational leave fares totalling K 349,386 and overtime payments totaling K325,519 were charged to incorrect Vote Items;
- Overtime payments were paid to officers above Public Service Grade 10 level in seven instances totaling K57,451 contrary to the General Order;
- In ten instances totaling K69,615, prior approvals by supervisors for overtime were not obtained;
- In three instances, Higher Duty Allowance totalling K35,038 were paid under Paymaster instead of paying directly to the officers;
- In 21 instances HDA totalling K114,125 were paid through PGAS/IFMS instead of paying through concept payroll;
- SDMA/DMA totalling K74,342 in seven instances were paid under Paymaster instead of paying directly to the officers;

- There was no evidence of payroll being reconciled and approved by a competent Human Resource Manager as to its accuracy prior to processing of pays from pay in 2016;
- Staff Establishment Register was not updated showing the changes (promotions/acting appointments) made during the period under review;
- The Department did not have an Attendance Register to keep record of its employees movement; and
- Employees' personal files including Leave History Cards and Salary History Cards were not updated showing changes in salaries and leaves taken.

TRUST ACCOUNTS

During the year under review, the Department maintained nine Trust Accounts comprising of two Development Levy Trusts and Seven Royalty Trust Accounts. However, a review could not be carried out on all these Trust Accounts as the processing of payments and bank reconciliations were done and maintained by the Department of Finance. Therefore, in the absence of these documents, I could not comment on the maintenance of these accounts during the year.

DEVELOPMENT BUDGET

Audit examination of the transaction details on a sample basis together with related records and documents revealed the following discrepancies:

- The Annual Work Plan, Cash Flow and Expenditure Implementation Committee (EIC) Meeting Minutes in relation to the 2016 Development Budget of K27.7 million were not provided for my review. There was no EIC meetings held since 2014;
- The payment voucher for a payment of K4.7 million paid to a company for a Road Project was not provided to me. As such, I could not confirm the validity of this payment;
- No acquittal was provided for the use of funds amounting to K50, 000 paid as cash advance;
- Two payments totaling K92,450 were made without obtaining the required three written quotations;
- Consultancy agreement including Terms of Reference and report of work done were not attached to the payment voucher for a payment of K80,000 paid to a consultancy service provider; and
- Minor Contract Agreement and status/progress reports were not attached to the payment voucher for a payment of K68,027 for the refurbishment work done.

DEPARTMENTAL RESPONSE

The above audit findings were brought to the attention of the Secretary in a Management Letter issued and the responses were yet to be received at the time of writing this Report.

CONCLUSION

The results of my audit indicate that overall, there were significant and serious weaknesses in the control framework. The control activities such as delegations, authorizations, reconciliations, segregation of duties, system access and management were not sufficiently robust to detect or correct errors or fraud. Consequently, there was an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

15. DEPARTMENT OF TRANSPORT 2016

OVERVIEW

The Department's mission is to ensure the provision of transport infrastructure and services are economically efficient, well integrated, reasonably cheap, safe and able to meet effective demand, while ensuring appropriate level of equity in the provision of transport infrastructure and services, and acceptable local participation in infrastructure related industries.

Its mission is to manage financial resources in order that Government policies are implemented in the people's best interest.

The Department is expected to fulfill its mission through the following activities:

- Maintain and control all navigational aids pertaining to each mode of transport;
- Provide services to Marine Boards, Land Transport Board and other-ad-hoc committees relating to the functions of the Department;
- Administration of all legislation pertaining to land, air and sea transport; and
- Formulation and implementation of policies relating to the land and sea modes of transportation.

FINDINGS

CORPORATE GOVERNANCE

- The Internal Audit Work Plan and Reports for the year 2016 were not made available for audit examination.

REPORTING REQUIREMENT

- The 2016 Annual Management Report for the Department was not made available for my review. This issue was also reported in 2015 and remain unresolved.
- An Annual Financial Report for the year 2016 was produced by the Department; however, I noted that the Report was not produced within the timeframe as required by the *Public Finances (Management) Act*.

BUDGETARY CONTROL

A comparison of the Warrants Authorized and Actual Expenditure in the IFMS 2157 (expenditure by department/activity type/item Report) revealed that expenditure was spent in excess of the Authorized Warrants by K2.8 million.

CASH MANAGEMENT

Review of the Drawing account maintained by the Department and monthly reconciliations revealed the following matters:

- The monthly bank reconciliations statements were not submitted to the Department of Finance within the required timeframe; and
- The Bank Reconciliation Officer was not wholly independent as the same officer was responsible for collection and endorsement of cheques.

PROCUREMENT & PAYMENT PROCEDURES

Audit examination of randomly selected sample of 24 payments totalling K1.02 million, together with other related records reveal the following discrepancies:

- The Department did not maintain a Quotation Register;
- In 10 instances, payment vouchers totalling K199,796 were not made available for audit examinations and were deemed missing; and
- In three instances, expenditure totalling K112,681 were charged to incorrect expenditure vote items.

ADVANCE MANAGEMENT

Examination of the advance register, acquittal files, and expenditure transaction detail pertaining to advances paid to officers during the year under review revealed the following:

- In 39 instances, advances totaling K62,050 were outstanding as at 31 December 2016; and
- In 70 instances, Travel Advances totalling K231,177 were not acquitted within the time frame as required by the PFMA.

ASSET MANAGEMENT

The master Asset Register maintained by the Department to record all fixed asset acquired in 2016 was incomplete and not update.

HUMAN RESOURCE AND PAYROLL MANAGEMENT

A review of the records and documents relating to Human Resource and Payroll revealed the following discrepancies:

- Overtime payment of K6,529 was paid to seven officers whose pay grades were above Grade 10;
- Two officers were appointed to act three levels above their substantive positions;
- Periodic payroll reconciliations were not carried out between the ALESCO payroll printout and the Department records to ensure the payrolls processed by the Department of Finance were in accordance with the actual Departmental records; and
- Audit comparison of the ALESCO printout of pay # 26 and IFMS 2157 (expenditure by department/activity type/item Report) revealed a net variance of K623,110 during the year under audit review.

DEPARTMENTAL RESPONSE

The above matters were reported to the Secretary of the Department and a formal response was not received at the time of writing this Report.

CONCLUSION

The results of my audit indicate that overall, there were significant weaknesses in the control framework. The control activities, such as delegations, authorisations, reconciliations, data processing, segregation of duties and system access were not sufficiently robust to prevent, detect or correct error or fraud.

The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

16. DEPARTMENT OF WORKS AND IMPLEMENTATION 2016

OVERVIEW

Main programs of the Department of Works and Implementation are:

- Construction Coordination - deals with provision of services in support of the Department's programs; construction, supervision, quality control and revitalization of existing machinery to cut costs;
- Regional and Provincial Works Officers to carry out minor works relating to development projects in the provinces; and
- Mechanical Engineering Branch (PTB) – Carry out replacement, maintenance and fully operate about 3,000 units of government owned vehicles and plants nationwide. This program was formerly funded through the PTB Trust Account.

FINDINGS

CORPORATE GOVERNANCE

- The internal audit team produced a total of seven audit reports in 2016, all of which were investigative and special audits in nature. Apart from a Payroll Variation audit of 2014 payroll records, they have not carried out any systems and processes audits;
- The Department did not have a Risk Management Plan; and

BUDGETARY CONTROL

IFMS was rolled out in the Department's Headquarter in April 2016. Prior to that, the Department was using the Oracle accounting software. The following observations were noted:

- The Oracle Report for first four months of 2016 were not made available for my review;
- The Department paid over K1.1 million in wages and a further K121,700 as overtime from IFMS instead of ALESCO payroll as required; and
- Wages and Overtime payments were charged to incorrect Expenditure Votes.

BANK RECONCILIATIONS

The Department maintained a drawing bank account with the Bank of South Pacific. The Drawing Account comprises of the Main Reimbursement Account and 20 Provincial Operating Accounts. Audit verification of the documents and related schedules for the bank reconciliation revealed the following:

- The bank reconciliations for the DoW & Implementation main drawing account was not prepared for the months of April to December, 2016 due to transition period from Oracle to IFMS; and
- 20 Provincial Operating Accounts were also not updated.

PROCUREMENT & PAYMENT PROCEDURES

Audit examination of selected paid vouchers and related records and documents revealed the following irregularities: -

- In 50 instances, paid vouchers totalling K670,346 were not provided. The authorization and supporting documentations of these vouchers could not be authenticated in the absences of the paid vouchers;
- The certifying officer's approval was not sighted in five instances totalling over K2.27 million;
- In nine instances, payments totalling over K2.6 million were made without the Certified Engineer's Report to validate completion of work done;
- I noted that the FF4A form was used to raise four consultancy claims totaling K949,676 instead of the FF4B Form as required;
- Four Contract Agreements valuing K884,893 were not provided for my review. Therefore, I was unable to verify and authenticate the payments made under these contracts;
- I noted that two companies engaged by the Department to provide waste management and security services respectively were paid accumulated amounts exceeding K500,000, however, I did not sight any records/documents of APC/Section 61 approval and Tenders;
- The Standard Template was not used to document the agreements for about 90% of the 21 minor contracts and consultancy engagements by the Department in the 2016 financial year. Most of the information required such as the signatures, contract periods, etc were missing from the contract agreements;
- A total of over K5.6 million was paid to contractors and suppliers without a valid Certificate of Compliances (CoC) in 71 instances;

- A non-resident company director provided consultancy services through an overseas company. However, the payment was made to his PNG based company account. There were no evidence provided to me regarding whether the company was in compliant to *Section 196 F of the Income Tax Act*;
- My review of a payment made in 2016 revealed that a Certificate of Inexpediency totalling K2.76 million for “Regravelling and Sealing of Ialibu Town Roads” was based on a COI request form. The justifications provided to request for Col was not sufficient and the copy of the actual COI awarded was not attached for me to verify and confirm; and
- A company was engaged by the Department via three separate Conformed Minor Contract Agreements to avoid APC and Tender process. The aggregate contract value was over K1.1 million. There was no “Certificate for Completion of Work” to confirm that the project was actually completed.

ASSET MANAGEMENT

A review of the various asset registers maintained revealed the following discrepancies: -

- I noted in my previous year audits, the Department had a serious breakdown in its asset management system. There is no proper system for recording of assets throughout the country;
- IT equipment valuing K227,941 in 16 instances could not be verified and confirmed as they could not be traced to the IT Equipment Register;
- Assets valued at K845,419 purchased during 2016 were not registered in the asset register;
- There were no annual asset stock take carried out at the headquarters as well as the Regional Offices; and
- I was provided with a report stating that a total of 46 assets were disposed and the proceeds of sales totaled K587,000. There were no Board of Survey (BoS) reports provided and no evidence provided to me suggesting that the proceeds were deposited in to the PTB Trust Account.

ADVANCE MANAGEMENT

A review of the Advance Register and related records revealed the following discrepancies: -

- The following issues from the 2015 audit still remained outstanding:
 - Advance Register did not contain important details such as; Cheque Numbers and Dates of Acquittals for audit trail;

- 61 out of the 62 advances (sample) valuing K245,308 still remained un-recorded in the Advance Register;
- Over K1.4 million paid out as advances still remained un-acquitted despite the reminder notices that were sent to individual officers concerned;
- In 50 instances advances valuing K247,663 issued for the year 2016 were not recorded;
- A total of K 734,944 were not acquitted as of 31 December, 2016; and
- Second advances were issued to 116 officers valuing K352,457 whilst their previous advances were still outstanding.

HUMAN RESOURCE & PAYROLL MANAGEMENT

Audit examination of records and documents relating to the management of Human Resource and Payroll revealed the following irregularities:

- Out of 38 randomly selected sample payments relating to recreational leaves, vital information such as marriage, birth or adoption certificates were not sighted in 16 instances valuing K143,735. Thus, I could not verify the basis of amounts paid without these important documents;
- A total of 21 senior staff were paid a total of K25,210 in overtime in 2016. Their positions ranged from salary grade 11 to salary grade 17 contrary to General Orders;
- The Department does not have a proper record of its casual employees as noted in the different records maintained from the Staff Establishment Register and the HR & Payroll records; and
- Two officers that were paid a total of K34,453 in gratuities via IFMS were not registered in the list of 2016 gratuity payments that was provided by the Department.

TRUST ACCOUNT

A review of the Bank Reconciliation status report provided as at 31 December 2016 revealed the following discrepancies.

- DoW Drawing Account for Headquarters was updated to September, 2016 while the 19 Provincial accounts were in arrears going back to 2013;
- The WSOOTA & PTBTA were also updated to September 2016 for the Headquarters account while the 19 provincial accounts were in arrears also going back to 2013; and
- Other Trust Accounts managed by the Department were also in arrears going back to May 2016 for the Headquarters while the Provinces goes as far back as 2013.

CAPITAL INVESTMENT (DEVELOPMENT BUDGET)

A review of records and documents relating to the capital expenditure revealed the following discrepancies:

- The DoF recorded an over expenditure of Development Budget funds of K268.39 million in excess of Warrant Authorities;
- A sample of 80 procurements valuing K62.19 million was tested to ascertain whether all procurement procedures and guidelines were adhered to. The following were noted;
 - Important Details are such as initial/original contract values and the anticipated projects start and completion dates were missing in Contract Payment Registers that was maintained;
 - I requested for various contract documents of the contractors to view the original contract values and the anticipated project start and completion dates but these were not made available;
 - Seven paid vouchers relating to project payments totaling K242,666 were deemed missing;
 - FF3 forms were not sighted in all of the paid vouchers that were selected for further verification;
 - The copies of the Certificates of Compliance (CoC) from the Tax Office were not sighted; and
 - A total of 203 people were paid a sum of K924,198 in wages. 174 casuals were unaccounted for when checked against the casual record provided by Payroll unit.

DEPARTMENTAL RESPONSE

The Department had responded to the audit findings reported in the management letter issued, and their comments were incorporated under the respective audit issues.

CONCLUSION

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

The results of the audit indicate that overall, there were significant weaknesses in the control framework. The control activities such as delegations, authorizations, reconciliations, data and

payroll processing and management monitoring were not sufficiently robust to prevent, detect, or correct error or fraud. Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

17. NATIONAL JUDICIAL STAFF SERVICES 2016 - 2015

OVERVIEW

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

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

- Legal, secretarial and clerical staff to enable the Courts to operate efficiently,
- Research, legal and other services for the Courts,
- An efficient Court reporting service,
- Adequate library services for the Courts, and
- Attendants, interpreters and other staff to ensure the efficient functioning of the Courts.

FINDINGS

CORPORATE GOVERNANCE

- The National Judiciary Staff Services (NJSS) did not have both the Corporate Plan and the Annual Plan for the 2016 financial year;
- No Audit Reports for 2016 were provided to me for review; and
- The 2015 Internal Audit Annual Plan was not provided for my review. In addition, Internal Audit Reports, if any, for the period under review, were not made available to me.

REPORTING REQUIREMENTS

- The Annual Financial Management Report for the years, 2016 and 2015 were not provided for my review; and

- The 2016 and 2015 Annual Management Report and Quarterly Budget Review Reports were not provided to me. Thus, it could not be confirmed whether these were prepared and submitted to the Secretary, DPM and DoF as required respectively.

BUDGETARY CONTROLS

- A comparison of the Expenditure Summary for 2016 generated by the IFMS 2157 DoF against the Expenditure Vote Summary printout through PGAS system (NJSS) revealed net variance of K101.9 million as a result of non-reconciliation between the two records. The same was noted in 2015 with a net variance of K122.9 million between the two records; and
- The expenditure statement IFMS 2157 for the year ended 31 December, 2016 revealed expenditures in excess of warrant authorities totaling K26. 5 million and K42 million for recurrent and development budget respectively.

CASH MANAGEMENT

- All bank reconciliation statements were manually prepared in excels worksheets for both 2015 and 2016. These statements were not signed by the preparer or the reviewing officer. In addition, the preparer was the only person involved in the bank reconciliation process;
- Unpresented cheques reported in the reconciliation statement totalling K15.49 million in 2016 included stale cheques; and
- Supporting documents such as cashbook printouts, cheques history listing printouts and bank statements for 2015 were not made available to me. In the absences of these sources document, I was not able to verify the accuracy of the bank reconciliation statements provided.

PROCUREMENT AND PAYMENT PROCEDURES

- A quotation register was not maintained in 2016 and 2015;
- Five selected payment vouchers totaling K256,413 relating to 2016 and in 2015, two payments totalling K625,818 were not made available. The validity and propriety of these payments could not be established;
- The Requisition Form (FF3) for a payment of K251,887 in 2016 for the purchase of motor vehicles was not sighted;
- In four instances, paid vouchers totaling K99,156 in 2016 were not certified as correct by the certifying officer;

- Five payments totaling K269,539 in 2016 were not signed by the authorized requisition officer;
- In 63 instances, payments totaling K3.49 million in 2016 and in 2015, ten payments totalling K483,688 were made to various suppliers without obtaining three written quotations prior to purchasing of goods and services;
- Sales tax invoice were not attached to 45 payment vouchers totaling K 2.21 million for 2016;
- Minor Contract Agreements for 16 payments totaling K3.28 million in 2015 were not made available for my review;
- An amount of K27,705 was paid to a consultant for some consultancy work performed in 2015. In the absence of the Scope of Work and completion report, I was unable to ascertain whether the job had been satisfactorily completed; and
- A payment of K18,000 was not endorsed and approved by the Section 32 Officer and was not examined by the Examiner nor certified by the Certifying Officer.

ASSET MANAGEMENT

- The NJSS did not maintain any asset registers to record details of furniture & fittings, office equipment and attractive items in 2016 as required in the *PFMA*;
- Consequently, I was unable to verify whether all assets purchased during the financial year 2016 totalling K3.22 million and for 2015 totalling K 6.29 million were registered and properly allocated and monitored to ensure proper control and use and disposal thereon;
- Of the total of 13 motor vehicles purchased during the year 2016, only four were recorded in the Fleet Register;
- Two vehicles were reported as grounded, however, their current status was not made known to me;
- ICT register maintained was incomplete. Details such as cost custodian's name, location and date of purchase of several of these IT assets were not recorded. Only items purchased in 2016 were recorded and did not include prior years.

ADVANCE MANAGEMENT

- In 2016 the recording of travel advance payments and the acquittals were maintained separately. There was no reconciliation done of the two records;

- I selected a sample of 136 travel advances totalling K280,968 paid during the year 2016 and noted that all these advances were not recorded in the register. In 2015, nine advances totaling K55,767 were also not recorded;
- A review of the acquittal register revealed that 91 out of these 136 samples of travel advances totalling K202,092 in 2016 were not acquitted and remained outstanding. Similarly, 799 advances totalling K949,949 paid in 2015 remained outstanding as at 31 December, 2015; and
- Second or more advances were issued to officers whilst their previous advances were still outstanding both in 2015 and 2016.

DEVELOPMENT BUDGET (PIP)

- A Printer was purchased in 2016 at a cost of K32,518 out of the Development Budget which was not budgeted for;
- A sum of K33 million was transferred to a Construction Company as 30 per cent part payment in 2016. Copies of the authorization of funds transfer along with the related paid vouchers effecting the transfers were not made available. Hence the validity and the propriety of the payments made could not be established; and
- Copies of minutes of the Project Committee team meetings in 2016 were not made available.

TRUST ACCOUNTS

A review of the National & Supreme Court Registrars Trust Account (NSCRTA) and the Sherriff Trust Accounts (STA) for the year 2015 revealed the following irregularities:

- The Trust Deeds for these trust account were not made available to me;
- Bank statements were not attached to the monthly bank reconciliations statements to support and confirm the closing bank balances; and
- Nine and eight payment vouchers totalling over K5.6 million and K840,000 for NSCRTA & STA in 2015 respectively were not made available to me.

DEPARTMENTAL RESPONSE

The above matters were referred to the Secretary of the National Judicial Staff Services and a response was not received up to the time of writing this Report.

CONCLUSION

The control activities such as delegations, authorisations, reconciliations, data processing, and segregation of duties, management and monitoring were not sufficiently robust to prevent, detect or correct errors or fraud.

18. DEPARTMENT OF POLICE 2016 – 2015

OVERVIEW

The Department's mission is to work in and with the Community in the preservation of peace and good order, the protection of life and prevention of crime and the detection of offence.

The Department is expected to fulfil its mission in the context of the *Police Force Act, 1955* and other relevant legislation as follows:

- Assist in the development of policy and its implementation in planning Police Force development and the use of the Police Force;
- Provide investigatory, research, executive, administrative, financial management and other services to the Police Force in the discharge of its functions under Constitutional Laws and Acts of Parliament; and
- Provide services to standing or ad-hoc organization relating to the functions of the Department.

FINDINGS

CORPORATE GOVERNANCE

- There was no documentary evidence in file to indicate that the Internal Audit Plan for 2016 was approved by senior management;
- Copies of Internal Audit Reports issued in 2016 and 2015 was not provided to me; and
- The Annual Management Report for year 2016 and 2015 was not made available for my review.

BUDGETARY CONTROLS

- The IFMS 2157 (expenditure by department/activity type/item Report) for the year 2016 revealed that the Department had over-spent the authorized warrants by K133.6 million. Significant over expenditure of K82.8 million was noted under expenditure for Salaries and Wages; and
- Significant variances totaling K312.5 million under 17 expenditure vote items were noted between the PGAS report and the IFMS 2157 report as at 31 December, 2016;

- Comparison of the PGAS Report against the IFMS 2222 (total expenditure for National Departments) Report for Period 12, 2015 revealed significant variances of K551.1 million and K837.4 million for Warrant Authorities and actual Expenditures respectively; and
- The *IFMS 2157* (expenditure by department/activity type/item Report) & 2222 (total expenditure for National Departments) Reports for the year ended 31 December, 2015 showed expenditures totaling K68.4 million incurred in excess of Warrant Authorities.

CASH MANAGEMENT

- Bank reconciliation statements for the months of January to October 2016 were neither certified by the Bank Reconciliation Officer nor signed off by the Financial Delegate to authenticate the accuracy and completeness of the statements;
- The bank reconciliations statements for the four months of September to December, 2016 were prepared and submitted to DoF in December 2017 after a year; and
- My review of the December, 2015 bank reconciliation statement revealed that reconciling items were not cleared promptly which included un-presented cheques totalling over K17.8 million.

PAYMENT & PROCUREMENT PROCEDURES

- In 2016 and 2015, the Department did not have an Internal Procurement Plan or Procurement Policy in place;
- The Department did not maintain a Quotation Register to register both verbal and written quotations for the years 2016 and 2015;

Irregularities noted in 2016

- Paid vouchers for 26 payments totaling K3.4 million for the year 2016 were not provided to audit. As such, I could not verify the validity of these payments;
- Minor contract agreements as well as three written quotations were not sighted for 17 payments totaling K5 million for purchases of goods and services in 2016;
- In ten instances, payments totaling K1.5 million were not examined and certified in 2016;
- Delivery dockets and other supporting documents were not sighted to suggest that the goods procured at a total cost of K677,226 in 18 instances were actually received by the Department in 2016;
- In 22 instances, status/progress reports and completion reports were not sighted to substantiate payment totaling K6.7 million paid to various contractors in 2016;

- Although payments totalling K757,000 were already made to a contractor in 2016 for the construction of a house and a Rural Police Station, I was informed that work on both constructions had not started. This matter was also referred to Police Fraud Squad and is pending investigation in 2016;
- In two instances totalling K676,602, contract agreements between the Department and the contractors were not made available for my review in 2016;
- Three private hire companies were paid a total of K737,266 for vehicle hires by the Department in 2016 and I noted that:
 - Company registration certificates, certificate of compliance and tax file numbers were not attached together with the paid vouchers to suggest that these companies were duly registered to operate as business entities; and
 - A payment of K76,500 was not approved by the Section 32 Officer as required. Also there were no other supporting documents such as written quotations, minor contract agreement and approval to substantiate hire of vehicle.
- For payments relating to Consultants, applicable taxes were not deducted from all payments made to the respective individual consultants engaged by the Department and paid to IRC contrary to the standard Consultancy Agreement;
- Payment vouchers for two consultancy payments totaling K76,700 in 2016 were not provided;
- I noted a duplicate payment of K39,200 made to a consultant for the months of November and December 2015;
- A consultant was over paid by K176,400 in 2016 when compared to the value of his contract agreement; and
- A payment of K150,000, paid to a legal firm was raised and paid without approval from Attorney General. A minor Contract agreement for this engagement was also not sighted.

In my examination of the 72 samples of payments totaling K55.7 million and other related records for the year ended 31 December 2015, I noted the following discrepancies:

- The Department did not maintain a register file of Gazetted specimen signatures of its Senior Officers' and their delegation limits for 2015;
- 13 payment vouchers totaling over K5.2 million were not provided for my verification;

- The Department paid over K3.2 million to 10 companies for the repair, service and maintenance of Police fleet throughout the country without contract agreements in place between the Department and these companies;
- No signed Contract Agreements were in place for the engagement of 23 private hire car companies who were paid amounts aggregating to K2.7 million;
- There were no approvals from PTB Transport Sections of the Department of Works authorizing external hire of private vehicles hired by the Department during the year;
- Six payments totaling over K14 million paid to companies for capital projects did not have any Contract Agreements, CSTB nor NEC approvals.

ASSET MANAGEMENT

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

- A centralized Asset Register was not maintained in 2015 and 2016 to record details of all Office Furniture and Equipment purchased and maintained by the Department. I was informed that these assets were purchased by the individual Activity Centres;
- A proper up-to-date Register for lands and buildings was not maintained. Although the Department owned a total of 4,132 houses throughout the country, detailed description, such as the types of the houses and their historical values were not shown;
- The Fleet Register was incomplete and inadequately maintained as it had records of motor vehicles in NCD only excluding other provinces, details of cheque numbers was also not recorded;
- 32 vehicles and four motorcycles purchased in 2016 at a total cost of K4.1 million were not recorded in the fleet register;
- The Department did not maintain a Loan Register in 2015 for all attractive items such as laptops;
- Copies of “Vehicle Service & Repair Log Books” were not provided for my review;
- During the year 2015, the Department purchased firearms, ammunitions and accessories at a total cost of over K1.5 million. However, no Registers had been maintained to record and account for these;
- The Board of Survey Reports and the Disposal Register for 2015 were not made available for my review; and

- No stock-take had been carried out since 2008.

ADVANCE MANAGEMENT

A review of the Advance Register and related records and documents revealed the following irregularities:

- In 41 instances, travelling allowances totaling K365,024 for various officers were paid through the Paymaster in 2016, contrary to provisions of the PFMA and FMM;
- In 192 instances, advances totaling K1.6 million were issued to advance holders in 2016 who had failed to properly acquit their previous advances;
- The Advance Registers maintained was incomplete and lacked vital information such as acquittal dates and signatures of Advance Holders;
- In 11 instances, travel advances totaling over K147,000 paid to officers in 2015 were not recorded; and
- Advances acquitted totaling K158,000 taken in 2015 could not be verified to the acquittals files since they were not made available for my verification.

HUMAN RESOURCES & PAYROLL

A review of documents and records relating to Human Resource and Payroll was conducted in 2016 and the following irregularities were noted:

- A staff establishment register was maintained by the Department, however, no quarterly manpower review were undertaken to reconcile the register to the unattached long term suspension listings;
- According to the Establishment Register, a total of 224 Regular Constabulary Members above the required retirement age of 60 years were still in employment with the Department;
- Contract of Employment for two senior contract officers had expired in 2014 and were not renewed at the time of audit;
- Employment Contracts for four contract officers were not signed by the Police Commissioner to validate the contracts and witness to confirm the validity of the employment contracts;
- Gratuities payments totaling K199,721 were paid to eight officers without valid employment contracts;

- The Department does not maintain a Gratuity Register to keep track of all gratuity payments made to senior contract officers;
- Overtime payments totaling more than K4.6 million were paid from incorrect Expenditure Vote Items;
- There were no evidence on file to suggest that prior approvals were obtained from the Departmental Head for payment of overtime totaling over K2.6 million;
- In five instances, outstanding overtime claims totaling K76,824 from prior years (2013 and 2014) were paid in the 2015 appropriation;
- A voucher of K27,739 paid to a travel agent was not provided and was deemed missing. As such, I could not confirm the validity of this payment;
- In 22 of the 24 selected samples of recreational leave fares totalling K500,027, proof of dependents including birth certificates and tax declaration forms were not attached to the payment vouchers;
- Three officers claimed Recreational leave fares for five dependents whose ages were above 19 years contrary to the General Orders;
- Quarterly/fortnightly payroll reconciliations were not performed by the Department for 2015 and 2016; and
- The required *Finance Form 10 (FF10)* was not used in the compilation of the Department's salaries & wages for officers in 2015 and 2016 as required under the *Financial Management Manual*.

TRUST ACCOUNTS

The Department maintained and administered the following four Trust Accounts in 2015 and 2016.

- i. Special Police Operations Trust Account,
- ii. Police Messing Trust Account,
- iii. Brand Police Trust Account, and
- iv. RPNG Imprest Trust Account (Law & Justice).

- The 2016 Monthly Bank Reconciliations were prepared regularly for all four Trust Accounts, however, they were never reviewed and signed by a Senior Officer to attest the accuracy and correctness of these statements;

- In the absence of supporting documents for the Police Messing Trust Account, I was unable to confirm whether copies of bank reconciliations for the months of January to December, 2016, were submitted to DoF as required by the *PFMA*;
- The 2015 Monthly Bank Reconciliation were not up-to-date;
- Important accounting records such as the cashbooks, revenue and expenditure ledgers, and payment vouchers for these four trust accounts for the year 2016 and 2015 were not furnished for my examination; hence, I was unable to verify whether the trust funds were appropriately used for the purpose specified in the respective trust instruments.
- All Trust Accounts were maintain outside of PGAS contrary to Financial Instructions.

DEPARTMENTAL RESPONSE

At the time of preparing this report, the Department did not respond to the findings reported in the management letter issued.

CONCLUSION

The results of my audit indicate that overall, there were significant weaknesses in the control framework. The control activities such as delegations, authorisations, reconciliations, segregation of duties, data processing, records keeping, management and monitoring were not sufficiently robust to prevent, detect or correct errors or fraud.

Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

19. DEPARTMENT OF NATIONAL PLANNING AND MONITORING 2016 - 2015

OVERVIEW

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

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

FINDINGS

CORPORATE GOVERNANCE

- The Department operated without a Corporate Plan since 2012. In 2016, a three (3) year Corporate Plan (2015-2017) was still in draft awaiting management's approval;
- An approved Annual Activity Plan for 2015 and 2016 was not provided to me. In the absence of the Annual Activity Plan, it was difficult to measure the Department's milestones, achievements, challenges and shortfalls during the financial years under review;
- Minutes of management meetings held during the financial years under review were not provided to me;

REPORTING REQUIREMENT

- Second and fourth quarterly budget review reports for 2016 and 2015 were not submitted to me although requested. In the absence of these reports, I could not ascertain if the

Department had prepared these reports and submitted within the prescribed time frame to the Department of Treasury as specified;

- Similarly, the 2016 and 2015 Annual Financial Management Reports were not provided; and
- A Draft Annual Management Report for 2015 was provided to audit.

BUDGETARY CONTROL

- The IFMS 2157 (expenditure by department/activity type/item Report) revealed over-expenditure of K21.7 million in 2016 and K34.5 million in 2015

CASH MANAGEMENT

Bank reconciliation for the months of July to December 2016 were not prepared. Thus, I was unable to review and report on the un-reconciled cash book balance as at 31st December, 2016. I noted that an accounting firm was engaged to assist, prepare and update the Bank Reconciliations dating back to 2011.

PROCUREMENT AND PAYMENT PROCEDURES

Audit examination of selected payments for years 2016 and 2015 revealed the following irregularities:

- In 2016, no Gazettal Notice was provided to me relating to the appointment of Section 32 Officers. Thus, the authority for a senior officer to approve claims as the Section 32 officer within the IFMS could not be ascertained;
- Payment vouchers were not made available for my review in 46 instances totalling K3.25 million and in 11 instances totalling K959,344 for the years 2016 and 2015 respectively;
- In 2016, three payments totaling K69,617 were made out from Incorrect Expenditure Vote Items and in 2015 audit noted 14 instances totalling K295,841;
- In six instances totaling K134,481, the General Expense Form (FF4) were not duly signed off by the Financial Delegate, Examiner and Certifying Officer as evidence that approvals were obtained prior to processing of the claims noted in 2016;

Irregularities noted below refers to the year 2015

- In 22 instances totalling K654,995 the payment vouchers did not have sufficient supporting documents to validate completeness;

- Quotations were not obtained prior to raising payments in seven instances totalling K341,830;
- Payment vouchers were not stamped as “paid” for bills settled in 19 instances totalling K776,397;
- Seven payments totalling K314,002 were not receipted as goods and services “received” on the invoices during delivery;
- In four instances totalling K85,200 the signing and counter signing officer’s signatures were different from the specimen signature authorized for signing. There was no notice of Signature Alteration Authority attached to verify these changes and;
- In eight instances totaling K440,831 there were different officers signing as Procurement Requisition Officer (PRO) instead of the Authorized PRO.

ADVANCE MANAGEMENT

The advance register and acquittal files were not provided, for audit review in 2016 and 2015. As such, I could not verify and confirm the status of the 434 advances totaling K1.6 million issued in 2016, as well as payments that were made in 2015 also.

ASSET MANAGEMENT

I observed that the issues reported in 2015 audit were still evident in 2016. The following issues remain unresolved:

- The Asset Register lacked vital information such as date of purchase, purchase price (unit cost), unit/quantity and useful economic life span;
- Three motor vehicle purchased in 2016 totalling K518,865 were not captured in the Fleet Register. Similarly, K1.2 million worth of Motor vehicles purchased in 2015 remained unaccounted during our follow-up audit in 2016;
- Payments relating to Assets in 2016 were facilitated from incorrect Expenditure Votes and
- No annual stock take and losses/deficiency report were provided to me for the years 2016 and 2015.

HUMAN RESOURCE AND PAYROLL MANAGEMENT

- Pay variations were not properly supported by relevant documents such as PVA and appraisals;

- There was no evidence of payroll reconciliation prior to processing of pays from pay no.1 to pay no. 26 of 2016. This issue was also noted in 2015;
- Three Consultants were engaged in 2016 to provide various Administration Consultancy Services at a cost of K309,100. The Contract Agreement documents, the Executive Committee deliberation and endorsement for these engagements were not provided. In the absence of these documents and records, I was not able to confirm the validity and authenticity of these engagements;
- In 2016, K44,162 was paid for Recreation Leave from the Development Budget. Financing Recurrent Budget expenditure from Development Budget funds is contrary to what is stipulated in the PFMA and Appropriation Act. I also noted that K39,551 was paid in 2015;
- A total of K22,059 was paid as gratuities to two officers in 2015 through the IFMS and not ALESCO system. Furthermore, employment contract agreements were missing from their personnel files;
- In 2015, a gratuity payment of K15,220 was paid out of the Capital Budget Expenditure Vote Item which was a breach of the Appropriation Act; and
- The revised SDMA/DMA received by Officers in 2015 was based on an approval letter by the Secretary and not an approval from the DPM to effect payments.

TRUST ACCOUNTS - 2016

The following records and documents of the 21 different trust accounts administered by the department were not provided to audit for review:

- Trust Instruments for all trust accounts administered by the Department;
- Accounting records including, cash book, bank statements, ledgers, bank reconciliations statements;
- Receipts books and payments vouchers for each of these trust accounts; and
- Signatories and specimen signatory files for each trust account;

PUBLIC INVESTMENT PROJECTS (PIP)

The Department expended a total of K66.94 million under nine programs (both wholly and jointly funded by GoPNG) in 2016 and the following were noted:

- Annual Work Plans and Cash flow projections for each project managed by the Department in 2016 were not provided. In 2015, 17 of the 19 Projects Annual Work Plans were not sighted; and

- Meeting Minutes of the Project Steering Committee if any were not provided. I could not establish the validity of payments made to contractors;

My examination of 54 (sample) payment vouchers totalling K14.36 million and related documents revealed the following anomalies:

- In 13 instances, payment vouchers totaling K3.23 million were not provided or deemed missing. Therefore, I could not ascertain the validity of these payments;
- Minor/Major Contracts as well as tender documents were not attached or were not sighted in 13 payments totalling K1.9 million;
- Status/completion reports for all projects funded under the department were not made available;
- In two instances totaling K120,256, approvals from Government Printing Office for engaging private firms for printing, were not sighted or attached to the payment vouchers;
- Supporting documents such as Project Formulation Documents were not provided/attached to two payments totaling K2 million, only the FF3 & FF4 were sighted, and
- In three instances totaling K209,503 for stationaries, printing services and purchases of motor vehicle did not have supporting documents such as three quotations, tax invoices and delivery dockets attached to the payment vouchers.

Audit examination of six projects and 1 unidentified project funded wholly by GoPNG in 2015 revealed the following discrepancies:

Identity Card (with Biometrics)

- Payment vouchers for two payments totalling K540,939 were not provided to me. In the absence of these vouchers, I could not ascertain the validity and authenticity of these payments;
- In the absence of supporting documents, a cash payment of K233,000 for allowances to LLG Managers paid under paymaster, could not be properly justified or confirmed; and
- Four payments totalling K585,744 were facilitated without the required three written quotations and minor contract agreement as the amounts were above the K50,000 thresholds.

EDF NAO Institutional Capacity Project

- Acquittals and/ or a report for K500,000 transferred to an organization were not made available to me in regard to the use of the funds. Therefore, in the absence of acquittals and/or reports, I could not confirm whether funds had been utilized for the intended purpose.

Solar power desalination In Manus

- I could not ascertain the status of this project as the Status/Progress reports including acquittals of this project were not provided to me.

Policy design support and PIP Monitoring & Evaluation

- Payment vouchers for two payments totalling K306,625 were not provided to me;
- Approvals from the Consultancy Steering Committee for four consultants were not made available to me; and
- Two of these consultants were paid under their own name and not under a registered company name. Such practice may pave way for individuals to avoid paying taxes.

TIPA Administration relocation

- Project status/progress reports of the K10 million to a District, if any, were not made available to me. In the absences of these reports, audit could not confirm the validity of this fund.

National Land and Housing Program

My examination of 25 payment vouchers totalling K18.07 million and other related records and documents noted the following anomalies:

- Payment vouchers for eight payments totalling K2.94 million were not provided to me. Therefore, I could not confirm the validity of these payments;
- Payments totalling K504,815, were effected without any minor contract agreement binding the Department and the Suppliers;
- In four instances totalling K951,003 payments for goods and services were made without obtaining the required three written quotations. These payments were also made on pro-forma invoices instead of tax invoices;
- In three instances totalling K915,003 payments were effected without evidence of goods received by proof of delivery docket;
- Four payments of K1 million each totalling K4 million were paid as District Institutional Housing without the Project Formulation Document (PFD) or Project Proposals; and
- I did not sight the project status/progress/completion reports or the acquittals for six payments totalling K4.5 million.

Un-identified Project/Program (2050)

Bulk payments were made out of an “un-identified program code 2050”. I was informed that this code was created to cater for other projects that were not in the budget and funds were sourced from other programs.

A total of K46.45 million was expended under this “*un-identified code*”. My examination of 36 payment vouchers totalling K28 million and other related documents revealed the following anomalies:

- Four payment vouchers totalling K2.8 million were not provided to me. In the absences of these payment vouchers, I could not confirm the validity of these payments;
- Supporting documents such as cheque copies, project formulation documents or proposals, memos etc. were not attached to the payment vouchers of 16 payments totalling K16 million Only the FF3 and FF4 were sighted or provided to me. Hence, these payments could not be substantiated without these important supporting documents;
- In 26 instances totalling K21 million, the Acquittals, project status/progress or completion reports were not provided for my verification; and
- Five payments totalling K1.85 million were not committed in IFMS 8201 before making actual payment that were captured in IFMS 8202.

GRANTS AND SUBSIDIES - 2015

District Health and Education Infrastructure Programs

My examination of 27 payment vouchers paid to the districts under these Programs (District Health and Education Infrastructure) totalling K33 million and related documents revealed the following anomalies:

- The Project Proposals or Project Formulation Documents (PFD) for nine payments totalling K 9 million were not provided for my review;
- In 22 instances totalling K25 million, acquittals were not provided to me indicating the Department failed to perform one of its core functions of Monitoring and evaluating projects; and
- K1 million was paid to a District for District Health Infrastructure Programs. However, there were no supporting documents such as Project Proposal, FF3, FF4 nor a memo attached to substantiate this payment.

Sustainable Development & PNG Church State Partnership Program

My review of 19 payment vouchers totalling over K15 million and related documents revealed the following irregularities:

- In 13 instances, payments totalling over K13 million were effected without proper supporting documents to substantiate these payments;
- A payment of K39,160 for vehicle hire was made without obtaining, three written quotes. Furthermore, the payment was effected and paid based on a quotation instead of a tax invoice;
- I did not sight tender documents, contract agreement and status/progress or completion report for a payment of K624,967 made to a company for installations of modular buildings; and
- No grant reports were sighted for all grants issued; therefore, I could not confirm the expenditure of these funds without proper reports in place.

DEPARTMENTAL RESPONSES

The reported findings were brought to the attention of the Secretary through a management letter. However, no responses were received at the time of writing this report.

CONCLUSION

In general, there were no improvements in the system and operation of controls within the Department compared to the previous years.

The results of my audit indicate that there were significant weaknesses in the control framework. The control activities were not sufficiently robust to prevent, detect or correct errors or fraud. Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safeguard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.

20. DEPARTMENT OF DEFENCE 2016 - 2015

OVERVIEW

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

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

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

FINDINGS

CORPORATE GOVERNANCE

- The Department of Defence (DoD) has neither an existing Corporate Plan nor an Annual Plan in place covering the years 2016 and 2015;
- An Internal Audit Plan for 2016 and Internal Audit Reports, if any, were also not provided to me;
- A review of 2015 Internal Audit Reports revealed mainly unauthorized transfers of funds and misuse. No corrective action was taken by senior management to address these issues;
- There was staffing shortage noted in the Internal Audit Unit; and
- Minutes of Senior Management Meetings, if any, held during 2015 were not provided for my review.

REPORTING REQUIREMENT

- Quarterly Budget Reports and the Annual Financial Management Reports for the years 2015 and 2016 were not provided for my review. In the absence of these reports, I could

not ascertain whether these were produced and submitted to the Secretary, Department of Treasury as required;

- The 2016 Annual Management Report and Annual Defence Reports furnished for my review were in draft form.

BUDGETARY CONTROLS

- Significant variances were noted between the Department record (PGAS) and the DOF records (IFMS) relating to the expenditure for the year 2016 and 2015, thus indicating non reconciliation of the two records; and
- The expenditures statement (*IFMS 2222*) for the year ended 31 December, 2016 revealed expenditures in excess of warrant authorities totalling K40.7 million in the recurrent budget.

CASH MANAGEMENT

A review of the bank reconciliation of the Department Drawing Account and related records relating to 2016 and 2015 revealed the following discrepancies:

- The December, 2016 bank reconciliation revealed huge unreconciling items which were not cleared to reflect the true and correct Cashbook balance as at 31st December, 2016;
 - List of unrepresented cheques as at 31/12/2016 amounted to K33.5 million;
 - The cash book revealed an overdrawn ending balance of K67.3 million as at 31st December 2016; and
- In 2015 the Department failed to properly reconcile its monthly cashbook/bank drawing account and did not forward copies of these bank reconciliation statements to the Department of Finance within the time frame.

PROCUREMENT AND PAYMENT PROCEDURES

A review of selected sample of 48 payments totalling K5.1 million in 2016 and 48 samples totalling K3.3 million in 2015 together with other related records revealed the following discrepancies:

- In 16 instances totalling K1 million and in 13 instances totalling K1.1 million in 2016 and 2015 respectively did not obtain three written quotes prior to purchases of goods and services;
- Payment vouchers were not sighted in two instances totalling K233,500 and in five instances totalling K362,286 in 2016 and 2015 respectively; and

- Minor contracts along with the IPA registrations were not sighted for payment of K250,014 paid to two companies in 2015.

ADVANCE MANAGEMENT

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

- Only cash advance payments were recorded in the Advances Register. Travel Allowances (Domestic and Overseas) were not recorded in the register;
- In 24 instances domestic travel allowances totalling K108,000 and 23 overseas travel allowances totalling K199,577 taken in 2016 were not recorded in the Advance Register maintained;
- In 31 instances, Officers were issued second advances whilst their first advances were still un-acquitted in 2016;
- Cash Advances totalling K778,292 paid during the year remained un-acquitted as at 31 December, 2015;
- In five instances, acquittal forms were not reviewed by the examining officer for 2015; and
- In 11 instances, acquittals totaling K 93,793 in 2015 were not sighted in the files.

ASSET MANAGEMENT

A review of the Asset Register and related records and documents revealed the following irregularities:

- Fixed Asset Registers were not maintained by the Department for the year 2016;
- Similarly, there was no register maintained for Attractive Items purchased in 2016 totalling K539,937 and K136,641 purchased in 2015;
- The Department did not maintain a master Fleet Register, Log Book and maintenance register for the years 2016 and 2015. Due to the absence of a Log Book and Maintenance Register, audit could not verify proper use of vehicle and the status of maintenance;
- The Fixed Asset Register provided to me was not up-dated with the details of assets totalling more than K1.2 million purchased in 2015;
- The Asset register was incomplete and lacked vital information such as, date of purchase, unit cost, serial number, officer responsible and location of the assets;

- Periodic stocktakes were not conducted for 2016 and 2015 to determine the accuracy and evidence of assets on hand. This increases the risk of losses, theft or fraud; and
- The Department has vast number of assets in terms of plant and equipment, motor vehicles, marine vessels, office equipment, furniture and fittings, armoures (guns, bullets, etc) worth millions of Kinas which need to be properly accounted for through conducting of stocktakes.

HUMAN RESOURCE MANAGEMENT & PAYROLL

A review of records and documents for the year 2015 and 2016 relating to Human Resource and Payroll Management revealed the following discrepancies:

- In 24 instances totalling K693,777 in 2016 and 70 instances totaling K1,127,660 for 2015, recreational leave payments had no proper supporting documents such as dependents birth certificate, clinic book records or marriage certificate attached to vouchers to substantiate dependents claimed;
- No Approval was sighted for nine overtime payments valued at K220,233 in 2016;
- Four contract officers' files were not provided to audit for review in 2016;
- There was no evidence to suggest that the payroll had been certified by officers in charge of Human Resource nor was the pay roll reviewed by senior management for the years 2015 and 2016;
- In eight instances, claims totalling K170,946 in 2015 were processed for dependants who were 19 years and above;
- Salaries for 33 officers were paid off-line through PGAS instead of through ALESCO in 315 instances totalling K310,718 in 2015;
- Overtime sheets were not always verified by relevant officers prior to payments in 2015; and
- In 14 instances, Gratuity Payments totaling K179,712 in 2015 were paid through PGAS and not through the ALESCO payroll system as required.

TRUST ACCOUNTS

Audit review of records and documents relating to seven trust accounts relating to 2016 and 2015 revealed the following:

- Bank reconciliations were not prepared for four Trust accounts maintained in 2016;

- Bank Reconciliation statements for the months of November and December 2015 were not provided for three of the four Trust Accounts maintained by the Department in 2015;
- The Bank reconciliation statements for PNGDF Engineering Battalion Civic Action Trust Account were not signed off by the preparer nor were they checked and certified by a senior officer in charge of trust in 2015; and
- Bank reconciliation statement for PNGDF Commercial Support Program Trust Account included reconciling items which were yet to be cleared. This included 23 stale cheques totalling K172,020 in 2015.

DEPARTMENTAL RESPONSE

The above audit findings/observations were brought to the attention of the management; however, no response was received at the time of preparing this report.

CONCLUSION

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

21. DEPARTMENT OF AGRICULTURE AND LIVESTOCK 2016 - 2015

OVERVIEW

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

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

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

FINDINGS

CORPORATE GOVERNANCE

- The Department of Agriculture and Livestock (DAL) has been operating without a corporate plan since 2009. However, in 2016 a copy of a three-year Corporate Plan (2013-2017) was provided to audit. The sighted plan was not approved at the time of audit;
- The Department did not have an Annual Management Plan for the years 2016 and 2015;

- The Internal Audit Unit (IAU) did not produce an Internal Audit Annual Activity Plan for 2016 and 2015;
- No internal audit reports were produced for 2016 and 2015;
- No Audit Committee meetings were held for the years 2016 and 2015; and
- There were no documentary evidence to indicate that Executive Committee Meetings or Top Management Meetings were held in 2016 and 2015.

REPORTING REQUIREMENT

- As noted in the previous years' audits, the Department did not prepare Annual Reports for the years, 2016 and 2015. As such, no annual reports on the work and achievements of the Department were submitted to the DPM as required;
- No Annual Financial Management Report for 2016 and 2015 was made available to audit; and
- The Department's Quarterly Budget Review Reports for 2016 and 2015 were not provided for review.

BUDGETARY CONTROLS

- The IFMS 2157 (expenditure by department/activity type/item Report) revealed over expenditure in the Development expenditure totalling K17.04 million in 2016. This expenditure was incurred without warrant authorization;
- A comparison of the PGAS Report produced by the Department against the Department of Finance IFMS 2157 (expenditure by department/activity type/item Report) ending 31 December, 2015 revealed huge variances in the expenditure balance totalling K2.24 million; and
- IFMS-2157 (expenditure by department/activity type/item Report) revealed an over-expenditure of K6.5 million resulting from expenditure of K18.8 million spent against Warrant Authorizations of K12.4 million in 2015.

CASH MANAGEMENT

The Department did not prepare monthly bank reconciliations of its main Drawing Account dating back to 2014 financial year.

PROCUREMENT AND PAYMENT PROCEDURES

I selected 24 (samples) payment vouchers totalling K260,442 in 2016 and payment voucher totalling over K5 million in 2015 and the following discrepancies were noted:

- In 225 instances payment vouchers for 2015 totalling over K2 million were not sighted and deem missing;
- Specimen signatures for Section 32 Officer(s) and financial delegates and their financial limits were not provided;
- A quotation register was not maintained to justify quotes received for both years;
- Three written quotes were not obtained prior to purchasing of goods and services in 16 instances totalling K204,167 in 2016 and in 2015 11 instances totalling K73,123;
- Minor contract agreement was not attached to a payment of K57,200 paid to a Law firm for legal service provided in 2016;
- In 14 instances totalling K175,229 in 2016, the financial delegate did not approve the payments and the same was also noted in 2015 in 16 instances totalling K62,977;
- In four instances, payment totalling K28,044 were raised and paid without the authorization of the Authorized Requisition Officer in 2016;
- In 10 instances, payments totalling K113,619 were not examined by the Examiner in 2016;
- In 12 instances, payments totalling K143,419 in 2016 were processed without being certified by the Certifying Officer and similarly in 2015, payments totalling K450,621 were noted in 16 instances;
- Three payments totalling K15,844 in 2016 made to three companies for various services provided were not registered companies with IPA;
- 12 payments totalling K140,368 were not authorized by the Section 32 Officer prior to raising of cheques in 2015;
- In 39 instances, payment vouchers aggregating K8.24 million in 2015 did not have adequate supporting documents to substantiate the payments;

- In 2015 approval for overtime payments totalling K56,466 in 17 instances were not attached to the payment vouchers, thus indicating no prior approval for such payments; and
- In 46 instances, payments totalling K765,680 were charged to incorrect vote items in 2015.

ADVANCE MANAGEMENT

Review of the Advance Register with other related records/documents relating to the years 2016 and 2015 revealed the following discrepancies:

- 13 instances totalling up to K36,522 were not recorded in the advance register for 2016;
- All 22 advances remained un-acquitted as at 31st December, 2016;
- Supporting documents including invitation letters for the 22 overseas travels taken in 2016 were not sighted;
- Subsequent advances totalling K78,983 in 2016 were issued to officers who had not acquitted their previous advances and similarly, 40 instances totalling K410,288 were noted for 2015;
- A total of 354 advances totalling K1.82 million paid in previous years still remained un-acquitted as at 31 December 2016; and
- A total of 41 various advances totalling K183,046 in 2015 were paid under the Paymaster relating to travel allowances, reimbursements and cash advances. Out of the 41 allowances, only two were acquitted totalling K5,275 in respect to Cash Advances paid, leaving a total of K177,771 outstanding and remained un-acquitted as at 31 December, 2015.

ASSET MANAGEMENT

- The Department did not maintain a fixed Asset Register in 2016;
- In 2015 the Fleet Register lack vital information such as preventive/corrective maintenance histories and economic use;
- In 2015 no annual stock take was conducted to identify existence and value of asset; and
- There were no records of Laptops, Mobile phones, Printers, and other electrical items purchased during the year 2015 amounting to K148,811.

HUMAN RESOURCE MANAGEMENT & PAYROLL - 2016

A review of records and documents relating to Human Resources and Pay roll for the year 2016 revealed the following irregularities:

- There were no certification of payrolls done during the year under review;
- The payment voucher for a Recreation Leave payment of K17,365 to a Travel Agent was not provided for my verification;
- A Recreation Leave payment of K9,113 was not approved by the Departmental Head;
- 19 of these recreation leave payments totalling K99,921 were not recorded in the register;
- The 10% deduction was not deducted from the salaries of employees who were paid recreational leave fares;
- 22 of these Recreation Leave payments totalling K134,360 did not have Marriage and Birth Certificates attached to the claims made for their dependents;
- Approvals were not sighted for 13 overtime payments valued at K34,186;
- Approval were not sighted for the engagement of 24 casual employees;
- 58 casuals were not registered on the Casual Workers listing; and
- Personal files for three contract officers were not provided for my review.

TRUST ACCOUNT

Examination of the bank reconciliations statements for the Productive Partnership in Agriculture Project (PPAP) provided to audit for the year 2016 and other related records and documents revealed the following discrepancies:

- I was unable to carry out testing on payments made out of this trust account totalling K221,466 due to payment vouchers not provided;
- Only one Project meeting was held in 2016. The meeting minutes were not reviewed and signed by the chairman;
- The bank reconciliation statements were not signed and approved by the officer responsible; and

- Copies of the monthly bank reconciliations were not submitted to Accounting Frameworks and Standard Division, DoF every month as required.

DEPARTMENTAL RESPONSE

The results of the audits were reported to the Secretary of the Department in a management letter. However, the management did not respond up to the time of writing this report.

CONCLUSION

The results of audit and the number and magnitude of control weaknesses identified in the course of my audit indicate that overall, there were significant weaknesses in the control framework. Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure.

22. DEPARTMENT OF PERSONNEL MANAGEMENT 2015

OVERVIEW

The Department of Personnel Management's major program areas are as follows:

- To review Public Sector Office Allocation Policy Guidelines and develop a Property Management Arrangement;
- To evaluate, monitor and investigate management practices against established systems for agencies;
- To effectively implement and administer Integrated Human Resource Development System, Public Service Cadetship Scheme and Bonding System; and
- To review Governments IT standards and policies.

FINDINGS

CORPORATE GOVERNANCE

- There were no Divisional Work Plans to link to the budget in order to identify targets and indicators and to enable management to determine whether objectives could/were being met;
- There was no Internal Audit Annual Activity Plan for 2015 in place;
- The Internal Audit Unit (IAU) was manned by only one officer. Lack of adequate manpower could cause setbacks for the IAU in carrying out its important management function; and
- The Department did not produce and submit the 2015 annual report to the relevant authority as required.

BUDGETARY CONTROLS

- IFMS 2157 report under the Recurrent and Development Expenditure revealed over expenditure by K401,146 and K127.3 million respectively.

BANK RECONCILIATIONS

- Monthly bank reconciliations were not prepared for year 2015 indicating noncompliance to the PFMA.

ADVANCE MANAGEMENT

- During the year the Department had issued 233 advances totaling K514,637. Out of the total, 84 advances had not been recorded;
- In 31 instances, advances totaling K59,512 paid during the year remained outstanding as at 31st December 2015;
- Second advances were issued to officers whilst their previous advances remained outstanding;
- Advance Register maintained was incomplete; and
- Acquittals were not adequately supported with the required supporting documents such as cheque butts, travel itineraries and hotel receipts.

ASSETS MANAGEMENT

- The Register of Fixed Assets was not made available to me;
- No periodic stock take had ever been carried out on the Department's assets; and
- Assets were not tagged with identification numbers for easy reference and recorded in the register.

PROCUREMENT AND PAYMENT PROCEDURES

Examination of paid vouchers with other related records/documents revealed the following:

- Motor vehicles were hired from 31 different companies and individuals totalling K388,425 without references from PTB contrary to the financial regulations;
- A company was paid K136,355 for a contract that was agreed in October 2009. There was no evidence of review and extension sighted during my review;
- A total of K272,160 was paid to a company in 2015 for a contract period from November 2011 to October, 2012 without approval of an extension to the contract provided;
- A Software company was paid a total of K145,567 for 11 months in 2015, contrary to the contract for a 3-month period. An overpayment of K58,567 was without a variation approval;
- A company was paid K300,000, contrary to the contract for K75,000 for a three-month period. There was an overpayment of K225,000 without proper approvals;

HUMAN RESOURCE MANAGEMENT

An assessment of the Human Resource Management of the Department revealed the following:

- Expenses totalling K17,002 relating to accommodation and travel allowance were charged to the vote for recreational leaves; this amounts to misappropriation of funds; and
- In 12 instances, payments for recreation leave fares totaling K120,176 were not supported by birth certificates of dependents claimed.

TRUST ACCOUNTS

A review of the Trust accounts maintained by the Department revealed the following:

Public Sector Workforce Development program;

- The monthly bank reconciliations were not submitted to DoF in 2015;
- The specimen signature file was not made available to me although requested;
- Six paid vouchers totalling K709,182 were not made available. Hence, the validity and propriety of these payments made could not be established; and

Public Service Institutional Housing Rental Trust

- This Trust account was maintained outside the PGAS;
- No monthly bank reconciliations were prepared and submitted to DoF as required;
- The Department did not keep track records of movement of funds;
- The Department purchased a property that contained 24 units. The actual purchase value of the property is unknown since its ownership transfer to the Department in 2008. Further, the title of the property was not provided to me although requested;
- Forty staff were noted in the tenant's occupancy deduction list starting from year 2012. However, no records were sighted to confirm correct number of staff occupying the units and fixed amount deducted from officers' salaries; and
- The housing policy was not made available for my review.

DEPARTMENTAL RESPONSE

The above matters were reported to the Secretary of the Department and a formal response was not received at the time of writing this Report.

CONCLUSION

In general, there were no marked improvements in the system and operation of controls within the Department as compared to the previous years. The results of my audit indicate that overall, there were significant weaknesses in the control framework. The control activities such as delegations, authorisations, reconciliations, segregation of duties, data processing, records keeping, management and monitoring were not sufficiently robust to prevent, detect or correct errors or fraud.

23. OFFICE OF MAGISTERIAL SERVICES 2015

OVERVIEW

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

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

FINDINGS

CORPORATE GOVERNANCE

Internal Audit

- The Magisterial Services do not have an Audit Committee established as required by the FMM; and
- No Audit Reports were provided for my review although requested.

Quarterly and Annual Reports

- Magisterial Services did not prepare and submit to the Department of Finance (DoF) neither the Quarterly Reports nor its Annual Financial Management Report on the overall assessment of the Department as required; and
- The Magisterial Services (MS) did not submit to the Department of Personnel Management any report on the work and achievements in relation to the Corporate and Annual Management Plans.

BUDGETARY CONTROL

- Significant net variations of K90.51 million under recurrent budget was noted between records maintained by MS & DoF under appropriation, warrant authorities and expenditure balances for the year ending 31st December, 2015;

- The actual expenditure records of IFMS 2222 and PGAS records also revealed variances of K42.15 million. There was no reconciliation done with IFMS 2222 and PGAS expenditure records; and
- The expenditure statement (IFMS 2222) produced by the DoF for the year ended 31 December 2015 revealed expenditures in excess of Warrant Authorities issued under four votes items depicting over expenditure totaling K41.6 million in the recurrent budget.

BANK RECONCILIATION

- Monthly bank reconciliation statements were not prepared for the following three accounts maintained by the Magisterial Services in 2015:
 - Magisterial Service Drawing Account;
 - Magisterial Service Business Centre Cheque Account; and
 - Magisterial Service Land Dispute Settlement Trust Account.

PROCUREMENT AND PAYMENT PROCEDURES

Samples of 53 paid vouchers valued over K1.5 million were tested and the following were noted:

- In 26 instances, payments totaling K534,396, were made without obtaining three written quotations;
- In 21 instances, payments totaling K419,280, were made based either on quotations or on pro-forma invoices;
- A payment of K25,970 was not supported by a Requisition for Expenditure (FF3);
- In 16 instances, payments totaling K144,395, were made for hire of private cars without prior approval from PTB of the Department of Works; and
- Contract agreements were not sighted for the engagement of various contractors and suppliers during the year. I could not verify the completion stage due to the absence of a proper status reports for each of the projects.

HUMAN RESOURCE & PAYROLL MANAGEMENT

- The payroll was not certified by a Divisional Head or Branch Head nor was the payroll reviewed by Senior Management; and
- The required Finance Form 10 was not used in compilation of salaries & wages for its officers as required.

ASSET MANAGEMENT

- The procurement was decentralized therefore it was not possible to establish whether all assets purchased were accounted for;
- During the year, assets valued at a total of K387,000 were purchased, however, these were not recorded in the assets register;
- The Land and Building Register furnished to me revealed that vital information such as, current market value, cost associated with improvements, maintenance and renovation costs were not captured in the register;
- There is no policy in place for the use on custody of attractive items. In 2015, a total of K76,000 was spent for the purchase of attractive items. However, these assets were not recorded in the register; and
- The fleet register was incomplete and lacked vital important such as date of purchase, quantity, unit cost, estimate of economic life, preventative maintenance requirement, corrective maintenance requirement, corrective maintenance history and custodian/officer responsible.

ADVANCE MANAGEMENT

- The advance register lacked vital information such as cheque numbers and acquittal dates;
- In 60 instances, advances totaling K48,000 remained un-acquitted as at 31st December, 2015;
- Subsequent advances totalling K134,000 were issued to 46 officers who had not acquitted their previous advances;
- Acquittal forms were not signed by the financial delegate in 9 instances; and
- The financial delegate did not review the advance registers on a regular basis to take appropriate actions as required.

TRUST ACCOUNT

Accounting records and documents for the two trust accounts maintained by the Magisterial Services during the year were not made available for my review.

DEPARTMENTAL RESPONSE

The findings were brought to the attention of the Chief Magistrate in a Management letter issued and the responses were not received up to the time of writing this Report.

CONCLUSION

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

24. LIST OF DEPARTMENTS AUDITED IN THE LAST FOUR YEARS

No	Code	Name of Department	YEARS AUDITED				
			Reported in Previous Reports			Included in This Report	
			2013	2014	2015	2015	2016
1	247	Agriculture and Livestock	✓	✓	X	✓	✓
2	225	Attorney General	✓	✓	✓	X	✓
3	261	Commerce and Industry	✓	✓	X	X	X
4	242	Community Development	✓	✓	X	X	X
5	226	Correctional Services	✓	✓	✓	X	✓
6	234	Defence	✓	✓	X	✓	✓
7	235	Education	✓	✓	✓	X	✓
8	230	Electoral Commission	✓	✓	✓	X	X
9	245	Environment & Conservation	✓	✓	✓	X	X
10	206/ 212	Finance & ITD	✓	✓	✓	X	✓
11	217	Foreign Affairs and Trade	✓	✓	✓	X	X
12	202	Governor General	✓	✓	✓	X	X
13	240	Health	✓	✓	✓	X	✓
14	236	Higher Education, Research, Science & Tech.	✓	✓	✓	X	✓
15	216	Internal Revenue Commission	✓	✓	X	X	X
16	252	Lands and Physical Planning	✓	✓	X	X	✓
17	262	Labour & Industrial Relations	✓	✓	✓	X	X
18	224	Magisterial Services	✓	✓	X	✓	X
19	223	National Judiciary Staff Services	✓	✓	X	✓	✓
20	201	National Parliament	✓	✓	✓	X	✓
21	229	National Planning & Monitoring	✓	✓	X	✓	✓
22	204	National Statistics Office	X	X	X	X	X
23	267	Implementation & Rural Development	✓	✓	✓	X	X
24	220	Personnel Management	✓	✓	X	✓	X
25	255	Petroleum and Energy	✓	✓	X	X	✓
26	211	PNG – Bureau of Customs	✓	✓	X	X	X
27	228	Police	✓	✓	X	✓	✓
28	203	Prime Minister & NEC	✓	✓	✓	X	✓
29	232	Provincial & Local Government Affairs	✓	✓	✓	X	X
30	254	Mineral Policy and Geohazard Mgt	X	✓	X	X	X
31	259	Transport	✓	✓	X	X	✓
32	208	Treasury	✓	✓	✓	X	✓
33	264	Works & Implementation	✓	✓	✓	X	✓
34	221	Public Service Commission	X	X	✓	X	X
35	258	Information & Communication	X	X	X	X	X
36	213	Fire Services	X	✓	X	X	X
37	222	Office of Public Solicitor	X	X	X	X	✓
38	209	Office of the Registrar for Political Parties	X	X	X	X	✓
39	218	Office of Public Prosecutor	X	X	X	X	X
40	231	National Intelligence Organisation	X	X	X	X	✓
41	205	Office of Bougainville Affairs	X	X	X	X	X
42	268	Central Supply and Tenders Board (NPC)	X	X	X	X	X
		TOTAL	<u>31/42</u>	<u>33/42</u>	<u>18/42</u>	<u>07/42</u>	<u>21/42</u>

Key

Departments Audited	✓
Departments Not Audited	X
Departments Changed to Authority	

25. ACKNOWLEDGEMENT

I would like to acknowledge the professionalism and commitment of my staff in undertaking the audit work that is reflected in this Report (Part 2). Their efforts have ensured the audit work program is on track and enabled preparation of this Report in a short period of time.

The co-operation and the assistance rendered by all Heads of Departments and their staff are also acknowledged.

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

GORDON KEGA, MBA, CPA

Acting Auditor-General