



REPORT *of the* **AUDITOR-GENERAL**

PART II - 2017

National Government Departments and Agencies

On the Controls and on Transactions with or
concerning the Public Moneys and Property of
Papua New Guinea

**Auditor-General's Office
of Papua New Guinea**



REPORT

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AUDITOR-GENERAL

2017

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

Part II National Government Departments & Agencies



Phone: (+675) 3012200 Fax: (+675) 325 2872 Email: agopng@ago.gov.pg Website: www.ago.gov.pg

OFFICE OF THE AUDITOR-GENERAL

15 September, 2022

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

Dear Mr. Speaker,

In accordance with the provisions of Section 214 of the *Constitution of the Independent State of Papua New Guinea*, and the *Audit Act, 1989 (as amended)*, I have the honour to transmit to the National Parliament the Part II of my Reports for the year ended 31 December, 2017.

The Report deals with National Government Departments and Agencies on the control of and on transactions with or concerning the public moneys and property of Papua New Guinea in 2017.

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
Auditor-General

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LIST OF ACRONYMS

Abbreviation	Full Description
AGO	Auditor-General's Office
APC	Authority to Pre-Commit
BOS	Board of Survey
CFC	Cash Fund Certificate
CRF	Consolidated Revenue Fund
CSTB	Central Supply and Tenders Board
DoF	Department of Finance
DFM	Department of Personnel Management
ETD	Expenditure Transaction Detail
FMM	Financial Management Manual
GO	General Order
GoPNG	Government of Papua New Guinea
HDA	Higher Duty Allowance
HRM	Human Resources Management
ICT	Information and Communication Technology
IFMS	Integrated Financial Management System
IFMS 2157	Expenditure Summary Report
IFMS 8202	Expenditure Transaction Detail Report
ILPOC	Integrated Local Purchase Order and Claim Form
IPA	Investment Promotion Authority
JE	Journal Entry
NEC	National Executive Council
NPS	National Parliament Services
PAC	Public Accounts Committee
PFM Act	Public Finances (Management) Act, 2016 (as amended)
PGAS	PNG Government Accounting System
PIP	Public Investment Program
PSTB	Provincial Supply Tenders Board
PTB	Plant Transport Branch
RPM	Receiver of Public Moneys
SDMA	Special Domestic Market Allowance
SRC	Salaries and Remuneration Commission
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. These processes are examined by reviewing the reconciliation and approval checks that are in place over significant business and accounting processes covering appropriations, levies and taxes and other revenues, payment and benefits 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 year ending 2017.

Regrettably, the findings in this report do not vary much from the findings in my previous reports. I am concerned 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 recurring issues. He also stated that, my Office needed to take 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 to the Parliament on the Public Accounts of Papua New Guinea and on the control of and on transactions with or concerning the public moneys and property of Papua New Guinea, and such other functions as are prescribed by or under a Constitutional Law. These functions have been amplified by the *Audit Act, 1989 (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 2017 accounts** – the examination of statutory reporting, cash management practices, budgetary appropriations and in particular erroneous charges to itemised expenditure and year end processes. To support the audit of the Public Accounts for 2017, 21 Departments have been selected based on risk and significant budgetary appropriation, hence, to assess the reliability and accuracy of the reporting expenditure and revenue in the Public Accounts.
- **The control environment in 2017** - the examination of controls surrounding procurement and payments, asset management, HRM, management of advances, cash management and budgetary controls. Individual reports/ management letters were sent to Departmental Heads to improve on the processes of the 2017 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 authorised 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 authorised 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) and the International Standards of Supreme Audit Institutions (ISSAI). 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. 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 organisations 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 as the independent auditor of government.

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.

SUMMARY RESULTS

Control Environment

Internal control is a process designed to provide reasonable assurance that an organisation 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 organisation. 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, organisational 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 2017 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, HRM, 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 daily, at all levels of the organisation.

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 responsibility with due diligence and accountability.

Corporate Plan and Annual Plan

As stipulated in the National Public Service GOs 8.13 “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 Departmental Head shall provide Annual Management Plans to meet requirements of the Budgetary cycle.”

The results of the audits indicated that 6 out of 21 Departments did not have in place a Corporate Plan whilst 10 out of 21 did not prepare an Annual Management plan. Corporate and Annual Management 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 delivery.

Audit Committees

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 21 Departments that I reviewed, 4 departments did not have 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. According to the information available 13 out of 21 Departments audited in 2017 had established Audit Committee functions.

Statutory Reporting

Quarterly and Annual Financial Reports

Part 2, Section 5 of the *Public Finances (Management) Act, 2016 (as amended)* requires Department 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, DoF.

There is still 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, 2016 as indicated in the Departments and agencies audited in 2017.

Annual Management Reports

Division 4 Section 32 (1)(a) of the *Public Services (Management) Act, 2014 (as Amended)* stipulates that, "Each Departmental Head shall by 31 March in each year, prepare a report on the attainment of the planned objectives of his Department for the year ending 31 December preceding."

Public Service GO 8.14 reinforces this by directing that the Departmental Head is to forward to Secretary, DPM a report on the work and achievements of the Department in relation to the Corporate and Annual Management Plans.

Audit noted that 12 out of 21 Departments reviewed, did not submit this Report as required. Moreover, DPM had not act on this non-compliance nor undertaken any follow up action.

Budgetary and Fund Controls

An effective financial management environment is demonstrated by strong integration of budgeting with the entity's corporate plan priorities and external accountabilities. Appropriations represent the primary source of revenue for all agencies. The efficiency of a Department's cash management and budgetary controls depend on accurate information on the availability and the requirements of funds, as well as a reliable procedure for tracking and reconciling variances from its records against DoF's records. The audits indicated that controls in agencies relating to the funds management and budgetary controls were generally inadequate. The common weaknesses noted related to:-

- Lack of monitoring of expenditure in all 21 Departments in 2017. Departments did not prepare Cash Flows Statements on a regular basis to report on significant anticipated shortfalls or surpluses to enable the Head of Department to make informed financial decisions. For the three Departments that still operated from PGAS, audit review indicated non-reconciliation of their monthly PGAS report against the IFMS General Ledger maintained by DoF. Significant or material variances were noted at year end in the revised budget, WA and actual expenditure;

The lack of monitoring exposes the Public Accounts to the risk that money 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;

- Expenses were charged to incorrect vote items for which funds were not appropriated, either through use of incorrect expenditure codes or through JEs. There were also instances of funds

- being transferred between Divisions and functions during the year, contrary to the *Appropriation (General Public Services Expenditure 2017) Act 2016* for the 2017 budget year;
- There was excess of WAs Issued against Individual Expenditure Vote in several Departments;
 - A lack of reconciliation between the PGAS and the 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 DoF IFMS. If there are any differences between the two records, JEs 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; and
 - Material variances in actual expenditures were noted in several Agencies.

The non-performance of this very important control mechanism, “reconciliation” has a significant impact in the balancing of the General Ledger of the Public Accounts of PNG. This clearly indicates that, what is captured on the main Public Accounts may not be a true and fair representation of the information being generated and processed during the financial year at the various Agencies.

Cash Management – Bank Reconciliation

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 time period to ensure anomalies or errors have been identified and appropriate action taken.

The FMM 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, DoF no later than 14 days of the close of each month. Failure to comply may necessitate withholding further issuance of WAs.

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

- Bank reconciliations were current in 14 out of 21 Departments in 2017. However, even in those entities, significant un-reconciled items were carried over for long period of time. Some Departments had not performed any bank reconciliation for the year under review;
- In a number of Departments, the officers responsible for preparation of the bank reconciliations were not qualified and sufficiently trained;

- There were instances where the reconciliations were not reviewed and certified as correct by a senior accountable officer; and
- Not all Departments were submitting their bank reconciliation statements to DoF within 14 days after the close of each month as required.

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.

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

Other significant issues observed were:

- Payment vouchers were not examined for completeness and certified correct prior to processing for payment;
- In 2017 where detail tests were undertaken, missing vouchers for related payments were in excess of K43.7 million in 16 Departments;
- 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
- 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 assets, 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 Assets records of the 21 Departments audited, it was evident that:

- Asset Registers were either non-existent or they were not maintained properly in all Agencies. The lack of Registers exposes the entity to the risk that assets may not be utilized effectively, protected from physical deterioration or receive proper maintenance;
- Periodic stocktakes were not conducted to determine the accuracy of assets on hand in all Agencies. 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 Agencies that did not conduct periodic stocktakes;
- From the sample selected for testing, in excess of K12.9 million 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 non-existent. 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.

Human Resource Management

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

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

The Common weaknesses noted in most of the Departments and Agencies are summarised below:-

- Audit observed that payroll reconciliations which should be performed by HR were not done in most Departments that were reviewed in 2017. Previous audits indicated too that not many Agencies perform such reconciliations. The Agencies did not maintain their own PGAS or Alesco Payroll System records but relied on the DoF records. The lack of this key control can enable 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;
- Most Departments did not have a Training Plan and were operating on ad hoc basis which is a breach of what is stipulated in the GO 6.34;
- Testing of a sample of employee files in all Departments indicated that salary history cards were not updated on a regular basis with recreational leave, HDA, sick leave or tax declaration forms on dependents claimed;

- In some Departments and Agencies, 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 unauthorised access to payroll and personal information;
- Overtime was paid to officers over the pay grade of 10 in several Departments; and
- It was a practice where rental accommodations for contract officers was paid to real estate agencies in excess of the respective contractual entitlements.

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, that collection of receipts and payments from trust accounts are done in accordance with the *Trust Instruments* and submission of periodic reports to DoF including a requirement to submit monthly bank reconciliations.

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

- There were Trust Accounts that were not operating under the Department's PGAS/ IFMS accounting system. As records were not properly maintained, monitoring of expenditure and compliance were not effectively performed;
- In most of the Departments with Trust Accounts, payments were made contrary to the *Trust Instruments*. These Agencies have also not submitted monthly reconciliations and statements of receipts and payment to the DoF 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 Departments and Agencies.

Advance Management

Part 20 of the FMM requires all Advances paid relating to travelling 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 potentially fraudulent activities occurring, I have examined in detail the management of Advances. The following significant issues were noted:-

- Outstanding Issues from prior year audits remains unresolved in 7 Departments where unrecorded, unacquitted and second advances aggregate to over K1 million, K5 million and

K1.2 million respectively;

- Un-acquitted Advances as at 31 December 2017 were in excess of K9 million in 11 Departments;
- It was observed that most of these Agencies issued further Advances to officers whilst their previous Advances remained outstanding. A total of over K0.8 million was paid in 5 Departments;
- Audit observed the practice of Agencies paying significant amounts of cash to the Paymaster as cash advances which is highly irregular. The cheques were cashed by the Paymaster 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; and
- Management of Advances was very poor and there was no assurance over the completeness of the recorded balances. Audit noted over K6 million unrecorded advances in 10 Departments during the year 2017.

Conclusion

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

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

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

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

Unfortunately, the results of the testing of accounts and controls in 2017 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 agencies reported in this Report had failed to exercise their financial management responsibilities diligently.

A broad range of internal control issues were raised with Agencies as part of this audit. In general, the results of the testing of controls in 2017 were reflective of my Report for previous years and conclude that, overall, there continued to be significant weaknesses in Agencies' control environments. While a few Agencies have taken appropriate action to address reported audit issues, most Agencies have not made any attempts to address issues that have been outstanding for many years. Fundamental control activities, such as delegations, authorisation, reconciliations, management oversight and monitoring,

were not sufficiently robust to prevent, detect or correct errors or fraud. Consequently, there is significant uncertainty over the reliability, accuracy and legitimacy of the reported financial information for most Agencies.

Strong financial management is an essential part of any public sector 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 Agencies contain recommendations for the key issues identified during the course of my audits, and if implemented by management, would address and resolve most of the internal control weaknesses reported on.

The content of this Report expounds in summary the results of the audits of the 21 Departments. The individual audit observations and the appropriate recommendations were provided to each Department and Agency for their Management comments and corrective actions as necessary. For those Departments and Agencies that have responded, their comments have been included in this Report.

1. NATIONAL COORDINATION OFFICE FOR BOUGAINVILLE AFFAIRS 2017

OVERVIEW

National Coordination Office for Bougainville Affairs (NCOBA) is a constitutional office established under the Constitution for the purpose of coordinating the implementation of autonomy, weapons disposal and the referendum for Bougainville.

NCOBA was established by NEC at its special NEC Meeting No. 02/2007 Decision No. 10/2007 on 16 January 2007. The NEC agreed to practical measures that would strengthen the national coordination in relation to agreed arrangements for Bougainville autonomy, restoration and development, and preparations for the guaranteed Referendum.

AUDIT FINDINGS

CORPORATE GOVERNANCE

- A copy of the draft Corporate Plan (2017- 2020) was furnished to AGO for review.
- The Annual and Quarterly Financial Management Reports for 2017 were not prepared.
- The Annual Management Report was not provided for review.

BUDGETARY AND FUND CONTROLS

- A review of the IFMS 2157 revealed a total of K2.35 million was under spent in the recurrent budget for the year under review.
- A comparison of expenditure IFMS 2157 and IFMS 8202 revealed significant variances in the reported expenditure figures under each economic vote item. The aggregated amount of K1.28 million was understated in the IFMS 2157 for the year ended 31 December 2017.

CASH MANAGEMENT - BANK RECONCILIATION

NCOBA was unable to provide its bank reconciliations for audit examination.

PROCUREMENT AND PAYMENT PROCEDURES

AGO selected a sample of 74 payments totalling K613,659 and noted the following irregularities:

- Updated specimen signatures for Section 32 Officer and the Financial Delegates for 2017 were not provided;
- No quotations register was maintained;
- In 12 instances, payments totalling K183,664 were processed based on less than three written quotations; and

- In 5 instances, payments totalling K50,492 were paid based on quotations and pro-forma invoices rather than tax invoices as required.

ASSET MANAGEMENT

- The fixed assets register was not up-dated to include assets bought in 2017. The register was last updated to year 2015. Hence a total of K53,003 worth of assets bought in 2017 were not recorded.
- No stock take of assets was carried out in 2017.
- The motor vehicle register was not provided for review.

HUMAN RESOURCE MANAGEMENT

A sample of 24 recreational leave payments totalling K171,424 was selected randomly for audit review and the following irregularities were noted:

- The Training Plan was not provided to AGO for audit review;
- In 10 instances totalling K85,983, officers did not declare eligible dependents with proper documents such as birth certificate and statutory declaration forms to substantiate the payments made; and
- AGO noted that wages totalling K17,590 in 23 instances were paid through IFMS and not through the recommended payroll system as required.

ADVANCE MANAGEMENT

- A total of K46,088 was issued as Travel advances in 34 instances, however, these advances were not recorded as there was no travel advance register maintained.
- All cash advances were paid to the paymaster and not to persons or payees entitled to the payment in all 28 instances totalling K221,702. All these were not recorded as there was no Cash Advance Register maintained.

DEPARTMENTAL RESPONSE

The above audit findings were brought to the attention of the Managing Director in a Management Letter issued and the responses were not received at the time of writing this report.

CONCLUSION

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

2. OFFICE OF CENSORSHIP 2017

OVERVIEW

The Office of Censorship's mission is to ensure the country has a responsible mass media and public communication system that respects the inherent dignity of human being and their value system, and protect and promote decent behaviours of people in communities.

The Censorship Board through the Office of Censorship ensures that all form of information and communications, services and application, whether from outside or within Papua New Guinea, are assessed and classified, and that appropriate action is taken so Papua New Guineans are protected from all materials that may be detrimental to their physical, and spiritual wellbeing.

AUDIT FINDINGS

CORPORATE GOVERNANCE

- The Office of Censorship did not have any Risk Management Strategy or Plan in place.
- The third and fourth Quarter Budgetary Review Reports for 2017 were not prepared.

BUDGETARY AND FUND CONTROLS

- The IFMS 2157 for the year ended 31 December 2017 revealed that the Office of Censorship had underspent for the year 2017 by K2.76 million in all Expenditure Vote Items against total WAs issued of K3.05 million; and
- A comparison of the IFMS 2157 and IFMS 8202 maintained respectively by DoF and Office of Censorship for the period ended 31 December 2017 was understated by K180,549 in the IFMS 2157.

CASH MANAGEMENT - BANK RECONCILIATION

Audit examination of the December 2017 Bank Reconciliation noted the following:

- Unpresented cheques totalling K114,383 included stale cheques of K111,285 dating back to 2015 and 2016 that needed investigation, clearance and adjustment in the cash book;
- Other reconciling items totalling K2.42 million for the years 2015, 2016 and 2017 needs to be investigated and cleared; and
- Submission of Bank reconciliations to Finance Department was not done on a timely basis as required.

PROCUREMENT AND PAYMENT PROCEDURES

Audit examination of selected payments totalling K1.04 million were tested for internal controls effectiveness and the following irregularities were revealed:

- A Quotation Register was not maintained as required in the FMM;

- Three written quotations were not obtained in 5 instances totalling K62,099;
- Payments totalling K58,691 in 3 instances were made to an Auto Car business without a minor contract agreement;
- Payments of over K1.08 million were made to 6 companies who were not registered with IPA;
- In 21 instances, payments totalling K71,755, were effected based on quotations or pro-forma invoices; and
- In 51 instances payments totalling K895,874 were charged to incorrect Expenditures Vote Items.

ASSET MANAGEMENT

- The Asset Registers maintained were incomplete and lack information such as cheque numbers and date of purchase as well as other information as required in the FMM; and
- No annual stock take of assets was carried out in 2017.

HUMAN RESOURCE MANAGEMENT

- There were no Threshold Reports to perform payroll reconciliations;
- The Recreation Leave Register for 2017 was not updated;
- No Training Reports were produced although the Office had a Training Plan in place;
- No proper plan and report pertaining to recruitment were produced; and
- Employee records such as Staff History Cards and Employee Personnel Files were not properly maintained and updated regularly by the Office.

ADVANCE MANAGEMENT

- The Travel Advance Register maintained was incomplete as vital information such as the date of acquittal and the amount acquitted were missing. Without this information, audit is uncertain as to whether the travel advances were properly acquitted or not; and
- Records for cash advances totalling K56,763 were not recorded in a Cash Advance Register.

DEPARTMENTAL RESPONSE

The above audit findings were brought to the attention of the Chief Censor in a Management Letter. At the time of writing this Report no responses were received from the Office.

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.

3. DEPARTMENT OF CORRECTIONAL SERVICES 2017

OVERVIEW

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

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

- Provide management and control of correctional institutions as required by law;
- Formulate policy on corrective institutions and the care and rehabilitation of persons entrusted to corrective institutions by the judicial system;
- Take custody and control of all persons committed to correctional institutions upon warrant or order of a court or the custody of the Service by any other competent authority under any law in force in the country;
- Provide secure, efficient and humane facilities and to manage and maintain them in accordance with the 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.

AUDIT FINDINGS

CORPORATE GOVERNANCE

- The Internal Audit Annual Activity Plan 2017 was formulated; however, it was not approved by the Executive Management.
- The Quarterly Budget Review Reports were not provided for audit review; and
- The Annual Financial Management Report was also not provided for audit review.

BUDGETARY AND FUND CONTROLS

- The WA was over K120 million, total expenditure was at K22.24 million thus realising a saving of over K98 million. No explanation was given as to why there was a big difference between the total warrants and the total expenditure; and
- Wages under economic vote item 212 were paid at a total of K14,546 during the year which was not budgeted for.

Audit review of the Correctional Services Infrastructure Project (Development Budget) revealed that:

- Annual work-plans and cash-flow statements were not provided to audit;
- There was no Project Steering Committee in place; and
- The Third Quarter Review Report was not provided to audit for examination.

CASH MANAGEMENT - BANK RECONCILIATION

- There was no monthly bank reconciliation prepared for 2017 for the Department's Drawing account due to the transition from PGAS to IFMS in 2015.

PROCUREMENT AND PAYMENT PROCEDURES

- Payment vouchers relating to 133 payments totalling K1.47 million were not provided for audit examination;
- Specimen signatures of Section 32 Officer and the Financial Delegates for 2017 were not provided for audit review;
- No quotations register was maintained;
- Three written quotations were not obtained in 18 instances for payments totalling K916,691;
- Minor contract agreements were not sighted in the file relating to 14 payments totalling K1.2 million; and
- AGO was unable to confirm and verify if goods were actually delivered to the Department as the delivery dockets were not sighted together with the paid vouchers in 6 instances totalling K98,641.

ASSET MANAGEMENT

- The Motor Vehicle Register and the Fixed Asset Register were not provided to AGO for examination. Therefore, the assets totalling K1.1 million could not be confirmed and verified.

HUMAN RESOURCE MANAGEMENT

- The Department's Training Plan was not provided to AGO for review;
- The Recreational Leave Register for the year 2017 was not provided for audit review; and
- Five Recreational Leave payments totalling K10,430, were incurred without adequate supporting documents such as birth certificates, marriage and adoption certificates and airfares quotations to substantiate the payments made.

TRUST ACCOUNT MANAGEMENT

- The Trust Accounts were not maintained through IFMS; and
- The bank reconciliations pertaining to the Correctional Service Department Project Trust Account were not prepared on a timely basis.

Audit randomly selected 34 samples of payments totalling K1.28 million for examination and the following was noted:

- Payments totalling K483,006 were made without obtaining the required three written quotations; and
- Copies of minor contract agreements were not sighted for 2 payments totalling K410,648.

ADVANCE MANAGEMENT

- The Advance Register and the Acquittal Files were not provided to AGO for audit examination.

DEPARTMENTAL RESPONSE

The audit findings reported were brought to the attention of the Commissioner in a Management Letter, however, the Management did not respond up to the time of preparing this Report.

CONCLUSION

In general, there was 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 or fraud.

4. DEPARTMENT OF COMMERCE AND INDUSTRY 2017

OVERVIEW

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

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

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

The Department promotes and supports the following legislations:

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

AUDIT FINDINGS

CORPORATE GOVERNANCE

- The Annual Management Report was unsigned; and
- The Annual Financial Management Report was not provided for audit review.

BUDGETARY AND FUND CONTROLS

- There was a difference of K5.6 million between the actual expenditure figures of IFMS 2157 and IFMS 8202. These records were not reconciled; and
- Analysis of the IFMS 2157 revealed that the Department incurred expenditure exceeding the WA under 5 items of the operational budget by K758,208 and the Capital Budget under 2 expenditure items by K1.28 million.

CASH MANAGEMENT - BANK RECONCILIATION

- The November and December 2017 bank reconciliations were not provided for examination.

PROCUREMENT AND PAYMENT PROCEDURES

- Payment vouchers totalling K439,666 in 7 instances were missing and not sighted in file.

ASSET MANAGEMENT

- Of the 16 selected sample totalling K119,631, a total of 14 assets aggregating K104,336 were not recorded in the Register.

ADVANCE MANAGEMENT

- According to the review of the prior year audit (2015), 24 travel advances for the year 2015 totalling K189,347 still remained outstanding as at 31 December 2017;
- For the year 2017, 13 travel advances totalling K131,149 remained unacquitted as at 31 December 2017;
- Out of the selected 48 travel allowances totalling K795,739, 15 instances totalling K209,424 were not recorded in the Advance Register and 4 advances totalling K48,849 were not certified by the Financial Delegate; and
- Three officers were issued second advances totalling K45,290 in 7 instances whilst their previous advances remained un-acquitted.

DEPARTMENTAL RESPONSES

These findings were brought to the attention of the Secretary in a Management Letter. However, at the time of preparing this Report, no responses were received from the Management.

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 or fraud.

5. DEPARTMENT OF DEFENCE 2017

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 Parliament; and
- Provide services to standing or ad hoc organisations in relation to the functions of the Department.

AUDIT FINDINGS

CORPORATE GOVERNANCE

- The Department does not have a Corporate Plan and an Annual Management Plan. This issue was last reported in our 2016 Management Letter and still remains unresolved;
- Second Quarterly Budget Review Report was not made available for audit review; and
- No 2017 Annual Management Report and Annual Defence Report were provided for audit review.

BUDGETARY AND FUND CONTROLS

There were actual expenditure variances of K48.28 million between the IFMS records maintained by DoF and PGAS maintained by Defence. IFMS recorded K27.67 million while Defence recorded K75.95 million.

CASH MANAGEMENT - BANK RECONCILIATION

- Audit review of the December 2017 bank reconciliation revealed significant unreconciled items such as reimbursements of K92.9 million not updated in the cashbook and unrepresented cheques amounting to K10.55 million;
- Delays in furnishing the December 2017 Bank Reconciliation to DoF; and
- The Cash Book revealed an overdrawn ending balance of K101.34 million as at 31 December

2017.

PROCUREMENT AND PAYMENT PROCEDURES

Audit examination of selected sample of 57 payments totalling K20.44 million revealed the following anomalies:

- Payment vouchers were missing in 4 instances totalling K736,448; and
- Three written quotations were not obtained for payments in 12 instances totalling K308,849.

ASSET MANAGEMENT

- The Department did not maintained a Fixed Asset Register and an attractive Items Register/ Loan Register. The AGO could not verify the existence of K278,720 worth of assets including attractive items purchased in 2017 due to the absence of the registers; and
- A motor vehicle purchased during the year at a cost of K379,967 remains unaccounted for due to the absence of a Motor Vehicle Register.

TRUST ACCOUNT MANAGEMENT

- Out of the total of 7 trust accounts, only 1 trust account was kept and maintained through PGAS while the other 6 were kept offline, contrary to their Trust Instruments; and
- Monthly Bank Reconciliation statements relating to 4 trust accounts were not provided to audit for examination.

ADVANCE MANAGEMENT

- The Department did not maintain an Advance Register to account for all the travel advances issued in 869 instances totalling K2.11 million; and
- A Cash Advance Register was maintained however, it was not regularly updated by the Financial Delegate.

DEPARTMENTAL RESPONSE

The reported audit 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 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. 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 or fraud.

6. DEPARTMENT OF FINANCE 2017

OVERVIEW

The DoF has 2 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.

AUDIT FINDINGS

CORPORATE GOVERNANCE

- The Department does not have a Corporate Plan for the financial year 2017 since the last one lapsed in 2015;
- There was no Annual Management Plan for the year 2017; and
- The Department did not prepare the third and fourth Quarter Budget Review Reports.

BUDGETARY AND FUND CONTROLS

- A net variance of K81.3 million was noted between the IFMS 2157 and IFMS 8202 actual expenditure for year 2017; and
- A negative Expenditure balance of K121,412 was noted under expenditure vote item 219 during the year. The nature of these transactions cannot be ascertained.

CASH MANAGEMENT - BANK RECONCILIATION

- The Department did not prepare separate bank reconciliations for the months of January to November 2017, instead a single reconciliation was done for these months; and
- No certification and verification of the 31 December 2017 bank reconciliations by a competent senior officer. The reconciliation statement disclosed 713 stale cheques totalling K50.23 million.
- There were no separate bank reconciliations done for each of the 5 RPM accounts maintained by the Department; and
- The Receipts Listings Reports, Daily Collectors Statements and approved fees and charges listings for the Finance Head Office RPM account were not furnished to audit for examination.

PROCUREMENT AND PAYMENT PROCEDURES

- A payment of K43,500 for vehicle hire was incorrectly charged to routine maintenance; and
- Out of the 72 samples selected, 35 paid vouchers relating to payments totalling over K11.0 million were not provided to audit for examination.

ASSET MANAGEMENT

- The Department did not keep a Consolidated Asset Register for all the assets purchased;
- Attractive items such as laptops, personal computers, mobile phones and projectors valuing K367,510 were not recorded in a register; and
- Four new motor vehicles valuing over K1.8 million, were not registered in the master fleet register.

HUMAN RESOURCE MANAGEMENT

- Expenditures incurred under training was over K3.7 million in total. However, there was no Training Plan provided to audit to verify and substantiate the amount spent;
- No Recreational Leave Roster was maintained to monitor staff recreational leave and resumption dates; and
- Three contracts officers' personnel files were not provided for audit examination.

TRUST ACCOUNT MANAGEMENT

- Bank Reconciliations for the 19 Trust Accounts maintained by DoF in 2017 were not provided for examination; and
- Seventeen out of 24 Trust Account paid vouchers totalling K328,291 were not provided to audit for examination.

ADVANCE MANAGEMENT

- In 27 instances, advance payments totalling K48,132 were not recorded in the advance register; and
- In 14 instances, Cash Advances totalling K84,200 were paid out for various reasons, and there were no acquittals sighted.

DEPARTMENTAL RESPONSE

The above audit findings were brought to the attention of the Secretary through a Management Letter. However, Management responses were not received up to the time of writing of this Report.

CONCLUSION

The results of the audit indicate that there were notable weaknesses in the 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.

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.

7. MAGISTERIAL SERVICES 2017

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.

AUDIT FINDINGS

CORPORATE GOVERNANCE

- There were no Management Plans or Divisional Work Plans prepared for the year 2017;
- The reports on the Service and on the individual magistrates as per Section 2(g), Part II of the *Magisterial Services Act 1975* was not provided;
- Magisterial Services did not hold any senior management meeting during the year 2017; and
- The position of Internal Auditor was vacant since 2015 and was only filled in the 4th quarter of 2017 thus, there was no plan and work done. An Audit Committee is still yet to be established.

BUDGETARY AND FUND CONTROLS

- IFMS 2157 for 2017 prepared on 21 August 2019, reported K1.6 million was expended through Capital Budget, however, the PGAS expenditure summary, showed nil receipt; and
- A total of K99.5 million was incurred in excess of WAs from 3 out of 17 Expenditure Vote Items. Included in the total, K126,492 refers to trust account expended without any appropriation.

CASH MANAGEMENT – BANK RECONCILIATION

- The bank reconciliation statements were not certified by a senior officer to attest for accuracy and copies were not submitted to DoF.
- A total of K2.67 million was collected during the year against an estimated revenue of K997,000, resulting in surplus by K1.64 million. Although, there is improvement in 7 out of 9 revenue heads, there was still significant shortfall of K145,503 in 2 major revenue heads; and

- In the absence of Bank Statements, Revenue Ledgers Collector Statements and Deposit Slips audit was unable to confirm the total revenue received through internal and external sources during the year.

PROCUREMENT AND PAYMENT PROCEDURES

- Quotation register was not maintained; and
- The Gazette Notice of the appointment of Financial Delegates was not made available for audit review.

Audit examination of 24 paid vouchers relating to payments totalling K1.75 million together with related records revealed the following irregularities:

- Three payments totalling K32,846 were made without tax invoices;
- Two payments totalling K31,653 were made without minor contract agreements;
- 14 payments totalling K153,871 were made without delivery notes attached to verify goods and services received;
- Ten payments totalling K120,927 were made without obtaining quotations from 3 vendors; and
- Two vehicles were hired at a cost of K24,270 without approval from PTB, Department of Works.

ASSET MANAGEMENT

- The Fleet Register was incomplete and lacked vital information such as custodians or officer responsible for each vehicle, estimated useful life and cost;
- Vehicle log books were not maintained to record the usage of each vehicle on a daily basis;
- There was no record maintained for vehicle maintenance and services for vehicles by the Magisterial Services. Therefore, the aggregate amount of K68,459 that was spent could not be justified;
- Cost of residential properties and 55 court houses under Magisterial Services Ownership were not registered;
- Fixed assets register was not maintained by the Service. Assets purchased during the year to the value of K444,611 remained unregistered; and
- There was no annual stock take conducted for the year 2017.

HUMAN RESOURCE MANAGEMENT

- Six recreational leave payments totalling K13,610 were not supported by Birth Certificates and concessions for all legal dependents;

- Magisterial Services did not have an approved Training Plan for 2017; and
- Fortnightly payroll reconciliations were not done throughout the year 2017 resulting in:
 - seventeen duplicate names on the payroll on pay number 13 and 130 duplicate names on pay number 26; and
 - nineteen names were noted in pay number 1 from 8 different government agencies.

TRUST ACCOUNT MANAGEMENT

- The bank reconciliations were done in excel worksheet other than PGAS. Also, recording of transactions were done manually for more than 5 years;
- Eleven selected paid vouchers relating to payments totalling K518,705 were not supported by tax invoices;
- Three payments totalling K226,397 were effected without obtaining 3 written quotations from vendors; and
- Two hire cars totalling K18,260 were made from outside sources without approval from PTB, Department of Works.

ADVANCE MANAGEMENT

- The Advance Register was not adequately maintained with relevant information such as designation of Advance Holder, Cheque Reference, date, signature of Advance Holder and remarks;
- The advance register only captured payments from January to September 2017; and
- Twenty-two advances totalling K51,762 relating to domestic travel were noted as acquitted but not supported by acquittal forms.

DEPARTMENTAL RESPONSE

The audit findings were brought to the attention of the Chief Magistrate in a Management Letter; however, the Service did not respond to my Management Letter at the time of writing this report.

CONCLUSION

In general, there were no marked improvements in the system and operation of controls within the Service as compared to the previous years. The result of my audit indicates 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 or fraud.

8. OFFICE OF PUBLIC PROSECUTORS 2017

OVERVIEW

The Office of the Public Prosecutor plays a key role in the criminal justice system of this country. It has long been recognised that fair, effective and open prosecution is essential to maintaining the rule of law and achieving a just and peaceful society for all Papua New Guineans.

The Public Prosecutor is empowered by Section 177 of the *Constitution of The Independent State of Papua New Guinea* to perform the following functions:

- In accordance with an Act of the Parliament and the Rules of Court of the Supreme Court and the National Court, to control the exercise and performance of the prosecution function of the State (including appeals and the refusal to initiate and the discontinuance of prosecutions) before the Supreme Court and the National Court, and before other Courts as provided by or under Acts of the Parliament; and
- To bring or decline to bring proceedings under Division III 2. (leadership code) of the Constitution;

AUDIT FINDINGS

CORPORATE GOVERNANCE

- It is noted that a Corporate Plan has not been formulated since the Office of Public Prosecutors' previous Corporate Plan (2010-2014) lapsed.
- As per the approved structure, the Office has a position for an Internal Auditor however, the position is still vacant.
- Minutes of the management meetings held during the period under review were not provided for audit.
- AGO was not provided with the Fourth Quarterly Budget Review Report and Annual Financial Management Report to account for the budget appropriated in the year 2017.
- Annual Management Report for 2017 was in draft form.

CASH MANAGEMENT – BANK RECONCILIATION

- Monthly bank reconciliations for 12 months of 2017 were not provided for audit. In the absence of the bank reconciliation, the Office of Public Prosecutor failed to comply with FMM requirements in ensuring that its bank and cashbook balances are reconciled monthly to give an accurate cash book balance at any given time.

Audit selected 15 samples of cancelled and dishonoured cheques totalling K59,548 and the following observations were noted:

- Four cancelled cheques totalling K10,078 were not passed in the JE Book;
- In all 15 instances totalling K59,548, the preparer did not sign the JE Book;
- In 6 instances totalling K31,120, audit could not ascertain the person who posted the entry into the PGAS system;
- Six JE printouts were not sighted; and
- In 6 instances totalling K21,850, no approval letter by Public Prosecutor giving effect to raise JEs was sighted.

PROCUREMENT AND PAYMENT PROCEDURES

Audit examination of a sample of 24 payment vouchers totalling K196,899 together with related records and documents revealed the following issues:

- There was no segregation of duties as the same Officer performs the commitment, examination and Certification of Claims. This poses a risk that a claim can be processed without an independent reviewer;
- In 8 instances totalling K94,098, payments were not approved by the authorized Financial Delegate before Section 32 approval;
- In 11 instances totalling K58,494, the payments were not certified by the Certifying Officer;
- In 23 instances totalling K196,899, the payments were not examined by the Examining Officer; and
- In 6 instances totalling K74,637, there was no evidence on the General Expense Form to indicate the claimant.

ADVANCE MANAGEMENT

- The advance register and acquittal file were not provided for audit examination. I could not verify and confirm the status of the 234 advances issued totalling K729,899 during the year under review.

ASSET MANAGEMENT

- The Office did not have an asset register and a motor vehicle fleet register to account for its assets purchased, traded in, undergoing maintenance, lost through theft and disposed-off in 2017.

HUMAN RESOURCE MANAGEMENT

- AGO noted that, 12 officers were paid SDMA at K12,146 per fortnight without the approval of the DPM.

- Personal files were not properly maintained as files were not updated.

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.

9. DEPARTMENT OF LANDS AND PHYSICAL PLANNING 2017

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.*

AUDIT FINDINGS

CORPORATE GOVERNANCE

- Annual Management Plan for 2017 was not made available for audit examination;
- The Internal Audit Unit had not provided the Annual Internal Audit Plan and Reports for 2017 for audit review; and
- The 2017 Annual Financial Management Reports were not made available by the Department for audit review.

BUDGETARY AND FUND CONTROLS

- A comparison of total expenditure between IFMS 8202 and IFMS 2157 revealed a significant net variance of K14.46 million. The IFMS 8202 was K16.72 million whilst IFMS 2157 was K2.25 million.
- The Department received K1.8 million capital funding in 2017 of which K1.79 million was paid to a company for services provided. However, there was no CSTB contract agreement provided to audit for further review.

CASH MANAGEMENT – BANK RECONCILIATION

An audit review of the monthly bank reconciliations for the year 2017 revealed the following matters of concern:

- The Department's cashbook had an over-drawn balance of K2.4 million as at 31 December 2017;
- In 74 instances, Stale Cheques totalling K2.6 million dating back to year 2015 were not cleared;
- Adjusting items were not clearly categorized and disclosed in the IFMS generated monthly bank reconciliations statements; and
- Bank statements were not attached with the bank reconciliation statements.

PROCUREMENT AND PAYMENT PROCEDURES

- No quotation Register was maintained by the Department; and
- Specimen signatures were not kept on file.

Audit review of the randomly selected 52 payments totalling K8.8 million revealed the following weaknesses:

- In 5 instances, payment vouchers relating to payments totalling K323,503 were noted missing and therefore, audit could not vouch for these claims;
- In 4 instances, payments totalling K585,760 were not duly checked, certified, signed and approved by the Finance Delegate;
- In 3 instances, payments totalling K105,760 were not approved by the Section 32 Officer;
- Minor contracts were not sighted for 13 payments totalling K650,296;
- In 21 instances, 3 written quotes were not sighted for payments totalling K1.08 million; and
- In 4 instances, payments totalling K33,400 were made to a Company for pot plant hire during the year. In this regard audit noted that:
 - The Company was not a registered company at the time of providing the service. The Company was only registered in 2019; and
 - No minor contract was in place at the time of providing the service. This lapse was rectified late in 2018.

ASSET MANAGEMENT

Audit examination of the Fixed Assets and Motor Vehicle Fleet Registers revealed the following weaknesses:

- Assets recorded in the asset register were not clearly classified and categorized. In 105 instances, assets to the total value of K1.7 million recorded in the register were not serially numbered with the Department code;
- There was no transport policy and no vehicle usage log books in place; and
- No stock take and or physical verifications were performed during the year.

HUMAN RESOURCE MANAGEMENT

- No Payroll reconciliations performed for the year;
- No Gratuity payment register maintained;
- No recreational leave roster was maintained; and

- Payroll reports (FIN03 and FIN04 reports for pay periods 22-26) were not provided for audit review.

TRUST ACCOUNT MANAGEMENT

Audit examination of the Land Reform Trust Account revealed the following matters:

- The 2017 trust account cashbook and monthly bank reconciliations were not made available for audit examinations; and
- The Trust Instrument expired in 31 December 2012 and was operating without a valid trust Instrument during the year under audit review.

ADVANCE MANAGEMENT

Audit examination of the advance register revealed the following:

- Advances totalling K473,169 in 36 instances were not recorded;
- In 83 instances, advances totalling K553,116 were not acquitted;
- Second advances were issued to officers contrary to FMM; and
- The acquittal files were not provided during audit for examination in 14 instances totalling K32,800.

DEPARTMENTAL RESPONSE

The audit findings reported were brought to the attention of the Secretary in a Management Letter, however, the Management did not respond up to the time of preparing this Report.

CONCLUSION

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

10. DEPARTMENT OF TREASURY 2017

OVERVIEW

The Department of Treasury'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.

AUDIT FINDINGS

CORPORATE GOVERNANCE

- No Risk Management Policy was developed and thus reports pertaining to risk management were not prepared; and
- Annual Financial Management Report was not prepared by the Department for the year under review.

BUDGETARY AND FUND CONTROLS

A net variance of K38.6 million was noted between IFMS 2157 when compared against IFMS 8202 under 6 Expenditure Vote Items.

CASH MANAGEMENT - BANK RECONCILIATION

- The Bank Reconciliation for the Drawing Account for the month of December 2017 was not certified by the Financial Delegate; and
- The Bank Reconciliations for the year 2017 were not submitted to DoF as required by PFM Act.

PROCUREMENT AND PAYMENT PROCEDURES

- In 9 instances, payment vouchers for payments totalling K2.23 million were not provided for audit examination;
- In 5 instances, payments totalling K122,276 were made without obtaining 3 written quotations;

- A payment of K95,500 was not authorized by the Requisition Officer;
- In 10 instances, payments totalling K1.37 million were made without invoices and other supporting documents;
- In 16 instances, no Minor Contracts were sighted for payments totalling K1.77 million;
- In 3 instances, CSTBs were not attached to substantiate payments totalling K5.88 million;
- A payment of K1.5 million was paid to a consulting firm without the CSTB approval;
- Four payments totalling K162,255 were made to 3 hire car companies without the approval from the Plant and Transport Board as stipulated in Part 17 of the FMM;
- In 3 instances, the Department made payments totalling K300,250 to individual's contrary to the PFM Act. Payments of such should be made to registered companies;
- Two payments totalling K340,050 were made based on expired Contracts;
- Annual Work Plans, Cash Flow Statement and Quarterly Reports for the 9 capital expenditure projects that were funded in 2017 were not submitted for audit examination; and
- Project Steering Committee Meetings were not held.

ASSET MANAGEMENT

- The Department did not maintain a centralized "Fixed Asset Register" as reported in the last audit. Therefore, the accuracy and completeness of existing assets and the new assets purchased during the year 2017 could not be ascertained;
- Attractive Items totalling K16,017 in 2 instances were not registered; and
- Documents relating to the BOS report of 2 traded-in vehicles were not provided to audit to verify the process involved in the transaction.

HUMAN RESOURCE MANAGEMENT

Audit examination of records and documents relating to Human Resource and Payroll on a sample basis reveal the following irregularities:

- In 3 instances, the Birth Certificates were not attached to payments totalling K18,688 for Recreational Leave entitlements to verify the eligibility of the dependents;
- Contrary to requirements in the GOs 13.67, overtime payments totalling K77,448 were paid to officers above Grade 10 positions in 10 instances;
- In 15 instances, payments totalling K472,426 were paid to casuals through IFMS 8202 which was in breach of GO and short-term contract agreement;

- Thirteen officers considered as permanent officers as per the staff register were paid wages through IFMS 8202 contrary to Financial Instruction;
- Two short term contract officers' personal files were not made available for audit examination; and
- The Department did not prepare a Training Plan for the year under review.

TRUST ACCOUNT MANAGEMENT

Audit examination of the LNG Development Cost Trust Account with its related records and documents revealed the following issues:

- No Bank Reconciliation were prepared;
- Differences in signatories on both Parent and Subsidiary Account though one Trust Instrument binding both accounts; and
- All payments were not processed through IFMS which was in breach of Trust Instrument.

ADVANCE MANAGEMENT

Audit examination of the Advance Register together with other related documents and records revealed the following irregularities:

- Fourteen advances amounting to K162,565 from 2016 remained un-acquitted as at 31 December 2017;
- Fourteen Travel advances totalling K8,785 issued in 2017 remained outstanding as at 31 December 2017; and
- Second advances were issued to officers who had not acquitted their previous advances in 18 instances totalling K117,658.

DEPARTMENTAL RESPONSE

The reported audit findings were brought to the attention of the Secretary through a Management Letter and the Management is yet to respond up to the time of writing this Report.

CONCLUSION

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

11. DEPARTMENT OF JUSTICE AND ATTORNEY-GENERAL 2017

OVERVIEW

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

The Department is expected to fulfil 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.

AUDIT FINDINGS

CORPORATE GOVERNANCE

- No annual activity/ management plan for the Department;
- The internal audit work plan was not approved by the executive management;
- Out of the 24 planned audits, only 5 were executed. Management did not provide responses to the internal audit findings; and
- The Annual Financial Management Report was included with the 2017 Annual Management Report and was submitted to NEC and presented in Parliament. The Report was however, delayed by 6 months.

BUDGETARY AND FUND CONTROL

- IFMS 2157 revealed variances in expenditure balances of K72.13 million under Recurrent and K1.37 million under Development Budget.
- There were no Annual workplan, no infrastructure reports and cash flow statement including Project committee meeting minutes made available for audit.

Examination of 24 sample payments from Development Budget expenditure totalling K191,180 revealed the following:

- Five paid vouchers totalling K191,180 were not made available for audit review;
- A Petty cash advance of K9,000 was paid via paymaster without any approval from the financial delegate;
- Ten paid vouchers totalling K139,813 were processed based on proforma invoices or quotations instead of the tax invoices;
- Fifteen payments totalling K239,301 were made without obtaining 3 written quotations; and
- Six payments totalling K163,885, were made without minor contract agreement.

CASH MANAGEMENT – BANK RECONCILIATION

- Delay in submitting bank reconciliations for the month of August 2017 and December 2017 to DoF; and
- Cancelled cheques related to the 31 December 2017 reconciliation totalling K414,948 were not adjusted and cleared.
- There were 2 revenue receipts totalling K256,214, however, IFMS only reported K9,647. There was a shortfall by K247,267; and
- According to the revenue report, it only captured revenue collections made in HQ and Southern region while other regions were not shown.

PROCUREMENT AND PAYMENT PROCEDURES

- No quotation register was maintained;
- No procurement plan or policy in place;
- No APC register maintained;
- Twenty-one paid vouchers totalling K900,813 were not provided for audit verification;
- Eleven paid vouchers valuing K63,392 were not certified by the certifying officer;
- Two paid vouchers totalling K51,718 were not approved by the authorized financial delegate;
- Three payments totalling K53,718 were not signed by the authorized Section 32 officer;
- Payments totalling K443,780 were made without obtaining 3 written quotations from various suppliers/ vendors in 7 instances;
- A total of K193,600 was processed without completing the payment checklists in 3 instances;
- No minor contract agreements were attached with paid vouchers totalling K461,918 in 8 instances; and

- A sum of K103,277 paid as financial assistance to employees were not budgeted for.

ASSET MANAGEMENT

- Assets purchased totalling K822,882 in 2017 were not recorded in the Asset Register;
- The master asset register was incomplete and lacked vital information such as date of purchase, identification information, quantity, unit cost, estimated life-span, preventive maintenance and corrective maintenance history;
- The Fleet Register was also incomplete and lacked vital information such as purchase dates, serial/ model numbers, cheque and invoice numbers;
- Two vehicles purchased totalling K245,000 were not recorded in the fleet register;
- No Loans Register was maintained for attractive items; and
- There was no annual stock-take done for the year under review.

HUMAN RESOURCE MANAGEMENT

- In 9 instances, recreational leave fares totalling K56,543 were paid without effecting the 10% deduction;
- Three contract officers had no current contract copies on file;
- There was no payroll reconciliation done;
- Two staff were no longer employed but continued to be paid totalling K18,724 as at pay no 26; and
- Duplicate names for village court allowances were noted in Pay 13 and 26 with different employee numbers and same employee numbers in 326 & 113 instances respectively. A total of K268,505 was paid in pay 13 while K1.4 million was paid in pay 26. No proper explanation was given to rectify this anomaly.

TRUST ACCOUNT MANAGEMENT

- Eight paid vouchers totalling K1.02 million relating to Legal Fees and in 7 instances totalling K44,734 relating to Library Trust Account were not made available for audit examination;
- Eleven payments totalling K42,917 were expended out of the Library Trust account contrary to the Trust Instrument;
- In 5 instances, payment vouchers were not made available for audit review relating to the Department's Trust Account; and
- A payment of K10,280 out of the Department Trust Account was made without a Requisition Form and General Expense Form.

ADVANCE MANAGEMENT

- Travelling Allowances totalling K176,562 were not recorded in the Advance Register;
- Advances totalling K574,884 remained unacquitted as at 31 December 2017; and
- Seventy-two officers had more than 1 outstanding advance totalling K184,543.

DEPARTMENTAL RESPONSE

The above audit findings were brought to the attention of the Secretary of the Department in a Management Letter. At the time of writing this Report no response were received.

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.

12. DEPARTMENT OF POLICE 2017

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 Act, 1998 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 organisation relating to the functions of the Department.

AUDIT FINDINGS

CORPORATE GOVERNANCE

- The Royal PNG Constabulary has in place a 10-year Corporate Plan 2011-2020 with a mission to "Securing a Safer Community in Partnership"; and
- Two Internal Audit Reports were produced by the Internal Audit Unit during the year 2017. However, the audit area covered did not capture the areas stated in the unsigned audit plan. It was done on an ad hoc basis.
- The Financial Management Report for 2017 was prepared. However, there was no evidence on file to suggest that the Financial Report was submitted to DoF as required and within the required timeframe.
- The Annual Management Report for the year was not made available for audit examination.
- Similar findings were noted in the last 4 years audit reports (2013-2016).

BUDGETARY AND FUND CONTROLS

- Comparison of the 2017 actual expenditures reported in IFMS 8202 and IFMS 2157 produced 21 February 2019 and IFMS 2222 National Department Total Report revealed significant differences between these IFMS Reports;
- The significant differences between the different IFMS Reports also indicated there was lack of uniform reporting of the Department's expenditure balances in the different IFMS expenditure reports during the year 2017; and

- My review of randomly selected payments revealed that payments totalling K299,604 were incorrectly charged to vote items in 25 instances.

CASH MANAGEMENT – BANK RECONCILIATION

- Monthly bank reconciliations for the months of November and December 2017 were not prepared at the time of audit; and
- Bank reconciliation statements for the months of January to October 2017 were not reviewed and signed by a senior officer or supervisor to authenticate the accuracy and correctness of the reconciliations.

PROCUREMENT AND PAYMENT PROCEDURES

Audit examination of 24 randomly selected payments totalling K3.3 million revealed the following irregularities:

- In 4 instances, paid vouchers for payments totalling K200,822 were not made available for audit examinations. In this regard, AGO was unable to assess the propriety of these payments;
- In 5 instances, 3 written quotations were not obtained prior to effecting payments totalling K474,852; and
- In 7 instances, payments totalling K126,250 were paid and narrated as ‘Tokens of Appreciations’ to the Paymaster and individuals during the year. In this regard audit noted the following:
 - In 2 instances totalling K100,000, the overtime payments calculations were not sighted to verify the amount of payments received by individual officers equating to the actual number of hours and the applicable pay rates; and
 - Applicable tax for overtime payments was not deducted from the payments to the individual officers.
- The Department overpaid a company by K55,000 for rental of office space. The Government Office Allocation Committee approval was not obtained by the Department prior to entering into the lease agreement for the office space; and
- Payments totalling K12.27 million were made to 37 different companies for service repairs and maintenance as well as for supply of parts for Department’s fleet of vehicles in the country. In this regard, the following were noted:
 - The Department has yet to develop an Internal Policy or Guideline on Management on the Department’s Fleet of motor vehicle;
 - Defective Vehicle Report was not sighted for all payments totalling K12.27 million made to the Service Providers during the year under audit review; and
 - Service Contract Agreements between the Department and the Service Providers was not in place for all the Service Contractors engaged in year 2017.

- In 29 instances, payments totalling K3.3 million were made to a company for repairs maintenance and service of the Department's Motor Vehicle Fleets. A copy of the signed service agreement did not contain the terms and conditions. AGO was not able to do further testing to justify for the payments made; and
- In 6 instances, payments totalling K243,959 was paid to a service provider for vehicle repair and service charges. Audit noted that the company was not a duly registered entity.

ASSET MANAGEMENT

- The physical inspections of the selected firearms at the 6 police stations visited by audit revealed that in 7 instances, details of the firearms in the Firearms Register do not agree to 5 Police Station records;

This indicated that the Quartermaster's Firearms Register was not updated, incomplete and inaccurate;

- The register for properties, land and building did not disclose adequate details of the land and building in each province in the country;
- Of the 10 motor vehicles purchased in 2017 by the Department, 6 totalling K1.04 million were not recorded in the fleet register; and
- Disposal of 10 vehicles through open tender in 8 instances revealed that payments totalling K63,800 did not have receipts attached with other documents to confirm that payments were made for the tendered vehicles.

HUMAN RESOURCE MANAGEMENT

Audit examination of the payroll records and documents were done on a sample basis and the following irregularities were noted:

- In 3 instances, no supporting documents such as the approval from senior management for overtime claimed were sighted for amounts totalling K11,112;
- In 3 instances, overtime payments totalling of K28,728 were paid to officers on Grade 10 and above contrary to GOs; and
- In 2 instances, leave fare payments totalling K23,911 was paid by the Department for officers whose dependents were above the age of 19 years.

TRUST ACCOUNT MANAGEMENT

Audit examination of the records and management of the four Trust Accounts revealed the following anomalies:

- The bank reconciliations prepared were based only on bank statements without cash books and were not reviewed by a senior officer; therefore, audit could not confirm the accuracy and correctness of these bank reconciliation statement;

- Trust Account records such as the cashbooks, revenue and expenditure ledgers including the paid vouchers for the 4 trust accounts were not made available for audit examinations. As such, AGO was unable to ascertain whether the trust funds were appropriately used for the purposes specified in the respective trust deeds and instruments; and
- Similar situations were consistently observed in the 2 previous Audit Reports and the situation has not changed.

ADVANCE MANAGEMENT

The Department did not maintain an Advance Register for all the advances paid during the year under review.

DEPARTMENTAL RESPONSE

The above audit observations were brought to the attention of the Management; however, no reply was received at the time of preparing this Report.

CONCLUSION

The results of AGO audit indicate that in 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.

13. DEPARTMENT OF PRIME MINISTER AND NATIONAL EXECUTIVE COUNCIL 2017

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 the 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.

AUDIT FINDINGS

CORPORATE GOVERNANCE

- The Department's senior management meeting minutes were not provided for audit review.
- Only 1 of 4 Audit Committee meeting was convened in 2017.
- The Department's Risk Management Framework was not provided for audit review.

BUDGETARY AND FUND CONTROLS

- Eighty-four payments totalling K13.17 million were paid out from wrong vote items. This is deemed improper and not according to budget appropriation.

CASH MANAGEMENT - BANK RECONCILIATION

- Review of December 2017 Bank Reconciliation revealed that the Ledger Book Closing Balance of K36.26 million comprised un-presented cheques, reversals, journals and adjustments dating back to 2016. These items should have been investigated and cleared out instead of carrying them forward.
- The year-end bank balance could not be verified as bank statements were not provided.
- Bank reconciliations were submitted to DoF, however, were delayed ranging from 2 to 6 months.

PROCUREMENT AND PAYMENT PROCEDURES

- Payment vouchers for 29 payments totalling K9.11 million were not provided for audit examination.
- Twenty-five payments totalling K2.4 million were paid without quotations being obtained.
- Minor contract agreements were not sighted for 20 payments totalling K2.44 million.
- CSTB approval was not provided for audit examination relating to 5 payments totalling K6.98 million.
- Three payments totalling K426,848 were neither examined nor certified prior to payment.
- Thirty-seven payments totalling K2.71 million did not have proper invoices attached. Important financial forms such as the Requisition Forms and General Expense Forms were deemed missing together with Delivery Dockets.

ASSET MANAGEMENT

- Audit noted that the fixed asset register furnished for audit was incomplete as Assets totalling K745,134 were not registered.
- One hundred and eleven motor vehicles as per the register were still registered under private registration plate numbers.
- A Fleet Disposal Register was not provided for audit review.
- No Log Books were maintained and used for the Department's fleet.

- Audit noted that 3 officers of the Department were receiving motor vehicle allowances whilst at the same time allocated a motor vehicle for use by the Department.
- A maintenance Register was not provided for audit review.

HUMAN RESOURCE MANAGEMENT

- The Training Plan was not approved by the Chief Secretary.
- A total of K335,807 was spent on training purposes based on the unapproved Training Plan.
- Three overtime payments amounting to K17,595 were paid to officers above Grade 10 Public Service salary scales without approval from the Secretary for DPM.
- Eight payments totalling K527,357 were made to officers from another Department without proper approvals attached to these payments. These payments were for overtime work for prior years.
- Sixteen Recreational Leave payments totalling K108,212 were not registered in the 2017 Recreational Leave Register.
- Audit noted in 22 instances of recreational leave payments totalling K152,124 that were made without deducting the 10% mandatory contribution.
- AGO noted in 27 instances totalling K19,697 of payments relating to wages that were paid through IFMS other than the Alesco Payroll System as required.

TRUST ACCOUNT MANAGEMENT

- A review of the bank reconciliations for the month ending 31 December 2017 and the bank statements revealed a total of K1.05 million unrepresented cheques for the 6 Trust Accounts maintained.

ADVANCE MANAGEMENT

- Advances totalling K5.05 million remained unacquitted as at 31 December 2017.
- Delays in acquittals were noted in 10 instances, ranging from 23 days to 1 year for both domestic and overseas travel advances.
- In 4 instances totalling K154,393, overseas travel allowances had not been acquitted within the 14 days required period.

- In 5 instances totalling K101,275, cash advances were made to Paymaster that were missing in file nor registered in the Advance Register.
- In 4 instances, acquittals totalling K17,954 were not properly supported with documentations such as boarding passes, and accommodation receipts to substantiate the payments received.

DEPARTMENTAL RESPONSE

The above audit findings were brought to the attention of the Chief Secretary through a management letter. However, management responses were not received up to the time of writing this Report.

CONCLUSION

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

The results of the audit indicate that there were still 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.

14. DEPARTMENT OF WORKS AND IMPLEMENTATION 2017

OVERVIEW

The Department of Works and Implementation's main programs 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 – 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.

AUDIT FINDINGS

CORPORATE GOVERNANCE

- An Annual Management Plan for the year under review was not formulated to guide the management to meet the requirements of the budgetary cycle for 2017;
- Of the 32 audits planned for the year, only 1 audit was undertaken;
- Although the Department had an Audit Committee in place, it had not been functioning as required. Only 1 meeting was held for the year;
- Only 1 Senior Management Meeting Minute was made available for review; and
- The Department does not have a Risk Management Plan.
- The Second Quarter Budget Review Report was not provided for audit review.

BUDGETARY AND FUND CONTROLS

- Audit noted that over expenditures existed within line items in the Recurrent Budget. A total of K835,090 of over expenditure resulted from individual line items.
- From the 30 Capital Investment (Development budget) projects that were carried out, audit randomly selected 45 payments totalling K81.35 million and noted that contract agreements relating to 20 projects were not attached to the paid vouchers. Thus, audit could not establish further the authenticity of the payments made; and
- Thirty-eight projects did not provide their progressive reports regarding the status of work being carried out before payments were made.

CASH MANAGEMENT - BANK RECONCILIATION

- The Department did not prepare its monthly bank reconciliations for the year 2017.
- There was no segregation of duties. The same officer was collecting, recording, receipting and banking of all public moneys collected at the counter;
- In 24 instances, receipts totalling over K8.4 million did not have the signature of the checking officer;
- There was no safe to keep cash collections. Collections were kept in a drawer;
- Delays in banking ranged from 3 to 56 days in 19 instances; and
- The Department did not keep a receipt report listing.

PROCUREMENT AND PAYMENT PROCEDURES

- In 12 instances, paid vouchers relating to payments totalling more than K6.6 million were not provided for review;
- The Department did not maintain a specimen signature file for Section 32 Officers and other authorized financial delegates;
- The Department did not maintain a Quotations Register as required by PFM Act. In 4 instances, payments totalling more than K108,000 were made without obtaining 3 written quotations as required;
- Five major procurements totalling over K5.8 million neither obtained PSTB or CSTB approval;
- In 4 instances, Contract Agreements for both minor and major contractual payments totalling more than K3.0 million were not provided for audit review;
- A construction company was paid more than K11.5 million in total on various occasions as per the IFMS 8202 without a valid contract agreement;
- It was noted that a contractor, was paid more than K1.9 million as outstanding payments for the same project without a binding contract;
- Seven payments totalling over K6.4 million were made without a Certified Engineer's Report;
- Copies of cheques were not attached to the 60 paid vouchers that were provided for testing;
- In 11 instances, payments totalling over K10.3 million, did not have supporting documents such as invoices, quotations and related supporting documents;
- A total of over K1.8 million was paid to 4 contractors without valid Certificate of Compliance; and

- A procurement payment of K447,342 was made to a company on an expired Certificate of Compliance.

ASSET MANAGEMENT

- It was noted that the Department has an ineffective asset management system. Assets bought or disposed of over the years were neither registered or updated in the system;
- Separate asset registers were not maintained;
- The Asset Registers for ICT, PTB and the Asset Management Branch were incomplete and lack details of asset information. These asset registers had not been updated and stock takes were not conducted;
- Paid vouchers for 30 payments totalling K139,761 were not made available for audit examination;
- In 52 instances, assets purchased totalling K328,661 were not registered in the respective asset registers;
- In 49 instances, attractive items totalling K106,513 were not registered as a Loan Register was not maintained; and
- It was observed that the Department did not maintain the following important registers for all types and classes of assets acquired and maintained:
 - Asset Loss Report Register;
 - Asset Disposal Register;
 - BOS Report;
 - Stocktake Report;
 - PTB Fleet Maintenance Register;
 - MV log books for Non-Hire Vehicles;
 - Proof of Payment (Receipts); and
 - Attractive Items Loan Register

HUMAN RESOURCE MANAGEMENT

- A Recreational Leave Register was not maintained;
- Twelve payment vouchers relating to recreational leave totalling K218,881 were not made available for audit;
- Three instances of payments totalling K79,897 claimed as dependent entitlements for recreational leave purposes were not supported with necessary certificates and documents;
- The mandatory 10% contribution for leave fares was not deducted for 7 recreational leave payments totalling K205,130;
- Personnel files for 8 officers were not provided for audit review;

- Of the 24 overtime payments selected for review, 6 payments totalling K14,501 could not be verified in the absence of relevant paid voucher documents;
- Twenty-three overtime payments totalling K75,325 were made without the approved Overtime Finance Form (FF83);
- A total of K1.01 million was paid as wages through IFMS. These claims should have gone through the Alesco Payroll System;
- Out of 24 wages payments selected totalling K123,325, 6 paid vouchers totalling K11,883 were not provided for review;
- Personal Files relating to 5 contract officers were not made available for audit review;
- It was noted that the Department had an unsigned training plan;
- Despite not having an approved training plan, the Department's total training expenditure was K402,643 for the year;
- The Department did not seek DPM approval for engagement of consultants with threshold greater than K500,000. Audit sighted a total of K1.77 million in 6 instances; and
- Payment vouchers containing signed contract documents in 6 instances totalling K887,390 were not available for audit review. Hence, the approval verification and legitimacy of the consultancy agreements could not be ascertained.

TRUST ACCOUNT MANAGEMENT

Works Suspense Outside Trust Account (WSOOTA)

- In 22 instances, a total of K12.29 million was withdrawn out of the WSOOTA as at the 31 December 2017 Bank Statement contrary to the Trust Deed; and
- The DoF in its Public Account Statement of Receipts & Expenditure for Trust Fund (Statement C) for the period ended 31 December 2017, did not record revenue under the WSOOTA amounting to a total of K1 billion under 2 revenue votes;

Plant & Transport Trust Account

- Bank reconciliation balance for 31 December 2017 had incorrect closing balance when compared to the General Ledger balance;
- Audit noted that Schedules (listings) of reconciling items like Deposits in Bank not in GL, Bank Charges, Other Deposits in GL not in Bank and Other Payments in GL not in Bank were not attached to the bank reconciliation statement. The schedules usually provide detailed explanations of balances and cheques depicted in the bank reconciliation statement. Without these schedules, audit was unable to do further testing;
- In 17 instances, K1.41 million was withdrawn out of the PTB Trust Account in December 2017 contrary to the Trust Deed;

- The Department managed most of its Trust Accounts and related financial transactions in the Oracle Financial Management System. The Department has recently commenced migrating its trust accounts from Oracle to IFMS. The Department paid expenditure over K1 million in IFMS to various PTB Trust Accounts in 145 instances;
- In 5 instances, PTB Expenditure Drawing Trust Accounts incurred a total sum of K987,376 for hire car and other services rendered in 2017 contrary to the Trust Deed; and
- As per the Department's Corporate Ledger Trial Balance Report for 2017, the PTB Trust Account Deposits under DoF amounted to more than K128 million from 2 revenue votes which were not captured in statement 'C' of the Public Accounts Statement produced by DoF.

ADVANCE MANAGEMENT

- A total of over K2.6 million remained unacquitted dating back to 2015;
- Second advances totalling K992,699 were issued to officers who had their outstanding acquittals dating back to 2015. More than K273,000 of second advances were issued in 2017;
- A total of K114,261 advances in 44 instances were not registered in the acquittal register from 48 samples selected;
- Of the K366,062 paid as travel advances, K353,270 remained unacquitted;
- Acquittal files were not provided for audit review; and
- The Advance Register was not updated and reviewed by the Financial Delegate.

DEPARTMENTAL RESPONSE

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

AGO would like to commend the Secretary and the Management team for acknowledging the audit report and for their efforts in addressing the audit issues reported annually.

CONCLUSION

In general, there was little 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 still significant weaknesses in the control framework. The control activities such as delegations, authorisations, reconciliations, data and payroll processing and management monitoring were not sufficiently robust to prevent, detect, or correct error or fraud.

15. DEPARTMENT OF EDUCATION 2017

OVERVIEW

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

AUDIT FINDINGS

BUDGETARY AND FUND CONTROLS

In 3 instances, WAs totalling K292,625 were authorized over and above revised appropriation for the Department during the year 2017. These were related to recurrent expenditure.

Development Budget

Annual Work Plans for 6 Projects administered by the Department were reviewed and the following irregularities were noted:

- There was no indication that the Annual Work Plans were submitted to the Department of National Planning and Monitoring;
- Five of 6 Annual Work Plan Forms were noted to be incomplete, such as, appropriation amounts and expenditure details and other data were not tabulated;
- There were no Project Steering Committee meetings convened in 2017;
- There was no indication that the Quarterly Budget Review Reports were submitted to Department of National Planning & Monitoring; and
- In 4 instances, authorised WAs totalling K14 million was unspent by K12.06 million.

Audit examinations of 24 randomly selected payments totalling K2.73 million from Capital Expenditures in the IFMS 8202 for the year 2017 revealed the following matters of concern:

- In 4 instances, paid vouchers relating to payments totalling K551,803 were not sighted in audit;

- In 4 instances, payments totalling K253,761 were paid to service providers without 3 written quotations;
- In 6 instances, payments totalling K393,888 were paid to service providers without attaching a Certificate of Compliance;
- A payment of K22,000 paid for printing services was without Government Printing Office approval;
- In 3 instances, payments totalling K119,494 were made on claims without authorizing the CSTB Short Forms; and
- In 3 instances payments totalling K86,314 were made on claims without the Work Report Certificate for completion of work.

CASH MANAGEMENT - BANK RECONCILIATION

- The bank reconciliation statement for the month ending 31 December 2017 disclosed numerous outstanding reconciliation items totalling K65.31 million which should have been investigated and cleared; and
- No evidence of proof to indicate that copies of the bank reconciliations were actually submitted to DoF on a timely basis as required.

PROCUREMENT AND PAYMENT PROCEDURES

A total of 56 payments totalling K25.38 million was examined:

- A payment to a supplier for stationaries totalling K100,000 did not have a minor contract attached to the payment voucher; and
- In 6 instances totalling K590,859, 3 written quotations were not attached to the payment voucher.

ASSET MANAGEMENT

- The Department does not have an Asset Register. In the absence of an Asset Register, audit could not ascertain if the purchase of K784,314 worth of assets purchased was recorded in 2017; and
- No Fleet Register was provided to Audit for review. In the absence of a Fleet Register, audit could not ascertain if the purchase of 5 new vehicle totalling K799,354 was recorded in 2017.

TRUST ACCOUNT MANAGEMENT

Audit examination of 8 trust account reports maintained by the Department, including their Bank statements and IFMS reports revealed the following irregularities:

- According to the Technical Vocational Education Training (TVET) Trust Instrument, this trust account should cease to operate at the end of 2016, however, it was still active during the year under audit review;
- In all 8 trust accounts, Bank Reconciliations were prepared on a quarterly basis instead of monthly basis as required;
- Further, Bank Reconciliation statements did not indicate names and designations of the preparer or the dates of preparation;
- In 19 instances, funds totalling K631,379 were spent out of the trust account on goods and service not related to the TVET Impact Trust Account;
- Copies of specimen signatures of 7 trust accounts were not provided for audit verification;
- Tuition Free Fee (TFF) Education subsidiary (BSP) Trust account was to be closed in 2012 however, it was still active in 2017. Trust Instrument relating to 2017 activities in and out of this trust account was not made available; and
- In 5 instances, TFF subsidy payments out of BSP – subsidiary Account totalling K8.64 million were paid to a Provincial Government Trust Account. These payments were improper as this trust account was not a registered school account within the National Education system.

ADVANCE MANAGEMENT

Audit examination of the Advance Register and other related records for the financial year 2017, disclosed the following irregularities:

- Of the cash advance issued in 2017, a total of 129 instances totalling K1.8 million was paid under the Paymaster's name contrary to the FMM;
- Advance register lacked vital information such as date of advance, name of officer, date of acquittal and signature of recipient;
- The IFMS 8202 maintained by Finance revealed a total of K3.56 million issued advances in 2017 while Acquittal Master Listing recorded a total of K1.45 million resulting in a variance of K2.11 million not recorded; and
- The 2017 Acquittal Master Listing was not reviewed by the Financial Delegate for accuracy and completeness.

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 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.

16. DEPARTMENT OF HIGHER EDUCATION, RESEARCH, SCIENCE & TECHNOLOGY 2017

OVERVIEW

The Department of Higher Education, Research, Science and Technology's 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 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.

AUDIT FINDINGS

CORPORATE GOVERNANCE

The Department has produced the Annual Management Report for the year 2017. However, the Report was not produced within the time frame required.

BUDGETARY AND FUND CONTROLS

Unspent funds totalling K1.72 million were illegally transferred to the HESIPTA and TSSPTA trust account at the end of the year. These funds were supposed to have been remitted to the CRF at the end of the year as required under the PFM Act.

In the comparing of the Department's total expenditures reported in the IFMS 8202 and IFMS 2157 produced on 21 February 2019 for the year 2017, significant differences were identified totalling K92.91 million between the two IFMS reports.

Development Budget

Examination of the PIP expenditures totalling K44.8 million revealed the following discrepancies:

- In 25 instances, funds totalling K6.22 million were incorrectly transferred from the Development Expenditure Votes to 2 Trust Accounts during the year; and
- Accountability reports were not sighted by audit for grant payments totalling K15.50 million paid to the 3 Universities.

Audit examination of payments totalling K14.38 million made for the rehabilitation, upgrading and construction of projects for the various higher institutions throughout the country to 28 different contractors revealed the following matters of concern:

- The Department did not maintain records of the APC Register and Contract Registers for all the capital projects undertaken during the year 2017;
- The 2017 Activity Plans for the projects undertaken were not prepared and a Department Project Steering Committee was not established during the year;
- Payments totalling K2.89 million were made to contractors for 7 infrastructure projects during the year; however, the projects were incomplete according to the status report provided;
- In 3 instances, payments were paid over and above the total contract value by K12,500;
- In 4 instances, payments totalling K1.37 million were paid to a company for 3 capital infrastructure projects. In this regard, audit noted that the 'General Contract for Services' agreement was signed without stating the total contract values and the contract terms for the 3 projects. Hence, audit could not ascertain the validity and correctness of payment made; and
- Payments totalling K1.35 million was paid to a Company for 3 infrastructure projects of which the payment was overpaid by K349,580 as compared to the total contract value.

CASH MANAGEMENT – BANK RECONCILIATION

Examination of the monthly bank reconciliation statements for the Department's Drawing Account revealed the following issues:

- The monthly bank reconciliation statements were not prepared and submitted within the required timeframe; and
- The bank reconciliation statement for the month ending 31 December 2017 showed an overdrawn closing cashbook balance of K20.75 million and a nil bank balance. This balance is comprised of stale and unrepresented cheques.

PROCUREMENT AND PAYMENT PROCEDURES

Audit examination of 48 randomly selected payments totalling K7.43 million revealed the following anomalies:

- In 4 instances, 3 written quotations were not obtained for payments totalling K49,111;
- In 10 instances, Requisitions and General Expense forms were not sighted for payments totalling K178,956 to authenticate the validity of these payments;
- In 28 instances, payments totalling K463,006 were not examined and certified by the financial delegate;
- In 16 instances, the Section 32 Officer did not approve payments totalling K3.77 million; and

- In 14 instances, paid vouchers totalling K3.57 million were not provided for audit examination.

ASSET MANAGEMENT

The asset registers were not maintained properly and incomplete in the following manner:

- In 6 instances, assets amounting to K47,023 purchased during the year were not recorded in the asset register; and
- The names of the custodians of the assets were not disclosed in the register. Only the Division where the assets were allocated to were shown.

HUMAN RESOURCE MANAGEMENT

Audit examination of 24 randomly selected recreational leave payments totalling K118,782 indicated that:

- In 14 instances, recreational leave fare payments totalling K81,193 paid during the year were not supported with relevant documents such as the birth certificates of the children of the officers. As such, AGO was unable to determine whether the leave fares claimed for their children were legal dependents and under the allowed age of 19 years.

TRUST ACCOUNT MANAGEMENT

An assessment of the 4 Trust Accounts maintained by the Department revealed the following:

- In 6 instances, funds totalling K344,219 were spent out of the trust account for purposes not related to the Higher Education Sector Infrastructure Rehabilitation Trust Account trust instrument;
- In 50 instances, trust funds relating to TVET Trust Account totalling K19,300 were paid as wages for casual employees engaged by the Department which was not related to the Trust Instrument; and
- In 11 instances, payments out of the Trust Account totalling K794,270 were not related to the purpose of the trust account for the Higher Education Sector Improvement Program.

ADVANCE MANAGEMENT

Examination of the advance register revealed the following irregularities:

- The register only showed advances issued in 2017 and did not have records of advances issued in 2016 and the prior years;
- Advances totalling K68,929 remained outstanding at year end; and
- Review of 36 randomly selected acquittals totalling K72,211 revealed the following:

- In 23 instances, advances totalling K43,688 for both the domestic and overseas travels were not acquitted within the required timeframe;
- In 5 instances, acquittal forms for advances totalling K11,849 were not signed and approved by the financial delegate; and
- Acquittal forms were not sighted on file for acquittals totalling K14,462 in 11 instances.

DEPARTMENTAL RESPONSE

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

AGO would like to commend the Secretary and the Management team for acknowledging the audit report and for their efforts in addressing the audit issues reported annually.

CONCLUSION

The results of the 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 and management were not sufficiently robust to prevent, detect or correct errors or fraud.

17. DEPARTMENT OF NATIONAL JUDICIAL STAFF SERVICES 2017

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 the 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 services;
- Adequate library services for the Courts; and
- Attendants, interpreters and other staff to ensure the efficient functioning of the Courts.

AUDIT FINDINGS

CORPORATE GOVERNANCE

The Department had no 3-to-5-year Corporate Plan to cover the year ended 31 December 2017:

- The Internal Audit Unit lacked adequate funding and necessary logistical support for the effective and efficient performance of its functions and responsibilities;
- The Department also did not have a risk management framework;
- The Department's Financial Procedure Manual (FPM), First Edition, September, 2010 had not been revised for more than nine years and needs to be revisited; and
- The 2017 Annual Management Report, Quarterly and Annual Financial Management Report were not made available to AGO. AGO could not confirm whether these reports were prepared and submitted to the Secretary, DoF and Department of Prime Minister & NEC as required.

BUDGETARY AND FUND CONTROLS

- There was no evidence that the quarterly budgetary review reports had been done and submitted to DoF as required; and

- The IFMS 2157 produced by the DoF for the year ended 31 December 2017 revealed under expenditures totalling K60.4 million and K77.7 million for recurrent and development budget respectively.

CASH MANAGEMENT – BANK RECONCILIATION

- AGO reviewed bank reconciliations of 2 accounts out of 5 bank accounts maintained by the Department due to bank reconciliation statements and subsidiary records not being provided;
- All bank reconciliation statements provided were manually created in Excel worksheets instead of using the standard bank reconciliation format prescribed by DoF;
- Certificates were not attached with the reconciliation statements as evidence to confirm bank balances for the year ended December 2017;
- A formal Authorisation Letter served to BSP to transfer funds to the Waigani Court Complex account was not provided in audit as evidence;
- The bank reconciliation statements were not certified by a senior officer to attest for accuracy;
- Copies of the bank reconciliations were not submitted to DoF as required; and
- There was no evidence of reconciliations made against the IFMS 1001 report (Summary of Revenue) and actual Judiciary Services receipt records. As a result of no reconciliation between the two records, 47 per cent of the total actual collection of K145,815 made by the Judiciary Services for the year ended 31 December 2017 was not reported in IFMS 1001.

PROCUREMENT AND PAYMENT PROCEDURES

- The prior audit findings and recommendations relating to non-maintenance of following registers such as; Preferred suppliers list, Quotations register, cancelled cheques register, JE register and ILPOC register had not been effectively adhered to by management;
- In 40 instances totalling K1.5 million, payments were made to various suppliers without obtaining 3 written quotations;
- In 5 instances totalling K724,086, minor contract agreements were not attached to the payment vouchers;
- In 15 instances totalling K1.2 million, sales tax invoices were not attached to the payment vouchers;
- In 30 instances totalling K2.9 million, receipts were not attached to the paid vouchers as evidence that the procured goods and services have been paid;
- In 7 instances, paid vouchers totalling K851,917 were not approved by the financial delegate;
- In 10 instances, payments totalling over K6 million were made for reimbursement of advisors and consultants' allowances and remuneration for consultancy services. Audit noted the following irregularities:

- The expenses paid were sourced from vote item 135 “Other Operational Expenditure” rather than from Expenditure item vote 126 “Administrative Consultancy Fees”;
 - The payment vouchers had no documentary evidence of performance report on key deliverables achieved in 2017. In the absence of such reports, audit could not ascertain if these payments were linked to the contract agreements; and
 - A payment totalling K525,796 was not duly signed as correct by the certifying officer.
- Two payments were made to a Court Complex with a contract value of K6.59 million. AGO noted that there were no project steering committee to deliberate on the progress of the project status before the payment was made;
 - The payment for 3 Toyota Land Cruisers totalling K554,792 was not supported with the payment voucher, hence the validity and propriety of this payment could not be ascertained; and
 - All project development expenditures relating to Waigani National Court Complex (WNCC) were processed manually rather than in IFMS or PGAS system. These had been noted as offline PGAS transactions which the expenditure data had not been integrated precisely into IFMS reports. The actual cost did not agree with the IFMS 2157 which disclosed only K25.5 million as its actual expenditure whereas the WNCC cashbook indicated a total over K100 million. An unexplained variance of more than K74 million.

ASSET MANAGEMENT

- The Motor Vehicle Fixed Assets Register and the Department’s claims register for the maintenance costs of the vehicles was not adequately maintained according to the requirements in the FMM guidelines and chapter 11 of the NJS FPM;
- The register had not been revised or updated with accurate and complete information;
- Two newly purchased vehicles were not registered and remain unaccounted;
- No log books were maintained to record the meter reading/ charts and the continuous use of the vehicles;
- There was no documentary evidence of vehicles disposed-off or traded-in;
- The Department did not have all the categories of asset registers available to be reviewed such as Land and Building (exception on list of land disclosed), Marine vessels (craft), Tools and Equipment and Plant and Machinery;
- In the absence of a loan register, audit could not ascertain the total attractive items totalling K165,252 held in the custody of the Department and disposal of these attractive items; and
- There was no stock-take done in 2017.

HUMAN RESOURCE MANAGEMENT

- No regular reconciliations prepared to establish the variances between IFMS reports, PGAS ETD and Alesco Payroll System records;
- No evidence that unattached officers list was submitted to DPM for adjustment against the Department's Establishment Register. Also, the records of unattached officers were not recorded according to the prescribed form title NJSS FORM RS 3.16;
- No evidence of 10% contribution towards costs deducted off the fares prior to proceeding on recreation leave on the selected samples;
- No documentary evidence was sighted as action taken for recovery on the overpayment of HDA of K40,000; and
- A total of K6 million was paid from PGAS ETD under Salaries and Allowances (111) vote as offline payments and should have been integrated into Alesco Payroll System records to disclose correct totals. Also, no evidence sighted that the K6 million was reported in IFMS reports.

TRUST ACCOUNT MANAGEMENT

- The office of the Sheriffs trust account (I) and (II) had no trust instrument in file. In the absence of the instrument it was not possible to assess how effective the trust account was managed in payments and collecting of the moneys;
- No evidence to suggest that the bank reconciliations for the 3 trust accounts for the year ended 31 December 2017 were submitted to the DoF; and
- In 3 instances totalling K84,520, the details relating to these payments were unknown to audit due to lack of documentation from the Registers Trust Accounts.

ADVANCE MANAGEMENT

- In the absence of Acquittal Files, audit could not review 15 Overseas Traveling Allowances totalling K155,669 to confirm the acquittal status;
- Due to the absence of the Advance Register, domestic allowance totalling K1.12 million paid could not be ascertained if acquitted during the year;
- In the absence of a Cash Advance Register, audit was not able to ascertain in 73 instances totalling K338,050 if the paymaster/ advance holders have properly acquitted the cash;
- Second advances were issued to officers without acquitting their first advances; and
- There was no documentary evidence by the Financial Delegate's Report on the current status of each advance holders and Management's remedied action taken to recover outstanding advances.

DEPARTMENTAL RESPONSE

The above matters were referred to the Secretary of the National Judiciary Staff Services and a response was not 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. The control activities such as delegations, authorizations, 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 HEALTH 2017

OVERVIEW

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

The Department is expected to fulfil that mission in the context of the National Health Legislation and through its exercise of the following functions:

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

AUDIT FINDINGS

CORPORATE GOVERNANCE

- Annual Plan for the year under review was not furnished for audit;
- In the absence of an Annual Internal Audit Plan, AGO was unable to determine the number of audits to be undertaken for the year under review;
- No Risk Management framework in place;
- The annual management report for 2017 was not signed by the Secretary or the Minister responsible. In addition, no documentary evidence was sighted to confirm if the report was forwarded to DPM or CACC; and
- The Annual Financial Management Report was submitted as part of the Annual Management Report. As per requirements, the AFMR is to be provided to DoF of which in this case, there was no evidence sighted in this regard.

BUDGETARY AND FUND CONTROLS

In 2017, the Department's financial and accounting systems transitioned/ migrated from PGAS to IFMS. Audit was furnished IFMS ETD transaction records for the periods June to December of 2017. The PGAS generated ETD for periods (January to May, 2021) was not furnished for audit.

Development Budget

The Budgetary Allocation for the Development Budget for the fiscal year 2017 was K163.5 million. Eleven projects totalling K132.63 million were Internationally funded while seven projects were GoPNG Funded totalling K30.9 million. A review of records and documents pertaining to audit of the Development Budget revealed the following:

- Annual work plans and cash flows of each of the above PIP were not made available for audit; and
- A report (summary for the year) outlining details of all WAs received relating to the development budget, CFCs relating to these WAs and expenditures incurred on all the respective projects and programs was not produced for audit. Hence, analysis on variances incurred could not be carried out.

CASH MANAGEMENT – BANK RECONCILIATION

The drawing account had an overdrawn cash book balance of K44.5 million, which is indicated to be total unrepresented cheques as at 31st December 2017. A reconciliation was not prepared to reconcile the difference between the bank balance and the cash book balance.

PROCUREMENT AND PAYMENTS PROCEDURES

A review of the procurement procedures revealed the following:

- No Procurement Plan in place;
- No Quotation Register maintained;
- APC register not updated (lacks details of APC for the year under review); and
- Contract Register not updated (lacks details of all approved CSTB contracts for 2017).

A review of a sample of 54 randomly selected paid vouchers relating to payments totalling K17.2 million revealed the following anomalies:

- In 17 instances, payment vouchers relating to payments totalling K5.84 million were not provided for audit verification;
- In 15 major contracts payments valued at K7.05 million, contract documents were not provided for audit;
- A payment of K500,000 made to a company was a part payment of an outstanding bill of K7.35 million outstanding since 2014. The provision of logistics and distribution services by the company was acquired in 2014, a year prior to signing of the contract;
- A payment of K2 million made to a company for procurement of medical supplies could not be clearly determined due to conflicting information on the Requisition and General Expenses Form. The dates on these documents differ and no supporting documents attached;

- In 7 instances, payments totalling K141,628 were made to incorrect IFMS vote items codes;
- In 8 instances, where payments totalling K2.23 million were made, no ILPOC's were attached to the payment vouchers;
- In 35 instances, General Expenses Forms relating to payments totalling K11.65 million had not been examined by the Examiner;
- In 34 instances, Requisition Forms relating to payments totalling K10.52 million had not been certified by the Certifying Officer;
- In 31 instances, Requisition Forms relating to payments totalling K7.79 million had not been signed by the Commitment Clerk indicating funds being committed;
- In 8 instances payments totalling K2.23 million did not have delivery slips attached to the payment vouchers; and
- In 3 instances totalling K382,291, payments were made without proper supporting documents.

ASSET MANAGEMENT

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

- Audit noted unrecorded assets in the asset register to be K5.32 million since 2014;
- The motor vehicle register maintained is incomplete and not updated as information such as date of purchase and purchase value are not provided;
- Analysis of the IFMS 8202 revealed 25 instances of assets totalling K504,781 purchased using the incorrect vote item;
- Annual stock take was not conducted for the year under review; and
- BOS and Loss Reports were also not compiled in 2017.

HUMAN RESOURCE MANAGEMENT

AGO review of human resources and payroll records revealed the following shortcomings:

- A recreational leave register was not maintained as required by GOs;
- Out of a sample of 24, leave payments in 5 instances totalling K110,199 could not be verified due to paid vouchers not made available for audit;
- Of the 19 leave payments sighted, 3 instances totalling K31,696 could not be substantiated since relevant certificates were not made available for audit verification;
- Out of 24 samples relating to overtime payments, 12 instances totalling K55,654 were made to senior officers in breach of GO;

- The Training Plan was in draft form at the time of audit;
- Fifty-eight instances of payments of salaries and wages totalling K696,232 were paid through IFMS 8202;
- Other salary & wages payments (Salary Mid Points, HDA and SDMA etc.) in 49 instances totalling K250,419 were noted to be paid through the IFMS system;
- In 57 instances, payments ranging from salary and wages, cash advances, funeral assistances, financial assistances etc. totalling K956,795 were paid through the Paymaster. Payments should be made to respective payees instead. For instances, all cash advances holders/recipients are responsible in providing a report on the advances given;
- DPM approvals were not sighted on short term contracts of 14 officers. A total of K58,980 was paid in 22 instances;
- As per the Staff Establishment Register, eight officers were not registered in the Department's structure, however, received salaries & wages;
- A review of the payment vouchers revealed that contracts were not attached to verify the payments received in seven instances totalling K32,642; and
- Seven payments totalling K86,502 were paid as gratuities in 2017 through IFMS 8202. The Department did not have a gratuity register.

ADVANCE MANAGEMENT

A review of 48 selected payment vouchers for travel advances (Domestic and Overseas) revealed the following anomalies:

- The General Expense Form was not signed by the examining officer in 20 instances, totalling K80,243 and not certified in 16 instances totalling K63,280;
- In 7 instances, travel advances totalling K49,083 were not recorded in the Advance Register;
- Sixteen out of 48 advances amounting to K62,969 remained unacquitted; and
- In 9 instances, advances amounting to K15,616 could not be verified since the acquittal documents were not sighted.

DEPARTMENTAL RESPONSE

The above matters were referred to the Secretary of the Department of Health and a response was not received up to the time of writing this Report.

CONCLUSION

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 processing

and segregation of duties, 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 2017

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 utilisation 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.

AUDIT FINDINGS

CORPORATE GOVERNANCE

- The Department did not have an approved Corporate Plan covering 2017 financial year;
- Annual Management/ Work Plan for 2017 was not provided to audit; and
- Minutes of Management Meetings although requested were not provided to audit.
- The 2017 Quarterly Budget Review Reports, Annual Financial Management Report and the Annual Management Report were not provided for audit inspection.

BUDGETARY AND FUND CONTROLS

- IFMS 2157 produced 19 February 2020 produced by the DoF for the year ended 31 December 2017 revealed an over-expenditure arising from Operational Expenditure totalling K137,242.

CASH MANAGEMENT – BANK RECONCILIATION

- The bank reconciliations for January to December 2017 were not signed as prepared and certified as reviewed by a competent authority for the veracity of the reconciliations;

PROCUREMENT AND PAYMENT PROCEDURES

Audit examined 24 sampled payment vouchers totalling K1.4 million and noted:

- In 2 instances payment vouchers relating to payments totalling K176,367, were not furnished in audit and deemed missing. In the absence of the payment vouchers, audit was not able to verify the authenticity and propriety of these payments.

Public Investment Projects

Payments relating to Projects administered by the Department of National Planning and Monitoring were paid out by DoF for the year 2017.

DoF provided to audit Cheque Usage Report for months of October, November and December 2017. January to September 2017 were not provided. From the available Cheque Usage Report, K12.9 million was paid to Department of National Planning and Monitoring.

Audit could not perform any testing due to delays by DoF. However; audit noted that Department of National Planning and Monitoring have no project reports for K12.9 million in the last quarter of 2017.

ASSET MANAGEMENT

- The Asset Register and the Fleet Register lacks vital information such as date of purchase, purchase price unit, quantity purchased and useful economic life;
- K696,860 worth of assets purchased in 2016 still remains unaccounted;
- No annual stock take was carried out in 2017; and
- Ten motor vehicles were noted to have private number plates and not fitted with government "Z" plate.

TRUST ACCOUNT MANAGEMENT

A review on the K3 million allocated for the purpose of implementation of the Water Supply and Sanitation Development administered by the Department revealed the following irregularities:

- No receipts and payments out of the Trust Account was provided to audit for 2017;
- No monthly Bank Reconciliations were provided to audit;
- The list of authorised Cheque signatories including specimen signatures were not provided to audit; and
- Trust Account was administered outside of IFMS.

ADVANCE MANAGEMENT

- Advances paid in 2016 totalling K1.63 million remained un-acquitted as at 31st December, 2017; and

- Advances issued during the period under review totalling K349,519 remained un-acquitted as at 31 December 2017.

DEPARTMENTAL RESPONSE

The above audit findings were brought to the attention of the Secretary through a Management Letter. However, no reply was received up to the time of preparing 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, authorisation, reconciliations, segregation of duties, data processing, records keeping, management and monitoring were not sufficiently robust to prevent, detect or correct errors or fraud.

20. PUBLIC SERVICE COMMISSION 2016 AND 2017

OVERVIEW

The Public Services Commission is a body created by the Constitution, is independent of the DPM, and is wholly responsible for determining the actual procedures and methods to be used in performing its duties under the *Public Services (Management) Act 1995*. Under the *Act*, the Commission is given the function of reviewing personnel matters relating to appointment, promotion, demotion, transfer, suspension, discipline, cessation or termination of an officer. The Commission has the right to review a personnel matter on its own initiative. It can only make recommendations but does not have the authority to enforce them. However, it has the power to report its findings to the National Parliament.

AUDIT FINDINGS

CORPORATE GOVERNANCE

- Internal Audit Work Plan and Internal Audit Reports were not provided for the years 2016 and 2017;
- The Department had not established an Audit Committee during the years 2016 and 2017;
- Management Report for 2016 was not made available to audit;
- Annual Management Report for the year 2017 was prepared. However, AGO was not able to establish whether the Report was produced and submitted to DPM and CACC in a timely manner as required; and
- Quarterly Budget Review Reports for 2017 were not made available to audit.

CASH MANAGEMENT – BANK RECONCILIATION

Audit verification of the bank reconciliation statement and other related records and documents for the financial years, 2016 and 2017 revealed the following discrepancies:

- Bank Reconciliation statements were not prepared within the required timeframe for the years 2016 and 2017; and
- Audit was not able to establish whether the prepared Bank Reconciliation statements were submitted to DoF on a timely basis as there was no evidence to indicate that.

PROCUREMENT AND PAYMENTS PROCEDURES

Audit examinations of 24 randomly selected payments totalling K233,220 for the year 2016 and 24 randomly selected payments totalling K283,885 for the year 2017 revealed the following matters of concern:

- In 21 instances, Account Code classified on the payments varied from the Account Code classified on IFMS 8202 for payments totalling K199,580 in 2016;
- In 11 instances, 3 written quotes were not sighted for payments totalling K74,492 for the year 2016 and similarly, 13 instances were noted in 2017 for payments totalling K124,562;
- In 6 instances, payments totalling K34,946 were made without attaching the Certificate of Compliance to the payment vouchers for the year 2016 and similarly, 7 instances were noted in 2017 for payment vouchers totalling K36,477;
- In 23 instances, payments totalling K221,450 were made without the use of ILPOC in 2016 and 3 instances totalling K63,510 in 2017;
- In 5 instances, totalling K34,272 and in 4 instances totalling K66,810, supporting documents were not sighted respectively for the years 2016 and 2017;
- Payments were made on pro-forma invoices in 2 instances totalling K13,630 and in 4 instances totalling K25,850 in 2016 and 2017 respectively;
- In 8 instances, payment claims totalling K57,543 were made without proper Receipt/Certification that Goods have been received or Services provided to a satisfactory standard in 2016 and similarly, 6 instances of payment claim totalling K110,146 in 2017;
- In 2 instances, payments totalling K7,700 were not examined by the Examiner and in 3 instances, payments totalling K15,968 were not certified by the Certifying Officer during the year 2017; and
- In 4 instances, payment vouchers totalling K38,667 were not sighted in audit for the year 2017.

DEPARTMENTAL RESPONSE

The audit findings were brought to the attention of the Management in a Management Letter. However, the Commission did not respond to my Audit Management letter 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, segregation of duties, data processing, records keeping, management and monitoring were not sufficiently robust to prevent, detect or correct errors or fraud.

21. NATIONAL PARLIAMENT 2017

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 1997* 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.

AUDIT FINDINGS

CORPORATE GOVERNANCE

- The NPS had a five-year Corporate Plan (2015-2019) in place. However, the Corporate Plan was not endorsed by the Speaker.
- The NPS did not have an Annual Plan in place for the year under review.
- The NPS did not have an Audit Committee in place.
- No senior management meetings were conducted during the year.
- The NPS did not have a Risk Management Plan in place.
- The Annual Management Report was not prepared for the year 2017. This issue has been the same for prior years.
- The quarterly budget review reports and the annual financial management report were not prepared.

BUDGETARY AND FUND CONTROLS

- The NPS had incurred expenditure totalling K98.90 million against WAs of K107.88 million resulting in a budget savings of K8.97 million.
- A comparison of the 2017 PGAS Expenditure Vote Summary report provided by the NPS and the IFMS 2157 produced by the DoF revealed huge variances in the balances.

CASH MANAGEMENT – BANK RECONCILIATION

- All the bank reconciliations for the 3 operating bank accounts maintained by NPS were prepared in the month of December 2017 instead of being prepared on a monthly basis;
- The closing cashbook balances disclosed in the bank reconciliation statements for all 3 operating bank accounts did not agree to the PGAS cashbook ledgers as at 31 December 2017. The variances totalled K30.45 million.
- The 3 operating accounts had over-drawn closing cashbook balances per bank reconciliation totalling K71.99 million at year end. The balances were mainly represented by unrepresented cheques dating back to 2012.

PROCUREMENT AND PAYMENT PROCEDURES

A review of a selected sample of 104 payments totalling K4.02 million together with other related records revealed the following irregularities:

- Payment Vouchers relating to payments totalling K1.03 million in 26 instances were not provided for audit review.
- The procurement policy was not provided to AGO for review.
- AGO was informed that most policy directions were by way of Clerk or Speaker's approved minutes in the absence of policies. A request to provide that information such as memos or minutes was not provided.
- Approved specimen signatures of gazetted Section 32 Officers and financial delegates were not provided to AGO for review.
- The Quotations Register was not provided for audit review.
- Twelve payments totalling K600,778 were paid based on either less than three written quotations or no quotation at all.
- Minor contract agreements for 14 payments totalling K1.47 million were not provided for audit review.
- A minor contract agreement was not endorsed by the Clerk of Parliament for a payment of K146,042 made to a company.

- Minor contract agreements for 16 goods and services providers which were paid in aggregate a total of K2.13 million in 71 instances were not provided for audit review. Payments were made on individual invoices that eventually surpassed the thresholds which required minor and closed-door tendering processes in order to carry out the procurement exercises.
- Eight service providers were paid based on individual invoices surpassing K300,000 which required public tender invitation. A total of K5.46 million in 61 instances was paid in aggregate. Contract agreements and minutes of the Supply and Tenders Board meetings were not provided for audit review.
- Six payments totalling K136,350 were not examined.
- Seventy-five payments totalling K2.91 million were not certified.
- There was no certification by NPS Officers that goods and services received were of acceptable standard for 8 payments totalling K454,809.

Catering Services

Bank statements for 2017 relating to the Catering Services were provided, however, AGO could not further review the efficiency and effectiveness of the internal controls maintained by the Catering Division as information such as revenue and expenses ledgers, bank reconciliations and cash book were not provided to audit for review.

Members Emoluments

According to PGAS ETD report, a total of K916,188 in 23 instances were issued as advances in the form of salary, school fees, housing and Vehicle.

A review of the advance payments revealed the following:

- A payment of K16,000 was paid to a Real Estate Company as rental for a Member of Parliament and not for the reasons of housing purchase, mortgage repayment or housing maintenance. K14,222 remained outstanding at year end.
- Salary advances totalling K380,000 were paid directly to 2 Members of Parliament in contravention to the SRC Determination. K288,000 remained outstanding at year end.
- A payment of K80,000 was paid to a Member of Parliament to settle election related costs and relocation costs in breach of the SRC Determination where K75,000 remained outstanding at year end.
- A total of K50,000 was paid directly to a Member of Parliament in contravention to the SRC Determination.
- All school fee advance payments totalling K230,192 were not registered.

ASSET MANAGEMENT

- The Fixed Asset Register was incomplete as details of estimated life, preventative maintenance requirement and maintenance history were not included in the register as required by the FMM.
- Assets purchased at a total cost of K173,729 in 13 instances were not registered in the assets register.
- There was no stock take of fixed assets carried out in 2017
- A loss register was not maintained.
- A total of K97,373 worth of attractive items were not registered in the asset register.
- The Motor Vehicle Fleet Register, Motor Vehicle Log books and Vehicle Maintenance Register was not provided to AGO for review.
- AGO noted that 13 motor vehicles were registered under private registration plate numbers.

HUMAN RESOURCE MANAGEMENT

- According to the PGAS ETD report gratuity, salary and wages of both permanent employees and casuals were paid through the PGAS system totalling K1.87 million in 476 instances contrary to Finance Instruction.

ADVANCE MANAGEMENT

- The Advance Register and the acquittal files were neither maintained nor provided for audit review.
- A total of K671,573 in advances issued during the year were not registered due to the non-maintenance of the Advance Register.

DEPARTMENTAL RESPONSE

The above matters were brought to the attention of the Clerk of Parliament through a Management Letter. However, no responses were received up to 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, 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.

22. LIST OF DEPARTMENTS AUDITED IN THE LAST FOUR YEARS

No	Code	Name of Department	YEARS AUDITED			
			Reported in Previous Reports			Included in This Report
			2014	2015	2016	2017
1	247	Agriculture and Livestock	✓	✓	✓	X
2	225	Justice & Attorney General	✓	✓	✓	✓
3	261	Commerce and Industry	✓	X	X	✓
4	242	Community Development	✓	X	X	X
5	226	Correctional Services	✓	✓	✓	✓
6	234	Defence	✓	✓	✓	✓
7	235	Education	✓	✓	✓	✓
8	206	Finance	✓	✓	✓	✓
9	217	Foreign Affairs and Trade	✓	✓	X	X
10	202	Governor General	✓	✓	X	X
11	240	Health	✓	✓	✓	✓
12	236	Higher Education, Research, Science & Tech.	✓	✓	✓	✓
13	252	Lands and Physical Planning	✓	X	✓	✓
14	262	Labour & Industrial Relations	✓	✓	X	X
15	224	Magisterial Services	✓	✓	X	✓
16	223	National Judiciary Staff Services	✓	✓	✓	✓
17	201	National Parliament	✓	✓	✓	✓
18	229	National Planning & Monitoring	✓	✓	✓	✓
19	204	National Statistics Office	X	X	X	X
20	267	Implementation & Rural Development	✓	✓	X	X
21	220	Personnel Management	✓	✓	X	X
22	255	Petroleum and Energy	✓	X	✓	X
23	228	Police	✓	✓	✓	✓
24	203	Prime Minister & NEC	✓	✓	✓	✓
25	232	Provincial & Local Government Affairs	✓	✓	X	X
26	254	Mineral Policy and Geohazard Mgt	✓	X	X	X
27	259	Transport	✓	X	✓	X
28	208	Treasury	✓	✓	✓	✓
29	264	Works & Implementation	✓	✓	✓	✓
30	221	Public Service Commission	X	✓	X	✓
31	258	Information & Communication	X	X	X	X
32	213	Fire Services	✓	x	X	X
33	222	Office of Public Solicitor	X	X	✓	X
34	209	Office of the Registrar for Political Parties	X	X	✓	X
35	218	Office of Public Prosecutor	X	X	X	✓
36	231	National Intelligence Organisation	X	X	✓	X
37	205	Office of Bougainville Affairs	X	X	X	✓
38		Office of Censorship	X	X	X	✓
39		Provincial Treasuries	X	X	X	X
40		PNG Civil Registry & Identity	X	X	X	X
		TOTAL	33/40	25/40	21/40	21/40

Key

Departments Audited	✓
Departments Not Audited	X

23. 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

Auditor-General