



AUDITOR GENERAL'S OFFICE OF PAPUA NEW GUINEA

MEDIA SUPPLEMENT



GOVERNMENT RENTAL PAYMENTS: OVER K1 BILLION APPROPRIATED BUT SIGNIFICANT ARREARS AND OVERSIGHT GAPS REVEALED

The Performance Audit Division within the Auditor-General's Office of Papua New Guinea conducts independent assessments of government programs, projects, and administrative systems to evaluate their effectiveness, efficiency, economy, and compliance with applicable laws and policies. The reports produced by the audit team serve as a vital accountability tool, providing valuable insights to stakeholders and highlighting areas for improvement to enhance public sector performance and service delivery.

This report details the Auditor-General's Office's (AGO) completion of a detailed Performance audit into the budgeting, payments, and management of government office rentals from 2020 to 2023. The findings reveal serious financial and administrative challenges, including significant under-budgeting, growing rental arrears, poor governance, and inadequate accounting controls. These issues have resulted in millions of kina in unpaid rents, expired leases, and increased risks of fraud and mismanagement within government rental programs.

An analysis by the Auditor-General's Office (AGO) has revealed that between 2020 and 2023, a total of K1.028 billion was appropriated in the National Budget to cover government office rentals. However, this amount fell short by K61.9 million when compared to records from the Government Accommodation and Development Division (GOADD), which showed lease agreements valued at K1.09 billion over the same period.

Further, total rental payments made were K95.96 million less than the budget appropriations, yet these payments remained K157.89 million below the actual lease agreement values. Notably, in 2022, the government exceeded its budgeted rental expenditure, a breach of the annual Budget Appropriations Act.

Table 1 below shows the amount of annual appropriation, rentals lease agreements and payments made to landlords over the years 2020 – 2023.

Year	Appropriation in the National Budget (K)	GOADD record of Total Annual Lease Agreements (K)	Total Amount paid according to IFMS Payment Records (K)
2020	268,900,000	250,167,414	121,292,594
2021	245,600,000	253,725,442	228,916,486
2022	205,100,000	275,920,205	280,582,136
2023	308,600,000	310,324,215	301,451,816
Total	1,028,200,000	1,090,137,276	932,243,032

The AGO's review highlights chronic under-budgeting for government office rentals, with annual appropriations averaging K257 million despite lease agreements consistently exceeding these amounts. This shortfall has contributed to a growing backlog of rental arrears, escalating years before 2020, to K270.5 million by the end of 2023, surpassing the average annual rental budget.

Rental in arrears

Due to under budgeting, the rental arrears have grown every year. The GOADD supplied data on the growth in total rental arrears each year between 2020 – 2023 as shown in Figure 1 below.

Figure 1. Amount of rental arrears for 2020 - 2023



The accumulation of arrears is attributed to delayed payments and the failure to prioritize adequate funding for rental obligations when incurred. Currently, no comprehensive action plan exists to address this growing debt. The Department of Finance has made requests to the Department of Treasury for additional funds through the warranting process, however, these efforts have been insufficient to clear outstanding arrears.

The AGO audit also uncovered significant governance and management weaknesses within the Government Accommodation and Development Division (GOADD) and the Government Office Accommodation Committee (GOAC):

Leadership and Oversight: Between 2022 and 2023, three different departmental secretaries chaired GOAC. The current chairmanship by the Secretary for the Department of Finance, appointed in 2021, was at that time not yet formally recognized in the General Orders.

Lack of Clear Mandates: The secretariat role for GOAC is undefined, with no Terms of Reference or policy guidelines to steer the committee's functions, resulting in ad hoc meetings, poor record-keeping, and inadequate monitoring of lease agreements.

Expired Leases: 6 percent of lease agreements reviewed by AGO were expired, with no standardized procedures governing the acquisition and management of government office accommodations.

Inadequate Accounting Systems: Rental records are maintained solely by one finance officer using unsecured Excel spreadsheets, exposing data to risks of loss, manipulation, or errors.

Insufficient Monitoring: GOADD has not conducted regular inspections of leased buildings to verify their use or compliance with safety and health standards, and monitoring reports are incomplete or missing.

The AGO review concluded that the budgeting and management of rental payments was ineffective. Funds allocated in the budget annually to pay rentals were inadequate, and delays in the payment of rentals have resulted in the accumulation of rental arrears. AGO notes that the delay in rental payments is a symptom of broader cash flow issues.

The AGO found no proper accounting system to capture complete and accurate records of landlords and rental payments during 2020 - 2023. Instead, the Finance Manager alone uses a Microsoft Excel spreadsheet to record lease information and payments, creating a high risk of accidental or intentional data manipulation, omission, alteration, or loss. The absence of segregation of duties and poor record-keeping places the Department of Finance at high risk of fraud and collusion in the management of government office leases.

The audit also uncovered significant discrepancies between rental amounts recorded by the Department of Finance and lease rates stated in signed agreements. For example, in 2020 and 2021, GOADD records showed two landlords owed more than K2 million above their lease agreement rates, while records for two other landlords showed amounts over K2 million less than their agreed rates. This situation requires immediate management attention to review all lease records against signed agreements, identify any overpayments, and establish stronger controls and segregation of duties for office rental management and payments.

The Auditor-General calls on all relevant government departments to urgently address these issues to ensure transparent, accountable, and effective management of government rental obligations.

Authorized for release by:

Gordon Kega - CPA, MBA
Auditor General of Papua New Guinea