



REPORT

of the

AUDITOR-GENERAL

2015-2014

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

Part II National Government Departments & Agencies



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OFFICE OF THE AUDITOR-GENERAL

01st March, 2019

The Honorable 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 honor to transmit to the National Parliament the Part II of my Reports for the years ended 31 December, 2015 and 2014.

The Combined Report deals with National Government Departments and Agencies on the control environment and on transactions with or concerning the public monies and properties of the state of Papua New Guinea in 2015 and 2014.

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, CPA
Acting Auditor-General

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LIST OF ACRONYMS

Abbreviation	Full Description
AGO	Auditor-General's Office
AMS	Asset Management System
APC	Authority to Pre-Commit
BSP	Bank South Pacific
BOS	Board of Survey
CACC	Central Agencies Coordinating Committee
CFC	Cash Fund Certificate
COI	Certificate of Inexpediency
CRF	Consolidated Revenue Fund
CRL	Cheque Reconciliation Listing
CSTB	Central Supply and Tenders Board
DMA	Domestic Market Allowance
ETD	Expenditure Transaction Detail
FF3	Requisition for Expenditure Form
FF4	General Expenses Form
FMM	Financial Management Manual
GO	General Order
GoPNG	Government of Papua New Guinea
GST	Goods and Services Tax
HDA	Higher Duty Allowance
HRM	Human Resources Management
ILPOC	Integrated Local Purchase Order and Claim Form
IPA	Investment Promotion Authority
JE	Journal Entry
KRA	Key Result Areas
MOU	Memorandum of Understanding
NEC	National Executive Council
OIC	Officer-In-Charge
PFM Act	Public Finances (Management) Act, 1995
PGAS	PNG Government Accounting System
PIP	Public Investment Program
PTB	Plant Transport Branch
RAC	Revenue Accounting System
SDMA	Special Domestic Market Allowance
SRC	Salaries and Remuneration Commission
SSG	Special Support Grant
TMS	Treasury Management System
WA	Warrant Authority
HR	Human Resource

FOREWORD

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

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

Control processes are the specific policies and procedures that ensure business and accounting processes operate as designed without irregularities, errors or fraud occurring. This issue is examined by reviewing the control processes such as reconciliation and approved 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 and liabilities.

Given this focus, attention is drawn to the significant risk, control and related management issues within operating and accounting processes and financial systems that support the financial reporting processes of selected entities for the years 2014 and 2015.

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

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

ROLE OF THE AUDITOR-GENERAL – Introduction

Authority to Audit

Section 214 of the *Constitution of the Independent State of Papua New Guinea* requires the Auditor-General to inspect and audit, and to report at least once in every fiscal year (as provided by an Act of the Parliament) to the Parliament on the Public Accounts of Papua New Guinea 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 2014 and 2015 accounts** - to examine statutory reporting, cash management practices, budgetary appropriations and in particular erroneous charges to itemized expenditure and year end processes. To support the audit of the Public Accounts for 2014 and 2015, 18 and 17 Departments respectively have been selected based on risk and significant budgetary appropriation, hence, to assess the reliability and accuracy of the reported expenditure and revenue in the Public Accounts.
- **The control environment in 2014 and 2015** - to examine, controls surrounding procurement and payments, asset management, human resource management, management of advances, cash management and budgetary controls. Individual reports/management letters were sent to Departmental Heads to improve on the processes of the 2014 and 2015 control weaknesses. The results of these audits are detailed under the individual agencies included in this Report.

Responsibilities of Management

Departmental Heads are responsible for the efficient management of administrative services and are also responsible for keeping proper accounting and subsidiary records. In addition, the Departmental Head, in accordance with Section 5 of the *Public Finances (Management) Act, 1995 (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)*. The audits are designed to provide reasonable assurance that a financial report (the Public Accounts of PNG) taken as a whole is free from material misstatement. Concerns about quality of financial reporting, in light of international and national corporate collapses in recent years, have led to more stringent auditing requirements and added to the importance of evidence of compliance with the standards. I use the standards to ensure that my audits are conducted with appropriate rigor and professionalism.

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

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

CONTROLS ENVIRONMENT – Summary Results

Introduction

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

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

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

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

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

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

The Audit of Internal Controls

The audits of 2015/2014 controls were designed to assess the reliability of control structures to produce complete, accurate and valid information for financial reporting purposes.

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

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

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

Corporate Governance

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

Corporate Plan and Annual Plan

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

However, the result of the audits indicated that out of the 35 Departments reviewed in 2014 and 2015, I found that 10 agencies did not have in place Corporate Plans. Furthermore, 7 out of 17 and 13 out of 18 audited agencies did not prepare Annual Plans respectively in 2014 and 2015. Corporate and Business Plans are important as they set the targets and performance indicators to assist with monitoring of achievements and taking corrective actions. Departments without these plans have difficulty in measuring performance which in turn leads to ineffective and inefficient service delivery.

Internal Audit Committee

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

From the AGO perspective, Internal Audit is an important component of the system of internal control. Because of similarities in the nature and scope of activities performed by internal and external auditors, especially in the public sector, there are significant efficiencies to be achieved if external auditors are able to rely on the work of Internal Audit. An effective Internal Audit program should facilitate external audit to place greater reliance on their work, thereby making better use of overall audit resources.

In respect to 26 Departments that I reviewed, two Agencies did not have an Internal Audit function established and an Audit plan to set out the scope of audit coverage. For the 24 Departments that had Internal Audit, there was no Audit Charter in four Agencies to set out the mandate for the Internal Audit Unit. In the majority of cases there was insufficient capacity in trained staff and funding for Internal Audit to carry out its duties during the year. I also found that some agencies audit reports were overlooked by management and therefore, corrective/remedial actions were not taken to mitigate risks.

Audit Committees have an important role to play in reviewing and advising on important components of corporate governance. An effective committee has the potential to strengthen the agency's control structure and to assist the Chief Executive/Secretary to foster and maintain an appropriate control culture. Of the 26 Departments covered in 2015 and 2014, 10 agencies did not have an established Audit Committee in place.

Statutory Reporting

Quarterly and Annual Financial Reports

Part II Section 5 of the Public Finances (Management) Act, 1995 (as amended) requires Departmental Heads to submit a report on financial management quarterly and an annual report, including overall assessment of the Department at end of each fiscal year to the Secretary, Department of Finance.

There is some confusion around the requirement to provide Quarterly and Annual Financial Management Reports, and as such there is some noncompliance to the requirements of Part 2, section 5 of the PFM Act, 1995 as indicated in the department and agencies audited in 2015 and 2014.

Annual Management Reports

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

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

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

Of the 17 Departments checked, only five had submitted these reports for 2015 to the Department of Personnel Management. In 2014, 11-out of 18 Departments checked did not submit this report as required. Moreover, DPM had not acted on this non-compliance or had undertaken any follow up action.

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

Budgetary and Fund Controls

An effective financial management environment is demonstrated by strong integration of budgeting with the entity's corporate plan priorities and external accountabilities. Appropriations represent the primary source of revenue for all 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 Department of Finance's records, in order to ensure that:

- Funds transferred by way of Warrant Authorities agree with funds recorded in the Department's PGAS/Oracle ledger or IFMS/TMS Ledger;

- Monthly reconciliations of Departmental expenditures and Department of Finance are carried out to eliminate any differences to agree with Public Accounts;
- That differences noted are communicated with Department of Finance and are reconciled as soon as possible; and
- Funds are spent within the budgetary allocation.

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

- A lack of monitoring of expenditure in all 17 Departments in 2015 and 18 in 2014. Departments did not prepare cash flows statements on a regular basis to report on significant anticipated shortfalls or surpluses and to enable the Head of Department to make informed financial decisions. All Departments that were checked indicated non-reconciliation of their monthly PGAS/Oracle report against the IFMS General Ledger maintained by Department of Finance. Significant or material variances were noted at year end for 2015 and 2014 in the revised budget, WA and actual expenditure;

The lack of monitoring exposes the Public Accounts to the risk that monies could be spent in excess of the appropriation limit, resulting in breaches of the *PFM Act* and the *Appropriation Act* approved for the budget year;

- Incorrect expenditures were charged to Vote Items for which funds were not appropriated, either through use of incorrect expenditure codes or through journal entries. There were also instances of funds being transferred between Divisions and functions as at 31 December, 2015 and 2014, contrary to the *2014* and *2013 Appropriation Act*;
- A lack of reconciliation between the PGAS/Oracle and the TMS/IFMS which captures all the financial transactions processed through the PNG Government Main Public Accounting System;
- Each Government agency is expected to reconcile their records (PGAS) on both revenue and expenditure with the monthly records produced by the Department of Finance (IFMS). If there are any differences between the two records, journal entries are required to be raised by the Departments to make the necessary adjustments ensuring that both records have the same information on their respective ledgers;
- Transfer of Development Budget Appropriation into Trust Accounts before close of accounts was also evident in a few agencies; and
- Material variances in actual expenditure were noted in 15 agencies amounting to K142 million in 2014 and 12 agencies in 2015 totaling K351.6 million.

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

Bank Reconciliations

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

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

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

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

- Bank reconciliations were current in only 8 out of 17 Departments in 2015 and three out of 18 Departments in 2014. However, even in those entities, significant un-reconciled items were carried over for long period of time. Monthly bank reconciliation **in arrears** ranged from 2-46 months.
- In a number of Departments, the officers responsible for preparation of the bank reconciliations were not qualified and sufficiently trained.
- Not all Departments were submitting their bank reconciliation statements to Department of Finance within 14 days after the close of each month as stated in the *PFM Act*.
- Reconciling items on the respective reconciliation statements were not perused and cleared on a timely basis and of serious concern were the clearance of stale and un-presented cheques which continue to remain at the end of each fiscal year. K73 million, and **10.6** million in 2015 and 2014 respectively were not verified and cleared.
- Stale Cheques totaling K57 million and K310,617 for two Departments as at 31 December, 2015 and 2014 respectively were not cleared and written back to the respective cashbooks of the Departments and Agencies.

Procurement and Payment Procedures

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

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

During my audits, I noted that in most cases there was an extremely high rate of non-compliance with procurement and payment procedures. In the majority of 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 were:

- Payment vouchers were not examined for completeness and certified correct prior to processing for payment. These were noted in eight entities aggregating K9.3 million in 2015 and four Agencies in 2014 amounting to K5.9 million;
- In 2015 and 2014 where detail testing was undertaken, missing vouchers were in excess of K83.0 million in 13 Departments and K189.9 million in 11 Departments respectively;
- Payments to suppliers were often made on pro-forma invoices and without required quotations. A number of agencies were making payments through this process; and
- In 2015 and 2014, payments made without approval from the Gazetted *Section 32 Officers* amounted respectively to K512,000 in two Departments and K857,000 in three Departments.

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

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

Asset Management

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

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

From the asset records of the 18 (2014) and 17 (2015) Departments audited, it was evident that:

- Asset Registers were either non-existent or they were not maintained properly in all Agencies. The lack of register exposes the entity to the risk that assets may not be utilized effectively, protected from physical deterioration or maintained properly;
- Periodic stock takes were not conducted to determine the accuracy of assets on hand in all 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 stock takes;

- From the vouchers selected for testing, in excess of K34.1 million in 2015 and K65.7 million in 2014, I identified that payment details of unrecorded assets could not be traced to asset recordings, both resulting from lack of a register or simply not being recorded by any means; and
- Controls surrounding management of vehicle fleets were nonexistent. Custodianship of vehicles were not documented and identified to officers in possession, nor any review conducted on the custodial arrangements to ensure that the vehicles existed.

Advance Management

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

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

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

- Un-acquitted advances as at 31st December, 2015 and 2014 were in excess of K18.4 million in 2015 under 16 Departments and K10.2 million in 2014 under nine-Departments respectively. It was observed that most of these agencies issued further advances to officers whilst their previous advances remained outstanding;
- I observed the practice of Agencies paying significant amounts of cash to the Paymaster as cash advances was highly irregular. The cheques were cashed by the Paymaster/Paymistress and paid to officers of the Departments for various purposes. Such practice may have led to fraud as there was lack of documentation for an audit trail. These payments were noted in 6 Departments in excess of K2.9 million in 2015 and in excess of K938,000 in 2014.
- Management of advances was very poor and there was no assurance over the completeness of the recorded balances. I identified K5.5 million unrecorded advances in 11 Departments and K4 million in 6 Departments in 2015 and 2014 respectively.

Human Resource Management

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

Given the significance of employee expenses, and the fact that by their nature some employee entitlement calculations can be inherently prone to human error, 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.

Common weaknesses identified across the Agencies were:-

- Although payroll is processed centrally by the Information Technology Division (ITD) of the Department of Finance for public servants, it is the responsibility of the Departmental Head to ensure the Department's payroll is accurate and complete. I observed that there were no payroll reconciliations performed by HR throughout 2015 in all except for one Department and eight Departments in 2014 that were checked. Previous audits indicate also that not many agencies perform such reconciliations. The agencies did not maintain their own PGAS or Alesco ledger records but relied on the Department of Finance records. The lack of this key control can facilitate fraudulent payroll activities where payments processed outside the system such as manual cheques could not be easily detected in the absence of independent records and reconciliation;
- One of the important aspects of the HR function is to maintain records that demonstrate compliance with applicable human resource statutory and regulatory requirements, agency policy and agreements with other parties. Up to date records in respect of individual employees are vital and should be properly maintained. Testing of a sample of employee files in all Departments in 2015 and 2014 indicated that salary history cards were not updated on a regular basis with recreational leave, higher duties allowance, sick leave or tax declaration forms on dependents claimed;
- In some Departments, personnel files were generally not kept in a satisfactory manner. The files were left lying around on the floor area and not in a secure environment. There was a risk of loss of payroll, personal information or documents, damage to the files and also unauthorised access to payroll and personal information;
- It was a practice in some agencies where rental accommodation for contract officers were paid to real estate agencies in excess of the respective contractual entitlements; and
- Audit also noted that in some agencies where mobile phones and prepaid cards were purchased for contract officer's use, the officers were also receiving Telephone allowances as well.

Trust Account Management

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

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

Further, I noted other issues including:-

- The existence of four Trust Accounts and 12 Trust Accounts in 2015 and 2014 respectively that were not operating under the Department's PGAS accounting system. As records are not

properly maintained, monitoring of expenditure and compliance are not effectively performed;

- In most of the Departments with Trust Accounts, payments were made contrary to the Trust Instruments. These Agencies have also not submitted monthly reconciliations and statements of receipts and payment to the Department of Finance in respect of the Trust; and
- Surplus funds available in the Trust Accounts were not invested in line with the *PFM Act*. This was evident for most of the Trust Accounts administered by agencies.

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 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 2015 and 2014 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 adequately.

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 2015 and 2014 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 summaries the results of the audits of the 17 Departments in 2015 and 18 Departments in 2014 respectively. The individual audit observations and the appropriate recommendations were provided to each Department and Agency for their Management comments and corrective actions where necessary. For those Departments and Agencies that have responded, their comments have been included in this Report.

1. OFFICE OF THE GOVERNOR GENERAL 2015-2014

OVERVIEW

The Office of the Governor-General (OGG) is a Constitutional Body, established under *Section 88* of the *National Constitution*. It performs ceremonial services such as investiture ceremonies, swearing-in, presenting credentials and medals.

The Governor-General exercises the privileges, powers, functions, duties and responsibilities of the Head of State under *Section 82 (2)* of the *Constitution*.

AUDIT FINDINGS

CORPORATE GOVERNANCE

- The OGG did not produce a Corporate Plan during the year 2015-2014;
- Annual Work Plan for the year 2015-2014 were not prepared; and
- No Annual Management Report was produced for the year, 2015 and 2014.

BUDGETARY CONTROL

A comparison of 2015 Expenditure printout maintained by OGG (PGAS) and Department of Finance Record (IFMS) revealed the following:-

- A significant variances of K1,639,435 and K1,516,000 were noted between the two records (PGAS & IFMS) in regard to actual expenditures and Warrant authorities respectively. Transfers or Adjustments between IFMS and PGAS were not reconciled resulting in the variances;
- Expenditure in excess of warrant authority were noted under Expenditure Vote Items 211000 & 215000 of K374,671 and K8,731 respectively. Similar issue was also noted in my 2014 audit in regards to these two Vote Items (211000 & 215000); and
- Expenditure Vote Item 113 (Overtime) funds was also used to fund other items.

BANK RECONCILIATION

The OGG maintained a Drawing Bank Account with the BPNG. My verification of the documents and related schedules for the December 2015 bank reconciliation revealed the following:-

- Un-presented cheques including stale cheques dating back to 2001 remained uncleared; and
- Reconciling items such as reimbursement, cancelled cheques and un-presented cheques were highlighted but not investigated, cleared and adjusted in the cash book and the bank account.

PROCUREMENT & PAYMENT PROCEDURES

Examination of 134 transactions totalling K2,597,906 together with related records and documents revealed the following control weaknesses:-

- 19 paid vouchers totalling K335,414 were not provided for review;
- I noted that in four instances from private hire amounting to K39,268, no approval was sought from Department of Works to engage the services of these Private Hire car companies;
- Issue of conflict of Interest occurring in the OGG where a company owned by one of the OGG staff was paid for various payments. In 2014 the same company was paid K35,366; and
- A Consultant was paid K110,381 for producing the OGG's *Five year (2016 – 2020) Corporate Plan*. Subsequently, it was noted that the Company was not registered with IPA.

I randomly selected 142 transactions from the 2014 expenditure transaction details and the following discrepancies were noted:

- The OGG did not maintain a Quotations Register as required in the FFM;
- 40 paid vouchers totalling K974,492 were not made available for my review;
- In 9 instances, Payments totalling K85,539 were made without proper supporting document, such as invoices, approval/authorization letters, quotations etc;
- The Claims Certifying Officer did not approve/certify a total of 78 payments totalling K1,730,601 before payment;
- I noted that three quotations were not obtained in 19 instances totalling K286,842 prior to effecting payments;
- A total of K49,366 was paid to two companies that were providing various services to the OGG;
- I further noted that these companies were owned and directed by two senior officers of OGG. There was no evidence to show that these two officers had declared their business interests with the DPM Secretary as required under the GO;

- A payment of K93,669 was paid to a company for various works based on an expired Certificate of Compliance.

ASSET MANAGEMENT

- Total Assets purchased during the year 2015 by the OGG amounted to K131,896; and
- I noted that the Asset Register was not updated/ populated and as such, I could verify if all these assets purchased were recorded.

ADVANCE MANAGEMENT

My review of the three separate advance registers maintained by OGG revealed the following:-

- Advance registers were not up-dated to reflect the total advances amounting K68,435 issued during the year, 2015;
- Cash Advances totalling K91,238 in 11 instances were not recorded in the year, 2014;
- 71 Travel and Cash Advances totalling K959,107 in 2015 and K168,182 cash advances in 2014 remained outstanding;
- I noted that payments totalling K371,948 were made as second advances to 32 officers in 2015 and to nine officers in 2014 whilst their previous advances were still outstanding; and
- Acquittal for 22 advances valuing K367,160 were not sighted even though they were recorded as acquitted in the registers.

HUMAN RESOURCE & PAYROLL MANAGEMENT

- The OGG was advised to develop and maintain proper records management system based on the previous audits recommendation. However, I noted again that the employee files were not maintained properly. Those same issues noted in the 2013 and 2014 audits still remained unresolved;
- The OGG has yet to develop a 3-5 year training plan. No Annual training plan was prepared for the year under review. The K30,000 allocated under Vote Item 136 (Training) in 2015 and K20,800 in 2014 was used to fund other activities;
- In 2015, paid vouchers relating to Overtime payments totalling K1,098,070 and K97,670 for rec-leave payments in 14 instances were not made available for my review;
- In 2015, overtime payments totalling K19,132 were paid to Senior Staff occupying Salary Grade 10 position and above. This was contrary to the GO 13. 68 which state that person's occupying Salary Grade 10 positions and above are not eligible for overtime;
- I noted that since 2011, no payroll reconciliations have been done;

- In 2014, paid vouchers relating to overtime payments for police personals totalling K861,294 were not made available for my review. I noted that OGG does not keep a record of Police Officers daily rosters to verify the overtime claims as noted in 2015 also;
- In 2014, leave application forms were not filed in personal files in six instances. Evidence of employees' dependents such as Tax Declarations and Dependency Declarations, birth certificates, etc. were also not sighted;
- In 2014, the payroll occupational reports of six staff were not provided. As such, I was unable to verify and confirm whether the 10% employee contribution towards airfares was actually paid by these staff; and
- In 2014, I noted that two Senior Officers were paid gratuity payments through PGAS totalling K40,271 instead of the Concept Payroll System.

TRUST ACCOUNT MANAGEMENT

The OGG operates two Trust Accounts; the Governor General's HIV/AIDS Trust Account and the Honors and Awards Secretariat Trust Account:-

- *The Governor General's HIV/AIDS Trust Account* has been operating beyond its expiry date (31st December 2010) by 5 years at the time of the audit, 2015;
- I did not sight the signed/approved and amended Trust Instrument for the GG's HIV/AIDS Trust Account. Therefore, I am uncertain as to whether the changes in the signatories noted were authorized;
- Both trust accounts were maintained outside of PGAS since their inception which was in breach of the Trust Instrument;
- There were no proper records of receipts and payments of both Trusts were maintained. This issue remains unresolved by management;
- No monthly bank reconciliations were prepared of both Trusts has never been performed; and
- The funds held in the Governor General's HIV/AIDS Trust Account were used to fund honours and award and other Government House activities instead of HIV/AIDS related activities totaling K526,803 in 2015.

DEPARTMENTAL RESPONSE

The findings were brought to the attention of the Governor General in the Management Letter. Responses were not received in respect of audit issues raised up to the time of writing this Report.

CONCLUSION

The results of my audit indicate significant control weaknesses in the control framework. The control activities, such as delegations, authorizations, 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.

2. DEPARTMENT OF EDUCATION 2015-2014

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 National Executive Council is:

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

AUDIT FINDINGS

CORPORATE GOVERNANCE

- The Department of Education (DoE) had a Corporate Plan for 2014 – 2016 in place; however, this plan was unsigned and was still in its draft form. This issue was raised in the previous report, 2014;
- I noted that the annual plans did not link up to the draft 2014-2016 Corporate Plans' Key Performance Areas (KPA's);
- The manpower in the Internal Audit Unit was insufficient to cater for the huge audit needs of the Department; and
- The Department has established an Audit Committee and is working effectively.

REPORTING REQUIREMENTS

- Quarterly Budget Review Reports were prepared and submitted to the Treasury Department as required;
- The DoE did not prepare an Annual Financial Management Report as required in the PFMA; and
- The Annual Management Report prepared by the DoE for 2015 was not endorsed by either the Secretary or the Minister for Education.

BUDGETARY CONTROL

A comparison of the Expenditure Summary generated by the IFMS (Department of Finance) against the report by Department of Education (DoE) through PGAS system revealed significant variances.

The variances noted between the two records for Recurrent and Development Budgets indicate that there was no reconciliation done between the two records.

CASH MANAGEMENT

DoE maintains a Drawing Bank Account with the Bank of PNG (BPNG). During the review of this account, I noted that Bank reconciliations had not been prepared for the five months of from August to December, 2015.

PROCUREMENT AND PAYMENT PROCEDURES

Audit examination of 59 payments totalling more than K35.7 million in 2015 revealed the following discrepancies:

- 25 paid vouchers totalling more than K19.57 million were not provided to Audit; and
- Two payments totalling K101,497 were made without obtaining three written quotations as required by FMM and Financial Instruction 2/2013.

Audit selected a sample of 100 payment vouchers totaling K53,737,679 and the related documents were randomly selected for examination in 2014 and noted the following weaknesses:

- In 35 instances totalling K34,108,784, paid vouchers were not provided;
- Five payments totalling K933,715 were processed and paid based on pro-forma invoices;
- Department did not maintain a Quotations Register at the time of the audit. DoE had a decentralized procurement system in which various Divisions did their own procuring; which further made it impossible to keep a convenient quotations register;
- Two payments totalling K471,031 were paid to suppliers for services rendered in 2012. These payments were unbudgeted for;
- A payment of K241,531 was made to a hire car company incurred by two officers who did not seek the approval of the Department for the extension of hire. The vehicle was used for personal reasons from the 20/07/12 to 05/10/12;
- A payment of K800,000 was made to a stationary supplier for supplying school kits bill had the following discrepancies:
 - The contents of the contract document did not specifically state the services to be provided to the Department;

- The contract did not specifically state the term (Period) of contract as funds are budgeted for specific period of time;
 - No CSTB Approval was sighted as the value of contract was greater than K500,000,
 - The APC approval from Department of Finance was not sighted for the payment;
 - An amount of K600,000 was paid in advance prior to receiving the curriculum materials for elementary schools; and
 - Short Term Contract form was used for this contract with a value greater than K500,00. However, this should have gone through proper central supply & tenders board process.
- Seven payments totalling K735,9288 were paid to an Accounting Firm for re-designing of the payroll process for the Department. Further, the contract did not go through proper tender process, as the contract value was greater than K500,000 and qualifies as a major contract.

ASSET MANAGEMENT

Audit examination of the Asset Register and related records and documents in 2015 and 2014 revealed the following discrepancies:

- The Fixed Asset Register that was provided was not up-dated. Some of the assets purchased during the year, 2015 at a value of more than K20.4 million were not recorded in the register;
- There was no evidence of annual stock take being conducted during the year;
- The Fleet Register that was provided was incomplete. I was not able to verify the purchase of vehicles during the year (2015); and
- Nine vehicles were still operating with private vehicle registration plate numbers;
- The “CS Asset System” was not updated to capture all assets purchased in 2014. A total of K2,411,087 worth of assets, excluding motor vehicles and dinghies were purchased during the year. These assets were not registered in the CS Asset system;
- There was no systemic link to capture and register in the ‘CS Asset’ System assets purchased in other Education branches in the provinces;
- The DoE expended K3,655,180 to purchase 28 motor vehicles which were not registered in the “CS Asset System” in 2014;
- In 2014, 33 motor vehicles were inspected by the Department of Works during the year according to a Board of Survey report and were approved for disposal through public auction. Audit noted that despite the approval, the Department did not dispose these vehicles;
- Although, log books were maintained for motor vehicles, they were not being utilized as a measure of control; and
- In 2014, two outboard motors/dinghies purchased at a cost of K23,563 during the year were not registered either in the “CS Assets System” or the manual asset registers.

ADVANCE MANAGEMENT

My review of Advance Accounts and records for the year 2015 revealed the following discrepancies:

- In 2015 Acquittal files for payment of 31 travel advance totaling K55,024 were not submitted for my review;
- 12 travel advances totaling K22,345 and in 2014, 11 advances totalling K1,111,168 were not recorded in the Advance Register for the years 2015 and 2014 respectively; and
- Travel advance payments in 32 and 617 instances totaling K57,879 and K1,472,182 remained un-acquitted as at year 2015 and 2014 respectively.

HUMAN RESOURCES AND PAYROLL

A review of the records and documents relating to 2015 Human Resource and payroll management revealed the following observations:

- The DoE did not have a five year Training Plan and no Training Plan in place for the year 2015 and 2014;
- Funds totalling K873,510 were spent during the year on trainings or studies provided to staff on ad-hoc basis and not linked to staff appraisals where staff development matters were of concern;
- Total of 375 funded positions out of the approved staff ceiling of 1,128 positions remained vacant;
- The DoE had 42 Un-attached officers and further continued paying salaries for 39 casual employees without a review;
- The Personnel Files for six Contract Officers, who were on acting capacity were not furnished for my review;
- Personal Files for the 20 national officers who were paid their recreation leave fare entitlements totalling K116,868 were not made available for my review;
- Personal Files for two expatriate officers who were paid a total of K60,473 for leave fares were not provided;
- Salary history cards were not updated and statement of earnings for the seven officers who were paid a total of K275,897 in leave fare entitlements were not in their Personal Files;
- Payment vouchers for three payments totalling K239,454 could not be located in file; and
- Twelve officers who were occupying Grades 10 positions and higher were paid overtime totalling K12,572 which is a breach of Public Service General Orders.

Audit examination of salaries & wages payments together with related records in 2014 revealed the following irregularities:

- Three contract officers' files were not submitted to audit for review;
- Audit did not sight any evidence of consultation between the Department of Personnel Management and the DoE in relation to the appointment of a Logistics officer for 12 months duration;
- Personnel files for nine teachers who were paid a total of K454,421 in leave entitlements were not furnished for audit review; and
- Audit noted that a total of K585,153 were paid out as wages, salary and overtime via PGAS and not through the ALESCO Payroll System.

TRUST ACCOUNT MANAGEMENT

Audit examination of the trust account reports, (PGAS and IFMS) in 2015 obtained from the Department and related records revealed the followings:

- Funds totalling K7,996,400 were paid to three colleges as transfer of TVET impact project funds. I was unable to establish whether the colleges in return provided reports to the DoE on the use of these funds. My repeated request for such reports to be furnished for my review were not responded to by the Department;
- I noted that TVET project funds totalling K2,398,200 paid to a College were not certified by the Certifying Officer; and
- In another Trust Account, there were no reports submitted for my review on the work undertaken in 2014 and 2015.

Audit examination of the Trust Account summary report (PGAS) in 2014 obtained from the Department and the records from the Finance Department and related records revealed the following:

- The Expenditure Transaction Details revealed that the Department remitted K1,327,766 into the 2013 Nationwide School Survey Task Force Trust Account. The payment was improperly facilitated from the Expenditure Vote 235-2101-1109-143 Education Subsidies;
- The 2014 census figures confirmed that there were 13,703 Registered Schools. However only 10,060 schools were allocated grants. The balance of 3,643 schools were not paid grants due to the either the schools being either closed, suspended or operating but not eligible for TFF given the procedural and regulatory requirements, etc; and
- The Tuition Fee Program Report revealed that 41 schools were paid grants although these school were closed and I further noted that 3,380 registered schools were not paid school grants;

DEVELOPMENT BUDGET (PIP FUNDING)

The DoE had five PIP projects that were noted to be either wholly funded by the Government of PNG or co-funded by the Government of PNG in 2015.

AGO randomly selected nine payments totalling K390,298 from EQUITV Program and noted the following:

- A payment voucher for a payment of K36,777 relating to the hire of a private vehicle could not be located in file; and
- Under Education Training and Human Resource Development Program, a total of K35,009 was paid for an activity (Education Act Review) which was not in line with the project specification or objective.

Audit examination of the two projects funded wholly by GoPNG and three projects co-funded by GoPNG and donor agencies in 2014 reveal the following discrepancies:

- In three instances, audit could not verify nor validate the propriety of payments totaling K6,804,181 as the paid vouchers were not made available; and
- Two payments totalling K6.5million were paid to Enga and Simbu Provincial Treasury Office's for rehabilitation & infrastructure for Enga Polytechnic Institute and Gumini Polytechnic Institute. Audit confirmed that these two Institutions did not exist at the time of audit in April, 2015.

DEPARTMENTAL RESPONSE

The above issues were brought to the attention of the Secretary through a Management Letter. Management responses received and agreed to take corrective action of my observations.

CONCLUSION

Although the results of the audit indicate that there were improvements in the operation of the internal controls compared to previous years, the overall result indicate that there were still significant weaknesses in the control framework.

The control activities, such as delegation authorisation, reconciliation, data processing, segregation of duties, and system access were not sufficiently robust to prevent, detect and correct error or fraud.

3. DEPARTMENT OF TREASURY 2015-2014

OVERVIEW

The Department 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

- The Department has a Corporate Plan for the period 2012-2015;
- The Department prepared its Annual Work Plan and Annual Operational Plan for 2015 and 2014 as well; and
- Annual Management Reports for 2015 and 2014 was also prepared.

BUDGETARY CONTROL

- IFMS 2157 report revealed that the Department incurred expenditure exceeding the Warrant Authority under the recurrent budget by K2,961,456 in 2015 and by K32,993,368 in 2014; and
- In 2015 the total actual expenditure difference of K28,688 was incurred when comparing IFMS 2222 and IFMS 2157. These inconsistencies reveal the validity of the type of data captured by the IFMS reports which may be unreliable.

CASH MANAGEMENT

The Department of Treasury (DoT) operates a drawing account with the Bank of Papua New Guinea . Bank Reconciliations for the months of January to December, 2015 were in draft form and therefore could not be verified further.

PROCUREMENT & PAYMENT PROCEDURES

Audit randomly selected a sample of 30 payments totalling K14,820,156 in 2015 and the following discrepancies were noted:-

- A payment of K24,526 to a company was made without obtaining three written quotations as required prior to processing the payment;
- Three payments valuing K596,000 did not have three quotes as well as minor contracts attached to substantiate the payments made;
- Tax invoices were not attached to the paid vouchers in four instances totalling K315,993 to justify the payments made; and
- Five instances totalling K5,474,704 paid to a private law firm could not be verify against the CSTB contract documents since they were not made available.

Audit randomly selected 71 payment vouchers totaling K5,808,978 for examination in 2014 and noted the following discrepancies:

- File containing copies of the Financial Delegates specimen signatures and their delegated limits were not made available for verification;
- In five instances, payment vouchers totaling K583,032 were not provided for examination;
- In 13 instances totaling K286,950, payments were made without obtaining three quotations as required in the PFMA;
- 13 payments totaling K732,821 were processed and paid on pro-forma invoices instead of tax invoices. Payments should only be made on Tax invoices to ensure that the supplier/business complies with tax regulation and is legally operating in Papua New Guinea;
- In three instances, payment vouchers totaling K83,863 had no evidence of goods being received or delivered;
- Two payments totaling K64,790 did not match the cheque amount and the signed FF3. The cheque amounts were more than the amounts on the FF3 by K56,470;
- In six instances totaling K849,277, minor contract agreements were not sighted which is in contrary to the *Financial Instruction 2/2013*;
- A payment of K152, 502 was made to an individual for consultancy services rather than to a registered firm as required;
- Reports of work performed as per the agreed Terms of Reference were not attached to two payments made two Consultants amounting to K537,000 to substantiate the payments;
- A payment of K375,000 was made to a Consultant without a signed original contract executed by the Head of Department; and
- No PTB approval was obtained from Department of Works for the external hire of vehicles for a payment totaling K63,360.

ASSET MANAGEMENT

- In 2015, the Fixed Asset Register was not submitted to audit for verification, this was also not provided in 2014, therefore, the accuracy and completeness of asset purchase and existing assets cannot be ascertained;
- In four instances, payments of assets worth K529,707 purchased in 2015 remain unaccounted due to the absence of an asset register; and
- The motor vehicle fleet register was incomplete. Date of purchase and cost of the assets were not recorded in five instances.

ADVANCE MANAGEMENT

Audit examination of the Advance Register, Acquittal Files and other related records revealed the following observations:-

- 145 Travel/Cash Advances issued totalling K806,552 remain un-acquitted as at 31st December, 2015; and
- 32 officers were paid additional advances totalling K806,552 whilst their previous advance remained un-acquitted in 2015.

HUMAN RESOURCE & PAYROLL

Audit review of the records maintained by the Human Resources and Payroll Management Division in 2015 revealed the following anomalies:

- 14 officers were paid overtime totaling K24,217 in contrary to DPM Circular No.15/2015 where it states to freeze on all Non-Essential overtime. Furthermore, I noted that all these officers were not eligible for overtime payment as their salary grades were Grade 10 and above. This is in breach of General Order 13.67;
- In seven instances, salary history cards were not updated, hence record of the current DMA amount received were not recorded; and
- 12 instances totalling K279,848 payments were made to Paymaster for payment of Wages contrary to the *Finance Instruction No.03/2014* which ceases all cheques payments of salaries and wages.

Audit review of records maintained by Human Resources and Payroll Management in 2014 revealed that:

- A Senior Officer's whose Employment Contract had expired in 2011 has never been renewed up to the time of audit in August, 2015. Despite this, he has been and is still receiving contractual benefits;
- In four instances totalling K67,597, approval for working overtime from the Departmental Head or Officer-In-Charge were not sighted;

- A sample of eight payments totalling K107,128 for recreational leave were examined and out of that six amounting to K81,249, had no supporting documents attached such as birth certificates, tax declarations or statutory declarations as proof to support dependents claimed by the officers; and
- The Department had a well-developed training plan and was being implemented effectively.

DEPARTMENTAL RESPONSE

The reported audit findings were brought to the attention of the Secretary through a Management Letter and the Management responded that appropriate action will be taken to improve the weakness reported in the Management Letter.

CONCLUSION

The results of my audit indicate that only little improvement was made, available, 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, etc. were not sufficiently robust to prevent, detect or correct errors or fraud.

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

4. NATIONAL PARLIAMENTARY SERVICES 2015-2014

OVERVIEW

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

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

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

AUDIT FINDINGS

CORPORATE GOVERNANCE

- The *National Parliamentary Service (NPS)* had a five year *Corporate Plan 2015 -2019* however, audit was informed that the *Corporate Plan* was yet to be officially launched and implemented;
- The NPS was yet to establish an Internal Audit Unit. Audit also noted that a private accounting firm was engaged to perform the internal audit function;
- The 2015 Annual Management Report preparation was in progress at the time of audit. Audit noted that the report was not produced within the timeframe as required by *Section 4* of the *National Parliamentary Services Act*; and
- Annual Report for 2014 was not prepared.

BUDGETARY CONTROLS

- Audit revealed that unspent funds from 2014 totalling K4,816,602 was brought forward to 2015, however separate expenditure Vote Items were not created in the PGAS system to clearly identify and account for these unspent funds in 2015;
- In 248 instances, expenditures were charged to incorrect Vote Items for the year 2015;
- Comparison of the 2015 Expenditure Vote Summary printout (PGAS) and the Expenditure Statement produced by the Department of Finance (IFMS 2157) indicated a variance of K7.06 million in the total expenditure balances as a result of non-reconciliation of the two reports;
- Variances were also noted in 2014 when comparing these two reports (PGAS Vs IFMS 2157); and
- In 2014, the IFMS 2157 report by DoF revealed over expenditure of K20,296,200 under 11 economic items.

BANK RECONCILIATION

The NPS operates three Bank Accounts to hold operational funds received from the DoF through the budgetary processes for different activities.

Audit examination of the monthly bank reconciliation statements for the three bank accounts maintained by the NPS for the year 2015 revealed the following:-

- The monthly bank reconciliation statements for the *Salaries & Pensions Account* were not prepared for the year 2015 and including 2014;
- Although the Monthly bank reconciliations were prepared for the NPS Operating Account and the MP's Advance Operating Account, they were not certified and authenticated by competent officers to validate and verify the accuracy of the statements;
- The 2015 transfers of K20.5 million under NP Operating Account related to direct bank transfers made to Salaries & Pensions Operating Account in eight instances during the year;
- The appropriate approvals for the transfers of funds from one bank to the other were not made available. Hence, audit could not confirm if the transfers were duly approved by the competent authorities;
- In 96 instances, funds totalling K3,146,073 were drawn from incorrect operating accounts for expenditures incurred during the year under review;
- Audit could not rely upon the closing, 31 December, 2015 cashbook balances for the three operating accounts due to the significant numbers and amounts of adjusting items which were not posted to the respective cashbooks as per the monthly bank reconciliation statements; and

- The direct credit of K7.7 million related to state grant received in February 2015 which was not posted to the cashbook for the NP Operating Account while the total amount of K1.54 million for the MPs' Advance Account related to receipt not posted to the cashbook. This reflected lapses in accounting for government grants and lack of timely posting of receipts to cashbooks.

PROCUREMENT & PAYMENT PROCEDURES

Audit examinations of the expenditure detail printouts, paid vouchers and other related documents in 2015 revealed the following matters of concern:-

- Seven payments totalling K992,510 made to seven consultants were not supported by Consultancy Agreements;
- A total of K4,431,001 was paid to three construction companies for various maintenance and construction work at the Parliament House. However, Minor contracts and NP STB approvals were not sighted; and
- In five instances, payments totaling K1,797,500 were made to *Special Parliamentary Committees* as warrants release from Department of Treasury during 2015. Accountability reports and statement of expenditure are expected to be submitted to the Clerk of Parliament on the use of the funds. However, such reports and statements from the *Special Parliamentary Committees* were not submitted.

A sample of 73 paid vouchers relating to operational payments totalling K16,567,601 in 2014 were examined together with other related records and documents revealed the following discrepancies:

- In 10 instances, payments totalling K1,387,904 were effected without obtaining three written quotations prior to purchase of goods and services as required under *Part 12* of the *FMM*;
- Seven payments totalling K1,397,231 for various services rendered to the Parliamentary Service did not have copies of the contracts attached with the payment vouchers to substantiate the payments made;
- Six payments totalling K881,400 related to vehicle Hire in NCD which was contrary to *Part 31 paragraph 27* of the *Financial Management Manual* that states that "All Private hire in NCD is banned, except under special circumstances;"
- A payment of K150,000 was made to a Primary School as Speaker's commitment which was not related to activities of the Parliamentary Services. All payments from National Parliament Service Operating Accounts must be in relation to the functions of the Services as stated in the Parliamentary Services Act 1997;
- Records and documents related to National Parliament Refreshment Room were not provided. In the absence of necessary records and documents, I was unable to ascertain whether K2,729,865 was used as intended and accounted for appropriately;
- In 10 instances, payments totalling K238,000 were paid to a consultant for preparing financial statements of the National Parliament Refreshment Room. Copies of the reports were not provided to substantiate the payments made; and

- In the absence of necessary records and documents, audit was unable to ascertain whether the K7,160,742 payment made into the National Parliament Projects Account was used as intended and accounted for appropriately.

ASSET MANAGEMENT

Audit examination of the transaction details and the Asset Register revealed the following matters:-

- Particulars of the assets such as the model & serial numbers, purchase date, cost of assets purchased, suppliers, cheques numbers were not recorded, rendering the register incomplete;
- There was no evidence to suggest that periodic stock-take of the assets were undertaken to verify the existence of the assets and to safeguard the assets from theft and loss;
- Seven motor vehicles had private number plates in contrary to the government vehicle policy; and
- The fleet register did not contain important details such as date of purchase, cost of vehicles, name of suppliers, cheque numbers, serial numbers, etc.

ADVANCE MANAGEMENT

Audit examination of the advance registers, acquittal files and other related documents revealed the following discrepancies:-

- Travelling allowances to the value of K461,819 in 14 instances and K2,336,822 in 293 instances were not recorded in the advance register for the years 2015 and 2014 respectively; and
- In 22 instances, advances totalling K661,918 were not acquitted and remained outstanding as at 31 December, 2015; and
- Cash Advances register not maintained, resulting in 25 cash advances paid totalling K114,893 not recorded in 2014.

HUMAN RESOURCE AND PAYROLL MANAGEMENT

Audit examination of the Human Resource and Payroll management for the NPS for the year 2015 and 2014 revealed the following observations:-

- Audit was informed that no formal Employment Contract Agreements were prepared for all officers employed on contract level;
- Audit noted too that contract gratuity payments totalling K593,491 were paid to officers during the year without signed employment contracts in 48 instances;
- Promotional changes in the designations of seven officers were not updated on their history cards;

- Changes in the annual salaries of 12 officers were not updated in the Employee History Cards since 1991 when compared to the details in the payroll;
- The outstanding salary advances at the end of the year 2015 amounted to K3 million per the Salary Advance Registers inclusive of the prior years;
- Of the total amounts outstanding, 102 officers had outstanding salary advances amounting to K2.47 million as at 31/12/15;
- Audit was made aware that two different approved organisational structures were concurrently in existence; and
- In 273 instances, salary advances totalling K2,484,222 were paid in 2014. The Parliamentary Service does not have a policy governing salary advances. Hence, there is no control in issuing and recouping of advances, thus, posing a high risk of advances not being recovered.

MEMBERS EMOLUMENT

Audit examination of the 2015 PGAS expenditure detail printouts and the paid vouchers revealed that former Ministers were paid for the loss salaries and allowances for the period from 2/8/11 to 28/11/12:-

- Audit was unable to sight any formal approval for eight payments totalling K2,147,563 for the loss of salaries and allowances made to former Ministers in the Government in 2011 and 2012 and whether the Supreme Court Decisions in May 2014 also included these payments; and
- A total of K79.62 million was incurred during the year 2015, out of which only K8.03 million was directly related to advances paid to various MPs against their entitlements while the balance of K71.59 million was not related to MP's advance.

In 2014 a sample of 28 paid vouchers relating to Members advance totalling K2,811,250 were selected and traced back to the 20 respective Member's Personal Files to verify completeness. The following discrepancies were noted:

- Three personal files were not made available;
- Nine personal files were not updated to reflect 22 advance payments totalling K2,264,550; and
- In three instances totalling K487,200, three members had housing advances paid directly to themselves contrary to *Salaries & Remuneration Commission Determinations 2007 G007-04 (4)* which states in bold ***"Under no circumstances can the advance be paid directly to the recipient."***

DEPARTMENTAL RESPONSE

The above audit findings were brought to the attention of the Clerk of Parliament through a Management Letter. Prior to issuing the management letter, the audit findings were discussed with responsible *Parliamentary Services* officers. At the time of writing this report, no response was received.

CONCLUSION

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

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

5. DEPARTMENT OF FOREIGN AFFAIRS AND TRADE 2015-2014

OVERVIEW

The Department of Foreign Affairs and Trade's mission is to ensure that Papua New Guinea's interests are protected and promoted across the international community, and that Papua New Guinea is aware of overseas events and international issues that may affect its people.

The Department is expected to fulfill its mission in the context of the *Citizenship Act, 1975*, *Migration Act, 1978*, other relevant legislation and in accordance with the International Agreements as follows:-

- Administer the operations of official Papua New Guinea overseas posts;
- Administer the provisions of Immigration, Migration and Citizenship Legislation;
- Formulate policy on external publicity;
- Co-ordinate all matters of protocol, arrange programmes and itineraries in consultation with the Department of Prime Minister and National Executive Council;
- Administer Papua New Guinea's international boundaries and co-ordinate the activities of the border administration;
- Liaise with overseas countries for appropriate foreign aid development assistance; and
- Manage all Papua New Guinea's treaties.

AUDIT FINDINGS

CORPORATE GOVERNANCE

- Corporate Plan of the Department was prepared as required by General Order;
- The Department only provided activity plans for July-December 2015. There was no evidence of *Annual Activity Plans* for January-June 2015;
- The Department did not have a "Training Plan" in place; and
- The Department is yet to establish an Internal Audit Unit and an Audit Committee as the law requires.

REPORTING REQUIREMENT

- Copies of Quarterly Budget Review Reports for third and fourth quarter were not made available for my confirmation. Both the first and second Quarter Reports were not reviewed and signed prior to disbursement to *Department of Treasury* as required by legislation; and
- No Annual Management Report on the Work and achievement of the Department for the year 2015 and 2014.

BUDGETARY CONTROL

A review of the IFMS 2157 report and related records/documents revealed the following irregularities:-

- Over expenditure of K606,709 was noted in 2015 and K606,709 in 2014;
- In 2015, the Department recorded a total of K200,715,831 as warrants received whereas the IFMS 2157 recorded only K76,764,253 resulting in a variance of K123,951,578; and
- There was lack of reconciliation between the records maintained by the Department of Foreign Affairs and the Department of Finance in both years 2015 & 2014 resulting in huge variances noted in the expenditure balances of the two records.

BANK RECONCILIATION

The Department operates a Drawing Account with the Bank of Papua New Guinea :

- There were delays in the preparation of bank reconciliation with the last one being for the month of September, 2015;
- The bank reconciliation statement for the month ending 31st December 2014 and up to September, 2015, disclosed numerous outstanding reconciling items which should have been investigated, cleared, and adjusted in the cash book in order to reflect an accurate cash book balance at any given time; and
- No evidence of proof to indicate that copies of the bank reconciliations were actually submitted to Department of Finance as required.

PROCUREMENT & PAYMENT PROCEDURES

I selected 84 payment vouchers totalling K3,762,697 in 2015 to assess whether proper procurement and payment process were complied with prior to payments. The following observations were made:-

- In 27 instances totalling K1,528,308, payment vouchers were not made available for audit examination;
- In 12 instances totalling K448,624, payment vouchers were not properly examined and certified to be correct by the Certifying Officer prior to payment;
- In two instances totalling K123,649, the delegated Section 32 Officer approved payments which were beyond the authorized delegated limits; and

- In three instances, *Consultancy Fees* were overpaid by K240,723 as against the agreed contract amount.

Audit randomly selected 79 payment vouchers totalling K38,722,468 in 2014 to assess whether proper procurement and payment process were complied with prior to payments. Audit revealed the following discrepancies:

- 34 payment vouchers totalling K36,015,288 (representing 93% of the total value selected) were not submitted to audit for examination;
- 24 paid vouchers totalling K1,267,022 were paid without tax invoices noted as payments based on tax invoices as required;
- In eight instances totalling K1,075,291, the Department did not comply to FMM requirements/Finance Instructions to have minor contracts in place for payments between K50,000 and K500,000;
- Audit noted that scope of work or contract documents were not attached to the claim to substantiate the payment valuing K69,787 to a company that was not a registered company with IPA;
- A payment was made to an individual for K50,000 as an out of court settlement, however, no further information was attached to justify this payment; and
- Completion report and contracts were not attached to justify a payment of K261,520 made to a company of Office fit-out.

ASSET MANAGEMENT

My examination of the Asset Register and other related documents revealed the following discrepancies:-

- Asset Register for the Furniture and Fittings was incomplete and lacked vital information such as *Date of Purchase, Quantity, Unit Cost, Total Cost* and its *estimate economic life*;
- 31 assets purchased totalling K165,650 in 2015 and K41,897,069 in 2014 were not recorded in the Asset Register;
- There was no Master Asset Register maintained for all the 20 Foreign Missions;
- Seven motor vehicles did not have government plate numbers (Z Plates). This is in contrary to *DPM Circular No. 5/2013*; and
- Annual stocks were not done.

ADVANCE MANAGEMENT

My examination of the Advance Register, Expenditure Transaction Details and other related records revealed the following discrepancies:-

- The Travel Advance Register was not updated resulting in a total of K141,772 & K132,611 advances paid were not recorded in 2015 and in 2014 respectively;
- 177 Travel advances totalling K1,018,900 remained outstanding as at 31st December, 2015; while in 2014, a total of K592,236 in 135 instances remain outstanding;
- In 2015, 32 instances totalling of K50,471 was paid through Paymaster as cash and petty cash advances. These payments should have been made in the name of the advance holder for proper monitoring of acquittal purposes;
- The advance register maintained for travel advances was incomplete. There were no records of the acquittal number and acquittal date as noted in 2014;
- A cash advance register was not maintained as noted in 2014; and
- In 2015, additional advances totalling K289,453 in 45 instances were issued to officers whilst their previous advances remained un-acquitted. This was also noted in 2014.

HUMAN RESOURCE & PAYROLL MANAGEMENT

My review of the Salaries and Wages in 2015 together with related records and documents revealed the following discrepancies:-

- The Department continues to pay wages for casuals using cheque payments through PGAS and IFMS during the year totalling K465,111 in contrary to *Finance Instruction No.3/2014, which states that all wages should be paid through ALESCO payroll; and*
- An amount of K51,426 was withdrawn through the Paymaster in December 2015 to pay for the casuals and trainees in *Pay # 1* and *Pay #2* of 2016. Such practise is contrary to the budget ceiling of each financial year. Unspent funds at the end of financial year should be reverted back to the consolidated revenue fund;

Audit randomly selected 15 instances of gratuity payments totalling K142,369 in 2014 and the following observations were noted:

- Gratuity payments of K54,917 were paid through PGAS in six instances, instead of ALESCO;
- Five officers were paid gratuities totalling K52,357 without relevant supporting contract documents. There were no proper supporting documents available in their personnel files providing terms of gratuity payment or the status of gratuity recipient as a contract officer;
- Two non-contract officers received gratuity payments totalling K17,427 contrary to General Order 9.35; and

- In three instances totalling K4,629, the approval for acting in higher position was not sighted in their respective personnel files including variation advices to ascertain correctness of HDA payments.

FOREIGN MISSION MONTHLY RETURNS

My review of the register of financial returns and related records revealed the following anomalies:-

- In 2015, regular monthly returns were submitted by all missions except Canberra and New York Overseas Mission. This was also noted in 2014;
- I noted delays in submitting of the monthly returns by the Foreign Missions in the years 2015 and 2014; and
- Examination of monthly returns by the Department was not done as required for the years, 2015 & 2014.

DEPARTMENTAL RESPONSE

The above matters were brought to the attention of the Department through my Management Letter. However, no responses were received on the audit issues reported 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, 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.

6. DEPARTMENT OF FINANCE 2015-2014

OVERVIEW

The *Department of Finance* has two major programs:-

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

AUDIT FINDINGS

CORPORATE GOVERNANCE

- The Department had a current Corporate Plan covering the period from 2013-2015. The Department also had an Annual Management Plan called Management Action Plan 2015;
- Annual Management Plan for 2014 was not made available for audit review; and
- The Department has a well-established Internal Audit Unit responsible for its' internal audit function and the establishment of Audit Committees in all Government Departments, Provincial Governments and other Agencies by law.

REPORTING REQUIREMENTS

- The 2015 Annual Management Report was still in draft form at the time of audit;
- The 2014 Annual Management Report was not made available for audit review; and
- Unsigned copies of the Quarterly Budget Review Reports were provided, however, the signed copies of the original reports issued to the Department of Treasury were not provided for review and confirmation. The same observation was made during the 2014 audit.

BUDGETARY CONTROLS

Audit review of the IFMS Report on the DoF Budget and Actual expenditure revealed the following:-

- Audit noted from the IFMS 2157 report that un-budgeted expenditure were incurred in 2015. The total expenditure incurred could not be reported due to negative (K21,733,112) and a positive figure (K5,870,529) that were posted. Had there been data reconciliations performed, the errors of posting negative figures could have been corrected;

- Audit was unable to trace payments to their source because payments could not be verified against any identified expenditure from the 2015 Expenditure Transaction Details downloaded (IFMS 8201 & 8202 reports);
- The negative figure noted under Trust Expenditure has also significantly affected the total expenditure for the financial year 2015. The total Expenditure Reported by IFMS 2157 is K5,970,076 from a total warrant of K25,687,090;
- The Department's budgetary controls system appears to be poor. Funds meant for budgeted programs and activities have been used to fund other activities. For instance in 2015, expenses incurred under activity 219 totaling K5.8 million was an unbudgeted expenditure;
- The Expenditure Statement (IFMS 2157) produced by the Financial Management Improvement Program (FMIP) for year ended 31 December 2015 revealed expenditures in excess of Warrant Authorities under Vote Item 215 totalling over K299,000 in the recurrent budget; and
- In 2014, IFMS 2222 report for period 12 revealed over expenditure of K1,555.500.

BANK RECONCILIATIONS

The 2015 bank reconciliations for the Main Drawing Account were NOT prepared. Records show (2013 Finance Internal Audit Report & 2014 AGO Audit report) that the bank reconciliations of the Drawing Account have not been prepared since the inception of the IFMS system dating back to 2011.

PROCUREMENT & PAYMENT PROCEDURES

Audit selected a sample of 171 paid vouchers in 2015 and the following irregularities were noted:

- 64 paid vouchers totaling K5.9 million were not made available for verification;
- The General Expenditure Forms (FF3 & FF4) were not duly approved by the various financial delegates in 23 instances totaling K620,258;
- The Certifying Officer did not certify payments as correct in 22 instances totaling K619,337 prior to processing cheques for payments;
- The DoF did not obtain the compulsory three written quotations for purchases above K5,000 in five instances totaling K179,052;
- The General Expenditure & Requisition Forms (FF3&4) were not sighted together with the paid voucher for a payment to a private hire company totaling K91,500; and
- There was no proper filing of paid vouchers within the Accounts Payable Branch. The files were all over the place and not filed away properly in a chronological order.

Audit selected a sample of 141 paid vouchers totaling K14.3 million in 2014 to ascertain compliance to procurement and payment procedures:.

- A total of 68 paid vouchers totaling K5.2 million were not made available;
- The General Expenditure Forms (FF4) were not duly approved by the various financial delegates in 34 instances totaling K1.5 million;
- The DoF did not obtain three written quotations for purchases above K5000 in nine instances totaling K123,000; and
- Supporting documents to justify a payment of K1,289,682 such as tender documents, APCs and invoices were not sighted together with the paid vouchers for verification.

ASSET MANAGEMENT

- Eight Divisions did not provide their asset registers for audit review. In the absence of the registers, audit could not ascertain the existence of the assets procured or disposed-off during the year, 2015;
- Due to non-provision of asset registers, assets worth K402,580 in 15 instances could not be ascertained if recorded or not;
- The Department spent K1,177,578 during the year to purchase eight vehicles, however, in the absence of the motor vehicle register, these vehicles and remain unaccounted;
- In 2014, 13 vehicles were without the compulsory “Z” plate as required for all Government owned motor vehicles and as per FMIP register; and
- Model/Serial and chassis/engine numbers of 10 vehicles were not disclosed; in the FMIP register.

ADVANCE MANAGEMENT

Audit review of the IFMS invoices, expenditures Reports, advance register and other related records/documents reveal the following discrepancies:-

- The advance register was not updated hence, a total of K64,709 issued in both cash and travel advances in 2015 could not be traced to the advance register maintained;
- Advances paid in 2014 totalling K582,581 could not also be traced to the register if recorded;
- The advance acquittal forms were not reviewed by the Financial Delegate;
- Second advances were issued to officers whilst their prior un-acquitted advances were still outstanding;
- Airline tickets for domestic duty travels totalling K61,116 were purchased through travel agents contrary to Part 12 Division 4 of the *Financial Management Instruction* in 2015; and

- Payments made under the Paymaster/Paymistress in Cash Advances in 2015 totalling K119,862 were not acquitted and remained outstanding.

HUMAN RESOURCE AND PAYROLL

Review of the Human Resources Management process and Payroll controls in 2015 revealed the following weaknesses:

- Four of the 37 personal files requested to confirm the HDA payments and the Gratuity calculations were not provided;
- HDA and Gratuity History Cards in the employees' personnel files were not updated to reflect the allowances and payments received in 22 instances;
- History Cards for 12 employees were NOT attached in their personnel files;
- The documents in the employees' personnel files were not folioed as stipulated in *GO No.23 under Management of Personal Files Checklist*;
- The approval for HDA Request Forms were not filed in three employees' personnel files who were appointed to act; and
- In contrary to the provisions of the above G.O, the Department made overtime payments to 16 Senior Officers of the Department in 2015 totalling K27,200. These officers were noted to have held positions between pay Grade 11 and 15 during the year the overtime payments were made.

A review of the HR payroll records plus selected documents in 2014 revealed the following:

- The Department does not have a training plan as required in the GO 5.12;
- Review of 19 leave warrants issued in 2014 totalling K199,288 revealed the following:
 - 9 leave warrants were not sighted for review;
 - The compulsory 10% deduction towards airfares for officers proceeding to recreational leaves were not deducted in four instances totalling K40,269;
 - The necessary documents showing evidence of dependents such as birth certificates and tax dependency declarations were not sighted in 10 instances totalling K109,155; and
 - The Department paid overtime payments to 18 Senior Officers in 2014 totalling K11,264 in contrary to General Orders 13.68. No approvals were sighted in the file for them to work overtime.

TRUST ACCOUNTS

The Department of Finance administered a total of 41 Trust Accounts in 2015. Audit review of the IFMS 2157 report and related record/documents revealed the following discrepancies:-

- There was an unexplained trust account expenditure of K21,733,112 reported by IFMS 2157 for the year ending 31st December, 2015;
- Trust Accounts that have been Dormant over a long period of time need to be revoked as they were only incurring bank fees; and
- The bank reconciliations of the four Trust Accounts managed and administered by the Department were not made available to audit for review. This was also noted in prior years audit report.

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 ties, 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. DEPARTMENT OF P&LLG AFFAIRS 2015-2014

OVERVIEW

The Department of Provincial and Local Level Government Affairs (DPLLGA) mission is to optimize Government instrumentalities to promote and foster National Identity, Self-Reliance, Popular Participation, Provision of Equal Opportunities and Basic Minimum needs through the authority conferred by the *Organic Law on Provincial Governments and Local Level Governments*.

The Department is expected to fulfill that mission in the context of various Acts and other relevant legislation as follows:-

- Maintain general liaison between National and Provincial Level Governments in to identify problems and identify assistance;
- Provide legal and corporate advice to Provincial and Local Level Governments in line with the National Government policy;
- Co-ordinate and administer the Government's policy and programs for village services;
- Provide periodical inspection on financial matters relating to Provincial and Local Governments, including urban and city councils as required under the Organic Law;
- Oversee and administer border development programmes and provide Refugee assistance;
- Liaise with National and Provincial Departments as effective administration of agency funds;
- Oversee and administer the administration of Urban Councils and the National Capital District Commission;
- Review periodically National Government policies as they relate to Provincial and Local Level Governments and village development services except for Bougainville Province;
- Co-ordinate and advice on improvement training programmes for provincial finance and audit staff, extension officers and training input into community and village based activities;
- Provide effective administration where provincial governments are suspended; and
- Administer policy and functions relating to the Electoral Development.

AUDIT FINDINGS

CORPORATE GOVERNANCE

- The DPLLGA has a four year Corporate Plan and an Annual Activity Plan for the year, 2015;
- The Annual Report for the fiscal year ended 31 December, 2015 covering the overall implementation and performance/achievements of the Annual Activity Plan was in draft form;
- The Annual Report for the year 2014 was not prepared;
- The Department had an Internal Audit Unit functioning with adequate resources, however, audit was unable to ascertain as to whether there were audits conducted and reports prepared during the year as these reports, if any, were not provided for audit review. Further, there were no evidence of any internal audit plans prepared for the year ended 31st December, 2015; and
- The Department has established an Audit Committee.

BUDGETARY CONTROL

- In 2015, a review of DPLLGA's issued warrants of K34,352,258 against its actual spending of K45,629,873 indicated a total overspending of K11,277,616;
- In 2015, Audit was not provided the documents and records relating to the National Disaster Office Trust, Ward Councillors Allowances, DPLGA and Disaster staff Salary & Allowance. Thus, I could not verify the remittance of K35,997,653 to these recounts;
- In 2014 Variances in expenditure balances were noted between the DoF (IFMS) and DPLLGA (PGAS) records indicating that there were no reconciliations done between the two records. The differences between the two records revealed that the PGAS balance exceeded the IFMS balance by K5,428,105; and
- In 2014, Expenditure totalling K121,000 was spent in excess of warrant authorities issued under one Vote Item in the recurrent budget.

BANK RECONCILIATION

The Department operated a Drawing Bank Account with the Bank of PNG. Audit review of the Bank Account together with the Cash Book and other related records revealed the following discrepancies:

- No monthly bank reconciliations prepared since 2013; and
- Monthly Cash Book records were not properly updated to ensure that all payments and grant reimbursements were captured in the Cash Book.

PROCUREMENT AND PAYMENT PROCEDURES

Review of payment vouchers and related supporting documents in 2015 revealed the following weaknesses:-

- The Specimen signature file was not provided for examination;
- The Department had a draft Procurement Policy which was yet to be approved by the Management;
- Payment vouchers of 14 payments totalling K167,462 were not provided for review;
- 13 payments totalling K40,049 were made on pro-forma invoices instead of tax invoices;
- There were no evidences of delivery dockets from suppliers for goods purchased in 13 instances totaling K38,449; and
- A total amount of K5 million was paid to the National Disaster Trust Account for the Disaster Office. However, there were no signed requisition forms including other supporting documents such as meeting minutes, memos, etc; to justify the transfer of funds to the trust account.

Audit examination of 60 payments totalling K7,530,283 and other related records in 2014 revealed the following observations:

- The Quotations Register Maintained by the Department was not made available for my review;
- Payment vouchers in relation to payments made to three suppliers totalling K73,400 were not provided;
- The Certifying Officer did not certify payments made to three suppliers for the supply of goods and services totalling K223,400;
- 42 payment vouchers totalling K1,917,754 were not provided;
- 20 payments totalling K748,319 were effected without the approval of Department of Works & Implementation for vehicle hires;
- Seven instances totalling K270,240 were paid to a private hire company for National Disaster Relief program throughout the country without proper contractual agreement for the engagement;
- For three payments totalling K627,673, there were no tendering procedures (APC or CSTB) followed as no proof of tender documents were attached;
- Seven payments totalling K730,059 for relief supplies did not have the disaster reports attached;

- Consultancy service provided to the Department by an individual totally K100,000 did not have any documentation such as Contract Agreement and type of work performed to substantiate the payment; and
- A Payment of K43,000 made to a Consultant was also not substantiated with the payment voucher for my review.

PNG FIRE SERVICES

A sample of 86 paid vouchers totalling K4,214,689 were selected for testing in 2014 and the following observations were made:

- Three payment vouchers totalling K55,000 were not provided for audit verification;
- Three payments totalling K39,603 did not have the required three written quotations attached;
- Minor Contract Agreements and three written quotations were not on file for 46 payments totalling K3,442,576; and
- A contractor was paid K641,198 for maintenance without CSTB approval.

ASSET MANAGEMENT

Audit review of the Assets Registers and other related records maintained by the Department revealed the following concerns:

- The Asset Register provided was not updated with relevant information as required in the FMM;
- Assets totaling K14,587 purchased in 2015 and K116,988 in 2014 during the year were not recorded in the Asset Register;
- There was no register maintained for attractive items such as mobile phones and laptops;
- Audit also noted that no physical verification of assets or periodical stock-takes were conducted during the year under review;
- Accident Reports for two vehicles written off in 2014 were not furnished; and
- Five motor vehicles were disposed of through public tender. However, audit was not provided with the tender documents and valuation reports for examination.

ADVANCE MANAGEMENT

Review of Advances Register with other related records/documents revealed the following:

- Both the Advances and Acquittal Register were incomplete;

- 11 travel related payments totalling K229,123 were not acquitted with proper supporting documentation and within the reasonable time frame;
- In 2015 and 2014 audit noted that subsequent advances had been continuously paid to advance holders who had not acquitted the previous advances paid to them; and
- Advances totalling K544,876 reward outstanding as at 31st December, 2014.

HUMAN RESOURCE & PAYROLL

My review of the controls and procedures relating to personnel emoluments which includes the payroll, personnel files and payment of casual wages, overtime, leave fares and other related records in 2015 noted the following issues:-

- Audit was not able to review the Departments salaries and allowances paid during the year due to unavailability of the payroll reports;
- The Department had provided the 2015 Capacity & Development Plan which consists of all training activities carried out in 2015, however the Five Year Training Plan was not sighted;
- A total of K125,878 was expended for training in 2015. However, audit was not provided with training reports and the program or scope of training conducted;
- Audit was not able to verify the payment of LLG Members monthly allowances posted under casual wages totaled K22,450,000 due to unavailability of the acquittal reports;
- 16 payments totalling K117,805 for recreational leave fares to staff were not supported with documents such as birth certificates, concessions and other legal documents relating to officers legal dependents. As a result, I was unable to ascertain if dependents claimed were eligible; and
- Further, five senior officers did not have their Employment Contracts renewed after the expiry date. These Officers were still being paid on contract basis.

Audit review of the Human Resource Management and payrolls processes in 2014 revealed the following weaknesses:

- Payments to six service providers totalling K44,919 were not related to leave fare expenses;
- Six leave warrant payments totalling K30,798 did not have tax declaration forms to substantiate the officer's claims of warrant for their dependents;
- A payment of K8,836 was processed for a dependent who was over the required age of 18 years to be accorded warrant for leave fare; and
- The HR & Payroll Section provided the Capacity & Development Plan which did not include the 2014 Training Plan. Furthermore, the Five Year Plan of the Department was not made available.

TRUST ACCOUNTS

National Disaster Centre Trust Account

Audit review of the National Disaster Centre Trust Account (NDCTA) in 2014 revealed the following discrepancies:

- The Trust Account with BSP was known as, “*National Disaster General Trust Account*”, however, the Trust Instrument required the name to be known as, “*National Disaster Centre Operational Trust A/C*”. This is not in compliance with the Trust Instrument;
- Other expenses which were not related to Disaster, including payment of funeral costs, medical appeals, payment of project etc, totaling K11,000, were incurred;
- Quotations Register to record verbal and written quotations were not made available;
- There was no segregation of duties in the preparation of FF3’s, recording of expenses, filing of vouchers and writing of cheques;
- The Department transferred a total of K2,863,059 into the (NDCTA) in 2014. This was contrary to the Trust Deeds which specifically instructs that monies should only come from Donor agencies (e.g: AusAid) and legitimate local donors;
- In 93 instances, payments totalling K2,591,851 were not made according to the Trust Instruments; and
- In 87 instances, Instructions in the Trust Instrument of the National Disaster Centre Operational Trust Account Instrument (Deed) were not followed. This Trust Account was used to pay for similar expenditures that were incurred in Recurrent Activities.

PNG Fire Services Infrastructure Rehabilitation PIP Trust Account - 2014

- 18 payments totalling K324,122; were incurred for the Computer Aided Dispatch System and Information Communication Technology Project, however, these expenses were not for the purposes stated in the PNG Fire Service Trust Account Deed requirements; and
- A Consultant was paid in advance a total of K10,000 which was improper and not in his Contract Terms.

DEPARTMENTAL RESPONSE

The above matters were referred to the Department; however, no responses were received at the time of writing this Report.

CONCLUSION

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

8. DEPARTMENT OF JUSTICE AND ATTORNEY-GENERAL 2015-2014

OVERVIEW

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

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

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

AUDIT FINDINGS

CORPORATE GOVERNANCE

- The Department has a three year Corporate Plan for period 2014-2017;
- The performance indicators in the 2015 Annual Plans, were not specified and quantified to program objectives identified in the annual planning process; and
- The Internal Audit staffs were not fully utilized during the year and resources were not prioritized accordingly.

REPORTING REQUIREMENT

- The Department fulfilled its obligation in producing and furnishing it's Quarterly Budget Review Reports to the Department of Treasury as required;
- There was no Annual Management report on the work and achievements of the Department in relation to the Corporate and Annual Management Plans for the year 2015; and
- The 2014 Annual Management Report was prepared but not submitted to DPM as required.

BUDGETARY CONTROLS

- A review of the IFMS 2157 report for the year ending 31st December, 2015 revealed a total over expenditure of K43,948,757 which comprises Recurrent Budget of K9,606,325 and Development Budget of K34,342,462; and
- In 2014 the DJAG incurred over expenditure of K824,057 as indicated in the IFMS report.

BANK RECONCILIATIONS

The DJAG operated a Bank Account with Bank of Papua New Guinea .

My verification on the month of December 2015 bank reconciliation statement with other related records and documents revealed the following discrepancies:-

- The only reconciling item outstanding was un-presented cheques totaling K1,620,069;
- Certificates were not attached with the reconciliation statements as evidence to confirm bank balances; and
- There was no evidence to indicate that copies of bank reconciliation statements were forwarded to Department of Finance within 14 days of the close of each month.

PROCUREMENT AND PAYMENT PROCEDURES

Audit examination of the 2015 expenditure transaction details, payment vouchers and related records along with the review of the internal controls surrounding the procurement and payment procedures revealed the following irregularities:

- Subsidiary ledgers were not maintained to reconcile payments against IFMS ledgers;
- The file containing specimen signatures for financial delegation was not made available;
- A review of 24 private law firms engaged by the State at a total cost of K8,505,400 back dating to 1988 revealed the following anomalies:
 - The DJAG did not have a policy in place for monitoring and screening of applicants prior to the engagement of these private law firms;
 - The Brief Outs, minutes of meeting, decisions or resolution passed for the approval to engage these private law firms were not sighted;
 - Terms of references, or contract of agreements entered into between these law firms and the State were not made available; and
 - Written submissions for the engagement of these private law firms were endorsed by the two Deputies instead of the Secretary.

- The DJAG hired Motor vehicles from 37 different private hire car companies and individuals amounting to K1,602,750. These hires were done without references from PTB, Department of Works, contrary to financial regulations. The highest single payment for one vehicle hire was K238,000; and
- The DJAG engaged 15 contractors and individuals during 2015 to carry out various major and minor contract works costing K4,684,348. Discrepancies noted from these payments were as follows:
 - The DJAG did not have a working committee in place to monitor and screen eligible contractors on merit;
 - Contract Agreements entered into between the DJAG and these contractors were not made available;
 - Payments were raised based on quotations provided by the contractors not invoices and were paid in advance;
 - Work specification and costing were not prepared and approximated for subsequent check by the Department;
 - Progressive Work Report and Certificate of Completion were not made available to substantiate satisfactory completion of the works paid for;
 - No Certificate of Registration with IPA and Certificate of Compliance were attached to the respective payment vouchers to ascertain whether the contractors were duly registered companies; and
 - A company was paid more than K2 million for providing pot plants. Audit was not able to verify its procurement process as no documentation was provided.
- Assets purchased during the years totalling K1,287,911 were not recorded in the Asset Register;
- During the year a company was paid a total of K835,364 for the maintenance of Department vehicles. Audit was not able to verify and confirm the engagement of this service provider as the Contract Agreement was not provided for inspection;
- A total of K350,000 was paid to Public Curators Office as legal fees for a deceased officer. However, justifications and other relevant supporting documents were not sighted to substantiate this payment; and
- In 14 instances, Petty Cash Advances were issued in favor of the paymaster totaling K205,326 and paid to officers of the Department for various purposes. Audit was unable to verify and confirm the validity and the correctness of these payments as the documentation for these payments were not provided for inspection.

My review of 44 payment vouchers with a value over K800,000 and other related documents pertaining to procurement and payments procedures in 2014 revealed the following weakness:

- The Department did not have an Annual Procurement Plan in place;
- The Department did not have any Quotations Register;
- The Department did not provide the specimen signatures of senior officers with their signing limits which were gazetted in 2013;

- A payment made to a law firm totalling K81,000 was related to outstanding bills for representing the State in 2011. There were no justifications as to how much was awarded in 2011 and how much was outstanding in the brief out attached;
- Similarly, a payment to another law firm totalling K85,000 was related to outstanding bills for representing the State in 2013. There were no schedules attached to justify how much was awarded in 2013 and how much was outstanding;
- In payments to a another law firm, for the years, 2000, 2001, 2010, 2012, 2013 & 2014, the Department did not attach the relevant documents including schedules, how much was awarded for each case taken up during the respective years and how much was outstanding. The law firm was paid a total of K5.8 million for the respective bills;
- No progressive reports were attached in relation to payments to a building contractor totaling more than K103,000. Only a photograph was attached of the initial construction;
- No progressive reports were attached to a payment to a Contractor totaling more than K17,000, for a variation of work done at the Finance Management Branch; and
- Reports of completed tasks or progressive reports produced by these contractors were also not provided for audit verifications;

ASSETS MANAGEMENT

During my audit examination of the Asset Register together with other related records for the period under review (2014), I noted the following:

- Assets purchased totalling K284,937 relating to computers, office equipment & office furniture could not be traced to the Asset Register maintained if they were recorded or not;

This is due to the register having incomplete details such as the date of purchase and the cost price.

- There was no stock take done over the years on the assets owned by the Department;
- I also noted that building materials purchased during the year costed K324,354 however, there were no Registers maintained for the properties owned by the Department; and
- Three vehicles purchased totalling K289,000, were not recorded in the Register.

ADVANCE MANAGEMENT

Examination of the advance register and other related records reveal the following irregularities:

- Advances totalling K742,782 and K311,873 paid during the year 2015 and 2014 respectively remained un-acquitted;
- In 2015, five officers were issued subsequent advances totalling K109,206 in respect of overseas travel whilst previous advances paid to them remained outstanding;
- The financial delegate did not review the Register of Advance to ensure that all public monies that were paid as Advances were properly acquitted at the required times specified under the *Financial Instructions*; and
- No follow up action was taken to remind officers to acquit their Advances.

HUMAN RESOURCE MANAGEMENT

In 2015 a general assessment of the human resources management of the DJAG revealed the following discrepancies:

- There was no evidence to suggest that the Training Plan (2013-2016) was submitted to Department of Personnel Management as required;
- The Training Plan did not indicate the commencement and completion and did not also indicate either internal and external nor long or short term training programs;
- A total of K686,675 was incurred for training without evaluation of the outcome;
- Two contracts officers did not have valid contract of employment; and
- Out of 28 casual files reviewed, four did not have their letter of appointments attached for audit to confirm of proper authority was obtained.

In 2014 review of Human Resource Management process and payroll controls revealed the following discrepancies:

- Certification of Payrolls were not done by the Divisional Head to ensure control over payment of salaries and wages before they were processed at the DoF systematically each fortnight;
- The Department engaged the services of 14 casual during the year and were paid over K37,000 as salaries under Vote 112-Wages. I was unable to confirm as to whether the engagement of casuals were for a short or long term with the Department;
- In 29 instances totalling K298,692, there were no tax declaration forms, birth and adoption certificates attached to verify and confirm the dependents claimed;
- I noted that six paid vouchers amounting to K69,836 were not provided for my review;
- 17 overtime paid vouchers requested were not provided for my verifications totalling more than K37,000;

- The Training Plan for the Department was not provided for audit verifications to substantiate the K1.7 million funding allocated; and
- The Staff Establishment Register was not provided for audit verifications.

TRUST FUNDS AND TRUST ACCOUNTS - 2015

The Department maintains two trust accounts:

- (i). Library Trust Account
- (ii). Legal fees Trust Account

Examination of the bank reconciliation statements with other related records and documents revealed the following discrepancies:

- There were delays in submitting monthly bank reconciliation statements to Department of Finance as required; and
- Analysis of the subsequently ledgers and the IFMS record revealed six payments totalling K80,888 from the Library Trust Account and two payments totaling K375,610 from the Legal Fees Trust Account.

Library Trust Account

- From a balance of K1,595,314 as per the IFMS report, a total of K1,571,413 was incurred to cater for expenses that were not related to the Library Trust Account;
- Trust funds were also used to meet recurrent expenditures. A number of major payments made that were not related to the Library Trust Account are as follows:
- A total of K110,793 paid to an Overseas University for a departmental officer revealed the following anomalies:
 - A written submission stating the reason and purpose of attending the training was not sighted;
 - A schedule or program showing the outline of the training was not sighted; and
 - A report from the group whether the training was of beneficiary to the Department and country as a whole was not provided.

Legal Fees Trust Account

A total of K23,317,027 as per IFMS ledger was noted under the Legal Fees Trust Account. Audit examination of K19,675,699 payments together with related documents revealed the following irregularities:

- Seven paid vouchers totaling K2,019,120 relating to Legal Fees Trust Account were not made available;
- The DJAG did not have a policy for engaging private law firms. Ten law firms were engaged and paid K1,206,614 to provide legal services to the State. However, Brief Outs, decisions, minutes of meeting, resolutions passed and Contract Agreement entered between the law firms and the State were not sighted;
- A sum of K273,981 was incurred to cater for airfares and travel allowance for the Minister and several senior officers to attend an exhortation in Singapore. However, no acquittals or reports were sighted upon completion of the trip to verify and confirm whether monies were spent according to intended purposes; and
- Two International law firms were engaged and paid K2,598,892. However, approval to engage these law firms with the supporting documents were not sighted.

DEVELOPMENT BUDGET - 2015

- Annual work plans for projects under the Development Budget in 2015 were not made available for audit review;
- The Department did not have a Project Steering Committee in place as required;
- The Department did not have any Policy or guidelines governing the screening, assessing, monitoring and acquittals procedures to ensure that Project Funds were spent for intended purposes; and
- The Status or Progress Report on the Projects were not made available for audit review.

A review of related payments revealed the following irregularities:

- Motor vehicles were hired from private organizations and individuals totalling K310,728 without references to PTB, contrary to financial regulations; and
- Examination of payments relating to 23 Contractors and individuals totalling K4,876,910 paid for various works carried out under Development Budget during the year 2015 with the related documents and records revealed the following matters of concern.
 - Three quotations were not always obtained from various suppliers;
 - The contract agreement entered into between the Department and the contractors were not provide;

- Payments were raised based on quotations provided by the contractors and were paid in advance;
 - Progressive reports and completion certificates were not sighted to confirm satisfactory completion of the works paid for; and
 - No Certificate of Registration with IPA and Certificate of Compliance were attached to payment vouchers to ascertain if the contractors were registered or deregistered company.
- In 16 instances, petty cash advances were issued under the paymaster totaling K224,061, and paid to officers for various expenses. Such payments could lead to misuse as no record of documentation for acquitted purposes.

DEPARTMENTAL RESPONSE

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

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.

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.

9. DEPARTMENT OF LABOUR AND INDUSTRIAL RELATIONS 2015-2014

OVERVIEW

The Department's mission is to create a climate of industrial harmony between employees and employers in both government and non-government sectors, promote job opportunities for nationals and set and regulate terms and conditions of employment.

The Department is expected to fulfill that mission in the context of the 18 Legislations it administers – viz: the *Employment Act*, the *Industrial Relations Act*, the *Employment of Non-Citizens Act*, the *Workers Compensation Act*, *Industrial organisation Act*, *Industrial Safety Health and Welfare Act*, *Explosive Act*, *Explosive (Adopted) Act*, *Inflammable Liquid Act*, *Trade Licensing Act*, *Local Government Act*, *Apprenticeship and Trade Testing Act*, *National Training Council Act*, *Employment Placement Services Act* and *Employment Statistics Regulation* and other relevant Legislations taking into account the recommendations of the International Labour Organisation; and through its exercise of these functions as follows:-

- Responsible for industrial relations including conciliations and arbitration services;
- Control registration of employee and employer industrial organisations and provision of registry facilitates;
- Research on labour and employment matters;
- Advice on industrial and commercial training;
- Administer a work permit system of employment of non-citizens and monitor training and localization programmes;
- Undertake labour inspections;
- Provide industrial safety, health, and welfare inspections and advisory services;
- Determine licensing of petroleum storage and explosives;
- Administer workers' compensation services; and
- Provide services to the Apprenticeship Board, Trade Licensing Board, Minimum Wages Board, and standing or ad hoc organisations relating to the functions of the Department.

AUDIT FINDINGS

CORPORATE GOVERNANCE

- The DLIR had prepared a Corporate Strategic Plan for the period 2013 to 2015 as required by the General Order 8.13. The Plan is well prepared capturing in detail each Strategy with its Objectives, Measures and Outputs; and
- The 2015 & 2014 Annual Management Plans were not provided by the Department for audit review.

REPORTING REQUIREMENT

- The Annual Financial Management Report for the year 2015 and 2014 respectively were prepared, however, audit could not confirm if the report was submitted to DoF and DoT as required on a timely basis; and
- In 2015 Quarterly Budget review reports were not provided for audit verification. Therefore, audit could not confirm if these reports were prepared and submitted on a timely basis to Department of Treasury as required.

BUDGETARY CONTROL

- A review of the IFMS 2157 report as at 31 December, 2015 revealed instances of over expenditure under the recurrent expenditure totalling K429,534 raising the issue of improper and unbudgeted spending under various Votes; and
- In 2014 variances were noted in the expenditure balances between the PGAS and IFMS records, due to non-reconciliation between the two records.

CASH MANAGEMENT

The Department of Labour and Industrial Relations operates a Drawing Account with the Bank of Papua New Guinea. Examination of the bank reconciliation statements and other related records revealed the following discrepancies:

- Bank reconciliations were prepared only for the months of January to August, 2015. However, audit could not ascertain if the bank reconciliations were submitted timely to DoF; and
- The bank reconciliations prepared had huge reconciling items dated back to 2015 that needs to be investigated and cleared in the cash book.

REVENUE MANAGEMENT

Audit review of the revenue report and related documents revealed the following:

- In 2015 revenue collections were lower than the projected target totalling K14,108,300 in four instances. A shortfall of K6,479,872 was also noted in 2014; and
- In 2015, revenue collection suppressed the project target by K538,600 in three instances.

PROCUREMENT AND PAYMENT PROCEDURES

Audit examination of 222 paid vouchers totaling K3,606,317 selected on a random sample basis together with related records and documents in 2015 revealed the following discrepancies:-

- A total of 165 paid vouchers totaling K2,564,756 were not provided, therefore, the authenticity and propriety of the payments made were not ascertained;
- In five instances totalling K73,499 payments for recreation leave fares were paid through Paymaster instead of Air Niugini or Travel Agencies as required under *Part 12 of the Financial Management Manual*;
- In five instances totaling K76,717, General Expense Forms were not sighted together with the paid vouchers relating to the payments for casual wages. In addition, the wages sheets (FF10) were not certified correct prior to raising the cheques; and
- In 21 instances payments totaling K347,503 were made without obtaining three written quotations as required under *Part 12 of the Financial Management Manual and Finance Instruction 2/2013*.

I examined 104 payment vouchers totalling to K2,546,789 together with related documents and records in 2014 and the following discrepancies were noted:

- The Department did not maintain a quotation register as required in the FMM;
- In six instances, payments totalling K776, 459 were processed for payment without the Section 32 officer's approval. Furthermore, these payments were not authorised by the Authorised Requisition Officer;
- 12 payments totalling K 56,975 were processed without the tax invoices attached;
- Four payments totalling K 52,292 were processed without being certified by the Certifying Officer;
- In three instances, a sum of K85,490 was processed for hire car payments without approval by PTB for private hire. These payments were also not certified by the Certifying Officer before effecting payments;
- I noted that in six instances, a total of K804,406 had been processed without the approval of the Authorised Requisition Officer;

- Eight payments totalling K 131,473 were processed without obtaining three written quotations as required in the FMM Part 12; and
- In five instances, minor contract agreements were not prepared before processing the payments amounting to K926,031.

ASSET MANAGEMENT

Audit examination of the Asset Register, Vehicle Register and other related records and documents revealed the following discrepancies:-

- In 2015, mobile phones purchased totaling K83,226 were not recorded in the Asset Register and in 2014, assets totalling K294,040 were also not recorded;
- The Department has no Usage Policy Manual for all of its assets (including vehicles/fleet);
- The Department issued Hard Drives, mobile phones and other attractive items to officers without policies guiding their usage; and
- 17 vehicles were registered under private registration numbers instead of government issued registration with "Z" plates as required.

ADVANCE MANAGEMENT

Audit examination of the advance register, acquittal files and related records and documents revealed the following irregularities:

- Travel and Cash advance payments totalling K2,502,865 remained outstanding as at 31st December, 2015 and K2,938,164 as at 31 December, 2014;
- In 2015, 11 acquittals totalling K28,041 and in 2014, K279,696 in several instances were not verified as correct by the financial delegate;
- In 32 instances, second advances were paid to officers who had not acquitted their previous advances totalling K232,789 for both domestic and overseas travels. This was also noted in 2014; and
- No recovery actions were taken by Management on these officers who fail to acquit their advances.

TRUST ACCOUNT

Audit review of the Trust Accounts records and documents maintained by the Department revealed the following irregularities:

- Trust Instrument for the National Training Council was not made available. This issue was raised in the previous year, and remains unresolved;
- In 2015 Trust Instrument for a new Trust Account called 'Revenue Fund Account' was not made available, therefore audit could not validate its establishment;
- Two Trust Accounts, namely *PNG Independent Fellowship Scheme and National Training Council* are kept outside PGAS, despite clear instructions in their Trust Instrument; and
- Monthly bank reconciliation prepared for the various Trust Accounts were not submitted on a timely basis as required in the FMM.

DEVELOPMENT EXPENDITURE

Audit analysis of the Development Budget and the transaction details revealed the following observations:-

- In 2015, expenses totalling K3,082,358 and in 2014, expenses totalling K5,339,427 were incurred out of the PIP budget:
 - For both years, reports were not prepared by the Department to account for the monies spent under the PIP. I could not verify correct if the expenses were incurred for the purpose as intended under the PIP budget; and
 - For both years copies of required documents were not made available such as cash flow statements and annual implementation schedules, Minutes of Project Steering Committee Meeting and Quarterly Review Reports for examination.

DEPARTMENTAL RESPONSE

The above audit findings were brought to the attention of the Department in a Management Letter issued. However, the Management did not respond up to the time of writing this Report.

CONCLUSION

The results of my audit indicate that overall, there were notable weaknesses in the control framework. The control activities such as delegations, 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 HIGHER EDUCATION, RESEARCH, SCIENCE & TECHNOLOGY 2015

OVERVIEW

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

The DHERST 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

Audit review of the Corporate Governance and Monitoring mechanisms of the Internal Controls revealed the following matters:

- The DHERST had a three year corporate plan in place (2015-2017);
- The *Annual Management Report for the fiscal year ended 2015* was not prepared; and
- The Internal Audit Unit did only one of the six audits planned for year, 2015.

BUDGETARY CONTROL

- Variances were noted between the expenditures balances reported in the Finance Department (IFMS) records and the DHERST (PGAS) records with Actual Expenditure variances of K19,664,144 and Warrant Authority variances of K7,076,521. This is due to non-reconciliation between the two records; and
- Over expenditure was noted in the report produced by DoF IFMS 2157 where the actual expenditure was in excess of warrant authorities by K384,629 from the Goods and Services category in three instances.

BANK RECONCILIATION

Audit review of the bank reconciliation statements together with cash book and related records revealed that there were delays in the preparation of the bank reconciliations with the latest prepared was for the month of September, 2015.

PROCUREMENT AND PAYMENT PROCEDURES

Audit randomly selected 75 payment vouchers totalling K2,138,883 (1.7%) from a total valued at over K114.7 million and noted the following discrepancies:

- As reported in previous audit reports, the DHERST did not maintain any Quotation Registers;
- 12 paid vouchers totalling K192,937 were not provided for audit examination;.
- In 20 instances, FF3s were not attached to the payment vouchers made to suppliers of goods and services totalling K420,196;
- In 15 instances, payments totalling K142,253 did not have FF4s attached to the claims;
- In 24 instances totalling K474,995, payments were made without the approval from a Section 32 Officer;
- 17 instances, payments totalling K281,059 were made without obtaining the required three written quotations;
- In 19 instances, payments totalling K747,107 were made on pro-forma invoices instead of tax invoices;
- Reports of work performed were not attached for two payments relating to Consultancy Services totalling K188,115;
- Payments totalling K63,944 in five instances were not certified by the Certifying Officer; and
- Three payments totalling K33,185 were not examined by the Examining Officer prior to making payments.

PAYMENT OF GRANTS AND SUBSIDIES TO INSTITUTIONS

Natschol Allowances

- Audit noted that 20 Second Semester payments totalling K1,885,500 in regard to Natschol Allowance were not acquitted.

Board/Lodging fees and Resource/Book Allowances

The acquittals were not made available to audit in relations to Grants totalling K53.49 million that was disbursed to various Higher Education Institute for examination

ASSET MANAGEMENT

Audit review of the four separate categories of Fixed Asset Registers and related documents maintained by DEHRST during the year under review revealed the following anomalies:

- 23 assets valued at K156,480 out of 30 assets purchased during the year valued at K166,660 were not recorded in the respective asset registers;
- No physical verification of assets or periodical stock-takes were conducted for assets owned by the Department during the year under review; and
- One of the Department vehicle was registered with a private registration plate number instead of Government issued "Z" plate;

ADVANCE MANAGEMENT

Audit examination of a sample of 529 advances totalling K1,973,930 and the advance Registers with other related records/documents revealed the following:

- The three Registers (Travel, Incidental and Petty Cash) were not updated and in most cases, the cheque numbers and other important information were not recorded;
- 319 instances totalling K1,581,238 or 60 % of these advances paid were not recorded in the respective registers;
- A total of 282 advances amounting to K376,651 which represents about 32% of the total advances paid remained outstanding as at 31 December, 2015; and
- Audit noted that 213 advances totalling K218,568 were issued to officers who had failed to acquit previous advances which were still outstanding.

HUMAN RESOURCE & PAYROLL

- The DHERST did not have a Five Year Training Plan or an Annual Training Plan in place;
- Six Senior Officers Salary history cards were not updated;
- Eight employee's personal files did not have their recreation leave cards updated and properly maintained on file; and
- No monthly payroll expenditure reconciliations were done for the Department as required under *Part 18.1 of the FMM*.

DEVELOPMENT BUDGET – PIP

The DHERST administers six projects under the PIP. The following discrepancies were noted.

Trade Skill Scholarship

- Reports such as Progressive Reports or Quarterly Review were not made available to audit. Audit was unable to determine the progress of the Project and also determine as to whether the objectives and goals of the project were achieved.

Infrastructure & Rehabilitation & Recapitalization

During the period under review, funds totalling over K38.69 Million were spent on this program. Examination of a sample of 40 payments totaling K14,120,857 (36%) with related records and the following deficiencies were noted:

- There were no acquittals reports or no project status reports for transfer valued at more than K20 million to five Universities;
- Payment vouchers for four payments to contractors totaling K959,294 were not provided to audit. As such, it was not possible to confirm the validity of these payments;
- Three payments to suppliers totaling K1,398,115, were made on pro-forma invoices instead of tax invoices;
- There were no evidences, such as delivery dockets or consignment notes for goods or materials received/delivered in four instances totaling over K1.59 million;
- No adequate supporting documents such as written quotations, tax invoice and delivery dockets of materials received from suppliers for a reimbursement of K66,946 made to University of Goroka; and
- Status/progress or completion reports for the three payments in relation to staff house maintenance at the University of Technology totalling K228,595, were not made available to audit.

Technical & Business College Rehabilitation

Audit examination of K11 million payments and related records and documents revealed the following responsibilities:

- Payment vouchers for two payments totalling K288,850 were not provided to audit;
- Minor Contract Agreements signed including terms of references between seven Contractors and the State in relation to payments totalling over K2.1 Million were not made available;
- A payment of K188,334 was made to a supplier of materials without first obtaining the required three written quotations. No minor contract was sighted;
- A payment of K254,198, was made on pro-forma invoices instead of a tax invoice;

- There was no evidence of goods or materials received or delivered;
- There were no status/progress or completion reports for 13 projects undertaken for which 13 payments totaling over K4.45 Million had been made; and
- Audit noted that invoices were paid twice to the same contractors in four instances totaling over K1.34 million.

Teachers College Rehabilitation

Out of a sample of 14 payments totalling K5,51,764 were reviewed with related documents paid under this program, the following matters were noted:

- Payment voucher for a payment of K54,000 paid to a company was not provided;
- Minor contract agreements including terms of references in relation to eight instances totalling K3,099,552 were not provided;
- There were no adequate supporting documents such as three quotations, contract agreement, tax invoices, scope of work done and status report to substantiate the re-imbursement for money in relation to a payment of K499,000 made to a College. Furthermore, this payment was incorrectly charged to Teachers Colleges Rehabilitation program instead of charging to Technical and Business College Rehabilitation program; and
- Status/progress or completion reports were not made available in relation to two payments totaling K698,491 for projects undertaken.

Nursing College Rehabilitation

Examination of 18 selected payment vouchers totalling K17,722,290 revealed the following deficiencies:

- Two payment vouchers totalling over K2.66 million were not provided;
- No minor contractor agreement was made available for a payment totalling K492,789 for maintenance work done at a Nursing College;
- Audit noted that another payment of K210,000 was made without an official tax invoice; and
- There were no status/progress or completion reports for projects undertaken in five instances totaling over K 7.7 million.

DEPARTMENTAL RESPONSE

The above matters were brought to the attention of the Secretary through the Management Letter issued. The Management responded that appropriate action will be taken to improve the weaknesses reported in the Management letter.

CONCLUSION

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

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.

11. OFFICE OF PUBLIC SERVICE COMMISSION 2015

OVERVIEW

The Public Services Commission is a body created by the Constitution, is independent of the Department of Personnel Management, 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

- The Commission has a Corporate Plan for the period 2014 to 2018 and the Annual Management Work Plan that is clearly linked to the Corporate Plan and objective;
- The Internal audit was established on the *9th December, 2014* with only one staff. The Commission needs to recruit another officer with appropriate qualification who can assist in doing more audit work which will assure Management on its internal control and risk management;
- An “Annual Work Plan of the Internal Audit Unit” needs to be prepared and submitted to the Chairman for approval as required prior to commencing any work;
- The Commission needs to establish an “Internal Audit Committee” as required in Public Finance (Management) Act, 1995 Section 9(1)(c); and
- The “Annual Report for the year 2015” was not prepared at the time of audit in May 2016.

REPORTING REQUIREMENT

The Annual Report for the year 2015 was not prepared. Without an annual report, it is difficult to properly measure the Commission’s performance in meeting specific goals and objectives against the annual work plan and the corporate plan.

BUDGETARY CONTROL

A review of the IFMS 2157 report indicated that the Commission had over expended by K1,071,038 under two Vote Items.

BANK RECONCILIATION

The Commission did not prepare nor maintain monthly bank reconciliations for the year 2015. This practice is a serious breach of the PFMA 1995. It is a mandatory requirement that all government agencies prepare and maintain bank records and cash book for accountability purposes.

PROCUREMENT & PAYMENT PROCEDURES

My examination of paid vouchers and related documents selected on a random sample basis, and review of the procurement and payment procedures in operation revealed the following observations:-

- Segregation of duties being a key element of control had not been exercised. There was only one Officer performing all tasks of certifying, commitment, examining and printing of cheques;
- A routine maintenance payment for phone lines and cabling was not supported with Maintenance Request forms from responsible Sections nor any delivery dockets and proper receipts on all goods purchased;
- Three written quotations were not obtained for payments as required by Finance Instruction No. 2/2013 totalling K83,733; and
- Payments made to the Paymaster for *Walk Against Corruption for an amount of K10,024* was effected without the Requisition Form (FF3) and the General Expense Form (FF4). This indicates serious control weaknesses in the procurement and payment procedures.

ASSET MANAGEMENT

- The Commission did not maintain an asset register to records details of all assets acquired by the Commission in 2015 and prior years. There was no Master Assets Register maintained for the Commission; and
- There was no evidence to indicate that the Commission had conducted any periodic stock take of its assets to ensure existence of the assets and are in usable condition.

ADVANCE MANAGEMENT

My review of the Advances Register, Acquittals files and other related documents revealed the following:-

- Travel advances totalling K212,367 remained un-acquitted as at year end;
- Out of the total outstanding, K9,426 relates to year 2015 while the balance of K202,940 relates to prior years, some dating back to 2010; and
- Additional advances were issued to five existing advance holders in spite of their prior advances remaining un-acquitted.

HUMAN RESOURCE AND PAYROLL MANAGEMENT

- Fortnightly payroll reconciliations were not done to certify the correctness of the payrolls;
- Employees' records were not properly maintained and updated. These include salary history cards, recreational leave records, HDA, compassionate leave and sick leave records; and
- In five instances, totalling K58,571 documents relating to the number of dependents claimed for rec-leave could not be confirmed due to personal files of respective officers not updated with current information.

DEPARTMENTAL RESPONSE

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 notable weaknesses in the control framework. The control activities are not sufficiently robust to prevent, delete or correct errors or fraud.

12. DEPARTMENT OF CORRECTIVE INSTITUTIONAL SERVICES 2015

OVERVIEW

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

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

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

AUDIT FINDINGS

CORPORATE GOVERNANCE

- The Corporate Plan and the Annual Work Plan for 2015 were not provided for my review;
- The Internal Audit Unit (IAU) had only one Officer at the time of audit. Considering the size of the Department, there is a high need to increase the manpower level to provide sufficient audit work as required; and
- Copies of Quarterly Budget Review Reports if any were not made available for my review.

BUDGETARY CONTROL

The Expenditure Statement produced by the Department *as at 31 December, 2015* indicated over expenditure in eleven Vote Items totalling K9,204,800 in the Recurrent Budget.

BANK RECONCILIATION

The last bank reconciliation prepared was for the month of August, 2014. No monthly Bank Reconciliation had been prepared during the year 2015.

PROCUREMENT & PAYMENT PROCEDURES

I could not perform a proper analysis on procurement and payment procedures due to the absence of PGAS reports and the incomplete IFMS reports.

A sample of 28 payment vouchers totalling K7,610,026 were randomly selected for examination based on the part report from October to December, 2015. The following discrepancies were noted:-

- Payment vouchers were not sighted in seven instances totalling K2,057,103;
- Three payments totalling K3,756,352 were made without using the ILPOC contrary to the *Financial Instruction*; and
- A total of K1,308,242 was paid to nine contractors during the year, 2015. My review of the payments revealed the following:
 - No contractual agreements or minor contracts were sighted for nine service providers of *house repairs, maintenance, office partitioning, electrical work and purchase of kit houses*;
 - *Payments were made based on quotations and not invoices provided by the service provider, and these were paid in advance*;
 - *Work completion certificates were not sighted for all works done to suggest satisfactory completion*;
 - I noted that no Contractual Service Agreements were made with service providers in 12 instances totalling K1,521,979;
 - Prior years vehicle maintenance and repairs totalling K638,857 in 14 instances were settled from the 2015 appropriations for payments going as far back as 2006 which in my view were unbudgeted for and unjustifiable; and
 - Leave fares totalling K1,311,808 were paid in 308 instances. I observed that leave fares were not only paid from Item 114 but were also incorrectly charged to Item 227 (*Other Operational Expenses*).

ASSET MANAGEMENT

Various Assets valued at a total of K698,739 were purchased by the Department during the year. These included two new vehicles at a total cost of K297,032. All these assets were not recorded in the master register.

The Department did not update the Master Assets Register.

The non-maintenance of a "Master Assets Register" will lead to the Department not knowing the *true net-value of assets* that are owed and managed by the Department at the Head Quarters and at the Provincial Institutions.

ADVANCE MANAGEMENT

My examination of the Advance Register and other related records/documents revealed the following:

- 506 advances totalling K610,792 were unacquitted and remained outstanding as at 31 December, 2015;
- I noted from the acquittals made that not a single acquittal was checked nor signed by the Financial Delegate as required;
- I noted that total unacquitted advances from previous year 2014 and the current year 2015 accumulated to a massive K1,453,123 in 1,302 instances;
- Subsequent advances were issued to 97 officers in 239 instances totalling K269,719 whilst their previous advances paid to them remained outstanding which was in breach of the PFMM; and
- I noted that various advances totalling K574,071 were paid under the Paymaster and not directly to the Advance Holders. All of them were not acquitted and remained outstanding as at 31 December, 2015.

TRUST ACCOUNT

A review of the monthly bank reconciliations prepared for *The Prison Industry Trust Account*, together with related records and documents revealed the following:-

- I noted that there was no preparer and reviewer's signature and date to verify as to when they were prepared and whether they were reviewed. As reported in 2014, there is still no evidence as proof of it been sent to DoF;
- I observed that "*unrecorded cheques paid*" and "*unrecorded bank debits*" were not cleared from January and carried forward up until 31 December, 2015. These need to be identified and cleared; and
- Audit could not confirm if all monthly bank reconciliations prepared were submitted to DoF as required.

DEPARTMENTAL RESPONSE

The findings were brought to the attention of the Commissioner in my Management Letter. However, the Management did not respond up to the time of writing this report.

CONCLUSION

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

13. DEPARTMENT OF HEALTH 2015

OVERVIEW

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

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

AUDIT FINDINGS

REPORTING REQUIREMENT

The Department of Health (DoH) did prepare and submitted the Annual Management Report to the Secretary, National Executive Council, and to the Secretary, Department of Personnel Management. A copy of this report was not made available to audit for confirmation.

BUDGETARY CONTROLS

- A comparison of the Expenditure Vote Summary generated by the IFMS 2157 for the year ending 31 December, 2015 and the report through the PGAS system revealed a variances of K5,944,847 and K215,123,488 in total actual expenditure balances for the recurrent and development budgets respectively; and
- Audit review of the IFMS 2157 report revealed over expenditure under the recurrent budget totalling K18,697,066 of K215,123,488 under the development budget.

CASH MANAGEMENT

The DoH operates a Drawing Account with the Bank of Papua New Guinea. Audit verification of the bank reconciliation statements and the other related records and documents for the financial year, 2015 revealed the following discrepancies:-

- A review of the monthly bank reconciliations revealed delays ranging from 7 to 33 days when submitting the reconciliation to Department of Finance for the months January to May 2015. The unrepresented cheques as at 31 December, 2015 was K73,025,071;
- Included in the K73,025,071 are 533 of stale cheques totalling K41,278,302 which represents 56% of unrepresented cheque which should have been identified and journalized; and
- The Bank Reconciliation Statement for the month ending 31st December, 2015, disclosed outstanding reconciling items which should have been investigated, cleared and adjusted in the cashbook in order to reflect an accurate cash book balance.

PROCUREMENT & PAYMENT PROCEDURES

Recurrent Expenditure

An audit examination of 41 payment vouchers totaling K8,092,930 and other relevant documents for the year ended 31 December 2015 revealed the following discrepancies:-

In 11 instances totalling K402,087, payment vouchers were not provided;

- Expenditures totalling K227,146 were charged to incorrect Vote Items in nine instances;
- In six instances totaling K222,881, the payments were effected without being examined and certified correct by the authorized officers;
- In 20 instances totalling K2,891,835, valid certificate of compliance from Internal Revenue Commission were not attached with the payment vouchers;
- In seven instances totalling K234,446, three written quotations were not obtained from reputable suppliers;
- In three instances totalling K211,792, minor contract for payment between K50,000 to K500,000 were not executed between the Department and the supplier; and
- In nine instances totalling K385,984, tax invoices were not attached to the payment vouchers to substantiate the amount paid.

Medical Supplies Procurement & Distribution

Audit examination of 16 selected payments totalling K1,984,500 relating to six minor contracts executed between the DoH and a contractor engaged to supply medical supplies revealed the following irregularities:-

- No Quotation Bid form was attached with all six contracts;
- Three written quotations were not attached to the all six contractual payments;
- No Minor Contract Agreement signed standard template cleared by the State Solicitor was attached to all six contracts as required by Finance Instruction 2/2013 para 6.4A;
- Two contracts totalling K333,000, were effected without being examined and certified by the examiner and the certifying officer respectively;
- Four contracts totalling K1,164,000, Delivery Notes were not attached to substantiate that 292,000 worth of goods were delivered to the four respective Area Medical Stores were received in good conditions without any defect;
- The contracted company which was paid K78,500 is yet to deliver a quantity of 16,500 worth of goods to the Department; and
- Audit requested for payment vouchers relating to four cheque payments totaling K877,600 paid in 2014 in 14 instances, however, the payment vouchers were not provided for my verification.

ASSET MANAGEMENT

Audit examination of the Asset Register and related records revealed the following discrepancies:-

- 335 instances assets worth K3,303,285 which were not recorded in Assets Register in 2013 and 2014 remain un-recorded as at 31st December, 2015;
- Fixed assets purchased in 2015 totalling K3,182,476 in 69 instances. All these Assets remained un-recorded;
- The DoH purchased two motor vehicles totalling K236,000 from incorrect Expenditure Vote Item 125 rather than Vote Item 222. The two vehicles were also not recorded and remain unaccountable for by the Department; and
- No stock take was conducted during the year, 2015.

ADVANCE MANAGEMENT

Examination of the Advance Register and other related records for the financial year 2015 revealed the following discrepancies:-

- The DoH did not maintain a proper Salary Advance Register;
- The Travel and Cash Advance Register lacked vital information as required by the FMM such as; FF4 Reference No, Date, Cheque No, signature of the Recipient, date of Acquittal and Remarks;
- 701 un-acquitted advances totalling K2,111,912 included unrecorded advances as at 31 December, 2015;
- 37 officers were issued subsequent advances totaling K102,818 when their previous advances remained un-acquitted;
- 22 acquittals totalling K85,870 were not furnished to audit for verification; and
- A review of the acquittal files revealed that in 47 instances totalling K279,009, acquittals were delayed ranging from 1 to 298 days.

HUMAN RESOURCE & PAYROLL MANAGEMENT

Audit review of the Senior Management Contract, Personnel Files, expenditure transactions details and other related records revealed the following discrepancies:-

- The Health Sector Housing Policy was not approved by DPM prior to implementation;
- The Department has a provision for its Senior Executive Management of Health Administration Officers under various categories as noted in *Annex 3 of the Housing Policy*. These provisions differ a lot from the DPM *Circular 1/2015*; and
- The Senior Executive Management of the Department were paid excessive rental accommodations based on the Housing Policy which was not approved by DPM. This is a total breach of the Public Service General Order and DPM Circular.

DEPARTMENTAL RESPONSE

The above audit findings were brought to the attention of the Secretary through a Management Letter.

The Department had responded to the findings reported in the Management Letter issued and their responses were incorporated accordingly in this Report.

CONCLUSION

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

14. DEPARTMENT OF PRIME MINISTER AND NATIONAL EXECUTIVE COUNCIL 2015

OVERVIEW

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

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

AUDIT FINDINGS

CORPORATE GOVERNANCE

The Department had a 5 Year *Corporate Plan from 2011 to 2015* and also a revised *Corporate Plan for the period 2015 to 2017*.

Annual Work Plan for 2015 was in place. The Annual Plan included the Department's objectives, activities, strategies and budgets for each activity according to appropriation and goals for each Division of the Department of Prime Minister and NEC which was also linked to the Corporate Plan

BUDGETARY CONTROL

A summary of IFMS 2157-(TMS100) Report produced by the Department of Finance revealed the following:

- An over-expenditure of K10,512,177 for recurrent budget and a savings for development of K398,888 that resulted in a total over-expenditure of K10,113,290 in 2015;
- A comparison of total warrant authorities received by the Department in 2015 as against the IFMS Warrant Authorised Report (Run date 18 April, 2016) revealed a significant variance of K42,248,115; and
- A Funds transfer of K1,000,000 was made without any supporting documents.

CASH MANAGEMENT

The Department of PM & NEC maintained a Drawing Account with the BPNG. Audit verification of the documents and related schedules for the bank reconciliation as at 31st December, 2015 revealed the following:-

- Figures presented on the bank reconciliation could not be ascertained as to where they were derived from due to no supporting documents;
- Unpresented cheques totaled to K71,666,664 in 365 instances; and
- Delays in submitting monthly bank reconciliations to DoF ranged from 1 month to 5 months.

PROCUREMENT & PAYMENT PROCEDURES

According to the IFMS expenditure reports and other related records, the following irregularities were revealed:

- A total of K465,400 in 13 instances was paid to a hire car company to which the owner is an employee of the Department contrary to General Order 20.7;
- The Department was unable to provide documents such as certificate of incorporation and certificate of compliance to verify existence of 23 hire car companies with payments ranging from K200,000 to K3,800,000;
- Audit noted further that the arrangements in engaging hire car companies were done by various officers that deal directly with the company. There was no proper control/procedure in place for engaging private vehicle hires in the Department leading to huge expenditures being incurred annually. The total payments made to these companies, for hire of vehicle was K12,980,836;
- Payment vouchers totalling K185,052 in five instances relating to payment for hire of vehicles were missing in file;
- The Requisition for expenditure forms [FF3] were not approved by the Financial Delegate or the Commitment Clerk in nine instances relating to hire vehicles totalling K467,550;
- General expense forms [FF4] were not certified by the Certifying Officer in five instances totalling K177,120; and
- Audit also, noted that a total of K1,157,308 in 261 instances related to travels without evidence of authorisation by the Department for using the Air Niugini prepared Account and the UATP card Accounts.

ASSET MANAGEMENT

The Department uses a database system known as *The Asset Management System* to register its Fixed Assets, which included Attractive Items. Audit review of the database register revealed the following shortfalls and matters of concern:-

- There was no *Consolidated - Master Assets Register* to capture prior year's asset records and their total net values as significant amounts of monies were expended on assets over the years by the Department;
- The Register provided showed assets purchased for the current year 2015 only;
- Assets were not "Categorised" in their respective categories as required;
- The database was still incomplete with Supplier's column not captured to identify where the assets had been purchased from. Columns for the Quantity and Total cost were also not capture;
- The database register was still not fully functional and not updated. In addition, there was no process in place for the screening of asset requests;
- There was no stock take done for 2015, and no register created for disposal of assets and or write offs;
- There was no register created and maintained for attractive items purchased such as mobile phones, digital cameras and laptops, tape recorders, projectors and similar valuable portable items to a total of K63,345;
- Assets purchased totalling K276,424 in 17 instances were not registered in this Asset Management System;
- The motor vehicle register was defective. Date of purchases, engine/chassis numbers, cheque numbers, amounts and custodians of various vehicles purchased were not recorded; and
- The motor vehicles register showed six motor vehicles had private plate numbers in contrary to the requirement that all state owned vehicles must have Government 'Z' plates.

ADVANCE MANAGEMENT

Audit review of the advance register and related records revealed the following irregularities:

- Advances amounting to K4,290,891 in 401 instances remained unacquitted as at 31 December, 2015;
- In 335 instances totalling K4,079,492, second advances were paid to 48 officers who did not acquit their prior advances contrary to *Part 20 paragraph 12.11 of the Financial Management Manual*; .

- An analysis of the amount of un-acquitted cash advances paid via the Paymaster since 2013 revealed a total of K2,427,769;
- The issue of un-acquitted cash advances paid to the Paymaster at year end for the shutdown period has been an ongoing practice since 2013. Audit noted that in 2015, cash advances amounting to K673,218 was paid for the year end shutdown period; and
- These were unused funds at the year which were supposed to be remitted back to CRI instead they were paid as cash advances to the paymaster.

HUMAN RESOURCE & PAYROLL

Audit review of the records maintained by the Human Resource and Payroll Management Division revealed the following:

- The payroll function relates to the proper payment of employees and maintenance of proper payroll records;
- An overstatement by K1,010,956 was noted against item 112 (wages) when comparing Alesco against IFMS (2365);
- Eight Senior Contract Officers with expired contracts were still occupying Contract Positions on acting basis as reported in my previous 2014 audit; and
- The Department of PM & NEC still did not have a Training Plan in place which is contrary to GO 5.34 - 5.35. Expenditures were however, incurred totalling K550,184.39 for training related costs without proper plan.

TRUST FUND MANAGEMENT

The Department PM&NEC administers six Trust Accounts which were maintained in the newly introduced Integrated Financial Management System (IFMS):-

- The signed amended Trust Instrument for *Office of National Events Council Secretariat Trust Account* was not submitted for audit review;
- The *National Events Council Trust Account* and the *Office of National Events Trust Account* were operating concurrently under different bank accounts contravening Section 6 of the *Trust Instrument* which specify for on account only to be used; and
- Audit was unable to review all payments out of the trust accounts as the expenditure reports of all the trust accounts were not provided.

DEPARTMENTAL RESPONSE

The above audit findings were brought to the attention of the Secretary in a Management Letter issued and the responses were incorporated under the respective audit issues.

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.

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.

15. DEPARTMENT OF WORKS AND IMPLEMENTATION 2015

OVERVIEW

Main programs of the *Department of Works and Implementation* are:-

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

AUDIT FINDINGS

CORPORATE GOVERNANCE

- The Department *has a Five year Corporate Plan from 2015 to 2019*; and
- While the Department's Strategic Plan is current, the Management did not provide the *Annual Management Plan* to coincide with the *Corporate Plan*.

REPORTING REQUIREMENT

- The Department has produced the Quarterly Budget Review Reports for the 2015 financial year and submitted to the Department of Treasury; and
- The Annual Management Report for 2015 was also produced. It clearly outlines the achievements against the Work plans.

BUDGETARY CONTROL

A comparison of the 2015 Oracle Expenditure Vote Summary printout maintained by Department of Works & Implementation (DoW&I) with the IFMS 2157 Report produced by Department of Finance (DoF) for period ending 31 December 2015 revealed significant variances between expenditure statement balances:-

- Variances noted under warrant authorities amounted to K2,314,173 while the Actual Expenditure amounted to K28,309,619 between the two records (Oracle & IFMS 2157);
- Transfers or Adjustments between Oracle and IFMS were not taken up in reconciliation resulting in incorrect expenditure balances recorded between the two Departments; and

- The Department is in breach of *Part 7 (10.3) of the Financial Management Manual* by incurring expenditures totalling K37,435,808 over and above the authorised warrant limit under five vote items.

BANK RECONCILIATION

The DoW&I maintain an Operating Bank Account with BSP. This main Operating Account comprises of the Main Reimbursement Account and 20 Provincial Operating Accounts. Audit verification of the documents and related schedules for the bank reconciliation revealed the following:

- The bank reconciliation format used was different from the standard bank reconciliation format used by the other Government Departments according to *Volume 2 Section 11* of the *Financial Management Manual* (FMM);
- A review of the December, 2015 bank reconciliation revealed huge reconciling items that were not investigated, cleared and adjusted in the cash book and the bank account;
- Included was un-presented cheque totalling K117,485,779 but the schedule of the un-presented cheque amount was not provided; and
- A total of K106,876,115 represented reimbursements dating back to 2013 from the Main Public Account that need to be posted in the Cash Book by way of journal entries.

PROCUREMENT & PAYMENT PROCEDURES

Audit randomly selected 166 sample transactions totalling K156,091,106 of the total expenditure of K471,043,851 and tested for control effectiveness in the procurement and payment procedures:

- 45 paid vouchers amounting K13,942,798 were not provided for audit review. The authorization and supporting documentations of these vouchers cannot be authenticated as the vouchers were not provided;
- Payments valuing K7,391,959 for major Construction works were made on Expired Certificates of Compliance (CoC) in seven instances;
- Certificate of Compliance documents were not sighted together with the rest of the payment documents valuing K35,282,866 in 26 instances;
- A payment made to an overseas company for fabrication of panel bridge totalling K2,284,386 was not approved by the Requisition Officer and also the Certificate of Inexpediency (COI) was not sighted. Hence, proper approval for such payment could not be ascertained in audit; and
- A total payment of K4,725,644 were paid to three overseas companies for various services rendered to the Department in 2015. Audit noted that these companies were not registered with IPA contrary to the Companies Act, 1997.

ASSET MANAGEMENT

The Department maintained a total of six asset registers according to their asset classification. Following are the irregularities that were noted:-

- The IT Equipment Register maintained by the IT Division at the Headquarters' was not made available for my review; and
- Audit noted that the assets registers maintained at the Head Office were updated only up to 2014. Assets purchased in 2015 totalling K1,228,274 were not registered. Nine vehicles purchased during the year totalling K1,136,893 were also not recorded and remain unaccounted.

ADVANCE MANAGEMENT

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

- The register was well maintained in that it contained all the necessary information except that it did not contain the dates of acquittals made;
- During the year a total of K1,483,465 was paid in advances. More than 50 percent of these advances, totalling K814,648 of these remained un-acquitted as of 31 December, 2015; and
- From the non-acquittals totalling K814,648, subsequent advances were paid to 110 officers valuing **K367,149** whilst their prior advances were still outstanding or unacquitted.

HUMAN RESOURCE & PAYROLL MANAGEMENT

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

- 116 Permanent Casual Officers of the Department were paid through a separate payroll system known as the Able Payroll System. These casuals should be paid through ALESCO Payroll System used by the Department; and
- The Department did not have in place either a Five Year Training Plan or an Annual Training Plan for the year under review.

TRUST ACCOUNT MANAGEMENT

A comparison of the DoF Trust records to that of the DoW&I revealed that there were 36 Active trusts but the DoW&I only listed 14. Active subsidiary trust accounts were not on the list provided by the DoW&I. This is due to lack of reconciliation between the DoF records and DoW&I records.

DEVELOPMENT BUDGET

Audit review revealed that a total of K4.9 million as un-used development budget funds were transferred to the Works Suspense Outside Operations Trust Account (WSOOTTA) at year end, 2015:-

- Such transfers were made in contrary to Section 30 of the PFMA that states that all un-used funds from year-end are supposed to be transferred into the Main CRF and NOT transferred into trust accounts.

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.

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. 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.

16. DEPARTMENT OF IMPLEMENTATION AND RURAL DEVELOPMENT 2015

OVERVIEW

The *Department of Implementation and Rural Development* (DIRD) is required to play a lead role in the formulation, co-ordination and implementation of the Government's Rural Development Policies and Programs that contribute to improving delivery of government services, raising the quality of life and attaining sustainable development.

Major objective of the Department of Implementation and Rural Development is to facilitate administration of National Parliament Members' Electoral Development Funds for rural infrastructure development.

AUDIT FINDINGS

CORPORATE GOVERNANCE

- Audit noted that Corporate Plan 2014-2018 was prepared; and
- The DIRD has an Internal Audit Unit however, Audit Committee is yet to be established as required in the PFMA.

REPORTING REQUIREMENTS

No Annual Management Report was prepared and submitted to Department of Personnel Management as required in GO 8.14.

BUDGETARY CONTROLS

A comparison of the Expenditure Vote Summary reported maintained by DoF generated by the (IFMS 2157) against the DIRD (PGAS) report revealed significant variances of K8,788,450 between actual expenditure balances for the year.

The discrepancies derived from the two records were due to non-reconciliation.

BANK RECONCILIATION

The DIRD operates a Drawing Account with the BPNG. The bank reconciliation statement for the month ending 31st December, 2015, disclosed:

- Un-presented cheques of K27,842,010 included 183 stale cheques totalling K16,380,718 which should be investigated and journalized; and
- Of the K16,380,718, K15,500,000 which constitute 94% were 2014 Constitutional Grants cheques for members of Parliament.

ASSET MANAGEMENT

Audit review of the Asset Register, transaction details and other related records for the financial year under review reveal the following discrepancies:

- Assets valued at K62,866 that were not recorded in 2014 still remained unrecorded as at 31st December, 2015;
- In the absence of date of purchase, audit could not trace the assets purchased in 2015 totalling K400,810 in 29 instances to the respective registers;
- The Motor Vehicle Fleet Register did not indicate details of the officer responsible/custodian of a particular vehicle; and
- No stock take of the assets was conducted for three consecutive years, 2013-2014 including the current year, 2015.

ADVANCE MANAGEMENT

Audit examination of the Advance Register and other related records revealed the following:

- The Advance Register maintained lacked the required information as required by the FMM, Part 32;
- Advances totalling K222,558 reported in 2014 as unrecorded, still remained un-acquitted as at 31st December, 2015;
- No follow up action was taken by the Management on the officers who had long outstanding advances;
- 93 advances (including un-recorded) totalling K259,297 remained un-acquitted as at 31 December, 2015; and
- Officers were issued two or more advances while the previous advances paid to them remained un-acquitted.

HUMAN RESOURCE AND PAYROLL MANAGEMENT

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

- Four instances of payments totaling K34,475 were incorrectly charged from other Expenditure Vote Items which audit considered as unbudgeted expenses;
- A total of K42,327 was paid as overtime payments to 38 officers occupying salary level Grade 10 and above who are not eligible for Overtime contrary to the GO;
- In three instances totalling K24,730 payment vouchers for recreational leave fares were not provided; and

- In eight instances totalling K68,095, the Department facilitated payment of wages through other Expenditure Vote Item rather than the appropriated Expenditure Vote Item 112.

CONSTITUTIONAL GRANTS

Audit examination of the records and documents relating to the controls surrounding the management and disbursement of the District Support Grants (DSG) and Provincial Support Grants (PSG) totaling K27,750,000 for the year 2015 revealed the following;

- Manual Cheque registers were maintained for the five regions, however, the registers were incomplete as the names of persons collecting the cheques, signature of the collector, date and paying officer acknowledgements were not completed; and
- A total of 43 cheques totalling K10,750,000 for constitutional grants were raised and kept in the Accounts section. It is a requirement that all MP's acquit the previous year's Grants before being paid for the current year. The cheques are only given out as soon as the MP acquits the previous grant.

Cheques are raised before the Grants Reports Evaluation Committee (GREC) gives approval for the release of the grants. This has been an annual practice which results in Cheques becoming stale after 1 year.

PAID ACCOUNTS –DSIP MONITORING EXPENDITURE

- The acquittal report of K2.5 million for DSIP monitoring expenditure failed to report on the total number of Districts covered in terms of inspections and monitoring and the actual amount of moneys spent on the trips taken for future cost budgeting;
- Un-related expenses from DSIP Monitoring Fund were noted in 120 instances totaling K1,476,037, which were used to cater for administrative (recurrent) expenses relating to the Department;
- Mobile phones were not captured as State assets in the Asset Register; and
- Seven Senior Contract Officers were issued mobile phones (Galaxy S6 4G) valued at K17,150 in which they were not entitled to as per their contract documents/office policy.

Audit selected 37 paid vouchers totaling K689,375 to ascertain if proper procurement and payment processes were complied with and the following discrepancies were noted:

- In 13 instances totaling K303,820 payment vouchers were not provided;
- A claim for K17,82 was processed and paid to a company without the approval of the Financial Delegate;
- In 24 instances totaling K386,073, approval from the Procurement Committee was not obtained prior to making these payments;
- A payment of K18,810, was paid to a hire car company without a Requisition for Expenditure Form (FF3);

- In all these 24 instances paid vouchers with the supporting documents were not stamped paid which poses the risk of the claims being resubmitted again for payment;
- In all these 24 instances payments were raised through the General Expense Form (FF4) instead of Integrated Local Purchase Order and Claim (ILPOC);
- In all these 24 instances, valid *Certificate of Compliance* were not attached to claims to validate the GST (10%) charged on the Tax Invoice;
- In 16 instances totaling K314,990, payments were made based on Pro-forma Invoices or quotations and not on proper invoice;
- The *Minor Contract Agreement* was not attached to four payments made to an IT service provider totaling K90,685;
- The Department paid K33,822 as initial contract valued at K135,589 without a contract agreement in place;
- In 23 instances totalling K381,123, no receipts were attached to the payment vouchers to substantiate that goods and services were received;
- Nine service providers were paid K295,287 without *IPA Certificate* attached to the claims. Furthermore, business abstracts were not attached as evidence to substantiate that the companies were registered to conduct the types of services engaged in;
- In four instances totalling K84,380, no approval was obtained from DoF to substantiate payment for extended vehicle hires exceeding two weeks;
- In 15 instances totalling K247,369, payments were certified by the system administrator s whilst the *Certifying Officer* was on study leave. No appointment was made for the System Administrator to Act as the Certifying Officer, thus indicating serious internal control weaknesses in the accounting system; and
- In ten instances totalling K130,733, two Junior Officers were involved in the processing of claims , also signing and counter signing of cheques indicating serious internal control weakness.

DEPARTMENTAL RESPONSE

The results of this audit were reported to the Secretary of the Department in a Management Letter. However, the Management did not respond up to the time of writing this Report.

CONCLUSION

The results of audit and the number and magnitude of control weaknesses identified in the course of 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 or data processing, management and monitoring were not sufficiently robust to prevent, detect or correct error or fraud.

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

17. OFFICE OF THE ELECTORAL COMMISSION 2015

OVERVIEW

The Electoral Commission is a Constitutional Office whose structure, functions and applicable procedures are stipulated in the Organic Law on National and Local Level Government Elections. According to this Organic Law, the main function of the Commission is to organise and conduct all elections to the Parliament, including both the National and Local Level Government Elections.

The Organic Law on Provincial Governments and Local Level Governments expands the role of the Electoral Commission to administer all provincial elections. In addition, the *Local Level Governments Administration Act, 1997* empowers the Electoral Commissioner to prescribe the manner in which each Local Level Government election is to be conducted and specifies the Commission's supervisory role.

The Electoral Commissioner is also responsible under the *Industrial Organisations Act, 1962* for the conduct of ballots for those organisations in accordance with the rules of the individuals' industrial organisations.

AUDIT FINDINGS

CORPORATE GOVERNANCE

- A copy of the Commission's Annual Management Plan for the year, was not submitted for my verification.

REPORTING REQUIREMENT

- The copies of third and fourth Quarterly Budget Review Reports were not submitted for my audit review; and
- The Commission did not prepare an *Annual Financial Management Report*.

BUDGETARY CONTROL

- As per IFMS 2157 expenditure report provided by the Department of Finance, I noted a total over-commitment of K14,040,951; and
- The Consolidated Statement of Receipts and Payments disclosed Appropriation from Government as K52,157,040 in the financial statements for the year ended 31 December, 2015. However, I noted that the total Appropriation from the Government as was stated in the IFMS 2157 Report as K45,101,795. The financial statement was overstated by K7,055,245.

BANK RECONCILIATION

The Electoral Commission maintained a Drawing Bank Account with BPNG. I noted that the bank reconciliations for the months of August to December 2015 were not done due to the new system (IFMS) introduced towards the end of July, 2015:

- The cash position of the Commission was stated at K5,373,099 in the financial statements for the year ended 31 December, 2015. This account comprised account balances from Bank Accounts (BSP) K7,067,176 and Bank Account (Bank of PNG) (K1,694,077). As per *Note 10*, the negative balance in the BPNG bank account represents un-presented cheques totalling K1,694,077; and
- At the end of each financial year all commitments are balanced with the warrants, however, in this case I observed that the un-presented cheques totalling K1,694,077 as over commitments in the Commission's IFMS Accounting System.

PROCUREMENT AND PAYMENT PROCEDURES

My review of 87 payments totaling more than K3.2 million together with other related records and documents revealed the following discrepancies:

- Payment vouchers for six payments totalling K132,325 were not in the file;
- The Commission did not have an annual procurement plan. The Quotations Register maintained during the year, 2015 was in complete. It was not updated regularly to record all the quotes obtained;
- The Commission established a credit travel facility with Air Niugini at the end of May, 2015. My review of the statements, invoices with other related records kept by the Commission revealed that a total of K384,580 was expended, of which K342,533 were travels not approved by the Commission. I was not provided the supporting documents as evidence that approvals for the travels were granted;
- Five payments totalling K128,141, were effected without the required three quotations stipulated by Finance Instruction N2/2013;
- Eight payments totalling K245,107 were made based on either quotations or pro-forma invoices and no Tax Invoices;
- Approvals from the *Department of Justice and Attorney General* for the Commission to engage or extend the engagement of two Private Law Firms under *Section 7 (i) and 8 (4) of the Attorney General Act, 1989* for six payments totalling K569,033 relating to legal fees paid to these *Private Law Firms* to take on election petitions and in defending the Commission and the State was not sighted;
- Vehicle hire agreements with service providers in five instances totaling K820,497 relating to the 2012 National General Elections were not provided for my review and verification;
- Furthermore, the Commission did not seek approvals from the Department of Works to engage the services of the private hire car companies as required;

- I was unable to confirm and validate a payment of K68,097 for vehicle hire as the invoice submitted by the company did not clearly state the duration of hire;
- A payment of K30,000 made to an officer of the Commission in the capacity of Returning Officer for hire of his own vehicle. The invoice dated back to year 2007; and
- Tenancy agreements for four officers of the Commission were not sighted in relation to rental accommodation payments totaling K24,995.

ASSET MANAGEMENT

My review of the registers, the IFMS expenditure reports and other related records revealed the following observations:

- The Fixed Asset Register was incomplete and unreliable as particulars or individual assets purchased in the past years as well as the current year such as, serial number, supplier, date of purchase, purchase price (unit and total cost) were either unknown or not clearly indicated for assets bought in the past years as well as the current year;
- The register was not regularly updated to account for new assets purchases totalling K294,517 in 2015;
- The motor vehicle register was incomplete and not kept up-to-date as relevant information and details were either missing or not clearly indicated in the register;
- It was not possible to ascertain the full details and cost of 5 vehicles purchased during the year as these vehicles could not be located in the IFMS expenditure report or the Register due to incomplete and inaccurate particulars;
- Six motor vehicles were registered with private registration plate numbers, instead of 'Z' plates contrary to Financial Instructions;
- The Commission did not carry out a Board of Survey (BOS) for its Assets under its custody and control during the year; and
- A Stock take was not conducted either.

ADVANCE MANAGEMENT

My review of the *Advance Registers* and the IFMS expenditure reports together with other related records revealed the following observations:

- The Advance Registers were not regularly updated and thus incomplete. I observed that a total of K982,578 paid in Advances as per the IFMS expenditure report was not recorded in the respective Registers;
- Travel/Cash Advances totalling K3,046,924 remained un-acquitted as at 31 December, 2015;

- A total of K1,512,706 was advanced to 42 officers as fresh advances whilst their previous advances remained un-acquitted;
- Cash advances were paid through the Paymaster totalling K607,543. I was not able to verify and ascertain the authenticity of these expenses as no supporting documentations were provided; and
- Relevant supporting documents were attached to 22 Advance acquittals totalling K401,260.

HUMAN RESOURCES AND PAYROLL

The Commission had a training plan and an annual training report in place for the year ended *31st December, 2015*, however, the implementation of this plan was not vouched as documentations were not provided for my verification.

The Commission engaged the services of a Consultant during the year, however, I noted that no proper personnel file for the Consultant was maintained by the HR Division. As a result, I was unable to verify and confirm whether the Commissioner had:

- complied with the satisfaction of its obligation of reporting all approvals made by this consultant;
- been submitting a report on the performance of the Consultant and the work done during the approved consultancy period to the Consultancy Steering Committee (CSC) as required;
- in place, an agreed terms and references executed between contract and the Consultant as a legal binding;
- 10 officers were paid overtime allowances totalling K26,140 whilst occupying positions above Grade 10 contrary to the GO; and
- 33 individuals whose names were not in the Staff Establishment Register and the casual listing were paid a total of K34,119 in overtime. These Payments are considered irregular and should have been rejected through claims approval vetting process.

TRUST ACCOUNT MANAGEMENT

The Commission operated a Trust Account known as “Electoral Commission of Papua New Guinea Trust Account” with BSP (A/C#: 1000489658):

- I was unable to verify and confirm payments made out of this Trust Account as the detailed transactional data from the IFMS expenditure reports downloads were not provided; and
- The bank reconciliations for the months of June to December, 2015 were not prepared due to the roll over from PGAS to the new IFMS system at the end of July. However, I noted that these reconciliations in arrears were not done soon after the transition of the Accounting System.

DEPARTMENTAL RESPONSE

The reported findings were brought to the attention of the Commission through a Management Letter. No responses were received at the time of writing this Report.

CONCLUSION

The results of my audit indicate that overall, there were significant and serious weaknesses in the control framework. However, in general compared to previous years, I noted that there were improvements in the system and operational of controls within the Commission.

18. DEPARTMENT OF TRADE COMMERCE AND INDUSTRY 2014

OVERVIEW

The Department of Trade Commerce and Industry's (DTCI) 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 fulfill 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 Centers 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

Audit revealed that the Department has been using the *2008-2012 Corporate Plan*. At the time of audit, the revised Plan for 2015 to 2018 was being finalized for endorsement by the Secretary.

The Internal Audit Unit was resourced with three officers during the year. However, no completed audit reports were submitted for audit review on request.

REPORTING REQUIREMENT

The Management provided for audit review the Quarterly Financial Reports and the Annual Management Report. However, there was no formal documentary evidence to prove that these reports were submitted to the relevant Government Agencies as the law requires.

BUDGETARY CONTROL

- A comparison of the Expenditure Summary report for the period ending 31/12/14 from Department of Finance (IFMS) against the Department's (PGAS) revealed the following discrepancies.
- There was no reconciliation between the respective records, resulting in significant variances; and
- The expenditure statement (IFMS 2222) maintained by Department of Finance for year ended 31 December, 2014 revealed expenditures in excess of warrant authorities issued under 12 vote items totalling K11,852,000.

BANK RECONCILIATION

The DTCL operates a Drawing Bank Account with the Bank of Papua New Guinea. A review of the records pertaining to bank reconciliation revealed the following anomalies:-

- Last Monthly Bank Reconciliation provided by the Department for my verification was for the month of October 2014;
- The bank balance for the month ended 30 October, 2014 was credit K1,113,173;
- Significant reconciling items were highlighted however, were not investigated, cleared and adjusted in the cash book.

PROCUREMENT AND PAYMENTS PROCEDURES

Audit selected a sample of 95 payments totalling K50,392,039 from the Expenditure Transactions. Audit noted that 49 of these payments totalling K2,499,006 were related to the Recurrent Budget whilst 46 payments totalling K47,893,033 were related to the Development Budget for 2014. Examination of the paid vouchers along with the related supporting documents revealed the following discrepancies:

- The Quotations Register and the Specimen Signature records were not provided for audit review and verification;
- 43 payment vouchers totalling K9,436,486 were not provided for inspection. As a result, audit was not able to verify and validate the propriety of these payments;
- 24 payment vouchers totalling K1,145,055 were processed and paid without being examined, certified by a certifying officer and signed by the Financial Delegate;
- 709 payments totaling K2,935,603 were paid through the Paymaster during the year 2014. As per the *PFMA*, a Paymaster is the person in whose name or position a cheque is drawn for payment of salaries, wages and overtime;
- 314 payments totalling K1,474,610 were paid through the paymaster for expenses but not related to salaries, wages or overtime. The Paymaster was used as a cashing agent where

even large sums of money were cashed and handed to individuals. This process avoided all procurement procedures resulting in serious internal control weaknesses;

- 12 payments totalling K296,858 were paid through the paymaster at the end of the year. This was to avoid the lapsing of appropriations at year end and contrary to PFMA; and
- 10 payments totalling K656,239 were made to a company for various invoices for services provided during the MSG Investment Roadshow and Trade Fair. The authority to Pre-commit or the *Section 61 Approval* and contract values were not made available for audit review.

ASSET MANAGEMENT

As per the Expenditure Transaction Details for the year 2014, a total of K878,225 was expended for various Assets.

Based on the last audit recommendation, a comprehensive stock take was conducted during the year of all assets maintained or purchased during the year 2014 and were recorded in a new Assets Register. However, this new Asset Register maintained was incomplete as there were still some assets being recorded without purchase prices and serial numbers.

ADVANCE MANAGEMENT

Audit examination of the Advances Register and advance payment records for the year 2014 revealed the following weaknesses and irregularities:

- 201 advances totalling K687,666 were recorded. However, this figure differed from the total stated in the Expenditure Vote Summary which disclosed 287 advances (cash/Travel) totalling K844,071. The Advance Register was not updated on a timely basis as there was a variance of K156,405;
- 88 travel advances totaling K63,771 had not been acquitted and remained outstanding as at 31st December, 2014;
- 13 Officers were paid subsequent advances whilst their previous advances had not been acquitted and remained outstanding; and
- Advances totaling K406,665 were paid through the Paymaster and not to the respective officers who were going on duty travel.

HUMAN RESOURCE AND PAYROLL

Examination of personal files, history cards and other related records/documents noted the following anomalies for 21 permanent officers from the payroll and 14 casual employees:

Completed tax declaration forms for 11 officers were not sighted in their personnel files;

Two officers had acted in positions for indefinite periods contrary to the requirements of the *General Orders 9*;

Of the 14 Senior Officers who were on contract during the year, only two Senior Officer's contracts were current while, the other 12 Senior Officer's contracts had expired between 2010 and 2013 and were not renewed; and

There were 68 casual employees that were paid cash through the Paymaster. This practice is not proper as all casuals should be given employee file number and should be paid through the Government payroll system after a period of employment.

TRUST ACCOUNTS

Audit was provided a list of 11 Trust Accounts maintained by the Department. As per the Departments records, only five Trust Accounts were active whilst the other six were either closed, dormant or were revoked in 2014.

Records and documents relating to three of these active Trust Accounts were not submitted for audit examination and verification. Consequently, the audit was not able to verify and ascertain the records and reports relating to these Trust Accounts.

DEVELOPMENT BUDGET

A total of K126,801,000 was budgeted for five projects under the Development Budget. According to the IFMS report, the Actual expenditure was K66,000,000 in regards to the GoPNG of which the following irregularities were note:

- A total funding of K1,000,000 was transferred from Ulaveo Industrial Centre Project on the 24 December, 2014 into the PNG Trade & Investment Promotion Trust Account so as to avoid the lapsing of funding;
- A total of K15 Million was paid to the National Development Bank for the construction of Micro Bank in the Provinces. Status of progress of these project were not made available for audit examination; and
- A total of K50,000,000 was budgeted for Special Economic Zone – Sepik Plains Project. Subsequently, a Trust Account was established on the 6 December, 2014 through a Trust Instrument – *Special Economic Zone (SEZ) – Sepik Plain Trust Account*. The remaining balance of K24,248,566 was paid into the Trust Account on the 29 December, 2014 through five separate cheques.

Audit was not able to confirm the expenditures as the following documents were not provided:

- 1) *Annual work programs;*
- 2) *Individual Projects Plans and Cash Flow statements;*
- 3) *Quarterly and annual report as at 31/12/2014;*
- 4) *Bank reconciliation of the Projects Bank Account;*
- 5) *Trust instrument, if operated as a trust account;*
- 6) *Bank Statements to confirm balances;*
- 7) *Specimen signatures of signatories for each project Accounts; and*
- 8) *Electronic and hard copy of PIP project programs.*

DEPARTMENTAL RESPONSE

These findings were brought to the attention of the Secretary in a Management Letter. However, at the time of preparing this Report, no response was 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, authorisations, reconciliations, data and payroll processing and management monitoring were not sufficiently robust to prevent, detect, or correct error or fraud especially in relation to the management of Trust Accounts, PIP Accounts Advances and Procurement.

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 COMMUNITY DEVELOPMENT 2014

OVERVIEW

The *Department of Community Development* was established to prepare and implement long term goals for the Welfare of the community at large. Amongst other responsibilities, the Department takes charge of issues on social concerns of the community and especially advocating the equal rights in life for the less advantaged citizens of the country such as women and children.

AUDIT FINDINGS

CORPORATE GOVERNANCE

- The Department has in place a four year Corporate Plan for the years 2013-2016;
- The Annual Plan for 2014 was not made available for audit examination;
- The Department has an Internal Audit Unit, however, I was advised that the Internal Auditor had left the Department in 2013. Since then, this position has been vacant; and
- The Department is yet to establish an Audit Committee as the law requires.

REPORTING REQUIREMENT

Annual Management Report for the year 2014 was prepared and submitted to relevant authorities as required in the General Order.

BUDGETARY CONTROLS

- Audit noted differences in totals between the PGAS report and IFMS 222 report for the Initial Appropriations, Revised Appropriations, Warrants Issued and the Actual Expenditures for the year ended 2014;
- The variances in the two records reflects non reconciliation; and
- There were weak budgetary controls exercised by the Department and these may have led to depletion of funds available to undertake planned activities of the Department during the year. Also, charging of transactions to incorrect votes are considered as unbudgeted expenses.

CASH MANAGEMENT

The Department operates a Drawing Account with the Bank of Papua New Guinea.

The monthly bank reconciliation statements of the Department for the year 2014 were not provided to audit. Consequently, audit was unable to review and comment on the completeness and accuracy of the monthly bank reconciliation statements.

PROCUREMENT & PAYMENTS

Audit review of the transaction details for year 2014 revealed the following:

Refunds/Reimbursements

- In 408 instances, cash cheques totalling K2.34 million were drawn in favour of the Paymaster for payment of various goods and services rendered to the Department. These transactions should have been paid directly to suppliers concerned;
- Audit was not able to ascertain the authenticity for the reimbursement of K40,352 for air charter and funeral home to an individual and a private business consulting firm for the funeral expenses as the payment vouchers were not provided;
- The Department had paid K64,036 for the aircraft charter and K29,700 to the Funeral Home. Audit could not ascertain the reason for the refund made to this private business consulting firm related to funeral expenses which was met by the Department;
- Another payment of K64,648 was made to the same private Business Consulting Firm for the headstone. Audit noted that the firm was not involved in the supply of headstones for tombs and such transactions appears to be improper;

Payments of Consultancy and Professional Fees

- Transactions totalling K625,720 were made for various consultancy and professional fees to 20 individuals and consultancy firms during the year 2014. Of these, nine related to short consultancy fees and 11 related to professional fees for amounts totalling K76,054 and K549,666 respectively. Further analysis of these payments revealed the following discrepancies as detailed below;
- Four individuals were engaged by the Department as short-term consultants and were paid an aggregate amount of K62,646. However, audit noted that these individuals were also receiving wages as casual employees during the year 2014;
- A payment of K19,767 was paid to the 'Paymaster' as consultancy fees for the compilation of CEDAW Report. This payment could have been made directly to the service provider instead of the paymaster.

Payments to Meet Minister's Commitments

There were 25 payments totalling K311,000 made to meet the Minister's commitments to NGOs. These commitments met by the Department ranged from K3,000 to K100,000.

Audit noted that the Department's funds were used as Discretionary Funds to advance Grants and financial assistance to NGOs. It was further noted that funds were drawn from various expenditure Votes other than the Minister's Support Services Vote to cater for these payments.

ASSET MANAGEMENT

- The Asset Register maintained by the Department was incomplete. It did not have the complete information of each asset; and
- The assets acquired during the year 2014 were recorded in the register and not prior years.

HUMAN RESOURCE & PAYROLL MANAGEMENT

Audit review of Gratuity payments totalling K284,613 paid to 27 officers during the year revealed the following irregularities:

- Four officers whose employment contracts expired in 2012 and 2013 were paid gratuities totalling K38,060 during the year 2014; and
- Nine officers who were paid gratuities totalling K87,624 whilst on acting capacity.

DEPARTMENTAL RESPONSE

The reported findings were submitted to the Secretary through a Management Letter, however, no responses have been received up to the time of writing this report.

CONCLUSION

The results of my audit indicate that, in overall, there were still significant weaknesses in the control framework. The control activities such as delegation, authorisations, reconciliations, management monitoring and data processing 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.

20. DEPARTMENT OF AGRICULTURE AND LIVESTOCK 2014

OVERVIEW

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

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

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

AUDIT FINDINGS

CORPORATE GOVERNANCE

- The Department of Agriculture & Livestock (DAL) does not have a Corporate Plan since 2009;
- The DAL did not have an Annual Management Plan for the year, 2014;
- Reports and work plans of the Internal Audit Unit were not provided for audit review;
- The Audit Committee was dysfunctional due to lack of corporation from Senior Management of the Department; and
- The Annual Management Report and Quarterly Budget Review Reports were not provided for my review.

BUDGETARY CONTROLS

A comparison of the expenditure reports maintained by DoF (IFMS) and DAL (PGAS) for the year ending 31st December, 2014 revealed the following anomalies:

- Variances noted under the Warrant Authorities were K13,462,188 and Actual Expenditure were K34,610,402;
- The Expenditure Statement (IFMS 2222) produced by DoF for year ended 31st December 2014 revealed expenditures in excess of warrant authorities issued under two Vote Items totalling K59,380 in the recurrent budget; and
- Various payments totalling K494,346 were paid for previous years commitments out of the current appropriations which are considered as unbudgeted expenses.

BANK RECONCILIATIONS

Monthly bank reconciliations for the Main Drawing Account with BPNG were not prepared for financial year under review, 2014.

PROCUREMENT AND PAYMENT PROCEDURES

Review of 180 paid vouchers totalling K4,462,465 from both the development and re-current budgets revealed the following discrepancies:

- In 70 instances, paid vouchers totalling K2,083,645 were not provided for audit review;
- In 30 instances, paid vouchers totaling K937,922 were not signed by relevant financial delegates;
- Four payments totalling K16,137 were executed without the relevant Section 32 officer's approval;
- Audit noted that three written quotations were not obtained for purchases above K5,000 as required;
- 82 payments totalling K1,916,418 were made without adequate supporting documents;
- in 18 instances totalling K194,989, IPA registrations and Certificate of Compliance of the hire car companies were not sighted;
- Seven private hire car companies were paid over K50,000 each for vehicles that were hired on a continuous basis without preparing minor contracts to a total of K558,321; and
- Audit revealed that the Department was paying significant amounts through the paymaster for expenditures totalling K2,897,298. These cheques were cashed by the paymaster and paid to officers of the Department for various purposes which contrary to FMM.

ASSET MANAGEMENT

- The DAL did not maintain a consolidated Asset Register;
- Purchase of assets totalling K1,285,760 made from both the project funds and the re-current budget were not recorded in the assets register; and
- A vehicle fleet register consisting 36 motor vehicles lacked relevant particulars such as; date of purchase, cost price of vehicles and suppliers details.

ADVANCE MANAGEMENT

- Audit examination of 92 paid vouchers totalling K2,366,181 together with the advance registers and other related records revealed the following anomalies;
- The Travel and Cash Advances Registers were never updated;
- 55 travel payments totalling K649,131 were not acquitted as at 31st December, 2014;
- Second advances totalling K123,913 were issued to seven officers whilst previous advances paid to them remained outstanding;
- Paid vouchers for 17 cash advance payments totalling K1,687,563 were not provided for audit review;
- A total of K1,908,276 relating to cash advances were unacquitted and remains outstanding as of 31st December, 2014; and
- A total of K1,915,476 was paid to the Paying Officer for travel allowances and cash advances contrary to *Part 20 of the Financial Management Manual*.

HUMAN RESOURCE AND PAYROLL

Recreational Leave

A sample of 35 recreational leave payments totalling K288,143 and related records were examined and the following were noted:

- *14 paid vouchers totalling K113,131 were not provided for audit review;*
- The 10% deductions towards airfares were not deducted as required;
- Audit revealed that outstanding leave warrants totalling K12,824 were paid out from the current appropriation for recreational leave fares due in 2008 and 2011. This was contrary to GO 14.33 which states that recreation leave shall not be allowed to accrue for more than 2 and half years;
- Recreation leave due in 2015 and 2016 were pre-paid out of 2014 appropriations totalling K61,761, that leads to misappropriation of the current budget for 2014;

- Evidence of tax declarations of dependents, birth certificates were not provided to justify the payments in nine instances totalling K57,900; and
- K173,000 was paid as road fares to officers during the year which is contrary to *DPM Circular Instruction No.16 of 2011* that clearly states that payment of sea & land transport allowances are UNLAWFUL and therefore should be ceased.

Casuals

- The 2014 Staff establishment register only had names and details of 52 casuals while the PGAS pay roll listed a total of 161 casuals;
- Most of these officers do not have personal files created and maintained by the Department;
- A casual employee was paid K29,975 as outstanding wages, however, the officer's name was not in the Staff Establishment Register; and
- Total number of casual paid fortnightly varied from pay number 20, 25, & 26 of 2014. Inconsistent numbers may lead to a high possibility of ghost employee occurring.

TRUST ACCOUNTS

A total of K1 million was transferred into the 2KR AID Trust Account. Bank reconciliations and expenditure details on the use of these funds were not provided for audit review.

DEVELOPMENT BUDGET

DAL administered seven projects under the 2014 Development Budget totaling K31,612,000. Six of these projects were GoPNG funded while one of these projects was co-funded by the World Bank. The annual reports including bank reconciliation, cash books and work plans of the projects were not furnished for audit review.

DEPARTMENTAL RESPONSE

The result of the audit was reported to the Secretary of the Department in a Management Letter. However, the Management did not respond up to the time of writing this report.

CONCLUSION

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

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.

21. DEPARTMENT OF ENVIRONMENT AND CONSERVATION 2014

OVERVIEW

The Department of Environment & Conservation's (DEC) mission is to ensure that natural and physical resources are managed to sustain and enhance environmental quality and human well-being.

The Department is expected to fulfill that mission in the context of the Environment Planning Act, the Environment Contaminants Act, the Conservation Areas Act, the National Parks Act, and other relevant legislation, and through its exercise of those functions gazetted on Gazette Notice No. G65 dated 26 August, 1997, which are as follows:-

- Formulate policy proposals and oversee policy relating to environment and conservation; and
- Manage, develop, utilize and conserve water resources in the country for the optimum benefit of its citizens.

Administer legislation pertaining to:

- Environment planning and population control;
- Conversation and protection of species of flora and fauna, their habitat and other areas designated for environmental protection;
- Wild life management; and
- National Parks.

AUDIT FINDINGS

CORPORATE GOVERNANCE

- The Corporate Plan from 2014-2016 included five main Corporate Objectives with *the transition period from Department to an Authority as the priority*;
- I noted that no Annual Report was prepared by the Department for the year, 2014;
- Only the First and Second Quarter Budget Review Reports were provided for my review while the Third and Fourth Quarters Budget Review Reports of 2014 were not provided; and
- No Internal Audit Reports provided for my review to assess the performance of the Internal Audit Unit despite the engagement of an audit consultant.

BUDGETARY CONTROLS

- An analysis of the Expenditure Report by Department of Finance (IFMS 2157) and the Department (PGAS) for year ending 2014, revealed significant variances in regard to Warrant Authority and Actual Expenditure balances of K3,064,4000 and K1,549,179 respectively;
- I noted that the variances in the expenditure balances is a recurring issue. Proper reconciliations should be done between DoF and the Department to reflect a true and fair value of public money spent; and
- The Department exceeded its Warrant Authority under 14 Vote Items totalling K2,622,005 during the year, 2014.

BANK RECONCILIATION

The DEC operated a Drawing Account with the Bank of Papua New Guinea. My verification of the documents and related schedules for December 2014 bank reconciliation revealed the following:

- Huge reconciling items were noted in the Bank Reconciliation which need to be investigated, cleared and adjusted in the cash book and the bank account;
- The Unpresented cheques total of K1,945,216 included stale cheques totalling K310,617 most of which date back to 2012 and 2013; and
- The bank reconciliations statements for the 12 months (January-December 2014) were not signed by the Preparer nor verified by the Reviewer.

PROCUREMENT & PAYMENT PROCEDURES

Vehicle Hire

A review of transaction details in regard to vehicle hires totalling K2,545,276 revealed the following irregularities:

- In 10 instances, payments were made above K50,000 totalling K752,313 without minor contract agreements established between the Department and the hire car service providers. Approval from PTB was also not obtained; and
- The Department paid K1,141,555 to four Private Hire Car companies in instalment basis for payments below K50,000. Such practice of paying less than K50,000 is common in order to avoid minor Central Supply & Tender Board (CSTB) Contracts by performing "split payments".

Consultancy Payments

- I noted that payment of consultancy service fees were paid through the *Paymaster in 20 instances* totalling K374,646. Such practices is improper and should be paid direct to the consultant who is registered with compliance certificate from IPA and IRC for tax purposes;
- In 10 instances, Consultants were overpaid by K570,105 exceeding the original contract amount signed between the Department and the consultants; and

- I observed that 31 individuals were also engaged as consultants and paid a total sum of K2,212,646 during the year, 2014. These were done without deducting the 10% Goods and Services Tax (GST) and remitting to the Internal Revenue Commission (IRC) as required.

Assets

- In six instances totalling K65,832, assets were purchased based on inadequate supporting documents; and
- In 13 instances, three written quotations were not obtained prior to effecting asset purchases totalling to K459,734.

ASSET MANAGEMENT

- The Department did not maintain a Master Assets Register to keep records of all the assets purchased in the previous years and the current year, 2014;
- There was no stocktake done on the Attractive items such as mobile phones, computers, laptops and equipment purchased from the previous years;
- The vehicle register was incomplete. Vital information such as date of purchase; supplier, cost of vehicle, cheque number, invoice number, model/make number were not recorded;
- Three Departmental vehicles were driven around without Government 'Z' Plate numbers; and
- I noted that the Department had in its possession land and buildings. However, I noted also that there was no register created under this category as required to keep track of all these capital assets.

ADVANCE MANAGEMENT

- As per the *Expenditure Transaction Details* for 2014, a total of K985,980 in 436 instances were paid as advances;
- The DEC did not maintain an Advance Register during the year, 2014 except for an Acquittal Register which was still incomplete and not updated;
- A total of K616,140 Travel/Cash Advances remain un- acquitted as at 31st December, 2014;
- Travel/Cash Advances were paid through the Paymaster totaling K1,757,031. These were not recorded nor were they acquitted;
- Out of the total of K633,552 outstanding for the year 2014, (representing more than 54%%) K348,322 which were paid to the Paymaster still remains outstanding;
- Seven cash advances valued at K17,685 examined were not registered in the acquittal register;
- Advances valued at K65,141 in 16 instances were not registered in the Acquittal Register;

- Acquittal files relating to 35 advances valued at K70,367 were not sighted in file; and
- Acquittals were not certified as correct by the Financial Delegate in 94 instances totalling K235,799.

HUMAN RESOURCE & PAYROLL MANAGEMENT

- Fortnightly payroll reconciliations were not done at all. In the absence of fortnightly, I could not ascertain whether genuine and correct salaries were paid to the officers. (Payroll reconciliations and no proper record keeping); and
- The Training Plan provided was out-dated (2011-2013). No new plan was made available;

A review of 13 recreation leave payments with the total value of K151,887 revealed the following irregularities:

- Seven of these 13 payments totalling K88,138 did not have birth certificate copies attached for verification. I could not confirm if the dependents claimed were eligible for airfares as required in the General Order;
- Three paid vouchers for payments totalling K26,474 were not provided for my verification;
- Payment totaling K23,976 paid to a company revealed a lot of irregularities in regard to the dependents claimed. All supporting documents should be verified before payments are made to avoid fraudulent claims;
- Nine out of 17 paid vouchers valued at K42,608 in regard to overtime were not provided for my review; and
- Two overtime payments totalling K15,811 paid to a Senior Contract Officer on Grade 16 level was in breach of the General Order.

TRUST FUNDS

My review of the bank reconciliations for the two trust accounts administered by the Department noted the following:-

PNG Ozone Depleting Sub Phase Trust Account

- All the monthly bank reconciliations (January to December 2014) were not signed off by the preparer nor the reviewer;
- There was no official covering letter to indicate the timely submission of these monthly bank reconciliations to the Department of Finance (DoF) as required. Therefore, I could not ascertain if the bank reconciliations were submitted to DoF for the 12 months; and
- The cash book for this trust account which was supposed to have been kept in the PGAS was kept outside of the PGAS.

Environment Protection Trust Account

- The trust instrument for “Environment Protection Trust Account” was not furnished to me;
- The monthly bank reconciliations were not signed off by the preparer nor the reviewer in several instances; and
- The monthly bank reconciliations were not submitted to DoF within 14 days as stipulated by PFMA for the months of February to December, 2014.

DEVELOPMENT BUDGET (PIP)

The total allocations for DEC Development Projects in the fiscal year 2014 was K8,000,000.

I selected a total of 64 samples valued at K7,166,888 for testing and the following observations were noted.

- 40 paid vouchers (representing over 62% of the payments – selected) valued at K 2,882,243 were not provided for my review;
- Un budgeted expenditures of K16,800 was incurred to host the 2014 Christmas party for Project Committee Members;
- Financial assistance of K300,000 was paid to a *District Treasury Office* which was an unbudgeted expenditure;
- An amount of K339,196 was paid for a Kit home at a cost was made on a pro-forma invoice instead of a proper tax invoice as required;
- Two payments totalling K99,761 paid for the for engagement of overseas consultants were not certified nor examined. Contractual agreements for these engagements were not made available;
- In three instances the Authorized Requisition Officer’s did not authorize payments to the value of K2,272,783;
- In 11 instances, the three written quotations were not obtained prior to effecting purchases valued at K587,745;
- In 13 instances, minor contracts were not sighted for payments valued at K911,701;
- Supporting attachments such as, invoices or receipts/acquittals were not sighted to substantiate three payments totalling K236,035; and
- A payment of K30,000 had irregularities with the three written quotations that were obtained in regards to stationeries. One did not exist while the other two belongs to the same person. High risk of fraudulent claims occurring.

DEPARTMENTAL RESPONSE

The Department 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 Department 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 sufficient.

22. OFFICE OF MAGISTERIAL SERVICES 2014

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

- Magisterial Services had a two year Corporate Plan covering 2014-2015 and a clearly defined Annual Management/Activity Plan which ties up with the 2014 budget;
- The Magisterial Services did not have an Audit Committee established as required by *FMF Part 9*; and
- Although, there was an Audit Plan prepared by the Internal Audit Unit, however, copies of the Internal Audit Reports produced during the year were not provided for audit verification.

REPORTING REQUIREMENT

- No *Quarterly and Annual Financial Management Report* on the Overall Assessment of the Magisterial Services was prepared and submitted to DoF as required under *Section 5* of the *PFM Act, 1995*;
- No Annual Management report on the work and achievements of the *Magisterial Services* in relation to the *Corporate Plan* was prepared contrary to the *GO 8.14*; and
- Non-compliance of the above reports were raised in my previous years audit report, however, it remains unresolved by the Management.

BUDGETARY CONTROL

- A comparison of the 2014 Expenditure Vote Summary report maintained by the *Magisterial Services* (PGAS) and the Department of Finance (FFMS 2222) for Period 12, 2014 revealed significant variances between the statement balances; and
- The expenditures statement (*IFMS 2222*) produced by the DoF for the year ended 31st December, 2014 revealed expenditures in excess of warrant authorities issued under five Vote Items totaling K11.8 million in the recurrent budget.

CASH MANAGEMENT

- The Magisterial Services maintained three bank accounts; (1) Drawing Account (2) Magisterial Service Business Centre Cheque Account and (3) the Land Dispute Settlement Trust Account;
- Monthly bank reconciliations were not prepared for the three accounts and in a timely manner as required; and
- The bank reconciliation file maintained only had copies of bank statements for the Drawing Account. There were no bank statements for the other two accounts.

PROCUREMENT AND PAYMENT PROCEDURES

Audit selected a sample of 61 payments totalling K1.1 million and examined the paid vouchers and related records and documents to ascertain whether there were sufficient controls over the procurement and payments of goods, and whether works and services provided were in according with the legislative requirements and business practice:

- There was no *Procurement Plan* in place;
- A *Quotation Register* was not maintained as required in the FMM;
- File for specimen signatures were not made available for examination;
- Four payment vouchers totaling K57,440, were not furnished for review;
- In eight instances, the payments totaling K111,353 did not have three quotations as required by *Finance Instruction No. 2/2013*;
- Payments to three suppliers totaling K305,545 were made without any minor contract agreements;
- Two payments totaling K18,882 for maintenance and consultancy fees were effected without any work reports to substantiate the payments made; and
- A payment of K123,500 was made for repair and maintenance, however, there was no documentation provided to validate the procurement process.

ASSET MANAGEMENT

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

No proper centralized and an up-to-date Fixed Assets Register was maintained to account for the purchase of fixed assets;

No register was maintained for Attractive Items;

No policy was in place to govern purchase and usage of these attractive items; and

The Fleet Register was not drawn in accordance with the *FMM*.

ADVANCE MANAGEMENT

Audit examination of the Advance Register, advance payments and related records revealed the following discrepancies:

- The Advance Register maintained lacked the vital information such as cheque numbers and acquittal dates;
- In the absence of the cheque number, I was unable to verify the advance payments from the *Expenditure Transaction Details* to the *Registers* to ascertain if all advances issued were registered;
- 122 advances totalling K221,625 remained outstanding as at 31st December, 2014; and
- 94 subsequent domestic travel advances totalling K494,702 were paid to officers who had failed to acquit prior outstanding advances.

HUMAN RESOURCE & PAYROLL MANAGEMENT

The review of Human Resources Management and payment controls revealed the following weaknesses:

- *Certification of Payroll* was not done to ensure that there were proper controls over the payment of salaries and wages, before they were processed each fortnight;
- The required *Finance Form 10 (FF10)* was not used in compilation of pays (salaries & wages) for the officers as required under *Section 18* of the *FMM para 23 to 27*; and
- Payments vouchers in relation to payment of recreational leaves were not provided for ten payments totalling K18,320.

TRUST ACCOUNTS

Audit examination of the records and management of the Land Dispute Settlement Trust Account revealed the following anomalies:

- *The Trust Instrument* was not provided. Further, I was not able to establish whether the *Trust Account* was valid and that moneys held was spent in accordance with the Trust Deed;
- The Trust Account was not managed through PGAS as required in the FMM; and
- Magisterial Services did not provide 12 monthly bank reconciliations of the account for the financial year, 2014.

DEPARTMENTAL RESPONSE

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

CONCLUSION

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

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.

23. DEPARTMENT OF MINERAL POLICY & GEOHAZARDS 2014

OVERVIEW

The new Department of Mineral Policy and Geohazards Management emanated from National Executive Council Decision No. 164/2004 (meeting No. 30/2004, Ref. NEC.06-6, 17th September, 2004) that approved the restructure of the former Department of Mining (DOM) which resulted in the establishment of two new entities namely, the Mineral Resources Authority (MRA) and the Department of Mineral Policy and Geohazards Management (DMPGM). The DMPGM is responsible for the development of mineral policy and legislation. This Department is also given the responsibility to manage geohazards throughout Papua New Guinea. The MRA became the agency responsible for the implementation of policies and legislations established by the government for the industry.

The DMPGM's core objectives are as follows:

- Continually monitor and develop a globally competitive minerals fiscal policy that will attract and retain exploration and development investment in PNG;
- Formulate clear, responsive policies and legislations such as the *Mining Act 1992*, the *Mining (Safety) Act Chapter No 195A* and the Mineral Policy for exploration, development, participation, rehabilitation and compensation;
- Develop policies relating to occupational health and safety management and implementation for the mining industry;
- Constantly liaise with the MRA to ensure that mineral policies and legislation are properly implemented within the mining industry;
- Ensure transparent deliberation and decisions by the Mining Advisory Council (MAC);
- Develop policies relating to geological hazards in PNG;
- Adequately resource the Geophysical and Vulcanological Observatories and the outstation facilities and the Engineering Geology Branch;
- Develop and maintain surveillance systems and liaison mechanism to mitigate the effects of geological hazards; and
- Maintain liaison with government organization and aid donor agencies to take advantage of existing and prospective technical assistance and related benefits.

AUDIT FINDINGS

CORPORATE GOVERNANCE

- The Department has in place a *Corporate and Strategic Plan* for the period covering 2009-2015; and
- The Department, however, does not have an *Annual Activity Plan* as required in the *General Order 8.11* to meet the requirements of the budgetary cycle.

BUDGETARY CONTROL

A comparison of the expenditure report PGAS maintained DMPGM (PGAS) & Department of Finance IFMS report revealed the following:

- Variances noted per warrant authority was K2,916,587 while the actual expenditure different was K6,253,639. The differences noted between the two records shows that there is no reconciliation between the two records, hence, resulting in a serious lack of monitoring and control on the Cash Flow Management; and
- Over expenditure noted per Finance Report (IFMS 2159) incurred with total expenditure reporting more than warrants issued by K3,126,638;

CASH MANAGEMENT - BANK RECONCILIATION

The DMPGM operated a Drawing Bank Account with the Bank of Papua New Guinea. My verification of the bank reconciliation statement prepared for 31 December, 2014 with the related records and documents revealed the following observations:-

- Numerous reconciling items were yet to be investigated, cleared and adjusted as required to establish an accurate cash book balance; and
- A review of the bank reconciliation statement revealed that the cashbook indicated an overdrawn year end closing balance of K3,288,036.

PROCUREMENT AND PAYMENT PROCEDURES

A review of a sample of 33 payments totaling K3,159,745 selected from the expenditure transaction details report together with other records and documents revealed the following irregularities:

- Payments were processed using proforma invoices in five instances totalling K324,651;
- Payments were processed based on quotations in 13 instances totalling K709,974. There were no tax invoices attached to these payments; and
- A payment of K57,780 paid to a private vehicle hire company for a hire was not approved by Department of Finance to extend hire for more than 2 weeks. Furthermore, the PTB approval obtained prior to hiring of private vehicles was not made available.

ASSET MANAGEMENT

My review of the asset registers and other related records revealed the following weakness:

- The asset registers were not updated to capture details of the asset and attractive items to a value of K50,815 acquired in 2014;
- A Toyota-Land Cruiser purchased in 2014 valued at K148,202 was not recorded in the new vehicle register; and
- There was no evidence of any stock take undertaken during the year under review or the prior years.

ADVANCE MANAGEMENT

My examination of the cash and travel advance register, acquittal forms and related records disclosed the following weaknesses:

- Advances were not recorded in the advance registers in 39 instances totaling K59,301;
- Acquittal files for 48 advances totalling K326,644 were not submitted for my review;
- Officers were given subsequent advances while previous advances paid to them remained unacquitted in 11 instances totaling K239,873 contrary to *FMM Part 20 section 12.11*; and
- Cash advances totalling K181,650 were not acquitted and still remained outstanding.

TRUST ACCOUNT

My examination of the Mining Legal Cost Subsidiary Trust Account and the related records and documents revealed the following:

- Paid vouchers for a payment of K30,145.50 made to a law firm for legal fees was not made available for my vouching;
- Three payments were processed totaling K39,950 without obtaining three written quotations as per Finance Instruction No.2/2013; and
- Monthly bank reconciliations were not submitted to Finance Department on a timely basis as required.

DEVELOPMENT EXPENDITURE (PIP)

My examination of the Development Budget and the related records and documents revealed the following:

Rabaul Vulconological Observatory Relocation

- CSTB approval was not sighted for payment of K439,680 for additional work done by a company; and
- The DMPGM did not obtain approval from the Department of Finance before it transferred funds totalling K1,113,734 into a trust account in two instances.

Landslides Hazard Mapping – Highlands Highway

- No report was made available for additional work done on the project by a local Company which was paid an extra K71,500;
- I also noted that, there were no reports attached to verify and confirm the completeness of the project for which a payment of K100,000 was made; and

DMPGM/SOPAC Landslide Geohazards Mapping Project Account

- Approval was not obtained from Department of Finance to open this special account as required under the *FMM Part 22 article 5.1*;
- This account was operated outside of the Government Accounting System (PGAS);
- GoPNG totalling K2,439,472 development funds were transferred into Landslide Geohazards Mapping Project Account without getting any approval from Department of Finance;
- I also noted that the account was debited in 10 instances totalling K701,774. In the absence of proper documentation, I was unable to verify what these payments were for; and
- No monthly bank reconciliations were prepared for this account.

DEPARTMENTAL RESPONSE

The Department did not respond to my Management Letter at the time of writing this Report.

CONCLUSION

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

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

24. DEPARTMENT OF NATIONAL PLANNING AND MONITORING 2014

OVERVIEW

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

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

AUDIT FINDINGS

CORPORATE GOVERNANCE

- The DNPM did not have a Corporate Plan since 2012. My audit revealed that the Department was in the process of finalizing its corporate plan for 2015-2017; and
- I also noted that the DNPM did not have an Audit Committee established as required under the *Finance Instruction No.02/2009 and PFM Act, 1995, Section 9*.

BUDGETARY CONTROLS

The expenditure statements (TMS100), produced by the Department of Finance for the year ended 31stDecember, 2014 revealed expenditures in excess of warrant authorities totalling K2,264,579 under 13 Vote Items.

BANK RECONCILIATION – Drawing Account

I noted that the monthly bank reconciliations for financial year 2014 were never prepared. The IFMS system has not been effective since its introduction in 2011. Thus, no bank reconciliation has been prepared since 2011.

PROCUREMENT AND PAYMENT PROCEDURES

Audit selected a sample of 217 paid vouchers totaling K92,412,535 for review and the following observations were made:

- In 176 paid vouchers (representing more than 81% of the selected sample) amounting to K90,867,633 were not made available for review;
- In five instances, payments totalling K116,548 did not have adequate supporting documents to substantiate the transactions made;
- In 20 instances, paid vouchers totalling K762,204 were not approved by the respective financial delegate;
- The required three written quotations were not obtained prior to acquiring goods and services in six instances totalling K435,156;
- In 13 instances payments totalling K342,619 were not receipted as goods and services received at the time of delivery;
- In 32 instances, payments totalling K1,187,568 were not stamped as PAID on invoices after payments have been made. This could pose a high risk of double payment; and
- A Consultant was paid K82,436 without any proper binding contract agreement. The contract agreement was not formally signed by both parties and also its total service fee was not agreed upon.

ASSET MANAGEMENT

My audit examination of the Asset Register and other related records revealed the following irregularities:

- All assets purchased totalling K1,346,530 during the year, 2014 were recorded since the assets register was noted to be incomplete;
- I observed that five new vehicles were purchased at a total cost of K821,139 during the year, however, I could not verify these vehicles in the absence of a motor vehicle register; and
- Six new vehicles purchased in prior years at a total cost of K960,288 were not recorded as reported in my 2013 audit report. This issue of the Department for not maintaining records of assets purchased in prior years still remains unresolved.

ADVANCE MANAGEMENT

The audit examination of the advance payments, advance register and related records revealed the following discrepancies:

- The DNPM still did not maintain a proper advance register. This issue was previously reported since my 2012 audit and still remains unresolved;
- Travel advances totalling K2,240,388 were not recorded due to non-maintenance of a proper register;
- The advance register maintained indicated only payments made through the Paymaster and without the respective amounts and names of officers' receiving the advance; and
- In 19 instances, advances were issued in favor of the paymaster totalling K509,209. The practice of using the Paymaster may lead to misuse, abuse and fraud as there is no documentation/audit trail.

HUMAN RESOURCE AND PAYROLL MANAGEMENT

The audit review of Human Resource Management and payroll controls revealed the following:

- The Department's Training Plan for the year 2013-2017 was incomplete;
- Four officers who had undergone training or studies in 2014 were not included on the Department's Training Plan;
- 15 Contract Officers were on acting positions for a lengthy period without a review contrary to the General Order;
- 40 funded positions were vacant out of 184 funded positions while 27 officers were unattached and continued receiving salaries without a review;
- Audit could not verify contract agreement to confirm gratuity payments totalling K20,350 made to three officers because their contract documents were not in personal files; and
- In 20 instances, payment of DMA and SDMA were paid above the approved revised rates.

TRUST ACCOUNTS

The DNPM administered 21 Trust Accounts in operation as per the list of trust accounts provided.

Audit requested for the bank reconciliations and bank statements for all the Trust Accounts but these were not provided for review.

DEPARTMENTAL RESPONSES

The DNPM had responded to the audit findings raised in the Management Letter and their responses have been incorporated accordingly.

CONCLUSION

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

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

25. DEPARTMENT OF PETROLEUM AND ENERGY 2014

OVERVIEW

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

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

AUDIT FINDINGS

BUDGETARY CONTROL

A comparison of the Expenditure Vote Summary for the period ending 31st December 2014 maintained by the Department (PGAS) and Department of Finance (IFMS2157) revealed that:

- Over expenditures arising from 54 Recurrent Expenditure Vote Items totalling K5,612,878 in 2014; and
- Huge variances were noted between the Department records (PGAS) and Finance Department Records (IFMS) under Warrant Authorities of K23,884,130 and Actual Expenditure of K29,112,906. This is due to unreconciled reports by the two departments.

BANK RECONCILIATION

A review of the monthly bank reconciliation statements for the year under review and related records revealed that:

- The bank reconciliation for the month of December was signed by the preparer but was not counter signed by the financial delegate responsible. In the absence of the certified bank reconciliation, I could not ascertain the accuracy and completeness of the bank balances for the Department as at 31st December 2014.

REVENUE MANAGEMENT

A review of the Revenue Report produced by Department of Finance (IFMS 1001) for the financial year ended 31st December 2014 revealed the following irregularities:

- The Department had collected a net revenue of K6,882,824 indicating shortfall of K205,176 from the original rentals estimate;
- No segregation of duties in the Revenue responsibilities. The Department has only one staff who is responsible for collection of revenues, monitoring, reviewing and reporting; and
- The Department did not have a proper safe to keep revenue collections as required by the PFMA Audit. Audit noted that all collections were kept in a filing cabinet, possessing high risk of monies going missing or stolen.

PROCUREMENT & PAYMENT PROCEDURES

Audit examination of the 57 selected transactions totalling K3,113,595 and other related records revealed the following discrepancies:

- Seven payment vouchers totalling K254,592 were not made available to audit for examination;
- Three written quotations were not obtained from reputable suppliers in seven instances totalling K161,487 prior to effecting purchases as required by *FMM and Finance Instructions 2/2013*;
- Payments were made on pro-forma invoices instead of Tax Invoice in nine instances totalling K270,656;
- Approval from Attorney General to engage a private law firm at a cost of K140,347 was not sighted in the files;
- No Contractual Agreement was in place with a company as the sole supplier of fuel to the Department;
- Minor Contract Agreement for amounts exceeding K50,000 for external hire cars were not sighted in eight instances totalling K750,292;
- Lease Agreements were not provided in two instances totalling K139,480 for rental of properties; and
- A payments of K65,000 was made to an individual for outstanding fuel charges contrary to the FMM which states that all such payments should be paid to companies and not to individuals.

ASSET MANAGEMENT

Audit examination of the Asset Register and other related records for the period under review (July – Dec) 2014 revealed the following discrepancies:

- The asset register lack vital information as required such as; date of purchase, unit cost, total cost, estimated economic life, corrective maintenance requirement and preventative maintenance history;
- Assets purchased totalling K489,078 in 52 instances could not be verified to the asset register due to incomplete information in the register maintained; and
- No annual stock take was conducted during the year 2014. This issue was highlighted in 2013 and remains unresolved by Management.

ADVANCE MANAGEMENT

Audit examination of the advance register and acquittal files revealed the following discrepancies:

- A total of 45 advances issued totaling K275,673, were not recorded in the advances register. These advances remain unrecorded and un-acquitted for the period under review;
- 259 advances totaling K1,310,189 remained un-acquitted as at December, 2014; and
- A total of 42 officers were issued with additional advances when their previous advances were outstanding in 235 instances totalling K1,001,387.

PAYROLL MANAGEMENT

There was no payroll reconciliations carried out in the last quarter (October –December) of 2014 as required;

- Three officers were paid higher duty allowances totalling K137,605 through the PGAS system and not ALESCO system; and
- Special Domestic Market Allowances (SDMA) were paid through PGAS system instead of ALESCO system in two instances totalling K22,812. Risk of double payment may occur through such practice when correct procedures are not followed.

TRUST ACCOUNT

Bank reconciliations for the five Trust Accounts maintained by the Department were not made available to me for examination.

DEPARTMENTAL RESPONSE

Prior to issuing my Management Letter, the audit findings were discussed with the Management and the concerned officers. Furthermore, the Management Letter issued was also addressed to the Secretary. A response was not received up to the time of writing this Report.

CONCLUSION

The results of my audit indicate that overall, there were significant and serious weaknesses in the control framework. The control activities such as delegations, authorisations, reconciliations, segregation of duties, system access and management were not sufficiently robust to 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.

26. DEPARTMENT OF POLICE 2014

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 fulfill its mission in the context of the Police Force Act, 1955 and other relevant legislation as follows:

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

AUDIT FINDINGS

CORPORATE GOVERNANCE

- The Department of Police (DoP) had a Corporate Plan in place covering the period nine years (2011-2020);
- No Annual Management/Activity Plan for the year ended 31 December, 2014 was not submitted to audit;
- The Department had an Internal Audit Committee established as required by FMM Part 9 and was functioning well; and
- There were no Audit Reports provided for audit review and verification.

REPORTING REQUIREMENT

- No Quarterly Budget Review Reports or Annual Management Report on the Department were prepared and submitted to Secretary, DoF as required; and
- Since 2013 no report on the work and achievements of the DoP in relation to the Corporate and Annual Management Plans and were submitted to the Department of Personnel Management (DPM) as required.

BUDGETARY CONTROL

- Audit comparison of the 2014 Expenditure Vote Summary maintained by the DoP and the Expenditure Statement on IFMS 2222 produced by the DoF for Period 12 of 2014 revealed a significant variance of K475,008,501 in the actual expenditure; and
- In addition, the expenditures statement produced by the DoF for the year ended 31 December, 2014 revealed expenditures in excess of *Warrant Authorities* issued under 12 Votes totaling K34.4 million.

CASH MANAGEMENT

The following discrepancies were noted in regard to the Departments Drawing Account.

- Copies of the 2014 monthly bank reconciliations were not provided for audit review and verification. Audit was informed that these reconciliations were stored away in a shipping container. Consequently, I was unable to confirm whether the monthly bank reconciliations were actually prepared and were submitted to DoF on a timely basis as required.

PROCUREMENT AND PAYMENT PROCEDURES

Audit randomly selected 82 paid vouchers with a value over K51.3 million to test the correctness of the procurement and payment procedures. I noted the following discrepancies:

- The DoP did not have a Procurement Plan or strategy in place for 2014;
- No quotation register was maintained in pursuant to Part 12 of the FMM;
- There were no gazette Specimen Signatures of Senior Officers' and their delegated signing limits for the procurement of goods and services;
- 31 paid vouchers totaling more than K22.56 million (more than 43% of the value sample selected) were not provided for my verifications;
- Eight payments totalling more than K1.78 million were processed and paid after close of accounts in contrary to instructions issued by the Secretary, DoF;
- Five payments totalling more than K5.5 million were incurred by the Department to purchase Police supplies of tactical accessories, equipment's and other supply for Pacific Games 2015 without any evidence of CSTB approval;
- Payments, approved by the Commissioner to nine workshops totalling K10,971,505, which cumulatively exceeded the Police Commissioners' delegated approval limit of K500,000.
- There were no CSTB approvals for the engagement of these nine workshops. There were no signed contracts in place for their engagement resulting in violation of the procurement and payment process.
- Three outstanding invoices relating to 2012-2013 financial years for repairs and maintenance totalling K1,068,026 were paid without any proper reliable supporting documents attached as the billings.

- The DoP paid over K3.4 million to 10 companies for the repair and service of the Police fleet throughout the country without Minor Contracts;
- The DoP hired motor vehicles without any minor contracts in place totaling more than K3.66 million during the year; and
- In ten instances, payments totalling more than K26.7million were all above K500,000 each which require Minor Contract and had to be approved by the CSTB. CSTB approvals, where not made available. There were no Major Contract Agreements in place. Furthermore, these payments did not have appropriate supporting documentation to process the claims.

ASSET MANAGEMENT

- The DoP did not have a proper centralized, up to date Fixed Assets Register to account for all of its fixed assets;
- Under the Department of Police Modernisation Program, more than K21.0 million was spent on Police housing throughout the Country during the year. However, there were no Registers maintained to record the transactions and movement of this Modernisation program;
- The DoP did not maintain a “*Loan Register*” for all attractive items totalling K!The Formula **Not In Table** that were purchased by the Department during the year;
- As per the Expenditure Transaction Details, the DoP purchased motor vehicles valuing more than K17.1 million. However, there were no “Motor Vehicle Fleet Registers” maintained to record these purchases made during the year;
- No Fixed Assets Register was provided to account for other assets purchased during the year amounting to K4,556,332;
- The DoP spent K5,596,168 to purchased firearms, ammunitions and accessories. No Registers were maintained to account for these assets; and
- No stock-take done during the year

ADVANCE MANAGEMENT

Examination of the Advance Register and other related record revealed the following discrepancies:

- The Advance Registers maintained were not in accordance with the FMM requirements as they lacked vital information such as date cheque collected, acquittal dates and officer’s signatures;
- Domestic Duty Travel Advances totaling more than K288,869 were paid through the Paymaster; and
- 35 Advances totaling more than K66,000 were acquitted as per the register obtained. However, I was unable to confirm and verify whether they were properly acquitted, as the acquittals files were not provided for my verifications.

HUMAN RESOURCE & PAYROLL MANAGEMENT

Audit review of Human Resource Management process and payroll controls revealed the following discrepancies:

- Certification of Payroll was not done to ensure control over payment of salaries and wages before it was processed by the DoF Allesco systematically each fortnight;
- 19 recreational leave payments were paid from different Vote Items totalling more than K105,180 consequently, in breach of the *Appropriation Act*;
- Recreational leave paid vouchers for five payment totalling more than K84,000 were not provided for audit verification; and
- Audit noted that ten payment vouchers for payments to the Paymaster totaling more than K340,000 were not provided for audit verifications.

TRUST ACCOUNT

During the year, the DoP operated 5 Trust Accounts. Examination of these Trust Accounts revealed the following discrepancies:

- Trust Instrument or Deed for the Police Housing & Rehabilitation Trust Account was not provided for my review; and
- The Department did not complete bank reconciliation for all these Trust Accounts in (January to December) 2014.

DEPARTMENTAL RESPONSE

The above audit observations were brought to the attention of 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.

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.

27. LIST OF DEPARTMENTS AUDITED IN THE LAST FOUR YEARS

No	Code	Name of Department	YEARS AUDITED				
			Reported in Previous Reports			Included in This Report	
			2012	2013	2014	2014	2015
1	247	Agriculture and Livestock	✓	✓	✓	X	X
2	225	Attorney General	✓	✓	X	✓	✓
3	261	Commerce and Industry	✓	✓	X	✓	X
4	242	Community Development	✓	✓	X	✓	X
5	226	Correctional Services	✓	✓	✓	X	✓
6	234	Defence	✓	✓	✓	X	X
7	235	Education	✓	✓	X	✓	✓
8	230	Electoral Commission	✓	✓	✓		✓
9	245	Environment & Conservation	X	X	X	✓	X
10	206/212	Finance & ITD	✓	✓	X	✓	✓
11	217	Foreign Affairs and Trade	✓	✓	X	✓	✓
12	202	Governor General	X	✓	X	✓	✓
13	240	Health	✓	✓	✓	X	✓
14	236	Higher Education, Research, Science & Tech.	✓	✓	✓	X	✓
15	216	Internal Revenue Commission	✓	✓	✓	X	X
16	252	Lands and Physical Planning	✓	✓	✓	X	X
17	262	Labour & Industrial Relations	✓	✓	X	✓	✓
18	224	Magisterial Services	✓	✓	X	✓	X
19	223	National Judiciary Staff Services	✓	✓	✓		X
20	201	National Parliament	✓	✓	X	✓	✓
21	229	National Planning & Monitoring	✓	✓	X	✓	X
22	204	National Statistics Office	X	X	X	X	X
23	267	Implementation & Rural Development	✓	✓	✓	X	✓
24	220	Personnel Management	✓	✓	✓	X	X
25	255	Petroleum and Energy	✓	✓	✓	✓	X
26	211	PNG – Bureau of Customs	✓	✓	✓		X
27	228	Police	✓	✓	X	✓	X
28	203	Prime Minister & NEC	✓	✓	✓	X	✓
29	232	Provincial & Local Government Affairs	✓	✓	X	✓	✓
30	254	Mineral Policy and Geohazard Mgt	X	X	X	✓	X
31	259	Transport	✓	✓	✓	X	X
32	208	Treasury	✓	✓	✓	✓	✓
33	264	Works & Implementation	✓	✓	✓	X	✓
34	221	Public Service Commission	X	X	X	X	✓
35	258	Information & Communication	X	X	X	X	X
36	213	Fire Services	X	X	X	✓	x
37	222	Office of Public Solicitor	x	x	X	X	X
38	215	PNG Immigration & Citizenship Services	X	X	X	X	X
39	209	Office of the Registrar for Political Parties	X	X	X	X	X
40	218	Office of Public Prosecutor	X	X	X	X	X
41	231	National Intelligence Organisation	X	X	X	X	X
42	257	Public Enterprise	X	X	X	X	X
43	205	Office of Bougainville Affairs	X	X	X	X	X
44	268	Central Supply and Tenders Board	X	X	X	X	X
45	269	Office of Tourism Arts & Culture	X	X	X	X	X
46	246	Office of Urbanisation	X	X	X	X	X
		TOTAL	29/46	31/46	15/46	18/41	17/41

Key

Departments Audited	✓
Departments Not Audited	X
Departments Changed to Authority	