

INQUIRY INTO THE PUBLIC ACCOUNTS
OF THE GOVERNMENT OF
PAPUA NEW GUINEA FOR THE FINANCIAL YEAR 2004.

REPORT TO THE NATIONAL PARLIAMENT

1. EXECUTIVE SUMMARY

- 1.1. By 2004, the Constitutional and statutory scheme of accounting and accountability for the management of public monies, had collapsed.
- 1.2. The Committee respectfully advises the National Parliament that this collapse of accountability and responsible, lawful and competent fiscal management was, and remains, a direct threat to the viability and civil stability of the Nation and the health and welfare of our citizens.
- 1.3. To the end of 2004, service delivery had faltered and, in some areas failed, in large measure the result of fiscal mischief and/or incompetence on a huge scale by the very persons responsible for properly and lawfully applying public monies – our Public Service at all levels of Government and administration. The results are clear to see in any social indicator of health and education and we believe this situation continues currently.

- 1.4. By 2004 Executive control of public monies and Government finances had failed and been supplanted by unaccountable management by officers of the Public Service who were themselves unaccountable, acted unlawfully or failed to carry out their lawful duties to make and submit accounts, on a daily basis.
- 1.5. So bad had the situation become by 2004, that the Auditor General was unable to audit significant parts of the Public Accounts and/or many areas of Government because there were no records or accounts.
- 1.6. This Committee rejects the Public Accounts of the Government of Papua New Guinea for the financial year 2004 as unreliable, incompetent, possibly fabricated in part, misleading and incomplete.
- 1.7. The Auditor General refused to certify or disclaimed the Public Accounts of the Government of Papua New Guinea for these reasons.
- 1.8. In 2004 the state of accounting for public monies by Government agencies became suddenly worse and more impenetrable than previous years. The Auditor General was unable to trace or reconstruct accounts or records – particularly Trust Account records – and this led to the disclaiming of the Public Accounts for that year.

- 1.9. By 2004, there had developed a culture of impunity against and behind which fiscal mishandling and misappropriation has prospered. So pernicious is this culture that there was, and is, no fear or risk of detection or punishment for those who would act illegally with public funds.
- 1.10. The findings and resolutions of the Committee, to be effective, need to be actioned by the Government, without delay.
- 1.11. The National Parliament must immediately move to rectify the collapse of accountability for the use and application of public monies by the Public Service.
- 1.12. The National Parliament must immediately reassert the Constitutional system of fiscal management by the Executive.
- 1.13. The National Parliament must immediately reestablish and enforce the Constitutional fiscal power and ultimate responsibility, which is the sole province of the Executive.
- 1.14. The National Parliament must immediately bring the Department of Finance under control and enforce accountability in that Department for fiscal management.
- 1.15. The National Parliament must reestablish the political and social contract with the citizens of Papua New Guinea and bring the application of appropriated monies under control for the benefit and betterment of the people of Papua New Guinea.

- 1.16. The National Parliament of Papua New Guinea must accept that the Public Service had, by 2004, failed to lawfully and properly manage, apply and account for public monies, for years.
- 1.17. The National Parliament must accept that it has failed to enforce and demand lawful and proper fiscal accountability for the use of and transactions with public monies, property and stores, for years. It has failed to understand or fulfill its Constitutional duty in this regard.
- 1.18. The National Parliament must recognize that the result of its failure has been to cede power to unelected and unaccountable officers of the Public Service.
- 1.19. The National Parliament must accept that this failure has resulted in the development and protection of significant abuse of public monies by the very persons charged with lawfully managing and applying public monies to the betterment of our country.
- 1.20. This failure has resulted in deteriorating services to our people and a failed system of delivering development to our citizens.
- 1.21. By 2004, the Constitutional system of public fiscal accountability had collapsed and that misappropriation, theft, misapplication, fraud and illegal and improper handling of public monies had become an incident of Governance in Papua New Guinea.

- 1.22. The Department of Finance had, by 2004, arrogated to itself sovereign power over the use and application of public monies, often in open defiance of Government appropriation, policy and directive.
- 1.23. By 2008, the agencies responsible for fiscal management and which were required to be accountable to Government and the Parliament for their performance, refused to cooperate with this Parliamentary Committee and refused to respond when called to account for past performance. In short, the Departments of Finance and Treasury intentionally refused to render account or assistance to this Parliament.
- 1.24. The Public Service, by 2004, was without control or oversight in its fiscal management and acted with impunity and immunity in their handling of public monies and in its refusal or failure to account lawfully – or at all.
- 1.25. The major agencies responsible for fiscal management, by 2004, acted largely as they wished in respect of public monies and, in many instances, in direct defiance of Law, Constitutional requirements and Government policy and appropriation.
- 1.26. There was and still is a collapse of law enforcement in the application of, or obedience to, the ***Public Finances (Management) Act 1995*** and every other dictate of Law relating to fiscal accountability across the entire span of Government.

- 1.27. The Auditor General and the Parliamentary Public Accounts Committee are, as a matter of routine, treated with contemptuous disregard by the Public Service – and in particular by the Department of Finance.
- 1.28. By 2004 and continuing to the present, not one Department of Government can, will or is capable of complying with all (or in many cases, any) lawful requirements of fiscal accounting.
- 1.29. This collapse of accountability is so complete that hardly one agency can reconcile or account for its own internal financing – much less deal with or apply development or service orientated appropriation.
- 1.30. There is a direct correlation between the collapse of public fiscal accountability and failure of service delivery. Even a peremptory examination of Trust Fund Suspense Account No. 2 shows huge misappropriation and random and illegal distribution of appropriated funds to other than their intended recipient or purpose.
- 1.31. The failure of service and development delivery will, and has already, resulted in significant social unrest. In other words, the loss of Parliamentary power and fiscal control, and thereby policy implementation, has created an increasingly angry, impoverished and disillusioned citizenry, deprived of the services that they have the right to receive.
- 1.32. Collapse of public fiscal accountability is a failure of Government and a failure of the National Parliament and Executive to understand or fulfill its Constitutional role.

- 1.33. The National Parliament must accept that there is no more urgent issue of national importance than the collapse of fiscal accountability and the attendant collapse of law enforcement that has allowed this to occur.
- 1.34. This Committee strongly recommends that the Government seek assistance and expertise wherever it can to replace failed individuals, failed systems and intentional refusal by Officers of the Public Service to act properly and lawfully.
- 1.35. This Committee concludes that there is no detectable will or ability in the Public Service – particularly in the Department of Finance – to change or reform. The huge amounts of money misappropriated in that Department clearly displace any ability or wish to change or to comply with the duties imposed on that Department.
- 1.36. Indeed, the Department had, by 2004, abandoned almost any pretence of lawful conduct and has abandoned its true role for the conduct of private business funded by public monies. This Committee defies that Department to justify or explain the misuse of Trust Fund Suspense Account Number 2.
- 1.37. The Department of Finance must be brought under control and be made accountable. The Department cannot control public spending and cannot fulfill even basic accounting tasks. Government should seriously consider degazetting the Department and replacing it with a specialised accounting and fiscal agency to guide and implement development and service delivery budgets.

- 1.38. Power to expend or authorize the expenditure of monies must be removed in whole or in part from the Department of Finance pending restructuring of that Department.
- 1.39. A new and specialized agency is required to control, approve and account for the expenditure of public monies. If necessary, that agency should be recruited from private enterprise and/or from overseas if the necessary expertise cannot be sourced in Papua New Guinea.
- 1.40. Decentralised accounting had, by 2004, failed. It continues in a state of failure. No agency or Department of Government has the expertise or capability to account for the use of or transactions with public monies. Either the devolution is reversed and made the task of a specialised and effective independent agency or a very significant training and oversight effort must be injected into public accountability at every level of Government right down to LLG, District and Board level – and even then, we doubt that decentralized accounting can succeed.
- 1.41. The Committee recommends that the number of Section 32 Officers be strictly circumscribed and that delegation to expend public monies must be restricted to officers with a proven record of honesty and who are trained, experienced and subject to training, oversight, control and a “fit and proper person” test.

- 1.42. Ministers must assume responsibility for transparent accounting by their Departments and not acquiesce in the current failed system.
- 1.43. The culture of impunity attending failure and malpractice in our Public Service should be addressed immediately. There is no fear of detection or sanction for fiscal mishandling – and there must be.
- 1.44. Senior management has failed to enforce standards of accounting required by Law and no analysis of capability has ever been conducted – this must change.
- 1.45. The ***Public Finances (Management) Act 1995*** requires updating and modernization.
- 1.46. Executive power must be reasserted over fiscal management and power over and accountability for expenditure reclaimed by the Executive.
- 1.47. Ongoing training and supervision of accounting staff must be implemented and maintained at all levels of Government.
- 1.48. Departments and agencies that fail to make statutory records or accounts should be penalized by a reduction of funding or removal and replacement of failed staff and management. There should be zero tolerance for failure or refusal to comply with the requirements of the ***Public Finances (Management) Act 1995***.
- 1.49. Inadequate IT systems need urgent attention and rectification. The fact that PGAS budget management systems

cannot prevent invalid budget codes is totally unacceptable. The fact that PGAS and TMS cannot communicate is not acceptable.

- 1.50. Qualified Finance Officers only should be deployed in self accounting agencies and constantly controlled and overseen.
- 1.51. No agency should be designated as self accounting unless strict prerequisites are met. Departments and agencies considered by this Committee were bad enough when they were not self accounting, but since gaining this status, they have failed completely to keep even basic accounts or records.
- 1.52. The oversight and monitoring agencies should be properly and fully funded. The Office of the Auditor General is simply unable to meet its mandate due to lack of resources and this is not acceptable – or lawful.
- 1.53. So powerful and immune do Public Servants consider themselves in 2008, that the Heads of the Departments of Finance and Treasury deliberately and intentionally refused to co-operate or assist either this Committee or the Auditor General despite promising to do so and despite receiving Summonses and Notices to Produce from this Committee.
- 1.54. This intentional non-cooperation has seriously impeded this Inquiry and has limited our ability to make recommendations for reform. This is not acceptable.

- 1.55. This refusal to assist or cooperate with a senior Permanent Parliamentary Committee clearly illustrates the extent to which our Constitutional systems of fiscal accountability have collapsed – as at December 2008.
- 1.56. As a result of evidence and documents received by the Committee, the Public Accounts Committee makes referrals of certain Officers of the Public Service for inquiry and possible prosecution for breaches of statutory obligations.
- 1.57. As a result of evidence and documents tendered to the inquiry, the Public Accounts Committee unanimously resolved to make a full and complete report of its Inquiry and findings to the National Parliament in accordance with Section 86 (1) (c) of the ***Public Finances (Management) Act 1994***.
- 1.58. The Public Accounts Committee now tables the report with its strongest recommendation that remedial action be immediately taken by the National Parliament in accordance with findings and resolutions of the Public Accounts Committee.

2. INTRODUCTION

- 2.1. On the 11th day of November 2008 the Permanent Parliamentary Public Accounts Committee concluded a long running inquiry into the keeping of the Public Accounts of the Independent State of Papua New Guinea for the financial year ending the 31st December 2004.

- 2.2. The Inquiry was held pursuant to the powers vested in the Committee by Section 86 of the ***Public Finances (Management) Act 1995***.
- 2.3. When reading this Report, Members should understand that the Report concerns the Public Accounts of five years ago – not of the present time. Therefore, where the Report concerns the Public Accounts statements for 2004 or the findings of the Auditor General, the Report is written in the past tense and should be understood in that way.
- 2.4. However, this Inquiry did not occur until 2008 due to delays in the preparation and tabling of the Reports in the National Parliament.
- 2.5. Therefore, findings and censure of conduct before the Committee – particularly of the Departments of Finance and Treasury are current to December 2008.
- 2.6. This Report contains matters of an extremely serious nature and of immediate National importance. They require urgent and immediate attention from Government and sweeping reform and reconstruction.
- 2.7. As a result of evidence taken in this Inquiry, the Public Accounts Committee makes findings which are highly critical of fiscal management and accountability by Provincial Governments, Local-level Governments, District

administration, Public Bodies and statutory corporations at all levels of Government.

- 2.8. The Committee conducted contemporaneous Inquiries into the Part 1 Reports of the Auditor General for the year 2004, the capacity and funding of the Office of the Auditor General, the Part 3 Reports of the Auditor General into Provincial Governments for the year 2004, the Part 4 Reports of the Auditor General for the year 2004 and all Government Trust Accounts.
- 2.9. The intention in conducting these detailed Inquiries was to provide the National Parliament with a comprehensive description and analysis of the state of the fiscal accountability of Government in Papua New Guinea for the year 2004 and, thereby, a full and complete examination of the Public Accounts.
- 2.10. This was an ambitious and unique attempt to provide an analysis of the state of our financial management and the reliability and accuracy of the statement of Public Accounts for 2004 and 2005. We intend to perform the same exercise for the financial years 2006 and 2007, as soon as possible.
- 2.11. As we have said, the Inquiries revealed the depth and extent of the failure of our systems of accounting, fiscal management, financial reporting and compliance with legal requirements and accounting prescriptions but, more worryingly, the extent to which organized and even

institutionalized misappropriation and mishandling of public monies has infiltrated and compromised those systems.

- 2.12. The Committee intended to establish reasons for the collapse of fiscal accountability, the extent of the problem, the non-performance of the Public Service, the failure of Government to heed warnings of failure by the Auditor General, the apparent failures of the supervising agencies and the seriousness and immediacy of the problem.
- 2.13. Most importantly, by this Inquiry and Report, the Committee intends to identify the problems in order that appropriate solutions may be found and applied by the National Parliament.
- 2.14. There is no doubt that this is the first time that the mosaic of fiscal and Governance failures has been declared or understood. It is a dire picture.
- 2.15. The situation revealed by the 2004 Part 1 Reports of the Auditor General clearly shows a complete failure of enforcement agencies responsible for ensuring that lawful accounting procedures were maintained by Government.
- 2.16. The evidence received in this Inquiry, clearly shows a collapse of systems of accountability for the use of Public money, property and stores across the entire span of Government as a result of which, the 2004 Public Accounts of the Independent State of Papua New Guinea have been found by the Office of the Auditor General, to be unreliable and

inaccurate and, therefore, was disclaimed by the Auditor General.

- 2.17. The Public Service at large and Heads of Departments and all agencies have failed in their duties to make and submit statutory accounts.
- 2.18. So incompetent and failed is the Public Service that, with no exception, not one Department in 2004 could account for or reconcile its own internal accounts or bank accounts – much less administer development or service delivery budgets with any degree of competence or legality.
- 2.19. This failure is evident in every agency and arm of Government from National to District.
- 2.20. Fiscal power and responsibility prescribed by our Constitution was, by 2004, lost to the Government and had been abrogated by an unaccountable and unelected Public Service.
- 2.21. Misappropriation on a huge scale characterized the handling of public monies in 2004 – particularly in the Department of Finance.
- 2.22. The non production of accounts and records was, in 2004, intentional and deliberate and designed to prevent audit.
- 2.23. The Department of Finance was, by 2004, a failed Department incapable of lawfully managing even its own internal finances and disinterested and incapable of fulfilling its duty to keep and maintain the accounting standards throughout Government.

- 2.24. Trust Accounts were widely abused in 2004 – particularly within the Department of Finance, the very Department that exists to control and monitor Trust accounting in Government.
- 2.25. The Government should remove all Trust Accounts from the Public Service and those persons who have failed in their duties as Trustees should never again be permitted to handle or administer public monies – particularly Trust monies.
- 2.26. Governments apply public funds to drive development and service delivery to our people – generally in an equitable and well intentioned way.
- 2.27. However, large sections of our Public Service have become unaccountable, uncontrolled and ineffective in the application of and accounting for the use of appropriated funds and, at worse, act illegally with impunity and immunity in the mishandling of public monies, keeping no records or accounts.
- 2.28. The evidence received by this Committee shows a stark picture of a Public Service which in many areas has failed in its duties and long ago intentionally arrogated to itself unfettered control of public funds for improper purposes or which is incapable of using or applying appropriated monies.
- 2.29. The results of this collapse have been manifold.
- 2.30. The first result has been that illegal and/or and improper practices were rife - particularly in the very Department

responsible for fiscal management, the Department of Finance, but also across the entire spectrum of Government at every level – National, Provincial and Local.

- 2.31. This systemic disregard of accounting requirements has opened public money to misuse, theft and misappropriation particularly by and through the very Officers of the Public Service whose duty it is to properly manage those monies.
- 2.32. Secondly, diverted or misused public money can only come from one source – funds belonging to and intended for service development and delivery to our people. Schools, hospitals, roads, doctors, infrastructure maintenance, medicine and basic services take a poor second place after allocated funds were diverted or misused.
- 2.33. Thirdly, the misuse of public monies appeared utterly uncontrolled. Governments and law enforcement agencies failed to grapple with the problem and this failure emboldened the misusers, who moved in a few years from small scale opportunistic misappropriation to the organized diversion of huge sums of public money – with apparent immunity and impunity.
- 2.34. Fourthly, central control of public finances by the Executive and the National Parliament had ceased. The Public Service failed or refused to keep accounts or to obey the legal requirements for accountability, yet were still funded and permitted to control public funds free of any oversight or control by the Executive.

- 2.35. Fifthly, vital information which should be accurately set out in the Public Accounts was, in 2004, not available.
- 2.36. For example the Committee was unable to ascertain the number of Government Trust Accounts (the figure varied from 368 to 15,000), the amount of money held in Trust Accounts, interest accruing on Trust Account deposits (if any), the extent and composition of public or State debt, the actual application of public money through Trust Accounts (especially by Provincial Governments) and much more.
- 2.37. Sixthly, in the absence of competent and reliable Public Accounts the Committee cannot understand how Government could competently and responsibly plan, monitor, form policy, budget, manage currency, meet major fiscal challenges or crises, deliver services effectively or maintain any understanding of the fiscal state of the Nation.
- 2.38. Seventhly, the Government and the National Parliament had clearly lost control of the Public Service and thereby responsible, lawful and equitable application of public monies – the most basic requirement for a modern, sovereign nation.

3. CHRONOLOGY

- 3.1. The Public Accounts Committee commenced its Inquiry into the Public Accounts of the Independent State of Papua New Guinea on the 14th December 2007 and continued on the 30th April 2008, 4th May 2008, 14th July 2008, 22nd September

2008, 24th September 2008 and the 11th November 2008 when the Inquiry closed.

- 3.2. Requests to produce evidence and documents were given to the Secretaries of the Departments of Finance and Treasury on the 12th December 2007.
- 3.3. These Notices to Produce were not complied with.
- 3.4. On the 19th May 2008 written questions were directed to the Secretary for Finance, Mr. Gabriel Yer. The information sought would have assisted the Committee and shortened this Inquiry very considerably.
- 3.5. No response was ever received.
- 3.6. The Inquiry was prolonged and frustrated by the deliberate and obstructive refusal of Mr Tosali and Mr Yer to attend the Committee or to provide assistance and information when requested. These failures will be the subject of further comment and referral in this Report.

4. LIST OF ABBREVIATIONS

4.1 "PF(M)A"

Public Finances Management Act

4.2 "PAC"

Public Accounts Committee

4.3 **"the Constitution"**

Constitution of the Independent State of Papua New Guinea

4.4 **"TMS"**

Treasury Management System

4.5 **"PGAS"**

Papua New Guinea Government Computerised Accounting System.

4.6 **"the Committee" or "this Committee"**

The Permanent Parliamentary Committee on Public Accounts.

5. COMPOSITION OF THE COMMITTEE

- 5.1. The Public Accounts Committee which made inquiry into the Public Accounts of the Independent State of Papua New Guinea - 2004 was constituted as follows:

30th April 2008.

Hon. Timothy Bonga OL MBE MP – Chairman.

Hon. Dr. Bob Danaya M.P. – Deputy Chairman.

Hon. Malcolm Smith-Kela MBE CMG DFC M.P. – Member.

Hon. Sailon Beseo M.P. – Member.

Hon. Fr. John Garia M.P. – Member.

Hon. Malakai Tabar M.P.

Hon. Koni Iguan M.P. – Member.

Hon. Lucas Dekena M.P. – Member.

Hon. Philip Kikala M.P. –Member.

Hon. Francis Marus M.P. – Member.

Hon. Benjamin Poponowa M.P. – Member.

Hon. Jack Cameron M.P. – Member.

Hon. Sam Basil M.P. – Member.

Hon. John Kekeno M.P. – Member.

07/07/2008.

Hon. Timothy Bonga OL MBE M.P. – Chairman.

Hon. Jack Cameron M.P. – Member.

Hon. Fr. John Garia M.P. – Member

Hon. Lucas Dekena M.P. – Member.

Hon. Malcolm Smith-Kela MBE CMG M.P. – Member.

Hon. Philip Kikala M.P. – Member.

14/07/2008.

Hon. Timothy Bonga OL MBE M.P. – Chairman.

Hon. Benjamin PoPONawa M.P. – Member

Hon. Francis Marus M.P. – Member

Hon. Koni Iguan M.P. – Member.

Hon. Lucas Dekena M.P. – Member.

Hon. Malakai Tabar M.P. – Member.

Hon. Malcolm Smith-Kela MBE CMG DFC M.P. – Member.

Hon Philip Kikala M.P. – Member.

Hon. Sai Beseo M.P. – Member.

22/09/2008.

Hon. Timothy Bonga OL MBE M.P.

Hon. Dr. Bob Danaya M.P. – Member

Hon. Benjamin PoPONawa M.P. – Member.

Hon. Francis Marus M.P. – Member.

Hon. Jack Cameron M.P. – Member.

Hon. Fr. John Garia M.P. –Member.

Hon. Hon. Lucas Dekena M.P. – Member.

Hon. Malcolm Smith-Kela MBE CMG DFC M.P. – Member.

24/09/2008.

Hon. Timothy Bonga OL MBE M.P. – Chairman.
Hon. Dr. Bob Danaya M.P. – Deputy Chairman.
Hon. Benjamin Poponawa M.P. – Member.
Hon. Francis Marus M.P. – Member.
Hon. Jack Cameron M.P. – Member.
Hon. Fr. John Garia M.P. – Member.
Hon. Koni Iguan M.P. – Member.
Hon. Lucas Dekena M.P. – Member.
Hon. Malakai Tabar M.P. – Member.

Hon Malcolm Smith-Kela MBE CMG DFC MP – Member.
Hon. Philip Kikala M.P. – Member.
Hon. Sai Beseo M.P. – Member.
Hon. Sam Basil M.P. – Member.

11/11/2008.

Hon. Timothy Bonga OL MBE M.P. – Chairman.
Hon. Dr. Bob Danaya M.P. – Deputy Chairman.
Hon. Benjamin Poponawa M.P. – Member.
Hon. Jack Cameron M.P. – Member.
Hon. Fr. John Garia M.P. – Member.
Hon. Malcolm Smith-Kela M.P. – Member.

Hon. Philip Kikala M.P. – Member.

Hon. Sai Beseo M.P. – Member.

Hon. Sam Basil M.P. – Member.

- 5.2. The Chairman, Deputy Chairman and Members of the Committee were properly and lawfully appointed and empowered to sit as a Public Accounts Committee.

6. JURISDICTION.

INTRODUCTION:

- 6.1. At all times, the Committee has taken great care to enable witnesses to make full and complete representations and answers to any matter before the Committee – in particular those matters about which the Committee may make adverse findings against individuals or entities.
- 6.2. The Public Accounts Committee has taken care to give careful consideration to all responses and evidence given before the Committee.
- 6.3. The Public Accounts Committee has taken care to seek opinion, information, facts and submissions from all sources reasonably open to it including all citizens of Papua New Guinea.

- 6.4. A substantial amount of evidence was taken on oath and full and due inquiry was made of all relevant State Agencies where the Committee considered those inquiries to be necessary.

JURISDICTION

The Constitution of the Independent State of Papua New Guinea.

- 6.5. The Committee finds its jurisdiction firstly, pursuant to Section 216 of the ***Constitution of the Independent State of Papua New Guinea***. That Section reads:

"216. Functions of the Committee

(1) The primary function of the Public Accounts Committee is, in accordance with an Act of the Parliament, to examine and report to the Parliament on the public accounts of Papua New Guinea and on the control of and on transaction with or concerning, the public monies and property of Papua New Guinea".

(2) Sub-section (1) extends to any accounts, finances and property that are subject to inspection and audit by the Auditor General under Section 214 (2) ... and to reports by the Auditor General under that Sub-section or Section 214 (3)...".

- 6.6. Whilst considering the relevant provisions of the Constitution, the Committee has had regard to the **Final Report of the Constitutional Planning Committee 1974** and been guided by or applied the stated intentions of that Committee wherever necessary.
- 6.7. The Public Accounts Committee has had due regard to Reports by the Auditor General made pursuant to audit inspections of the Public Accounts for the financial year 2004 and the five years preceding, but has conducted an Inquiry into relevant matters deemed by the Committee to be of National Importance or which arise naturally from primary lines of Inquiry and which are within the jurisdiction and function of the Committee as set forth in the Constitution.
- 6.8. Whilst engaged in the Inquiry the Committee was guided by two definitions contained in the Constitution, which are directly relevant to Section 216 of the Constitution. They are:

“Public Accounts of Papua New Guinea” includes all accounts, books and records of, or in the custody, possession or control of, the National Executive or of a public officer relating to public property or public moneys of Papua New Guinea;”

and

“Public moneys of Papua New Guinea” includes moneys held in trust by the National Executive or

a public officer in his capacity as such, whether or not they are so held for particular persons;"

Schedule 1.2 of the Constitution.

The Public Finances (Management) Act 1995.

- 6.9. The Public Accounts Committee also finds its jurisdiction to Inquire into the Public Accounts of Papua New Guinea in Section 86 (1) (a) of the ***Public Finance (Management) Act 1995***. That Section states:

" (1) The functions of the Committee are –

"(a) to examine the accounts of the receipts and expenditure of the Public Account and each statement and report of the Auditor-General presented to the Parliament under Section 214 of the Constitution or Section 113 (8) (a) of the Organic Law on Provincial Governments and :Local-level Governments;

- 6.10. The Committee has considered such statements and Reports of the Auditor General as were presented to Parliament and in particular the Part 1 Report of the Office of the Auditor General for the financial year 2004.
- 6.11. The Committee has further considered Reports of the Auditor General which have not yet been presented to the Parliament,

on the basis that that evidence was tendered by the Auditor General for the consideration of the Committee and at the request of the Committee, on the basis that such material is within the purview of the Committee as a matter of national importance.

- 6.12. Power to refer matters for investigation and possible prosecution is granted to the Committee by Section 86A of the ***Public Finances (Management) Act 1995***.

Permanent Parliamentary Committees Act 1994:

- 6.13. The Committee also resolved that a full Inquiry into the keeping of the Public Accounts for the year 2004 was a matter of National importance and found further jurisdiction for the inquiry in Section 17 of the ***Permanent Parliamentary Committees Act 1994***.

- 6.14. That Section provides that the Public Accounts Committee can, of its own initiative, consider any matter within its jurisdiction to be of national importance and report to the National Parliament accordingly. The Committee, as we have stated, considers the Public Accounts of the Nation for the financial year 2004, to be such a matter.

7. RELEVANT STATUTES ETC. CONSIDERED BY THE COMMITTEE DURING INQUIRY.

Public Finances (Management) Act 1995.

7.1 The ***Public Finances (Management) Act 1995*** prescribes the method and standard for the administration of and accounting for public monies, public properties and stores by Government.

7.2 Further, the Act imposes certain obligations on Public Servants for collection of State revenue and controls the expenditure of public monies.

7.3 Relevant sections of the Act which were considered by the Public Accounts Committee during the course of the Inquiry into the Public Accounts are:

(i) **Section 5 – Responsibilities of Heads of Department**

This Section prescribes the duties, powers and obligations of Head of Department.

(ii) **Section 3 – Responsibilities of the Minister**

This Section prescribes the obligations and duties of relevant Ministers of State.

(iii) **Part X - The Public Accounts Committee**

This Part empowers and imposes functions and obligations on the Public Accounts Committee. In particular, the Committee was required to consider Section 86 (A) – power to refer officers of the

Department to the Office of the Public Prosecutor for investigation and possible prosecution relating to breaches of the ***Public Finances (Management) Act 1995*** and/or the ***Constitution***.

(iv) **Part XI - Surcharge**

This Section prescribes personal liability for certain public servants who fail in their obligations to collect and protect certain public monies.

(v) **Section 112 – Offences**

This Section prescribes disciplinary action which may be taken against certain public servants or accountable officers who fail to comply with the terms of the ***Public Finances (Management) Act 1995***.

Financial Instructions.

7.4 Section 117 of the ***Public Finances (Management) Act 1995*** enables the promulgation of certain ***Financial Instructions*** which establish detailed procedures for the handling, collection, expenditure, disposal of and accounting for public monies, property and stores.

7.5 The Public Accounts Committee had regard to these ***Financial Instructions*** or Directives when considering the 2004 Public Accounts.

- 7.6 In particular, the Committee had regard to **Part 6 Division 1 Para. 2.1 – Accountable Officers**. That paragraph reads, in part:

".....the Departmental Head is liable under the doctrine of personal accountability to make good any sum which the Public Accounts Committee recommends should be disallowed".

Audit Act 1986.

- 7.7 The ***Audit Act 1986*** establishes and empowers the Office of the Auditor General to carry out its work of overseeing and supervising the handling of public monies, stores and property by all arms of the National Government. The Public Accounts Committee had regard to the terms of this Act during the course of the Inquiry into the Public Accounts.
- 7.8 The Committee received considerable assistance from the Office of the Auditor General in the course of this Inquiry.

Permanent Parliamentary Committees Act 1994.

- 7.9 The Committee has had regard to Sections 17, 22, 23, 25, 27, and 33 of the ***Permanent Parliamentary Committees Act 1994*** during the course of the Inquiry into the Public Accounts.

Parliamentary Powers and Privileges Act 1964.

- 7.10 The ***Parliamentary Powers and Privileges Act 1964*** sets forth those privileges and powers extending to Members of Parliament, Committees of Parliament and Officers or Parliamentary Staff.
- 7.11 In the course of this Inquiry, the Committee had cause to examine and apply Sections 19 and 20 (1) (d) of that Act.
- 7.12 The Secretaries of the Departments of Finance and Treasury failed to comply with a Summons requiring the production of documents and certain resolutions and referrals were made in this respect. This matter is developed more fully in this Report (infra).

8 PURPOSE OF THE INQUIRY

- 8.1 The purpose of the Inquiry conducted by the Public Accounts Committee was to make full and complete examination of the keeping of the Public Accounts as revealed in the Part 1 Report of the Office of the Auditor General for the year 2004 and all the evidence relevant to the compiling and presentation of those Public Accounts.
- 8.2 The purpose of the Inquiry was not to improperly pursue or criticize any person or company, but to make a constructive and informed Report to the Parliament on any changes which the Committee perceives to be necessary to any item or matter in the accounts, statements or reports or any

circumstances connected with them, which comprise the Public Accounts, all other primary material from which those Accounts are compiled and any other matter considered by the Committee to be of national importance.

- 8.3 Further, the intention of the Committee was to report to the National Parliament in a meaningful way on alterations that the Committee thinks desirable in the form of the Public Accounts as manifested in the method of keeping them, in the method of collection, receipt, expenditure or issue of public monies and/or for the receipt, custody, disposal, issue or use of stores and other property of the State by all arms or Departments of Government as those matters are revealed in the Reports of the Auditor General or other evidence received by the Committee.

9 THE AUTHORITY TO REPORT

- 9.1 The Public Accounts Committee finds authority to make this Report in Section 86(1) (c) and (d) (i), (ii), (iii) and (iv) and (f) of the ***Public Finances (Management) Act 1995*** and Section 17 of the ***Permanent Parliamentary Committees Act 1994***.

10 THE AUTHORITY TO REFER

- 10.1 Where satisfied that there is a prima facie case that a person may not have complied with the provisions of the ***Constitution of the Independent State of Papua New***

Guinea and / or the **Public Finances (Management) Act 1995** in connection with the control and transaction with and concerning the accounts of a public body or the public moneys and the property of Papua New Guinea, it may make referrals of that person to the Office of the Public Prosecutor in accordance with Section 86 (1) (f) and Section 86A (1) and (2) of the **Public Finances (Management) Act 1995**.

- 10.2 The Public Accounts Committee is not a true investigatory body or law enforcement agency capable of investigating and/or prosecuting persons for breaches of the law. The Committee is required to refer such matters to the appropriate authorities and may make such recommendations as it thinks fit in relation to any referral made pursuant to Section 86A of the **PF(M)A**.
- 10.3 The Committee is also empowered to refer for prosecution, any witness who fails to comply with a Notice to Produce any document, paper or book and / or any person who fails to comply with a Summons issued and served by the Committee. See Section 23 **Permanent Parliamentary Committees Act 1994**.
- 10.4 Further, Section 20 of the **Parliamentary Powers and Privileges Act 1994** permits the Committee to refer for prosecution any person who, inter alia, fails to comply with a Summons to produce books, papers or documents specified in the Summons.

- 10.5 Regrettably, the Committee is required to make referrals of individuals for further investigation and possible prosecution as a result either of their non compliance when summoned to this Inquiry or as a result of evidence received by the Committee in the Inquiry or their demonstrated attitude toward this Committee or its proceedings.
- 10.6 In particular the Secretaries of the Departments of Finance and Treasury simply refused to answer Summonses issued and served by the Committee or to assist or cooperate with the Committee. What oral evidence was given by these Officers was difficult to understand and/or unresponsive.
- 10.7 Those referrals were made after anxious consideration of the evidence and any explanations given by the persons concerned. The Secretaries for the Departments of Finance and Treasury were invited to make any response or show any reason why they should not be referred, but made no response to the Committee in this regard.
- 10.8 The Committee is cognisant that to make referrals, particularly of a senior public servant is a very serious matter which will adversely reflect on the individual concerned. These referrals are not made lightly but only after careful consideration of all the evidence and unanimous resolution by the Committee and where there is clear and unequivocal evidence which requires either specialized investigation by the appropriate agency or where a failure to cooperate with the Committee, as required by Law, was clear.

11 METHOD OF INQUIRY

- 11.1 The Inquiry into the 2004 Public Accounts was established by Terms of Reference promulgated by the Committee and resolution of the Committee. The Inquiry continued for many months. A copy of the Terms of Reference is shown in Schedule 6.
- 11.2 The Inquiry by the Public Accounts Committee into the Public Accounts for the financial year 2004 was a public hearing at which sworn evidence was widely sought from a large range of sources, but received from only a small number of witnesses.
- 11.3 Oral evidence was received from representatives of several selected Departments of the Public Service, Provincial Administrators, the Office of the Auditor General and from the Acting Chief Secretary to Government, Ms. Margaret Elias.
- 11.4 Early in this Inquiry, the Committee became aware that it was dealing with a serious and thoroughgoing collapse of fiscal accountability by Government.
- 11.5 The Committee quickly became aware of the extent of failure and non compliance with the legal requirements of accounting for public monies imposed by the ***Public Finances (Management) Act 1995*** and the ***Financial Instructions*** promulgated thereunder.

- 11.6 The Committee decided to conduct a constructive Inquiry intended to identify the reasons for the collapse of accountability and to make informed suggestions and recommendations to the National Parliament to commence the process of reform and/or restoration of these systems.
- 11.7 To this end, the Committee made a public declaration of this intention for the purpose of encouraging assistance and cooperation from all persons to aid the Committee in addressing this very significant national failure.
- 11.8 The Committee solicited opinion, advice, recommendations and policy from many quarters. In particular, the Committee publically advertised its Terms of Reference and placed public advertisements in local media seeking assistance and submissions from any person who wished to give them.
- 11.9 The Committee anticipated receiving willing cooperation and assistance from the Heads of the two Departments responsible for fiscal management and administration in Papua New Guinea – the Departments of Finance and Treasury.
- 11.10 The Committee solicited this assistance over the life of the Inquiry but received virtually no assistance at all from either Mr. Gabriel Yer (Secretary and Head of the Department of Finance) or Mr. Simon Tosali (Secretary and Head of the Department of Treasury).

- 11.11 The Committee concludes that these two senior administrators intentionally and deliberately decided to obstruct the Committee in its work. Letters were unanswered, questions ignored, requests for assistance disregarded and Summonses to appear as witnesses were disobeyed with no apology, excuse or leave from the Committee.
- 11.12 This attitude is a very serious matter. When senior public servants (particularly the Heads of Departments and, in the case of Mr. Yer the Chief Accountable Officer to Government) treats a Parliamentary Committee with contemptuous disregard, the nation has a real problem.
- 11.13 As a matter of Law all public servants are required to give full, timely and responsive cooperation to this Committee – representing as it does, the National Parliament in Committee.
- 11.14 It is necessary to point out that the collapse of public accountability either occurred or continued during the period of appointment of these two Officers and they, more than anyone, would know why and how this happened – and how to address the problem.
- 11.15 Inquiries by the Committee to these Officers mainly concerned policies and plans to rebuild or reestablish our systems of national accountability. Evidence on these matters would have assisted the Committee enormously.

- 11.16 The attitude displayed by these and other Public Servants toward this Committee is, in our opinion, an excellent illustration of the degree to which the Public Service has become uncontrolled, unaccountable and seemingly immune to the processes of Law of and accountability for, the use and application of money entrusted to them.
- 11.17 This is a very serious development and one that this Parliament should no longer tolerate. In the opinion of the Committee the failure of accountability has nurtured and protected significant misuse and deviation of public monies by Government agencies to the point where, in 2004, the accounts of the nation – the Public Accounts – had become unreliable, at best.

12 WHAT IS THE PUBLIC ACCOUNT?

- 12.1 The systems and legal basis for the supervision and control of Government finances, and therefore of public monies, is prescribed by Subdivision A, Division 1 of Part VIII of the ***Constitution of the Independent State of Papua New Guinea***.
- 12.2 Section 209 of the ***Constitution*** states that there shall be, in each fiscal year, a national Budget comprising:
- (a) estimates of finance proposed to be raised and estimates of proposed expenditure by the National Government in respect of the fiscal year; and***

(b)

(c) such other supplementary budgets and appropriations as are necessary.

12.3 Section 211 of the **Constitution** establishes the systems of account for public monies under the control of Government. The Section states:

“(1) All moneys of or under the control of the National Government for public expenditureshall be dealt with and properly accounted for in accordance with law.

(2) No money under the control of the National Government for public expenditureshall be expended except as provided by this Constitution or by or under an Act of Parliament”.

12.4 The term “public accounts of Papua New Guinea” is defined in Schedule 1 of the Constitution in the following manner:

“public accounts of Papua New Guinea” includes all accounts, books and records of, or in the custody, possession or control of, the National Executive or of a public officer,

***relating to public property or public moneys
of Papua New Guinea;"***

- 12.5 The Constitution gives no detailed guidance to or prescription for the handling of or accounting for public money. Those systems and the legal requirements for those accounts are set forth in the ***Public Finances (Management) Act 1995*** and the ***Financial Instructions*** made thereunder.
- 12.6 At the outset of this Inquiry the Committee sought a clear statement and definition of the Public Accounts and the use to which they were put by various entities.
- 12.7 This basic question was important – not least because it would assist the Committee to understand the import of a refusal by the Auditor General to certify the Accounts or to disclaim them. Should such a decision by the Auditor General concern the Committee and, if so, why?
- 12.8 If the Public Accounts are found to be unreliable or prepared or presented on the basis of accounting policies that are themselves defective in some way, what recommendations should the Committee make to the National Parliament?
- 12.9 This question was addressed to the Office of the Auditor General both in writing and orally at the Inquiry. We received timely, comprehensible and responsive assistance from the Auditor and we record our gratitude for that cooperation.

- 12.10 This issue was canvassed with the Auditor General in Inquiry, on the 30th April 2008 and the evidence given by the Auditor General both orally and by Para 6 of the Part 1 Report for 2005, is accepted by the Committee:

"HON. TIMOTHY BONGA MP - Chairman:

What use is made of the public accounts and by whom? Are they used for budgeting purposes, are they used by foreign governments or credit agencies, by Treasury or Central Bank? Perhaps you could summarise Para 6 of your 2005 Report.

MR. GEORGE SULLIMAN – Auditor General:

Chairman, there are lots of users for the Public Accounts and there are a lot of uses for the national Public Accounts. The Departments themselves, our economist and the public at large, investors, central governments agencies,

Transcript 30th April 2008.

- 12.11 Para. 6 of the Part 1 Report of the Auditor General for 2005 is of direct relevance to the Committees question. It states:

"THE ROLE OF THE PUBLIC ACCOUNTS OF PAPUA NEW GUINEA.

Important features of the Papua New Guinea system of governing depend in part on the availability of good financial information. The Public

Accounts are a major source of annually reported financial information.

The features of Papua New Guinean system of Government that depend in part on the availability of good financial information are:

- ***Consent of the governed;***
- ***An Executive entrusted with powers;***
- ***Impose limits on the executive use of powers; and***
- ***Oversight of executive action.***

Government in this country is based on consent formally given by representatives in Parliament through the annual appropriation of supply, approval of the Budget and passage of Legislative proposals.

Information on the benefits, costs and financial effects of Government proposals is needed before Parliament gives its consent. Subsequent periodic reporting of the financial information is needed to compare actual costs, tax burdens, and other financial effects with those intentions and for which consent was given.

The system of Papua New Guinea provides for a strong Executive entrusted with great power.....Reports of the actual costs and financial effects of government activities are needed to assess whether, from a financial view, Executive discretion was appropriately exercised.

Limitations on the use of Executive authority are a constitutional strategy to protect individuals liberty from abuse of the powers of the State. Some limits are financial (for example, the system of Parliamentary appropriation) and financial records are needed to show whether the Executive has complied.....

The possibility of review helps deter behavior such as unfairness, fraud, waste, extravagance, embezzlement and misappropriation".

- 12.12 The Committee also considered the intent of the Constitutional Planning Committee. In the Report of that Committee in 1974, the following was found:

" ...the ultimate task of management, of raising, allocating, re-allocating and then spending government fund, remains an executive responsibility." Para. 9/2: 11.

and further,

" A presentation of an annual budget and statement of account to the legislature provides a most important opportunity for the audited results of one year's government activity to be related to estimates for the following year, and for both of these to be examined against the governments long term economic plans. It provides a most useful occasion for parliament to review progress being made toward the attainment of national objectives"

Para. 9/2 12

12.13 This Committee accepts that the Annual Report on the Public Account of Papua New Guinea is a vital tool of governance which performs at least two crucial functions:

1. The Public Accounts are a statistical record of National progress, achievement and adherence to planned development, budgeting, service delivery, monitoring and growth.
2. The Public Accounts are a powerful Constitutional device intended to protect against Executive excesses and to serve thereby, the social and fiscal covenant between the governed and their leaders.

12.14 Either or both of those functions demand accurate, comprehensible and reliable statements of account – which in

turn requires lawful, competent, accurate, current and comprehensible primary records and documentation.

- 12.15 If reliable or accurate statements of the Public Account are not made, this Committee cannot understand how a Government can budget, fix taxation, plan development, allocate money, deliver services, maintain executive power or maintain any understanding of such vital issues as the national debt, national resources and needs, the amount of money actually held in Trust Accounts, the number of Trust Accounts, the public debt, guarantees or other vital information, fundamentally important to the modern nation state.
- 12.16 In our opinion, an accurate and reliable Statement of the Public Account and a review of that Statement by the Auditor General and this Committee is vital to preserve the supremacy of Parliament and to prevent the power of the Executive being usurped by an uncontrolled Public Service acting behind a veil of fiscal secrecy created by either a failure to produce accounts at all or a production of misleading or defective accounts.
- 12.17 In summary, the preparation and presentation of accurate and reliable Public Accounts is crucial to good governance, democratic rule and the welfare of our people.
- 12.18 Unelected and unaccountable public servants have deprived successive governments of this information for years by the

simple device of refusing to create or present records or accounts of their financial activities. Astonishingly this has been tolerated by successive Governments.

- 12.19 In light of the contents of this Parliamentary Report, it is important to understand that the Public Account of the Independent State of Papua New Guinea is only as reliable and as comprehensive as the primary documents from which it is compiled **and** the creation and accuracy of these records are the responsibility of the Heads of Department, Department of Finance and therefore the Head of Department, the Minister for Finance and all Ministers of Government who oversee the performance of Departments.
- 12.20 With regret, this Committee must record at this point that the collapse in the systems of public accounting in 2004 and in successive years, at every level of Government, has resulted in a Public Account for the year 2004, which is not reliable and may not represent or record the true state of fiscal dealing by the Government of Papua New Guinea for that year.
- 12.21 This Committee wrote to a number of Senior Officers of Government seeking guidance and advice. With the exception of the Office of the Auditor General, we received little or no assistance from the Departments of Treasury, Finance, Central Bank or any other supposed repository of financial expertise.

13 WHAT ARE THE PRIMARY DOCUMENTS AND SOURCES OF THE PUBLIC ACCOUNTS?

- 13.1 By Section 211 of the Constitution all monies over or under the control of the National Government for public expenditure should be dealt with and properly accounted for in accordance with law.
- 13.2 The accounting standards and requirements for the use of and transactions with public monies, property or stores are set forth in the ***Public Finances (Management) Act 1995*** and the ***Financial Instructions*** promulgated hereunder. These documents are the primary records from which the Public Accounts are compiled and upon which they rely for their accuracy.
- 13.3 The Public Accounts of Papua New Guinea record the allocation and expenditure of public monies and also collection of revenues made by National Government Departments, agencies, arms or entities, Provincial Governments (in summary form) and all other functionalities and instrumentalities of the State.
- 13.4 The State renders services and administration through Government Departments or agencies at National, Provincial and Local Level Government levels.
- 13.5 Each Department, arm, entity or agency of Government is required by the ***Public Finances (Management) Act 1995*** and the ***Financial Instructions*** to maintain internal,

external and audit controls over all their dealings with public monies, property or stores and to keep reliable and current records and accounts of those dealings.

- 13.6 In the absence of those statutory records, data or accounts, power of and control over public funds has been lost to Government, which effectively means that Constitutional fiscal autonomy and power has also been lost.
- 13.7 Strict adherence to and rigorous enforcement of legal requirements for the accounting for public monies, property and stores by all arms of Government is a fundamental and indispensable item of proper modern governance.
- 13.8 For this reason, the Constitution and the Statutory scheme of financial management gives detailed and mandatory direction to all Heads of Department, including and in particular, the Department of Finance.
- 13.9 The primary material from which the 2004 Public Accounts were drawn was unreliable, at best. In many instances the records simply did not exist and no Audit examination was possible of the Government entity concerned.
- 13.10 This collapse can only have occurred as a result of a loss of central command and control. This Committee concludes that the loss of that control was a two-stage process.
- 13.11 Firstly, the Executive itself has lost control of the Public Service – and in particular the agency responsible for the management of public monies i.e. the Department of Finance.

- 13.12 Secondly, the Department of Finance itself has failed in its statutory duty to enforce the requirements of law for the handling of and transactions with public money and the accounting for and reporting of those transactions and hides behind the excuse that Departments are self accounting and no responsibility of the Department of Finance.
- 13.13 This situation has existed and worsened in spread and depth for years.
- 13.14 In short, the Executive and the National Parliament failed to supervise and control the Public Service in its handling of and transactions with public monies which simply allowed those agencies to act as they pleased and obey the Law if and when they wanted to.
- 13.15 This has encouraged, hidden and protected a usurpation of power by the Public Service which it does not have and should not be allowed to exercise.
- 13.16 This Committee can only conclude that the very Department responsible for the protection and management of public monies has failed in its duty to enforce accounting standards and practices, which has inevitably resulted in unreliable, illegal, misleading and (in many cases) non-existent financial records.
- 13.17 Because of the failure of these systems, the Committee proposes to outline the respective roles of the Department of Finance, the Auditor General and the Public Accounts

Committee in order that the National Parliament may obtain a clear understanding of how the system of financial management should work and the seriousness of the current failure.

- 13.18 Members may then compare the findings of this Committee and the Auditor General with what should have occurred.

14 CONSTITUTION OF THE PUBLIC ACCOUNT

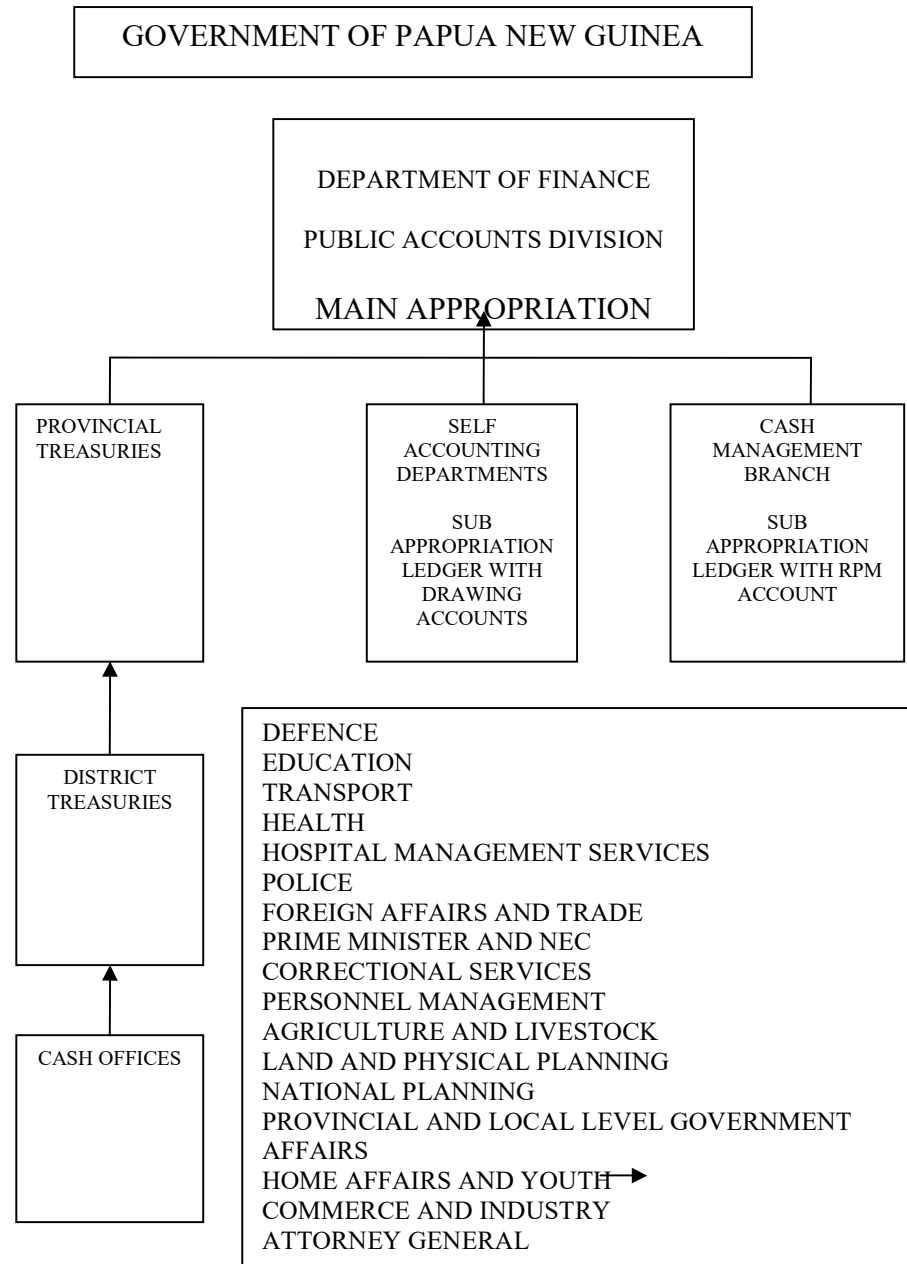
The Statutory scheme of Government Accounting and Financial Management.

- 14.1 The Public Account consists of the Consolidated Revenue Fund and the Trust Fund.
- 14.2 To ensure effective control, it is an established Government accounting principle that all Government receipts including loans, grants and revenue should be channeled through a single Consolidated Revenue Fund while payments are to be made out of the same Fund in accordance with the Annual Appropriation Act and other subsequent Revised Appropriation Acts passed by Parliament from time to time.
- 14.3 Individual Trust Accounts are established and operated within the Trust Fund and managed by responsible agencies. These may have an actual bank account or be non-bank account Trust Accounts.

- 14.4 The total of the balances in the various trust accounts represent the Trust Fund. Trust monies held for various entities and purposes are permitted to be held by accounting, prudence or by given regulations.
- 14.5 All monies received by the State should be brought to account in cashbooks and deposited to the credit of the Waigani Public Account, the Receiver of Public Monies Accounts and operating accounts maintained with the Bank of Papua New Guinea, the Bank of South Pacific or other commercial banks which are authorized by the Minister for Finance.
- 14.6 The Government accounts are maintained on a cash basis. Receipts and expenditure shown in the financial statements are based on amounts actually received or actually spent in the financial year.
- 14.7 Of course, those records will only be as good as the primary material produced by agencies of Government who effect expenditure and receipt.
- 14.8 Expenses for goods and services received are brought to account in the year payment for those services are made and similarly, income received is brought to account in the year of receipt.
- 14.9 Expenditure is limited to the funds appropriated by the Appropriation Act or the Special Appropriations approved by other Acts of Parliament. In practice Departments are issued with a Warrant Authority that gives them the right to spend

public money, but only to the limit of the warrant. Departmental Heads are responsible for ensuring that total expenditures incurred are within the Warrant Authorities issued to them.

- 14.10 Departmental Heads are accountable for over-expenditure incurred by the Department but may obtain top up funds from the Department of Finance under Sections 3 or 4 of the ***Appropriation Act***.
- 14.11 Appropriations lapse at the end of the financial year. The only exception to this is where monies are advanced before the end of the financial year to make payments in connection with commitments made during the year.
- 14.12 The ***Financial Instructions*** set forth detailed procedures particularly for commitment of expenditure in the payment of claims. Requisitions have to be approved by designated officers and financial delegates must certify the availability of funds to commit the approved expenditure.
- 14.13 The Financial Regulations provide that the accounting system and records maintained by the various Departments, Provincial Treasuries and cash officers are subsidiary to the accounting system and records of the Department of Finance. The system and methodology of accounting organization in 2004, was as follows:



14.14 The Department of Finance, and particularly the Secretary of that Department, is fully accountable and is, in fact, the accountable agency to government for the entire performance

of Government in its handling of and transactions with public funds.

- 14.15 Provincial Treasury Offices are the Department of Finance's agencies in the Provinces. Under Section 112 of the ***Organic Law on Provincial and Local-level Governments***, the Secretary for the Department of Finance appoints the Provincial Treasurer. The duties of the Provincial Treasurers are based on the provisions of the ***Organic Law*** and Provincial Governments or Local Level Governments. The role of the Provincial Treasury is to ensure that public monies are managed and released strictly in accordance with the law.
- 14.16 Under the ***Organic Law***, the Provincial Treasury Offices are funded through Grants and are to account for the grants expended in the annual financial statements prepared for the Provincial Governments.
- 14.17 The Provincial Treasurer is responsible for the preparation and submission of the Provincial Government's financial statements in accordance with ***Financial Instructions*** and the ***Public Finance (Management) Act 1995***. These financial statements are forwarded to the Office of the Auditor General for Audit.

The Statement of the Public Account.

- 14.18 The Public Account Financial Statements form part of the Department of Finance's annual operational Report to Parliament. The statement contains a report on:

- Appropriation of funds to be available to be received and expended by the State;
- Receipts and expenditure for the year;
- Cash position at the end of the year;
- Borrowings and investment by the State; and
- Losses by the State.

14.19 The information constituting these statements of the public account comes from various sources. The Legislative controls and requirements together with the Departmental policies and procedures should ensure the records and the Public Account Financial Statements are materially complete and accurate.

14.20 As the Committee has already stated, assurance on the regularity and propriety of the Government's financial transactions requires regular and timely reconciliation of balances shown in cashbooks with those of the respective bank accounts and constant oversight and control by the Department of Finance – even of self accounting Departments.

14.21 It is no excuse, in our opinion, for the Department of Finance to abrogate its responsibility by claiming that Departments are self accounting and therefore no concern of the Department of Finance. That attitude has led directly to a

failed system of accounting and questionable or unreliable public accounts.

- 14.22 That attitude also means that the only function of the Department of Finance is to publish and submit the Public Accounts regardless of accuracy or reliability of their contents. We do not accept this.
- 14.23 For proper control, cashbook balances should be reconciled promptly with the sub appropriation ledger balances, bank statements and, where possible, reconciled to the quarterly revenue and expenditure statements produced by the Finance Department Headquarters.
- 14.24 This was not occurring in 2004 and our Inquiries into Government Departments clearly show that it is not occurring now.
- 14.25 It is to be noted that the Auditor General concludes that past accounting practices are inappropriate, statements of the public account are distorted and difficult to understand and that the Department of Finance, while claiming to be in the process of clearing up many problems that it has inherited, have not for many years properly fulfilled the statutory role of enforcement and oversight of accounting practices – as it should.

The Format of the Statement of the Public Accounts 2004

- 14.26 The Public Accounts comprise:

- Statement A - Statement of Public Account Balances;
- Statement B - Consolidated Revenue Fund Receipts and Expenditure;
- Statement C - Receipts and payments of the Trust Fund;
- Statement D - Statement of Sources and Application of Funds;
- Statement E - Trust Fund - Particulars of Investments;
- Statement F - Statement of Direct Investments, Capital Contributions and Equity Options Rights;
- Statement G - Statement of Public Debts;
- Statement H - Statement of Lending;
- Statement I - Statement of Loans Guaranteed by Government;
- Statement J - Receipts classified under Heads of Revenue Estimates;
- Statement L - Expenditure by Departments classified under Appropriation Divisions;

- Statement M – Notes to and forming part of the Public Accounts of the Independent State of Papua New Guinea for the year ended the 31st December 2004;
- Appendix 1 – Statement of Losses and Deficiencies of Public Monies in Previous Years first reported in 2004.

The format of the 2004 Public Accounts are the same as the Public Accounts for many years preceding. The adequacy and propriety of the format will be discussed in the body of this Report.

14.27 The Secretary of the Department of Finance is responsible under Section 4 of the ***Public Finance (Management) Act 1995*** for the preparation and presentation of the Public Accounts as prescribed by the ***Public Finance (Management) Act 1995***.

14.28 This responsibility includes the maintenance of adequate accounting records and internal controls designed to prevent and detect fraud and error.

14.29 These matters are discussed in greater detail in this Report (infra).

15 FISCAL DUTIES OF DEPARTMENTS AND DEPARTMENTAL HEADS.

15.1 The responsibilities of a Government Department arm, entity or agency to keep proper and detailed records of all dealings

and transactions with public monies, property and stores arises from the ***Public Finance (Management) Act 1995*** and in the further prescriptive detail in the ***Financial Instructions***. The requirements are not onerous and would be readily understandable by any trained Finance Officer.

15.2 Heads of Department and entities or agencies are required by Section 5 of the ***Public Finances (Management) Act 1995*** to, at least:

- Ensure that provisions of the PFMA are complied with; and
- All accounts and records relating to the functions and operations of the Department are properly maintained; and
- Ensure all necessary precautions are taken to safeguard the collection and custody of public monies; and
- All expenditure is properly authorized and applied to the purposes for which it is appropriated; and
- There is no over-commitment of funds and a review is undertaken each month to ensure that there is no over-expenditure or over-commitment and the collection of public monies accords with approved plans and estimates; and

- All expenditure is incurred with due regard to economy, efficiency and effectiveness and the avoidance of waste; and
- All necessary precautions are taken to safeguard stores and other property of the State; and
- Any fee, charge or tax imposed by Legislation for which the Department is responsible is collected promptly and to the fullest extent; and
- Any fee, charge or tax imposed by Legislation for which the Department is responsible is reviewed at least once in every year in order to establish whether the level of the fee, charge or tax is adequate and whether the fee, charge or a tax should be increased; and
- Ensure that financial reports on reviews and other matters are submitted to the Secretary for Finance in the format specified in the ***Financial Instructions***; and
- Information required by the Public Accounts Committee is submitted to that Committee accurately and promptly; and
- Advice on financial management is given to the Minister politically responsible for the Department; and

- Proper estimates in respect of collection and expenditure of public monies are prepared in a form specified in the ***Financial Instructions***; and
- As soon as practicable after the end of each fiscal year, submit to the Departmental Head of the Department responsible for Financial Management a Report on Financial Management in a form specified in the ***Financial Instructions***.

- 15.3 These responsibilities are clearly stated, easily understood and cannot be derogated from or reduced by delegation. They are, for professional Public Servants, simple to implement, maintain, perform and enforce. Yet it was not done in 2004.
- 15.4 Within every Department, arm, entity or agency of Government there is an accountable officer who, by Section 6 of the ***PF(M)A*** is required to and responsible for applying and complying with provisions of the ***PF(M)A*** in respect of all public money, property and stores under his possession or control. In other words, he is required to account for them.
- 15.5 In every Department, arm, entity or agency of Government there is a public office holder responsible for the collection of revenue (where revenue is collected at all) who is responsible for prompt collection, payment into the public account and record-keeping.
- 15.6 By Section 8 of the ***PF(M)A***, the Secretary for Finance may appoint an Officer to be a Finance Inspector and both that

person and the Head of the Department of Finance are given wide powers to obtain access to all records of accountable officers and to inspect and Inquire into and call for any information arising from those records and accounts.

- 15.7 The Management of the Public Account is clearly set forth in Part 3 of the **Public Finances (Management) Act 1995**. None of these requirements are complex, technical or difficult to apply or understand.
- 15.8 The **Financial Instructions** promulgated under the **PF(M)A** makes full provisions for all necessary documentation and step by step guidance as to the application of the **PF(M)A**.
- 15.9 By Part VIII of the **PF(M)A**, detailed accounting and reporting requirements are set forth. There is nothing difficult or onerous about these simple steps. For example, Section 63 of the **Public Finance (Management) Act 1995** requires certain statutory reports and financial statements to be furnished – and it is from these statements that the Public Accounts that relate to Public Bodies, are compiled.
- 15.10 Likewise, Part IX of the **PF(M)A** clearly sets forth the statutory requirements for accounting and reporting by Provincial and Local Level Governments. This Committee has had careful regard to these and all the other requirements of the **PF(M)A** and finds them simple, straight-forward, easily understood and easily implemented.
- 15.11 Departments, arms, entities and agencies of Government employ hundreds of officers whose only duty is to create,

maintain and submit financial records and/or to oversee this process to ensure that it occurs. How can we have reached such a state of failure in the management of public monies?

- 15.12 This Committee could identify scarcely one entity capable of managing its own internal funding, bank account or budgets, much less development or service related budgets. This is the direct failure of Heads of each implicated Department.

16 DUTIES OF THE AUDITOR GENERAL

- 16.1 Audit review of the Public Accounts by the Auditor General is the first level of objective and independent assessment and consideration of the Public Accounts.
- 16.2 On the 23rd September 2005 a version of the 2004 Public Account was sent by the Department of Finance to the Office of the Auditor General for Audit, with the final version provided to the Auditor General on the 21st August 2006. Why the final version took twenty months to deliver, this Committee was unable to ascertain.
- 16.3 The Committee fully understands the severe staffing constraints attending the Office of the Auditor General and will make recommendations in respect of the funding and resourcing of that Office by the Government of Papua New Guinea, to enable it to carry out its statutory duty in a competent and timely manner.

- 16.4 We also accept that the Office of the Auditor General has undertaken significant reforms to its work practices and we are now seeing the benefits of these reforms in currently produced Audit Reports- sometimes only weeks rather than years old.
- 16.5 The standard of the Reports of the Auditor General into the Public Accounts were, on the whole, competent and incisive. Clearly the state of the Public Accounts had, by 2004, deteriorated to the stage where the Auditor General had no choice but to condemn them by significant qualification.
- 16.6 Section 214 of the ***Constitution of the Independent State of Papua New Guinea*** requires the Auditor General to inspect, audit and report at least once in every fiscal year to the Parliament on the Public Account of the Independent State of Papua New Guinea and on the control of and property of the Independent State of Papua New Guinea.
- 16.7 The ***Audit Act 1989*** expands and provides the above function in Section 7 (2) (A) therein. It is the responsibility of the Auditor General to form an independent audit opinion on those Public Account statements.
- 16.8 In accordance with that requirement the Auditor General audited the Public Accounts statements for the year ended the 31st December 2004 and finalised and signed his Report on the 28th day of November 2006.

- 16.9 The Committee accepts that the Audit conducted of the Public Accounts for the financial year 2004 was made in accordance with generally accepted standards and practices on auditing. These standards and practices require that the Auditor General plan and perform the Audit to obtain a reasonable assurance as to whether the Public Accounts are free of material miss-statement.
- 16.10 An Audit includes examination on a test basis of evidence supporting the accounts and other disclosures in the Public Account Statements.
- 16.11 It also includes evaluation of accounting policies and significant accounting estimates, as well as evaluating whether the Public Accounts statements are presented fairly in accordance with statutory requirements, so as to present a view which is consistent with the understanding by the Auditor General of the Government's financial position.
- 16.12 The Audit does not include any procedures that would allow the Auditor General to form an opinion on the completeness of revenue collected on behalf of the State but does cover the accounting for revenue actually acknowledged as collected.
- 16.13 The Auditor General, after completing his Audit, enters into discussions with the Department of Finance and ultimately presents the Audit to the National Parliament together with the Statement of Public Account.

17 PARLIAMENTARY SCRUTINY OF THE 2004 PUBLIC ACCOUNTS

- 17.1 Review of the Public Accounts by this Committee is the second level of assurance as to the standard, format and contents of the Public Accounts.
- 17.2 Responsibility for all aspects of public finance is vested in the Minister responsible for Finance, who is required to submit to the National Parliament a Statement of Government Revenue and Expenditure.
- 17.3 The Auditor General is required to report to the Parliament on the control and management of public money and the property of the Independent State of Papua New Guinea at least once every fiscal year. The Parliament is required to conduct certain scrutiny and oversight of public finances.
- 17.4 Section 215 of the ***Constitution*** establishes the Public Accounts Committee. The primary function of that Committee is to examine the Public Accounts and control of public monies and to report their findings to the Parliament.
- 17.5 These reports have not been made for some years due to the fact that the Public Accounts Committee was dormant until 2004 and the fact that the 2004 and 2005 Statements of Public Account were not made available or tabled in the National Parliament until 2007.
- 17.6 The Statement and intention of the framers of our ***Constitution*** was to provide for scrutiny of the control of public funds and to enable the Parliament to call for an account of any irregularities and defaults in the Report of the Public Accounts. This we have strived to do.

- 17.7 The Committee also has a duty to report to Parliament any alterations which in its opinion, should be made to the form of the Public Accounts or in the method of keeping them, or in the method of collection, receipts, custody, disposal, issue or use of stores and other property.
- 17.8 The Reports of the Public Accounts Committee are then forwarded to the Secretary for Finance who should deliberate with Departments concerning the Committee suggestions and criticisms.
- 17.9 Any conclusions reached after these deliberations are communicated to the Public Accounts Committee by means of a Finance Minute, which the Committee tables in Parliament.
- 17.10 This Inquiry and the Report to the National Parliament has been sent in draft form to the Secretary for Finance for comment and after the Report is tabled in the Parliament will be delivered to the Auditor General for the discussion process to ensue.

18 DUTIES AND FUNCTIONS OF THE DEPARTMENT OF FINANCE.

Duty to Keep and Submit the Public Accounts.

- 18.1 By Section 3 (3) of the ***Public Finances Management Act 1995*** the Minister responsible for financial matters is required to:

"As soon as practicable after the end of each fiscal year, the Minister shall cause to be prepared a detailed Statement of the receipts and expenditure of the Public Account during the fiscal year, and send it to the Auditor General".

18.2 By Sub-Section 2 of the **Public Finances (Management) Act 1995**;

"Public Account" is defined as follows:

"Public Account" means a Public Account established by Section 10 (1) and in relation to a Provincial Government or a Local Level Government established under the Organic Law on Provincial Governments and Local Level Governments, meaning the General Revenue Fund and the Trust Fund established for that Provincial Government or Local Level Government".

18.3 Section 10 of the **Public Finances (Management) Act 1995** reads as follows:

"Public Accounts"

i) **There shall be a Public Account for each of:**

(a) The National Government; and

(b) A Provincial Government or a Local Level Government established under the Organic Law on Provincial Governments and Local Level Governments.

ii) A Public Account established by Sub-Section (1) shall consist of:

(a) In the case of the National Government –

i. The Consolidated Revenue Fund; and

ii. The Trust Fund; and

iii. In the case of a Provincial or Local Level Government –

1. A General Revenue Fund; and

2. A Trust Fund.”

18.4 Section 11 of the ***Public Finances (Management) Act 1995*** directs that the Public Account consisting of public monies, shall be kept in Banks which are approved by the Departmental Head of the Department responsible for financial management or in such a manner as the Departmental Head of that Department may direct.

- 18.5 This Committee concludes that Section 3 of the **Public Finances (Management) Act 1995** places responsibility on the Minister for Finance for the supervision of the finances of the Independent State of Papua New Guinea so as to ensure that a full accounting is made to the Parliament of all transactions involving public monies.
- 18.6 Under Section 3 (3) and (5) of the same Act, the Minister for Finance is required to cause the preparation of detailed statements of the receipts and expenditure of the Public Account for the fiscal year 2004 and send it to the Auditor General for the purpose of Audit.
- 18.7 The Committee further concludes that the Public Account presented by the Minister for Finance represents a statement of the entirety of the fiscal affairs of the Independent State of Papua New Guinea for the financial year 2004.
- 18.8 The Auditor General told this Committee:

"The provision of an Annual Report into the Public Account of Papua New Guinea is a Constitutional requirement made with the intention of informing Parliament through Audited Accounts, of the precise state of the Financial Management by Government. The accuracy of those Reports is fundamental to good governance. The provision of accurate and lawful primary records from all levels, arms, entities of Government is the primary

statutory duty of the Head of the Department of Finance."

18.9 This Committee must report that in 2004 the Auditor General has expressed numerous qualifications of his opinion on the Public Account as produced by the Department of Finance.

18.10 The Public Account was found by the Auditor General, in summary, to not be based upon proper accounts and records and to **not** give a true and fair view of the financial position of the Government of Papua New Guinea and the results of its operation for the year ended the 31st December 2004.

18.11 More worryingly, the Auditor General has found that:

".... the controls exercised over the receipt and payment and investment of monies and the acquisition and disposal of assets are not in accordance with the Public Finances (Management) Act 1995 and any other relevant legal obligations including the Constitution of the Independent State of Papua New Guinea".

18.12 This Committee concludes to the Report of the Auditor General shows serious failures in both the format and content of the Public Account for the year 2004 and reveals an almost complete failure by the Department of Finance and every other agency of Government to keep or require to be kept,

accurate or, in many cases, any records or accounts at all. This is an extremely serious matter.

18.13 There is a further matter of concern. It is clear that the Department of Finance (like all other Departments) cannot even manage its own internal accounting. How can it be expected to carry out its duties to oversight government finances in general?

18.14 This Committee concludes that the Department of Finance has insufficient influence and control over government spending and has completely lost control of its oversight role. Coupled with brazen misappropriation as shown in Trust Fund Suspense Account No. 2, the Department was and is a failed entity requiring urgent and thoroughgoing restructure.

19 RESPONSIBILITIES OF GOVERNMENT DEPARTMENTS TO THE PUBLIC ACCOUNTS COMMITTEE.

19.1 The Departmental Head and Secretary of the Department of Finance is charged, by Section 5 of the ***Public Finances (Management) Act 1995***, with the responsibility to ensure that information required by the Public Accounts Committee is submitted to that Committee accurately and promptly – (Section 5 (1) (j)).

19.2 The responsibility of that Departmental Head is not derogated from or reduced by reason of any delegation of functions by him to another person.

- 19.3 The Committee concludes that the Secretary and Departmental Head of the Department of Finance, Mr. Gabriel Yer, is the Officer responsible for attending, liaising and co-ordinating the attendance and co-operation of his Department with this Inquiry by the Public Accounts Committee.
- 19.4 Moreover, the Secretary of the Department of Finance gave sworn evidence to the effect that he understood the statutory obligations imposed on him by the ***Public Finances (Management) Act 1995*** - which include cooperation and compliance with the Public Accounts Committee.
- 19.5 In his role of responsible Head of Department, the Secretary for the Department of Finance has the power to obtain full and free access at all times to all accounts and records of accountable officers that relate directly or indirectly to the collection, receipt, expenditure or issue of public money and the receipt, custody, disposal, issue of stores or other property of the State.
- 19.6 Time and again the Secretary made undertakings to this Committee to produce information or documents and failed to meet those promises. Time and again the Secretary failed to answer questions or letters and treated this Committee and his duty to assist it with disregard.

- 19.7 The obligations on all Heads of Departments and agencies to the Public Accounts Committee are the same. All public servants are required to cooperate and provide assistance in a timely manner. Failure to do so constitutes an offence under the ***Public Finances (Management) Act 1995***.

20 DUTY OF OFFICERS TO ASSIST THE AUDITOR GENERAL.

- 20.1 All persons have the duty to assist and cooperate with the Auditor General when required to do so.
- 20.2 The ***Audit Act 1986*** gives wide powers to the Auditor General – see for example Sections 2 (***power to access information or data***), 4 (***power to summon, examine, access, search and force delivery of information***) and 5 (***power to prosecute***).
- 20.3 By Section 29 of the ***Audit Act 1986***, offences and penalties are prescribed for obstructing or failing to assist the Auditor General.
- 20.4 In concert with the provisions of the ***Public Finances (Management) Act 1995***, it is clear that co-operation with the Auditor General is mandatory and enforceable. Yet for years, public servants have failed or refused to give this cooperation when it did not suit their agenda to do so.

- 20.5 This Committee has wide experience of failure by Departmental Heads and Officers refusing to cooperate with the Auditor General and with the Committee itself. This Inquiry into the Public Accounts for 2004 is no exception.
- 20.6 In his 2004 Part 1 Report, the Auditor General makes specific findings concerning this failure in the Departments of Finance and Treasury and we will address this matter later in this Report.
- 20.7 At this stage we state that these failures to cooperate strike at the heart of accountability and cannot be tolerated. The Auditor General should exercise his coercive powers to force assistance and cooperation.

21. THE INQUIRY.

EVIDENCE RECEIVED BY THE COMMITTEE.

- 21.1 The principal evidence received by the Public Accounts Committee was the Statement of the Public Account itself for the year 2004, presented by the Department of Finance as part of its annual Parliamentary Report and the Report of the Auditor General on the 2004 Public Accounts of Papua New Guinea – Part 1 of four Annual Reports for that year.
- 21.2 These Reports were supplemented by oral explanatory evidence to the Committee from the Auditor General.

- 21.3 The Committee has given very careful consideration to the contents of both Reports and accepts the Report of the Auditor General as it is presented.
- 21.4 The Committee received no evidence contradicting or qualifying the Report of the Auditor General in any respect.
- 21.5 The Report of the Auditor General together with the Public Accounts for 2004 were tabled in the National Parliament on the 8th April 2008. A copy of the Part 1 Report of the Auditor General for the year 2004 is contained in Schedule 2 to this Report.
- 21.6 The 2004 Part 1 Report of the Auditor General on the Public Accounts of Papua New Guinea is presented in two sections.
- 21.7 The first (Section "A") presents the Public Accounts which the Minister for Finance and Treasury has, in the terms of Section 3 of the ***Public Finances (Management) Act 1995*** caused to be prepared and sent to the Auditor General for Audit.
- 21.8 The Auditor General has presented his opinion on the Financial Statements and that opinion precedes Section "A" in the document presented to both the National Parliament and to this Committee.
- 21.9 Section "B" of the 2004 Part 1 Report of the Auditor General is a Summary of Expenditure by items of the total

of K 5,817,095 million of expenditure appearing in Statement "B".

- 21.10 In 2004 the Department of Finance produced a summarized detail of expenditure by items of the vote for National Departments and agencies for the year 2004.
- 21.11 Section "B" of the Auditors Report on the 2004 Public Accounts contains significant matters arising as a result of the audit performed by the Auditor General on each of the Statements "A" – "L" of the 2004 Public Accounts of Papua New Guinea.

Other Submissions or Evidence Received from Witnesses.

- 21.12 A list of witnesses before the Committee is contained in Schedule 1 to this Report and submissions or letters received by the Committee are shown in Schedule 5.
- 21.13 On the 30th day of April 2008 the Public Accounts Committee resolved that this Inquiry should be conducted in the spirit of cooperation and with the intention of making a constructive and helpful report into the keeping of the Public Account and the standard and quality of fiscal accounting across the Government of Papua New Guinea.
- 21.14 This resolution was made after a perusal of the 2004 and 2005 Reports of the Auditor General to the National Parliament – which clearly showed very profound problems in accountability and fiscal management across the entire span

of Government and at every level of government in this country.

21.15 The Committee saw no point in allocating blame for what is effectively a collapse public accountability for the use of public monies, property and stores.

21.16 It is clear to the Committee that the Department of Finance, Treasury and all other Departments of government have failed in their duty to obey the law and to handle public monies with anything approaching either competence or legality.

21.17 The Committee intended this Report to be helpful, constructive and capable of assisting the National Parliament to identify problems and suggesting resolutions or solutions for those problems.

21.18 Accordingly, the Public Accounts Committee opened this Inquiry to all persons or Institutions which might have assisted the Committee in performing this difficult task and publicly advertised this intention.

21.19 Accordingly the Committee addressed open invitations seeking submissions or evidence to:

- all Governors of Provincial Governments;
- all Provincial Administrators;

- the Vudal University;
- Heads of every Government Department;
- the Chief Secretary to Government;
- Goroka University;
- the National Research Institute;
- University of Papua New Guinea;
- the Office of the Auditor General;
- the Governor Central Bank of Papua New Guinea;
- Stantons International;

Copies of those letters are exhibited in Schedule 4.

21.20 The Committee issued Summonses or request for information to the following persons or entities:

- the Secretary of the Department of Personnel Management;
- the Secretary of Treasury;
- the Secretary for Finance

- the Commissioner, Correctional Services;
- The Secretary Department of Agriculture and Livestock;
- The Secretary Department of Personnel Management;
- The Secretary Department of Education;
- The Secretary Department of Health.

Copies of those Summonses are exhibited in Schedule 3 to this Report.

- 21.21 The Public Accounts Committee received only three replies. The first reply was received from the Provincial Administrator of Sandaun Provincial Government and was helpful and timely. A copy of that letter is annexed to this Report – Schedule 5. We thank Mr. Joseph Sungi for his prompt and detailed assistance.
- 21.22 A letter of reply was also received from Ms Hitelei Polume-Kiele the Acting Solicitor General and Head of the Department of Justice and Attorney General. That letter was timely and helpful and a copy is annexed to this Report – Schedule 5.
- 21.23 A second letter was received from the Provincial Administrator of Manus Provincial Government and was helpful and informative – see Schedule 5.

- 21.24 A third letter was received from the Provincial Administrator of the Sandaun Province, Mr. Joseph Sungi. That letter was helpful and prompt and we thank Mr. Sungi for his response.
- 21.25 To the surprise of the Parliamentary Public Accounts Committee, we received no information or evidence from the Department of Finance, very little of use from the Department of Treasury, other Provincial Governments, Governors or Departments from which we invited responses.
- 21.26 In particular, letters to the Department of Finance were unanswered and requests for information to assist the Committee in its work were deliberately and intentionally ignored.
- 21.27 The Committee received no assistance from any academic institute or research institution or any other quarter.
- 21.28 The Public Accounts Committee sought submissions from the public, but received no submissions.
- 21.29 In an effort to identify the daily problems that might have led to the collapse of Departmental accountability and financial management, the Committee summoned the Heads of the five worst performing Departments (identified from the matrix attached to the 2004 Part 2 Report of the Auditor General) and sought a clear statement from them of the problems within their Departments.

21.30 The evidence was helpful and we will address it later in this Report.

21.31 The evidence of the Auditor General was succinct and informative and the Committee records its appreciation for the prompt assistance it received from the Office of the Auditor General.

22. SECTION "A" - THE AUDIT OPINION ON THE PUBLIC ACCOUNTS OF THE GOVERNMENT OF PAPUA NEW GUINEA FOR THE YEAR ENDED 31ST DECEMBER 2004

Qualification of the Public Accounts:

22.1 The opinion of the Auditor General concerning the Public Accounts of the Government of Papua New Guinea for the Financial Year 2004 is summarized at Page 14 of the Part 1 Report of the Auditor General in the following terms:

"AUDIT OPINION

"Because of the significant effects of the matters referred to in the Qualification paragraphs I am unable to form an opinion that:

(a) The Financial Statements are based on proper accounts and records; and

(b) The Financial Statements give a true and fair view of the financial position of the Government of Papua New Guinea and the results of its operations for the year ended 21st December 2004.

(c) Further the controls exercised over the receipt and payment and investment of monies and the acquisition and disposal of assets are not in accordance with the Public Finances (Management) Act 1995 and other relevant legal obligations including the Constitution of the Independent State of Papua New Guinea".

22.2 The Public Accounts Committee sought to understand the precise reasons for the qualifications and the exact effect of the Auditor's qualification.

22.3 The evidence on this topic from the Auditor General himself (Mr. George Sulliman) given to the Committee on the 30th April 2008, is as follows:

" HON. TIMOTHY BONGA MP - CHAIRMAN:

....in fact you stated that you cannot form an opinion at the accounts of the Government that gives reliable evidence about the Government's financial position, results of operations and financial requirements.

MR. GEORGE SULLIMAN - (Auditor General):

Yes Mr Chairman, my opinion is based on evidence collected that demonstrates that the records that support a lot of the balances in the public accounts are inadequate or insufficient and that there were limitations in many areas that we recalled.

22.4 And further on the same day:

"HON. TIMOTHY BONGA MP - CHAIRMAN:

What does your qualified opinion on the Public Accounts on 2004 ... actually mean? What should this Committee make of your opinion? Is this a matter about which Government should be concerned and why? Is it serious?

MR. GEORGE SULLIMAN:

Chairman as I was alluding, it is a matter of serious concern and the ability to form an opinion on public accounts should be something that should be taken seriously because it reflects as I have indicated in the three categories of findings that were reported and there needs to be a lot of improvement. A considerable effort is required to bring about change

and improvement to try and change these situations."

and further:

CHAIRMAN:

" In fact you stated that you cannot form an opinion on the accounts of Government's financial position, results of operations and financial position."

Mr. GEORGE SULLIMAN

"Yes, Mr. Chairman, that opinion is based on evidence collected that demonstrates that the records that support a lot of balances in the public accounts are inadequate or insufficient and there were limitations in many areas that we audited".

- 22.5 Certification of the Public Accounts by the Auditor General requires the Auditor to be satisfied that the Public Accounts are free of material misstatement,
- 22.6 In order to reach this conclusion the Auditor General assesses accounting policies and accounting estimates, whether the Public Accounts are presented fairly in accordance with statutory requirements and present a fair view of the Governments finances consistent with the Auditors understanding of the Governments financial position.

- 22.7 The Auditor also considers audits of agencies that generate revenue and expenditure when reaching a conclusion on the Public Accounts.
- 22.8 This Committee finds that the effect of the qualification made by the Auditor General to his opinion on the Statement of the Public Accounts for the year ending the 31st December 2004, is a matter of **grave national concern**.
- 22.9 The Public Accounts are found to be unreliable but the Auditor also reveals failures to make, keep and submit proper accounts and records of the use of public monies and a failure of the existing records and statements by all of Government which limited audit. This has rendered the Public Accounts incapable of giving a clear view of the financial position of the Government of Papua New Guinea.
- 22.10 This means that the state of the financial affairs of the Government of a sovereign nation in 2004 were either guesswork at best, or unknown at worst. It is difficult to imagine a more serious state of affairs.
- 22.11 This Committee accepts that the qualifications placed on the audit of the 2004 Public Accounts resulted from a series of failures, all of which arise from the inability of Government to keep records or accounts as it is required to do and the overall failure of the Department of Finance to perform its lawful functions of enforcing accountability.

- 22.12 The Public Accounts Committee has spent a great deal of time carefully considering the contents of both the Statement of the Public Account for the financial year 2004 and the qualifications placed on those statements by the Office of the Auditor General.
- 22.13 We propose to address each of the findings of limitation made by the Auditor General in turn, but at the outset, we advise the National Parliament that the Public Accounts Committee accepts the limitations as proper, reasonable and necessary in the circumstances.
- 22.14 The evidence led before this Committee clearly shows the considerable, significant and longstanding defects in the systems of public accountability across the entirety of government many of which **on their own** would have meant a qualified or disclaimed audit.
- 22.15 Equally the evidence shows illegal, unconstitutional, negligent and intentionally deceitful conduct in the handling of and accounting for the use of and transactions with public monies, property and stores in the financial year 2004 by all Departments and entities of Government, but especially the Department of Finance.
- 22.16 Before we consider the limitations which gave rise to the qualified audit report it is important that the nature, importance and legal implications of the Auditor Generals qualification should be explained.

- 22.17 The Auditor General has given the following explanation, which we accept:

My certification of the Public Accounts would be like that of a public or private entity wherein an opinion is based.....on the same or similar proceedings. The type of opinion to be expressed by an Auditor is based on accounting standards which the Auditor has found to be appropriate in the particular audit.

My audit of the Public Accounts is no exception..... A disclaimer of opinion is expressed when the effect of the limitation of scope is so material and pervasive that the auditor has not been able to obtain sufficient evidence and accordingly is unable to express an opinion on the financial statement.

A limitation of scope may arise when the auditees records are either inadequate or the auditor is unable to carry out a proper audit procedure that he believes necessary.

An example of limitation of scope:

In the Public Accounts expenditure by National Departments in almost every year approximates one third of the recurrent expenditure of the State.

There has been a limitation of scope for the last three years due to no effective reconciliation by National agencies against their reported expenditure.....

Due to the amount involved (one third of the expenditure of the State) this constitutes material limitation of scope.

If the limitation of scope is not so material and pervasive a qualified opinion is expressed as being "except for" the effects of the matter to which the qualification relates.

In other words, inability to form an opinion is not a normal occurrence and it is a worst case scenario for both the auditor and auditee.

When the auditor is aware that material limitation of scope exists, the auditor would normally not accept such an engagement unless required by statute or legislation.

- 22.18 Clearly the opinion of the Auditor General for the 2004 Public Accounts arises from very serious failures giving rise to material limitations of scope.

22.19 The Committee has carefully considered whether and to what degree both it and the National Parliament should be concerned at the audit finding.

22.20 We conclude that the opinion of the Auditor General is a matter of national concern and the Government should immediately address the underlying audit concerns and the reasons therefore.

23. WHY DISCLAIM THE PUBLIC ACCOUNTS IN 2004 AND NOT IN PAST YEARS?

23.1 In the course of the Inquiry the Hon. Dr. Bob Danaya MP asked the Auditor General why he had decided to disclaim the Public Accounts in 2004, when clearly the same problems that had resulted in the disclaimer had existed for years. The evidence was as follows:

Hon. Dr. Bob Danaya MP (Deputy Chairman):

Auditor General, it seems clear to this Committee that the deterioration did not suddenly happen in 2004 but had been a slow deterioration for many years. Did you reach the same opinion in the period 1999 – 2004? If not, why not and why suddenly in 2004?

Mr. George Sulliman (Auditor General):

Deputy Chairman, it is correct that the deterioration did not suddenly happen. The uncertainty related to the accuracy and completion of the accounts and balances was of less impact in prior years and we were able to retrace and add some confidence and that is why the nature of the opinions in past years was different."

- 23.2 The Committee explored this matter further and sought written submissions from the Auditor General. In relevant part, the Auditor General reported:

"Qualification in 2004 arose from deterioration of controls and reliability of accounts and records commencing in 2004 compared to previous periods.

In previous years.....overstatements and understatements were easily quantifiable by my Officers.

The amounts of discrepancies prior to 2004 although still significant, were relatively smaller.

The disclaimer of audit opinion (in 2004) was a result of increased uncertainties over the reported amounts, deterioration of controls and the magnitude of discrepancies. The Department of Finance was also more willing to investigate our concerns and take action on them."

- 23.3 This means that in a period of twelve months, Government accounting and record keeping **and** the performance of the Department of Finance deteriorated to such a degree that the Auditor General could not properly audit the Public Accounts of this Nation.
- 23.4 We do not believe that collapse was unintentional or inevitable.
- 23.5 The speed of the collapse of accountability should be a matter of great concern to Parliament.
- 23.6 Further, information lately received by this Committee suggests that the deterioration continues unabated as at December 2008.
- 23.7 The Committee now addresses the limitations which resulted in a qualified audit – all of them arising from a failure or refusal by our Public Servants to perform even the most basic accounting functions:

24. LIMITATION OF SCOPE ON THE AUDIT

The basis for the disclaimer by the Auditor General.

- 24.1 The Auditor General concludes that he is unable to form an opinion on two matters. They are:

- (i) whether the financial statements were based on proper accounts and records; and
- (ii) whether the financial records may be relied upon to present fairly the Governments financial position, results of operations and financial requirements.

24.2 The reasons for this finding may be summarized thus:

Reservation 1 : Limitation of Scope.

(i) National Government expenditure:

Manual journal adjustment of K 3.496 billion were processed against the General Ledger post balance date. There has been no reconciliation by Agencies against their reported expenditure.

(ii) Consolidated Revenue Fund:

Unresolved differences between Departments and records of K 24 million.

(iii) Public Account Balance:

Differences in opening and closing of the Public Account created uncertainty as to the correct balance – K 131 million difference.

(iv) Provincial Treasury Account:

K 90 million apparently held in Provincial bank accounts could not be verified as accurate due to poor or non existent bank reconciliations.

(v) Accrual Items:

Incorrect disclosure of accrual items wrongly reduced the Public Accounts by K 47 million.

(vi) Trust Fund Suspense Account No. 2:

Abuse of Trust Suspense Account No 2 is so serious that it alone would justify disclaimer of the Public Accounts.

(vii) Investments:

Investments could not be measured due to valuation not performed and incomplete records.

Reservation 2:

The Auditor General found lack of records and poor controls in the maintenance of records.

Reservation 3.

Breaches of the ***Constitution*** and ***Public Finances (Management) Act 1995*** and other Statutes and Rules.

- 24.3 The Auditor General identifies abuses in the recording of and accounting for expenditure by agencies of Government which this Committee regards as very serious. The Auditor summarises the position thus:

"The number and magnitude of audit issues identified across different auditees indicate that overall, there were significant weaknesses in the control environment. The control activities such as delegations, authorizations, reconciliations, data processing, system access etc. were not sufficiently robust to prevent, detect or correct error or fraud.

It is correct to say that there is a poor standard of Government accounting.

The disclaimer of opinion for 2004 is due to a limitation of scope and inadequate records and accounts. Some of the records were fabricated, but in most instances it was poor performance and absence of accountability."

Expenditure by National Departments

- 24.4 The facts are:

- The Reporting period ending on the 31st December 2004 was not closed until September 2005. In that period

many journal adjustments totaling **K3.496 billion** were made against the General Ledger.

- These adjustments were made against total combined recurrent and development expenditure of K5.817 billion and represented thousands of individual journal adjustments.
- The net effect of these adjustments resulted in a decrease in revenue of K65.908 million and an increase in expenditure of K 224,006 million.
- There has been no effective reconciliation by national agencies against their reported expenditure and it was not practicable for the Auditor General to extend audit procedures sufficient to verify the veracity of the adjustments.

24.5 The Auditor General expresses concern at the need to process this volume of adjustments and considers that it reflects adversely on the effectiveness and capability of accounting systems and the practices of Government agencies. With this conclusion, the Public Accounts Committee agrees.

24.6 K 3.496 billion of adjustments is a significant increase over the K0.840 billion in 2003 and has also attracted concern by the Office of the Auditor General.

- 24.7 The Committee concludes that these enormous adjustments were either made necessary because of the incompetent record-keeping and accounting and clearly show that neither the Department of Finance nor any other Department has any accurate records or indeed any idea of precisely what is occurring with the use of transactions with public money by agencies of government.
- 24.8 Although the bottom line may appear correct in the public accounts, the method of achieving that balance is suspect. Such an approach is utterly unacceptable by Government, and in the smallest private company, would attract the attention of Corporate regulators.
- 24.9 If qualification by the Auditor General was based on this evident failure to keep, maintain and submit reliable records of expenditure, the Committee accepts that qualification.

Consolidated Revenue Fund

- 24.10 The Public Account is formed from the Trust Fund with a balance of K 368.156 million and the Consolidated Revenue Fund with a deficit balance of K236.760 million. The total balance of the Public Account as at the 31st December 2004 was K131,369 million.
- 24.11 The Auditor General finds that the deficit balance is very largely a result of the Public Accounts reporting Unpresented Cheques amounting to K222.675 million.

- 24.12 Audit has revealed Unresolved Reconciliation Items that exceed K 24.5 million between reporting by the Departments and the balance disclosed in the Public Accounts.
- 24.13 This has been a constant problem outlined in the Part 2 Reports of the Auditor General for many years. Departments, arms and entities of government appear incapable of reconciling accounts – including their own internal working accounts.
- 24.14 The Auditor General has been unable to validate the balance of Unpresented Cheques as a result of inadequacies in the recording systems and cheque management practices of national agencies and the Department of Finance.
- 24.15 Further, Unpresented Cheques form part of the Reconciliation of the Cashbook balance and the bank balance and should not form part of the balances of Statement "A".
- 24.16 The Auditor General has told this Committee, and the Committee accepts that these deficiencies and errors alone are sufficient to warrant a disclaimer of the Public Accounts. We accept this evidence and the conclusion of the Auditor General.

Balance of the Public Account.

- 24.17 The balance of the Public Account as at the 31st December 2003 was K 98,029,185 which was the opening balance for 1st January 2004.

- 24.18 Statement "D" reports that the net increase in cash for the reporting period ending 31st December 2004 was K 84,553,000 which means the closing balance for the Public Account as at the 31st December 2004 should be reported as K 182,582,185 but was in fact reported in Statement "A" for the Public Account at the 31st December 2004 as K 131,396,224.
- 24.19 There is a reconciliation difference of K 51,185,961 and the Auditor General concludes that this discrepancy is the result of inappropriate accounting practices that have been utilized for many years.
- 24.20 The Auditor General told this Committee, a person reading these accounts could not be satisfied as to their accuracy and that the balance of the public account - probably the most fundamental issue of all - is simply wrong.
- 24.21 This is not acceptable and demonstrates not only the inadequacy and inappropriate nature of accounting practices that have become established across all Government, but a failure to change or improve them.

Provincial Treasury Operating Account.

- 24.22 The Auditor General records that Statement "A" of the Public Accounts for 2004 includes an amount of K 19,297,934 being held in Provincial Treasury Operating Accounts. It discloses

bank balances of K 343,649,027 but contributes to the Public Account total sums of K 131,396,224.

- 24.23 The K 90,297,134 comprises 19 Provincial Treasury Operating Bank Accounts totaling K 85,572,280 which represent a mixture of National Government and Provincial Government funds.
- 24.24 The Auditor General could not determine the amount that should be accounted for in the Public Accounts. The Auditor General reports that only the Receiver of Public Monies Bank Balances of K 4,724,720 could be verified as this relates to National Government Revenue collected at the Provincial level.
- 24.25 The Committee concludes that, as a result of the collapse of accountability, record keeping and reconciliation at Provincial level and as a result of the complete failure of the Department of Finance to oversight accounting requirements, neither the Government nor any person who reads the Public Accounts can have any idea of the exact division of funds between National and Provincial Government or the amount of Provincial Treasury Operating Account Funds which should appear in the Public Account – and thereby the state of Provincial Government funding.
- 24.26 This failure is fundamental and bespeaks profound incompetence or negligence (or both) at every level of the accounting chain.

- 24.27 This Committee concludes that this issue by itself would be sufficient to qualify or disclaim at least this part of the Public Accounts.
- 24.28 This information is vitally important to planning, service delivery and to an understanding of the operation and state of governance by Provincial Governments. Further, in light of the failure, the question must be why funding continued to flow to Provincial Governments which cannot manage their own affairs?
- 24.29 Further, the role, function, competence and honesty of the Department of Finance are a matter of great concern to this Committee. Provincial Government Treasuries answer directly to the Department of Finance and are under the direct control – indeed are appointees of – the Department of Finance.
- 24.30 Why has the Department of Finance not enforced accounting systems as the Law requires? The Committee cannot answer this because the Department of Finance refused to answer our inquiries.
- 24.31 We accept the limitation declared by the Auditor General.

Government of Papua New Guinea payables.

- 24.32 The Auditor General has identified 14 amounts incorrectly stated as the Government of Papua New Guinea Payables in Note 6 Part 1 Statement “F”.

- 24.33 Two of the identified amounts have a combined negative balance of K 83,865,000 million resulting in Statement A disclosing a "liability" of K 47.104 million.
- 24.34 This Committee considers that this balance represents non-cash items and as a result should not be included in the Statements or in prior year Statements.
- 24.35 The Auditor General states that this issue was raised with the Department of Finance during the course of the Audit of the Public Accounts for 2004. As a result a revised accounting policy has been implemented.
- 24.36 However, that revised policy is not in accordance with Part 3 of Appendix 1 of the ***Financial Instructions*** which form part of the ***Public Finance (Management) Act 1995*** nor does it reflect recognised Cash Reporting Practice.
- 24.37 This Committee is concerned at the evidence of the Auditor General on this issue. The practice of recognizing "Payables" and "Receivables" reduce the Public Account by at least K47.104 million and the precise reasons for this action are entirely unclear.
- 24.38 Once again, the most basic information is unreliable as a result of either negligent or intentional accounting failures.
- 24.39 Further, this Committee is inhibited in its Inquiry and unable to advance the reasons for these actions because the Department of Finance refused to assist the Committee in this respect.

- 24.40 However, we accept the limitations on the Audit as reported by the Auditor General.

Investment Funds

- 24.41 The Auditor General has examined Statement "E" – ***"Particulars of Trust Fund Investments."***
- 24.42 This Statement discloses Investment Funds totaling K 7.368 million
- 24.43 The Auditor General was not provided with the required ledger records of banking details for these investments. As a result he was unable to satisfy himself as to the completeness and accuracy of the disclosures.
- 24.44 This means that the Department of Finance is refusing to assist the Auditor General and provide required records and banking details for investments of the State – despite the fact that it is required as a matter of law to assist the Auditor General when called upon to do so.
- 24.45 It also means that the records may not exist. We cannot conclude on this issue because neither of the Departments of Finance or Treasury assisted the Committee in this regard.
- 24.46 Of concern to this Committee is the fact that these failures have continued for some years and the Auditor General has

made similar findings in past years for exactly the same reasons.

- 24.47 This failure to co-operate is a common complaint received from the Auditor General. The Department of Finance and other line Departments ignore the Auditor General's requests for information as a matter of routine.
- 24.48 There can only be one explanation for this failure. Departmental Heads would rather risk prosecution for non-cooperation (a remote possibility) than reveal the contents of the documents – if they exist at all – and thereby their own failures.
- 24.49 Non-cooperation with the Auditor General is, in the opinion of this Committee, a deliberate and intentional subversion of the Constitutional framework of fiscal management and oversight. It is utterly inappropriate and unlawful behavior.
- 24.50 More worryingly, this behavior has become an incident of public administration and is performed on an annual basis with complete immunity and impunity. This Committee has even seen examples of physical obstruction of the Auditor General by officers of Government agencies to prevent audit.
- 24.51 In the opinion of this Committee, it is high time that the Auditor General either alone or with the assistance of other agencies, prosecute the Heads of Department and defaulting managers for non-cooperation and breach of their obligation

to assist the Auditor General and failure to perform their lawful duties.

- 24.52 This Committee intends to censure the Department of Finance, the Head of that Department and a number of other Departments, agencies and entities for their failure to cooperate and failure to produce documents and records when called upon to do so by both the Auditor General and this Committee, and to refer certain officers for further investigation and possible prosecution arising from that failure.

Trust Fund Suspense Account No. 2

- 24.53 The Report of the Auditor General concerning abuses of Trust Fund Suspense Account No. 2 is the single most serious issue arising from the 2004 Public Accounts revealing, as it does, the level of corruption, incompetence and intentional illegality which characterizes the operation of the Department of Finance in 2004 and, as will be shown in the Report of this Committee on the 2005 Public Accounts, during later years.
- 24.54 Members should be aware that this litany of abuse was only detected because of the work of the Auditor General. The Statement of the Public Accounts prepared by the Department of Finance failed to mention the matter. In light of the colossal amount of public money illegally passing through this Trust Account, that omission can only be intentional.

24.55 This issue is dealt with in more detail later in this Report, but the issues which limited the scope of audit and therefore form the basis for qualification of the audit of the 2004 Public Accounts are as follows:

- Trust Fund Suspense Account No. 2 is a non-bank Trust Account;
- The Trust Instrument establishing this account is poorly drafted, but it is clear that the account was intended as a mere holding or recording account for monies received by the State on a temporary basis. It was intended for such things as bail money, child maintenance and compensation payments – monies which were held temporarily by the State pending either reimbursement or payment to recipients.
- This account only ever received approximately K 600,000 of legitimate payments until 1990.
- Thereafter, this account received huge amounts of public money that appears to have been used as a form of conduit or slush fund for improper handling of very large amounts of public money in an utterly uncontrolled manner by officers of the Department of Finance. A history of account usage is shown below:

YEAR	B/F	RECEIPTS	PAYMENTS	TOTAL	C/F
1999	2,422,000	18,266,000	34,814,000	4,139,000	4,139,000
2000	4,139,000	31,638,000	12,151,000	43,834,000	23,671,000

2001	23,671,000	123,693,000	34,475,000	158,168,000	112,889,000
2002	112,889,000	52,154,000	104,080,000	156,234,000	60,963,000
2003	60,963,000	121,651,000	168,339,000	289,990,000	14,274,000
2004	14,274,158	308,668,179	323,587,309	632,255,488	-644,972
2005	-644,972	110,272,149	109,330,030	219,602,179	297,147

- In 2004, K 308.668 million was receipted into the account and K 323.587 million was paid out of the account providing for an overdrawn closing balance of K 0.645 million.
- Over 7000 individual transactions were processed against this account in 2004.
- No subsidiary ledgers were maintained to track credits or withdrawals.
- The Auditor General has not been able to determine that a credit existed for each payment against the account as required by the Trust Instrument – hence the operation of this account was unlawful.
- Audit testing did confirm that there were numerous payments that did not have a matching credit.
- An overdrawn trust account is an impossibility and shows that there could not have been matching credits for every payment.

The Auditor General states:

"The process and control adopted by the Department of Finance management over the accounting for transactions recorded in the Account fell far short of accepted Financial Management Practice and failed to meet the requirements of Section 19 of the Public Finance (Management) Act."

- Receipts into the account are a matter of great concern. Analysis of receipts show that they came from a range of Trust Accounts and Expenditure Votes often through "repaid" or "cancelled" cheques that should have been repaid to their source.

In other words, unused money which should have been returned to Consolidated Revenue for future planned and appropriated use was illegally siphoned through this Trust Account and used for unbudgeted purposes – not by Government but by, and at the absolute discretion of, anonymous officers of the Department of Finance who had no power or right to use it.

- The account was also credited through journal entries but transactions to return these receipts and other credits were not evident.
- Analysis of payments exceeding K 20,000 and amounting to K 198,393,463 showed that the account

had been used as another Miscellaneous Vote 207 by the Department of Finance – quite unlawfully.

- There were significant payments from the account that relate to current expenditure by the Department of Finance and this is completely improper.
- Accounts and records maintained by the Department of Finance relating to receipts and payments for this account were inadequate and for all practical purposes audit trails did not exist.

The Auditor General reports:

"I am of the view that the operation of Trust Suspense Account No. 2 has been inappropriate and has facilitated the transfer of funds, budgeted elsewhere, into this Account. The Account was used to meet unbudgeted expenditures and sometimes irregular payments which underestimate the expenditure of certain Departments in Statement B.

The Department of Finance has bypassed the processes for transfer of appropriation provided by Section 24 of the Public Finance (Management) Act and exceeding the limits for transfer of appropriation set by the Parliament

in the Appropriation (Recurrent Expenditure 2004) Act.

Payments processed through the Account resulted in misappropriation of funds as expenditures have exceeded legal appropriations provided by the Appropriation (Recurrent Expenditure 2003) Act. The expenditure of monies not appropriated has breached the Constitution of the Independent State of Papua New Guinea."

- 24.56 This Committee is very concerned at the finding of the Auditor General in relation to Trust Suspense Account No. 2.

- 24.57 Plainly stated, this Account was used as a device to record a huge, ongoing blatant misuse of the public purse by senior members of the very Department responsible for management and control and protection of public monies, who actively, routinely and intentionally involved themselves in illegal misapplication of huge amounts of public funds by deliberately overriding controls and legal requirements for years despite warnings, detection and report by the Auditor General.

- 24.58 Compounding this misconduct was a failure to maintain or submit any records or accounts sufficient to perform audit work to any acceptable standard – and in the opinion of this Committee, that failure was deliberate and intentional.

- 24.59 All these findings are serious enough, but the conduct of these officers was, in our opinion, a direct challenge to the fiscal sovereignty and power of the State as prescribed in the Constitution. The Auditor General has made the same conclusion in 2005 and we believe he is correct.
- 24.60 This misconduct continued for many years and in itself would be sufficient to throw significant doubt on any claim that the Public Accounts are reliable or accurate. The Committee accepts the limitation on audit declared by the Auditor General.

ACCOUNTS AND RECORDS

Losses and Deficiencies

- 24.61 Statement "A" of the Public Accounts notes certain Losses and Deficiencies of Public Monies and Property totaling a mere K 87,860.
- 24.62 The Auditor General however has identified unrecovered losses during the reporting period of K 3,215,814 representing a material misstatement.
- 24.63 A significant number of Departments do not maintain records of assets and as a result are unable to report accurately the assets that are stolen.

- 24.64 In 2004 payment of large amounts of money to fraudulent claims totaled many millions of kina but these are not shown as losses or deficiencies.
- 24.65 This Committee accepts the qualification arising from this limitation of scope on the Audit of the Public Accounts for 2004. The problems posed by failures of Departments, arms and entities of government to maintain asset registers either in any acceptable form, or at all, are well-known to this Committee.
- 24.66 This is a circumstance which cannot be allowed to continue. The Government has no way of ascertaining exactly what property it owns, what has been disposed of or losses through any cause.
- 24.67 The Committee cannot understand how this can have occurred or, once it had occurred, why neither the agencies concerned nor the Department of Finance addressed the issue. An asset list is not a difficult task to prepare or maintain.
- 24.68 The Committee accepts the limitation on audit declared by the Auditor General.

Disclosure of Investments – Capital Contributions and Equity Rights

- 24.69 Statement "F" discloses the Government's investments, capital contributions and equity option rights in some government-owned companies and statutory bodies.
- 24.70 The Auditor General concludes that the value of investments is considerably understated when compared with the accounts of the entities in which the State has equity. The Statement is incomplete and fails to disclose a number of investments.
- 24.71 Again the Committee accepts this limitation upon the Audit and the qualification given by the Auditor General.

25. LOAN LIABILITIES

- 25.1 The Auditor General has found errors and omissions in Statement "G" concerning the public debt of the Independent State of Papua New Guinea. The Auditor concludes that the Statement understates public debt by K 37.65 million.
- 25.2 The Committee was initially sceptical of this part of the Report of the Auditor General and examined the facts carefully because we simply could not believe that public debt could not be accurately known.
- 25.3 However, after Inquiry we do accept the limitation found by the Auditor General.
- 25.4 The Committee sought explanation or qualification from the Departments of Treasury and Finance, but received nothing from either entity.

26. CONTROL OVER ASSETS: PUBLIC BODIES.

- 26.1 Section 62 of the ***Public Finances (Management) Act 1995*** requires that public bodies maintain records and control over assets or assets in the custody of public bodies.
- 26.2 The Auditor General concludes that, in 2004, agencies did not maintain these records or that, if they do exist, they are incomplete or inaccurate and generally lack the internal management practices, procedures and control frameworks required for them to meet their obligation to manage assets.
- 26.3 Again, this problem is familiar to the Public Accounts Committee. In almost every Inquiry conducted by this Committee we have found an absence of any competent practices, procedures or control frameworks capable of managing assets.
- 26.4 The Committee accepts the limitation of scope and therefore the qualification made by the Auditor General as a result of the failure of Government to control assets.

27. ACCOUNTING PROCESSES.

- 27.1 The Auditor General reports that reconciliations were not undertaken, external confirmations were not available, registers need updating and files and records were not available in almost all Departments, arms and agencies at all levels of Government.

27.2 There is a lack of any audit trail by way of records or accounts, rendering the verification of balances difficult, if not impossible, in many instances.

27.3 The Auditor General identifies the following examples:

- The disclosure of trust accounts in Statement "C" is incomplete and the balances are bank balances and not cashbook balances as the Department of Finance simply does not have the appropriate records;
- A number of Trust Account balances could not be verified in the absence of independent external confirmations;
- A lack of registers and records relating to investments reported in Statement "E";
- In Statement "A" there was no reconciliation of the reported balance of Unpresented Cheques to Departmental records.
- Reconciliations between receipt records held by the Department of Finance to Revenue Collection Agencies, the Internal Revenue Commission and the Department of Lands and Physical Planning reveal significant reconciliation differences that have not been resolved. The nett effect of these differences result in the Public

Accounts disclosing K 15.325 million less than the agencies record as collected.

- An accurate register of Trust Instruments is not maintained and as a result it is not possible to confirm the completeness of the approved Trust Accounts disclosed in Statement "A". This is a very serious failure which the Committee will address later in this Report.
- Due to the lack of records, it is not possible to confirm Trust Account balances of K84.944 million. This is a significant failure that can be directly sourced to the Department of Finance.
- In addition a number of Trust Accounts were not disclosed at all or the disclosure was incorrect. Hidden accounts are an open invitation to malpractice. This Committee sought an explanation from the Secretary of the Department of Finance but we received no response.

28. OTHER STATUTORY MATTERS

- 28.1 The Office of the Auditor General has reported breaches of the ***Constitution of the Independent State of Papua New Guinea*** and the ***Public Finances (Management) Act 1995***, in the preparation, keeping and presentation of the Public Accounts for the Financial Year 2004.

- 28.2 Each or these breaches are serious but in combination present a picture of widespread failure, incompetence and, frequently, intentional obfuscation and secreting of records and documents by the Public Service at all levels of Government.

Expenditure Exceeding Appropriation

- 28.3 Statement "D" of the Public Accounts, discloses actual expenditure against appropriated expenditure. Separate appropriations are required for the National Parliament, the Judiciary, Public Expenditure and Development Expenditure.
- 28.4 Note 2 to the Statement explains that expenditures have exceeded legal appropriations by K 1,295,000,000.
- 28.5 The Auditor General identifies four Appropriation Acts involved in this illegal conduct:

1. **Appropriation (Recurrent Expenditure 2004) Act 2003** and additional ***Appropriation Act (Recurrent Expenditure 2004) Part A 2004*** which provide total appropriation of K 3,276,214,000 while the actual expenditure was K 4,470,746,000.

The Auditor General reports the appropriation for account expenditure as disclosed as being exceeded by K 1,194,532,000. Of this amount, K 1,017,000,000 both related to debt restructuring and as a result the

net effect of this restructure on the Appropriations is nil. As a consequence, the legal appropriation for this Recurrent Expenditure has been exceeded by K 177.532 million.

2. The ***Appropriation (Judiciary Services 2004) Act 2003***, which appropriated K 27,003,300, but which Statement "B" incorrectly discloses as K 25,875,000 while the actual expenditure was K 27,375,000. Hence, the legal appropriation has been exceeded by K 371,700; and
3. ***Appropriation (National Parliament 2004) Act 2003*** appropriated K 54,000,000 and the actual expenditure was K 57,006,000. As a result the legal appropriation has been exceeded by K 3,006,000.

- 28.6 This Committee finds that the expenditure of monies not appropriated has breached the ***Constitution*** and blame for this situation must lie directly with the Public Service.
- 28.7 Clearly, in this matter, that Department has abandoned any pretence of obeying the law of fiscal accountability and ignores the Law with impunity and immunity.
- 28.8 This Committee accepts the limitation and therefore the qualifications imposed by the Auditor General as a result of these irregularities.

- 28.9 This Committee sought explanations from the Department of Finance, but received no assistance or response.

Transfer of Appropriations

- 28.10 The Department of Treasury records show net transfers between services pursuant to Section 24 of the **Public Finances (Management) Act 1995** as being at least K 596.61 million. It exceeded the amount authorized by the Parliament in the **Appropriation (Recurrent Expenditure 2004) Act 2003** by K 278.489 million.
- 28.11 Further, Statement "B" discloses numerous incidences where the recurrent and development expenditure for individual agencies exceeded the revised appropriation.
- 28.12 No authority was provided to transfer appropriation between agencies by the **Appropriation (National Development Expenditure 2004) Act 2003**. However, K 96.237 million of transfers occurred.
- 28.13 The Department of Treasury has therefore exceeded the authority provided by Parliament to transfer appropriations between services and failed to control the expenditure of National Government agencies. On what legal basis this was done, we could not ascertain.
- 28.14 Therefore, this Committee concludes that there are systemic and systematic failures and illegality in the Department of Treasury in that it failed to carry out its duties pursuant to the

Public Finances (Management) Act 1995 and failed to obey the law of appropriations between agencies with no explanation, reason or legal basis.

- 28.15 This Committee accepts the limitation of scope and qualifications on audit imposed by this illegality and will make censure and further comment on this practice later in this Report.
- 28.16 The Committee sought explanations from both the Departments of Finance and Treasury, but received nothing.

Overdrawn Trust Accounts

- 28.17 Statement "C" discloses closing balances for accounts forming the Trust Fund.
- 28.18 Overdrawn Trust Accounts are a breach of Section 17 of the **Public Finances (Management) Act 1995**. This Section requires that monies may only be paid out of Trust Account for the purpose of the Account or as authorized by law or if sufficient credit is available in the account.
- 28.19 The Auditor General finds certain Trust Accounts have become overdrawn or the amount increased during the reporting period and concludes that this represents a failure to effectively control and manage expenditure by the Departmental Heads of the Departments concerned.

- 28.20 The Committee sought an explanation from the Department of Finance, but received no response.
- 28.21 The Public Accounts Committee endorses the limitation of scope and therefore the qualification imposed on the Audit as a result of these failures.

29. CONCLUSION

- 29.1 The Auditor General has, for many years, in its Part 1 Report on the Public Accounts of Papua New Guinea, warned the Government of the increase of deterioration and failure in the Management and Accounting for transactions with public monies, property and stores. Those warnings have not resulted in any remedial action that this Committee can identify.
- 29.2 Finally, in 2004, the Auditor General, because of the significant adverse effects of the matters set out in this part of our Report, has disclaimed the Public Accounts.
- 29.3 This Committee accepts those qualifications and the Audit opinion. It accepts the basis upon which those qualifications and the opinion were made.
- 29.4 The Public Accounts Committee concludes that there was, by 2004, a very serious collapse in almost every aspect of public fiscal accounting and control in every Department at every level of Government.

- 29.5 The failure is a result of many years of dereliction of duty, negligence, ineptitude, corruption and intentional subverting of legal obligations and controls by our Senior (and not so senior) Public Servants. These are the very Officers paid to protect and manage public monies to deliver services and development.
- 29.6 These concerted and intentional failures extend to every level of Government from National to District level and every arm, entity and Department of Government including public bodies, Provincial Governments, companies, statutory bodies and individuals who may either hold public monies for or on behalf of the State or a third party or are otherwise accountable for the control of public monies, property and stores.
- 29.7 The failure and collapse is so complete that it extends to remote areas of Government operations such as Hospital Boards, artifacts and State property, Commodity Boards, academic institutions and companies or commercial ventures in which the Government is either shareholder or investor.
- 29.8 This failure by Senior Officers of Government (who could rightly be regarded as our brightest and best) must be a measure of profound National concern and a matter of priority for any Government.
- 29.9 Immediate and thoroughgoing steps must be taken to ensure that the situation in 2004 is repaired, systems rebuilt and competent oversight, enforcement and management be instituted and maintained.

SECTION "B" - THE AUDIT REPORT ON THE PUBLIC ACCOUNTS
2004 – FINDINGS OF THE AUDITOR GENERAL.

30. GOVERNMENT RECEIPTS

30.1 All Government Receipts are deposited into a single Consolidated Revenue Fund while payments are to be made out of the same Fund in accordance with the annual ***Appropriation Act*** and other subsequent ***Revised Appropriation Acts*** passed by the Parliament from time to time.

30.2 Pursuant to the ***Public Finances (Management) Act 1995*** and the ***Financial Instructions*** promulgated thereunder, Trust Accounts are established and operated within the Trust Fund. The total of the balances in the various Trust Accounts represent the Trust Funds.

30.3 The Statements report, inter alia:

- Appropriation of funds to be available to be received and expended by the State;
- Receipts and Expenditure for the year;
- Cash position at the end of the year;
- Borrowings and investments by the State; and

- Losses by the State.

30.4 There are legislative, instructional and regulatory controls over the compilation, contents and submissions of the financial records and accounts from all levels of Government and these safeguards are intended to ensure the records and the Public Accounts Financial Statements are complete and accurate.

30.5 The Auditor General records that:

"Compliance with relevant Legislation is of paramount importance in safeguarding the State's cash resources".

30.6 This Committee accepts that Statement as correct but would add that compliance with relevant Legislation is of paramount importance in ensuring that the Public Accounts are accurate, complete and reliable.

30.7 As we have said previously in this Report, the Public Accounts for the year 2004 are neither reliable nor complete. This is in large part the result of failure at all levels of governance to comply with statutory requirements.

30.8 It is axiomatic that to achieve the necessary assurance of the regularity and propriety of Government financial transactions, they must be regular and timely reconciliation of balances

shown in cashbooks with those of the respective bank accounts.

- 30.9 For proper control, cashbook balances should be reconciled promptly with the Sub-Ledger balances, bank statements and where possible, reconciled to the records of revenue and expenditure statements produced by the Finance Department to ensure full accounting.
- 30.10 This Committee finds that none of these requirements have been complied with at virtually any level or arm of Government.
- 30.11 One major problem would appear to be that the PGAS system and TMS system cannot communicate. Accounting practices of the past are not appropriate and are causing statements to be distorted and making it difficult to understand what should be included and what should not be. Moreover, the system should be able to be understood by all users of the information which it generates.
- 30.12 As we have already indicated the Public Accounts and the material from which they are compiled in the year 2004 would not be easily comprehensible to persons who might use the Public Accounts.

The Auditor General reports as follows:

"I understand that staff from this Office and the Senior Department of Finance staff have agreed to

establish a group to examine what is required to improve the reporting of the Public Account and to set priorities that will enable problems to be made in the near future. These and the adoption of the points for the years 2005 and 2006 as set out in Paragraph 16 of this Report should see a dramatic change for the better”.

30.13 It is the intention of this Committee to examine 2006 and 2007 Audit Reports in detail to ascertain whether any improvement can be found in the treatment of receipts.

31. Budgetary Results 2004.

(a) Receipts [K'000]: Performance for the year 2003 and 2004 was:

Year	Appropriation	Actual	Excess/Shortfall	%
2004	4,532,121	5,803,779	1,271,658	28
2003	4,387,437	4,279,613	[107,825]	2

(b) Payments [K'000]

Year	Appropriation	Actual	Under [Excess] payments over appropriation	%
2004	4,632,700	5,817,095	[1,184,395]	26
2003	4,569,059	4,171,406	397,653	9

31.1 The Committee notes that as a result of deficit budgeting for the year 2004, actual performance for the year has resulted in an excess in payments over receipts by K 13,316,600.00 a net deficit of K 100,579,000.

31.2 The Auditor General makes the following finding:

"However, there has been expenditure of K 1,184,395,000 in excess over Appropriation enacted by the Parliament. This is reduced by K1.017 billion loan repayments that were offset by new loans at a significantly reduced interest rate leaving an effective misappropriation (Committee emphasis) of K170 million."

31.3 This Committee addressed questions concerning the finding of misappropriation to the Head of the Department of Finance (Mr Gabriel Yer) and the Head of the Department Treasury, (Mr Simon Tosali), but received no information, explanation or evidence at all.

31.4 The Committee is concerned at the finding of the Auditor General and strongly urges the Parliament to pursue this matter and ascertain exactly why this result was obtained.

31.5 The only conclusion open to this Committee is that there has been a complete disregard of law and the Constitution with a deliberate and intentional misappropriation of very large sums of public money.

Appropriation Act (National Parliament)

- 31.6 In 2004 a Revised Appropriation for the National Parliament under the Recurrent Budget was K 57,000,000. This was correctly disclosed in Statement "B".
- 31.7 This amount was fully expended, however a further amount of K 270,000 treated as expenditure and credited to the Cash Adjustment Account and described as "difference on grants for National Parliament" is effectively an account payable.
- 31.8 The sum of K270,000 was paid in 2005 and a similar observation was made in 2003 Audit where an over-expenditure of K 1,400,000 incurred out of the National Parliament allocation of K 50 million was transferred and disclosed in the Cash Adjustment Account and used 2004 funds to settle.
- 31.9 The Auditor General finds, and this Committee accepts, that these transactions are not in accordance with the Accounting Policy Notes 1 of Statement "A" and are illegal as Appropriations lapse at the 31st December every year.
- 31.10 The Department of Finance has responded as follows:

"Finance notes that only Recurrent Appropriations lapse at year end and not Development

Appropriations. If the monies payable to Parliament relate to Development Appropriations then there is no breach of the Appropriation Provisions”.

- 31.11 This Committee sought submission and advice and assistance from the Department of Finance in regard to this matter. We have received nothing and therefore accept the Auditor General’s findings.

Consolidated Revenue Fund

Net Results – Consolidated Revenue Fund [K’000]

(a) Receipts [K’000]

Year	Revenue for the year K’000	Expenditure for the year K’000	Net surplus [Deficit] K’000
2004	5,803,779	5,817,095	[13,316]
2003	4,279,612	4,171,406	108,207

- 31.12 The total receipts and expenditures for the year 2004 totaled K 5,803,779,000 and K 5,817,095,000 respectively. This resulted in a net deficit of K 13,316,000 compared to a surplus of K 108,207,000 for the previous years.
- 31.13 However, prudent repayment and refinancing of debt levels has significantly reduced the debt service payments and saved the State approximately K 212 million.

SUMMARY – CONSOLIDATED REVENUE FUND: 2004.

Year	Brought Forward Balance K'000	Budgetary net Surplus/Deficit K'000	Accumulated Surplus/Deficit carry forward K'000
2004	-223,445	-13,316	-236,761
2003	-328,604	108,207	-220,397

31.14 In 2004 a nett deficit of K 13,316,000 increased the accumulated deficit balance of K 223,444,836 at the end of 2003 to K 236,760,462 at the end of 2004.

31.15 Statement "A" correctly records this result. However, reconciliations between receipt records maintained by two Departments and the amounts disclosed in Statement "J" reveal significant differences and this Committee has no doubt that situation pertains across the entire span of all arms, entities and levels of Government.

31.16 On a random test basis IRC Taxation, IRC Customs and the Department of Lands and Physical Planning were examined against the Statement "J" contents with the following result:

Department	Departmental Records K	Statement "J" K	Difference K
IRC Taxation	2,223,705,012	2,212,211,803	11,493,209
IRC Customs	1,002,179,978	996,530,250	-5,649,728

Department of Lands and Physical Planning	16,436,702	18,254,134	1,817,432
Total Net Difference	3,242,321,692	3,226,996,187	-15,325,505

- 31.17 The Auditor General finds that these discrepancies indicate a lack of control over the reconciliation practices of the Department of Finance and/or Treasury and the Departments concerned. We accept this conclusion.
- 31.18 This Committee is concerned that firstly in the case of the IRC discrepancy, K 17 million has either not been brought to account or has been incorrectly posted.
- 31.19 This Committee also concludes from this and other inquiries, that this inability or failure to reconcile almost any receipt, records, accounts or ledgers across the entire span of governance shows a profound and basic collapse of accountability. This must be addressed as a matter of urgency by this Government.

The Trust Fund

- 31.20 Statement "A" and "C" show total Trust Fund Receipts and payments in 2004 as K 700,581,301 and K 653,898,637 respectively. This has resulted in an excess of receipts over payments (a surplus) of K 46,682,664. As at the 31st

December 2004, the balance of the Trust Fund was K 368,156,686.

- 31.21 The Auditor's examination of Statement "C" was undertaken on a sample basis, and included investigation into the establishment and operation of Trust Accounts, verification of balances and statutory compliance.
- 31.22 The opening balance of the Trust Accounts was adjusted by K 105.551 million and this is described as a correction of accounting errors but charged Trust Accounts rather than the Consolidated Revenue Fund.
- 31.23 This Committee finds that Statement "A" does not show the restatement – and it should. The error or failure was the subject of inquiry to the Department of Finance but we received no reply or assistance in this regard.
- 31.24 The Auditor General reports that major weaknesses were observed and certain constraints were applied to the Audit as a result of:

Bank Reconciliations

- 31.25 In almost all instances Trust Ledger balances for the Trust Accounts with Bank Accounts reflected in Statement "C" could not be verified to the end of the Financial Year, in the absence of bank reconciliations.

- 31.26 Most of the monthly bank reconciliation statements received from some of the agencies were not properly filed and retained and no evidence was received to confirm that follow up action was made to demand the monthly bank reconciliations due from agencies.
- 31.27 This Committee accepts the finding of the Auditor General in this regard.
- 31.28 These and other inquiries have shown a consistent, constant and thorough-going failure in all agencies to reconcile bank accounts on a monthly basis and/or to submit that material. This is a most basic accountancy tool which public servants seem incapable of carrying out.
- 31.29 The Committee is heartened by a comment made by the Department of Finance to the Auditor General as follows:
- "Finance has commenced a programme aimed at dealing with the non-lodgment of trust bank reconciliations by Departments, who are responsible under the PF(M)A to prepare and lodge the reconciliations. Finance has the goal of collecting monthly bank reconciliations for all trusts during the 2007 year".***
- 31.30 This Committee intends to reconsider this particular issue for the Financial Years 2006 and 2007 in 2009. We expect to see a considerable improvement. However, some of our inquiries

in 2008 for that year showed no improvement whatsoever in a number of Departments not reconciling accounts.

31.32 This Committee sought advice on the subject of bank reconciliations from the Department of Finance in this and other Inquiries.

31.33 We have received no response from the Department of Finance. This information would have been of considerable assistance to this Committee in the preparation of this Report and conduct of this Inquiry but our requests were treated with disregard.

31.34 This Committee can only conclude that the Department of Finance either does not wish to carry out its lawful obligation of co-operating with the Public Accounts Committee or have no explanation for its failure to enforce the requirements of law and to require monthly bank reconciliations to be submitted.

NON MAINTENANCE OF TRUST REGISTER

31.35 No register of Trust Instruments was kept by Government and as a result the Auditor General cannot confirm that Statement "C" contained all the details of Trust Accounts approved and operated.

31.36 The Committee cannot understand how the Department of Finance, the Head of that Department or Government in

general can know what Trust Accounts exist, the terms of the Trust Instruments or who controls the Trusts. This dereliction of duty is the fault of the Department of Finance.

- 31.37 This failure would explain why this Committee has been unable to ascertain how many Trust Accounts exist, who controls them or the amount of money vested and held in these Trust Accounts.
- 31.38 How this situation has been allowed to occur is beyond the comprehension of this Committee. No response, answer, policy or information was forthcoming from the Department of Finance to this Committee and so far as the Committee can ascertain, nobody in the Department of Finance either knows or cares what Trust Instruments may or may not exist and therefore what accounts may or may not exist or the state of those accounts.
- 31.39 This Committee finds that the failure to control, understand or have any register of Trust Instruments is inexplicable and a profound failure on the part of the Department of Finance.
- 31.40 This is a matter which must be addressed immediately in order that some control can be brought over the operation of Trust Instruments, Trust Accounts, trust monies and Trustees.

Trust Fund Balances that could not be verified by the Auditor General

- 31.41 In the case of Trust Accounts operated through bank accounts, details of the Bank's branches with which the accounts were operated together with Bank Account numbers were simply not available to the Auditor General. As a result, the Auditor General had to spend time trying to compile this bank account and bank account numbers.
- 31.42 This is a failure of most basic kind by the Department of Finance. It has resulted in Trust Accounts being held, maintained or existing in secrecy and operating with no apparent controls or oversight whatsoever. It is a recipe for misconduct and, in the opinion of this Committee, that is precisely what has occurred.
- 31.43 The maintenance, command and control of Trust Accounts is a fundamental role of the Department of Finance vested in it by the ***Public Finances (Management) Act 1995***.
- 31.44 This Department cannot maintain even a Register of Trust Instruments and cannot produce records of Trust Fund Balances. What does the Department actually do? Why does it exist and how has this situation been allowed to continue for so long?
- 31.45 Once again, this Committee could obtain no information or responses from the Department of Finance on this subject, in either this inquiry or a second inquiry conducted contemporaneously into Trust Accounts

31.46 The Auditor General was unable to identify 44 accounts with an aggregate balance of K 84,944,386. Those accounts were: **See Table "A".**

Incorrect list of Trust Accounts.

31.47 Two of the Trust Accounts listed as "General Trust without Bank Accounts" were found to be operating through bank accounts.

31.48 The Auditor General was unable to confirm that Trust Accounts listed under this category were in fact operated without a bank account.

31.49 This is very basic information which, as a result of the Department of Finance failure, cannot be ascertained.

Trust Accounts with overdrawn closing balances

31.50 The Auditor General has found five Trust Accounts overdrawn by a total of K 3,961,112.

31.51 How a Trust Account can be overdrawn is beyond the understanding of this Committee and clearly shows a complete failure of control, command, accountability and responsibility which it is the job of the Department of Finance to enforce. It also shows a failure by Trustees to meet their most basic obligations.

- 31.52 The Committee is particularly concerned when it is seen that Trust Fund Suspense Account No. 2 is one of those Accounts operated in deficit. Deficit in a Trust Account must mean (at best) negligence by a Trustee and/or illegal conduct.
- 31.53 Whatever the situation, breach of trustee obligations may very well visit personal liability on Trustees and overspending trust funds – which is impossible – is a very good illustration of the depths of failure of public fiscal management and accountability in this country.
- 31.54 This is a matter which must be addressed urgently by National Parliament. This Committee will make certain recommendations in respect of Trust Accounts later in this Report.

Trust Accounts with no closing balances but bank balance sighted by the Auditor General

- 31.55 Statement "C" of the Statement of Public Accounts 2004 shows 17 Trust Accounts with a nil balance but which are still disclosing a balance in those accounts. The balance of those accounts was confirmed as at the 31st December 2004 at K 5,043,435.

- 31.56 The Accounts were:

Account Name	A/C #	Bank	Balance 31.12.03 (K)	Receipts (K)	Payments (K)	State-ment "C" 31.12.04 (K)	Bank 2004 (K)
State	100045	BSP	460	5,298	-5,758	0	465.47

Solicitors Trust Accounts	1888						
Land Acquisition Trust Account	43516332	BPNG	24,681	179,899	-204,580	0	24,681.58
Police Messing Trust Account	1065036	ANZ	973	2,092	-3,065	0	2,521.60
Mining Memorandum or Agreement Project	1000587061	BSP	167,215	2,467	-169,682	0	164,747.55
Vanimo-Green District Development Trust	1000585261	BSP	0	6,093,079	-6,093,079	0	870,071.25
North Bougainville District Development Trust	1000584434	BSP	0	0	0	0	2,478.00
Henganofi District Development Trust	1000585440	BSP	534	7	-541	0	539.65
Sinasina-Yonggamugi Dist.Development Trust	1000930846	BSP	931	0	-931	0	160.62
Tech.Assistance Facility for Inst.Stre	43566352	BSP	0	600,258	-600,258	0	100.06
Monitoring & Evaluation Sys.Dev.Gr ant	1000162728	BSP	0	0	0	0	201,477.71
Central Fund Board of Management	11410958	ANZ	5,510	50,486	-55,996	0	71,140.58
Road Maint.&Rehab.Proj.(Go	1000585380	BSP	5,926,00	13,159,959	-19,085,959	0	2,916,963.13

PNG-Counterpart)							
National Disaster Center Operational TA	100097 1420	BSP	0	0	0	0	555,506.00
Talasea, Hoskins, Kapiura and Ania TA	100095 5977	BSP	0	0	0	0	252.28
PNG Education Payroll Proj. GoPNG	100060 5632	BSP	0	0	0	0	117,218.13
Kiunga Lake Murray	100058 5721	BSP	0	0	0	0	475.27
National Emergency Fund	100057 3219	BSP	90,721	0	-90,721	0	114,635.73
Total							5,043,434.61

31.57 Once again, this finding bespeaks failure on the part of the Department of Finance to keep virtually any control whatsoever over Trust Accounts containing public money.

31.58 Why were these Accounts not inspected or reported accurately and correctly?

31.59 The Committee tried to ascertain the reasons, but the Department of Finance refused or failed to answer the Committees questioning.

Closure of bank accounts prior to the 31st December 2004.

31.60 The Auditor General finds 13 Accounts with closing balances totaling K 1,937,179 disclosed in Statement "C". However,

the Auditor also found that the accounts were closed prior to 31st December 2004. Those accounts were:

A/C #	Bank	Bank 2004	BALANCE 31.12.03	RECEIPTS	PAYMENTS	BALANCE 31.12.04
1000586570	BSP	A/C Closed 16/04/04	284,653	0	-15,259	269,394
1000586571	BSP	A/C Closed 16/04/04	15,259	0	0	15,259
1000586569	BSP	A/C Closed 16/04/04	176,151	176,409	0	352,560
1000586568	BSP	A/C Closed 16/04/04	915,982	0	0	915,982
1000586573	BSP	A/C Closed 07/10/03	25,764	0	0	25,764
845437	ANZ	A/C Closed 07.06.04	169	40,069	0	40,238
1000584063	BSP	A/C Closed 18/11/03	44,841	0	0	44,841
1000584261	BSP	A/C Closed 21/10/04	3,774,989	2,350,400	-5,882,987	242,402
1000587288	BSP	A/C Closed	20,257	0	0	20,257
43116514	BPNG	A/C Closed	3,306	0	0	3,306
1000584070	BSP	A/C Closed 14/05/04	2,422	0	0	2,422
1000584072	BSP	A/C Closed 14/05/04	1,368	2,356	0	3,724
1000584074	BSP	A/C Closed 14/05/04	1,030	0	0	1,030
						1,937,179

31.61 This situation has been seen by this Committee in other Inquiries.

31.62 Once again, the Department of Finance – the responsibility of which is to manage and oversight the control and handling of public monies through Trust Accounts, has failed either to close the account properly or to remit the balance of monies from the Trust Accounts to Consolidated Revenue.

- 31.63 We cannot explain this situation as we received no assistance from the Department of Finance in this issue.
- 31.64 Therefore, the only findings this Committee can make is that a failure to carry out the duties vested in the Department of Finance has, amongst other things, limited the scope and ability of the Auditor General to carry out his work.

Differences between Statement "C" and bank confirmations.

- 31.65 The Auditor General sought confirmation from Banks in respect of 39 Accounts. The confirmation did not agree with the closing balances reflected in Statement "C" which in many instances were considerably less than the actual amount of money held in the Bank Account. In some cases, the balance recorded in Statement "C" was millions of kina less than the money actually in the bank account.
- 31.66 If the Auditor General can ascertain the information from the Banks why could the Department of Finance not do the same?
- 31.67 What was intended for the excess money? How can any Government possibly place reliance in its Public Accounts if such a simple matter is incorrectly submitted to it by its agents?
- 31.68 The Public Accounts Committee sought information from the Department of Finance on this issue. We received no assistance at all.

Balances in bank but not in Statement "C" – no Trust Code confirmation.

- 31.69 The Auditor General finds that 46 Bank Accounts with an aggregate balance of K 48, 021, 136 **"appear to be in the nature of Trust Accounts"** which were not disclosed in Statement "C". They were:

See Table "B".

- 31.70 This information was apparently available to the Auditor General but not to the Department of Finance. This Committee concludes that the Department of Finance did not know or care that its reports and records were defective or that such a large amount of public money held in "Trust Accounts" was not accounted for or recorded.
- 31.71 This is a very serious failure and one that needs to be immediately addressed.
- 31.72 There has been a dereliction of duty in the management of these public funds in the Department of Finance – made particularly serious by the fact that these monies were allocated to and apparently held in Trust Accounts managed at the apparent discretion of unelected and unrepresentative public servants.

- 31.73 Why were these Trust Accounts missing and, if they are not Trust Accounts, what are they? Do they have Trust Instruments? What is the money being used for? Where are the records of expenditure? Have the Trust Funds been received or expended lawfully? None of these questions can be answered by this Committee or by the Auditor General because of lack of assistance from the Department of Finance.
- 31.74 It is quite apparent to this Committee that the Department of Finance either has no answers and no idea why these accounts are not recorded or that the failure was intentional. Whatever the reason the Department has chosen not to co-operate with either the Auditor General or this Committee or furnish information or explanation for these findings.

Nil movements and nil balance Trust Accounts.

- 31.75 One Hundred and Forty Eight (148) Trust Accounts in Statement "C" shows zero open balances with neither receipts nor payments being recorded.
- 31.76 These Trust Accounts remain open for no apparent reason and the Department of Finance appears to have taken no steps to either close them or review the necessity to maintain the accounts.
- 31.77 Once again, the Committee cannot advance this issue as no assistance was received from the Department of Finance on the issue.

Opening balances exhausted.

31.78 The Auditor General identifies 56 Trust Accounts in respect of which the opening balances together with any receipts have been expended in full – leaving zero balances. However once again, the Department of Finance has apparently not reviewed the need for these accounts or closed them where appropriate.

31.79 Once again, the failure is unexplained and this Committee cannot advance this issue as no information or assistance was forthcoming from the Department of Finance despite requests for explanations.

Receipts expended fully during the year.

31.80 The Auditor General finds 9 accounts with zero opening balances – the receipts which totaled K 2,572,540 having been received and fully expended.

31.81 Once again, the Department of Finance should review the need for these accounts to continue and close them if they are unnecessary or if their purpose has expired.

Lack of monitoring of Trust receipts and payments.

- 31.82 The Auditor General concludes his examination of Statement "C" in the following terms:

"The Department of Finance needs to investigate and confirm that the nature of the receipts and payments are in accord to the Trust Instruments, to continue its efforts to identify all Trust Accounts that are operated illegally outside the Trust Accounts".

- 31.83 As an example, the Auditor General examined two Trust Accounts, the balances of which disclosed in Statement "C", do not agree with the confirmations received:

Trust Account Name	BSP Bank A/c No.	Per Statement "C" <u>K</u>	Per Forest Authority's records <u>K</u>	Statement "C" understated by <u>K</u>
Reforestation Levy Trust Account	1000584586	1,431,703	10,376,693	8,944,990
Timber Royalties Trust Account	1000585566	Nil	5,537,087	5,537,087
Total		<u>1,431,703</u>	<u>15,913,780</u>	<u>14,482,077</u>

- 31.84 Presumably these discrepancies were found on a random testing basis and, given the chaotic state of Trust Account management and record keeping the situation is probably much more widespread.
- 31.85 How these Trust Accounts could be recorded so inaccurately is beyond our understanding. The only explanation must be a failure by the Department of Finance and by the National

Forest Authority to maintain accurate records and to submit them in a timely fashion.

- 31.86 This situation prevails across the entire span of the public service and has allowed Papua New Guinea to reach a point where its public accounts are disclaimed and its system of public accountability, handling of and accounting for public monies, property and stores has failed.
- 31.87 The Auditor General makes further comments concerning the Notes to Statement "C" on the Public Accounts made by the Department of Finance.
- 31.88 First, Note 1 records interest earned on monies held in the Trust Fund. The Statement reports the balance of interest held in the Trust at the year end totaling K1.650 million. The Auditor General finds that this amount is not sufficient and is understated.
- 31.89 The Auditor General recommends that the Department of Finance review the processes to determine the accuracy of the amount and advise Auditor General of the results of that review. This Committee endorses that recommendation and will give the Directives accordingly. We intend to revisit this issue when we consider the 2006 Public Accounts.
- 31.90 Secondly, the Auditor General finds that the Notes do not indicate that the list of Trust Funds is incomplete and the balances shown are bank balances, for the simple reason that agencies are not submitting financial records or reports for

each and every Trust Account as required by law – and the Department of Finance does not enforce this requirement.

31.91 This finding encapsulates the failure of public accountability insofar as trust funds are concerned and the apparent passive acceptance of this failure by the Department of Finance.

31.92 It appears to this Committee that neither Government agencies nor the Department of Finance know or care whether records are delivered and neither of those entities have the ability, expertise or competence to fulfill or enforce this legal requirement.

31.93 This Committee reiterates that the accounting requirements imposed on agencies and the Department of Finance are simple and not onerous – at least insofar as Trust Accounting Reconciliations and Returns are concerned. These requirements are also mandatory.

31.94 Yet, not one single entity of Government appears capable of making those records and the Department of Finance has completely failed to follow up and enforce the law – even in respect of Trust Accounts administered by the Department of Finance itself.

31.95 Information received by this Committee shows that this situation still prevails as at December 2008.

Bank Balances

- 31.96 Statement "A" of the Public Accounts records the General Ledger Cashbook Balances as at the 31st December 2004.
- 31.97 Movements in the Bank Account Balances are updated monthly and documentary evidence consisting of Bank Statement balances, Confirmation Certificates and Bank Reconciliations provided by the various agencies, arms and entities of Government which operate the various bank accounts.
- 31.98 It is axiomatic that the contents of Statement "A" will only be as accurate as the primary documentation from which the Statement is compiled.
- 31.99 It is apparent to this Committee that in the absence of accurate, timely and detailed accounts and records submitted by various agencies, arms and entities of Government, that Statement "A" has been heavily qualified by the Auditor General. This qualification is proper and accepted by the Committee.
- 31.100 In 2004, Statement "A" showed that funds totaling K 173,633,032 were overdrawn against the Bank Accounts maintained with the Bank of Papua New Guinea.
- 31.101 This represented an increase of K 20,630,754 when compared with the previous year's overdrawn funds of K 153,002,278. The comparison of the closing balances as of the 31st December 2004 compared with the previous years closing balances shows:

Account Description	2004 [K]	2003 [K]
FCB-RPM Account	646696	2243443
Waigani Public Account	72857	-25776844
Public Curators Bank Account	31036	268865
Land Acquisition Trust Account	0	24681
Technical Assistance Management Facility	100	100
STABEX Guarantee Trust Account	47654624	47654624
Public Sector Training Project [IBRD]	1400	56868
Temporary Advance – BPNG	-1307190	-25585410
World Bank Land Mobilisation Project [Counterpart Fund]	52154	52154
Central Province RPM Account	1152181	786288
Central Province Operating Account	738790	1104020
Cash Book Balance Drawing Accounts [Previously described as Un-presented Cheques]	222675880	153831067
Total	173,633,032	153,002,278

31.102 The figures contained in the Table (above) show a mix of Cashbook balances and Bank balance. With the exception of the un-presented cheques, totaling K 222,675,880, the correct presentation is to show the Cashbook balances.

31.103 The Auditor General has expressed concern with the lack of compliance with proper cash reporting practices and policies. This is not the first time that that Statement has been made by the Auditor General but the Public Accounts are still presented in 2004 in a manner which is not reflective of proper practice.

31.104 The explanation for each of the items in the Table are:

FCB – RPM Account – Balance K 646,696.

- The Bank Confirmation received shows a nil year end balance in 2004 – however Note 13.1 discloses K 646,696 as the closing balance.
- The Department of Finance has explained the disclosure of K 646,696 represented the Cash Book balance of the account.

Waigani Public Account – Balance K 72,857 Dr

- The Bank balance was nil as at September to 31st December 2004. However the K 72,857 represents the 2004 closing Cash Book figure. The temporary advance of K1.307 million is not taken into account when performing the bank reconciliation. The Waigani Public Account disclosure should be K1.234 million overdrawn.

Public Curators Bank Account Balance

- The Account has a bank balance of K31,36 as of the 31st December 2004 but the Cash Book figure should be shown instead of the balance.

Land Acquisition Trust Account – Balance – Nil

- The figure of K 24,681 disclosed as the 2003 closing balance has been absorbed during the year 2004 and reported a nil balance as at year end.

STABEX Guarantee Trust Account – Balance – K 47,654,624

- This Trust Account is a deposit account with the Bank of Papua New Guinea and is used as collateral by the Bank when guarantees are provided to commercial banks that give loans to Commodity Boards to maintain price stabilization.
- While the figure of K 47,654,624 agrees with Bank confirmation figures, no interest has been paid on the Funds since the opening of the Account.
- The Auditor General recommended that the Department of Finance should establish a policy in respect of accounts maintained and of interest accruing on deposits.
- The Committee agrees with this recommendation and has made comment in respect of this and other Trust Accounts elsewhere in this Report.

Public Sector Training – Balance – K 1,400

- This is not a Cashbook figure and is therefore incorrect.

Temporary Advances – Balance – K 1,307,190

- By Section 224(4) of the ***Central Bank Act***, the Minister for Finance is empowered to accept temporary advances from the Bank of Papua New Guinea to assist in funding the Public Account.
- In 2003, the advance was K 25,585,410 and this was reduced to K 1,307,190 in 2004.
- This advance is to facilitate an automatic Overdraft when the Waigani Public Account is about to become overdrawn. As a result, the Waigani Public Account should never have a negative bank balance. In view of such an arrangement when reconciling a Bank Account, the advance should be considered as part of the Bank balance.
- The Auditor General concludes that this amount should not be included in the Bank balances disclosed as only Cashbook balances should be accounted for and this Committee agrees. This means that the Bank Reconciliation for the Waigani Public Account has not been performed correctly. This is a serious failure.

**World Bank Land Mobilisation Project Counterpart Funding –
Balance K 52,154**

- The balance held in this Account seemingly receives no interest. The Department of Finance once again has not ensured that interest is brought to account from the

inception of the Account and this Committee was unable to establish if interest is being paid at all.

- Like so many other Trust Accounts, the Department of Finance has no apparent policy and no oversight of interest payable on such accounts. If such policies exist, the Department did not produce them to this Committee.

Drawing Accounts – K 222,675,880

- The total of all unpresented cheques in all the various Departmental Drawing Bank Accounts as at the 31st December 2004 is K 222,675,880 – See Note 13.1. This is an increase of K 68,844,813 from the 2003 of K 153,917,215
- The Auditor General reports that this figure was not supported by any detailed listing of what comprised the figure to enable audit verification.
- Once again, detailed audit checking of a sample of 19 Departments year end unpresented cheque figures as shown in the respective year end Bank Reconciliations, have noted significant differences between Departmental records and those included in Statement “A” which require to be resolved in the preparation of the 2005 Public Account Financial Statement.
- The results of the Audit are:

Department	Cash book balance at 31/12/04 [Department's record] K	Un-presented cheques as per Finance Statement "A" K	Un-presented cheques as per Department's records K
Agriculture and Livestock	2,525,866	-174,000	162,437
Health	115,753,081	37,474,000	3,826,598
Police	-312,426	813,000	1,190,476
Education	16,146,025	-960,000	3,378,071
Correctional Services	-2,932,859	261,000	739,544
Personnel Management	-19,528,291	-1,193,000	2,784,225
Lands and Physical Planning	-750,050	91,000	127,474
Transport	-765,234	-104,000	150,793
Prime Minister's	-2,700,666	-2,386,000	2,700,306
Provincial Affairs	-8,939,602	903,000	1,235,438
Commerce and Industry	1,429,869	100,000	106,609
Attorney Generals	5,084,818	-1,441,000	1,412,413
Environment and Conservation.	-511,288	58,000	151,433
Home Affairs and Youth	-6,604,155	-218,000	130,202
Electoral Commission		-5,200,000	6,660,950
Petroleum and Energy	-7,581,275	428,000	1,743,456
Higher Education	-15,491,379	-1,279,000	1,694,828
Mining	-1,128,683	13,000	580,87
Finance and Treasury	284,157,075	- 33,150,000	136,269,538
Grand Total	346,521,282	-18,955,200	16,5045,778

31.105 The Public Accounts Committee has carefully considered the responses of the Department of Finance given to the Office of the Auditor General. The Auditor General reports the responses as follows:

"The un-presented cheque balances for various Departmental Drawing Bank Accounts represents

***normal situations where the Departments
Drawing Accounts:***

- ***Were debited and in an overdrawn position when the cheques were presented that BPNG stop the debits on the Bank Statements awaits to be reimbursed by WPA Bank Account so when reimbursed, the debits get cleared reporting with nil balance.***
- ***The positive unrepresented cheque balances for various Departments Drawing Bank Accounts represent fraudulent cheques presented at BPNG and honored through the respective Departments Drawing Bank Accounts. Although these cheques were honored and appeared on the Department's Drawing Account through DDA Bank Statements, they were not recorded in the Department's Cashbook and Ledgers as they were raised outside the system fraudulently.***

31.106 This extraordinary admission, if it is correct, is confirmation that the accounts and records are not maintained on a Cash Receipt and Payments basis and admits to the payment of fraudulent cheques – which by any measure, suggests a widespread fraud committed on the State with immunity and impunity.

31.107 The Auditor General further reports:

"This explanation raises the issue of why the Department of Finance and the appropriate Departments have not pursued parties involved in fraudulent activities, including the Banks, for restitution".

The Department of Finance has changed the total unrepresented cheques figure (now disclosed as Cashbook balances of Drawing Accounts) three times during the course of Audit and has submitted K 222,675,880 as its final figure.

In the absence of any reconciliation prepared and/or presented for Audit by the Public Accounts Division, it was not possible to verify the figures or to determine whether the amount of K 222,675,880 is correct or is an amount used to balance the accounts".

This Committee accepts those comments.

31.108 This is a serious finding and one which is ample testament to the inability of the Department of Finance to competently fulfill its mandate and strongly suggests that the Public Accounts are amended in the interests of a bottom line balance rather than accurately reporting the true state of affairs to Government.

- 31.109 How an enormous amount of Public Money can be varied or altered to the point where it is of virtually no reliability and a bland admission of fraudulent activity on the State can be made by the very Department which is responsible for controlling public accountability and the use of public funds, money and stores is yet another example of failure by the Department of Finance.
- 31.110 This Committee goes further. The failure, incompetence and ineptitude manifest by the Department of Finance in 2004 is merely a reflection of virtually every other Department, arm, entity or agency of Government and this is an extremely serious situation.
- 31.111 Clearly, Papua New Guinea needs assistance on an urgent basis. Without foreshadowing Committee dealings, the 2006 Part 1 Report of the Auditor General for that financial year shows no improvement and we expect the same to be the case in 2007.
- 31.112 This Committee proposes to make some recommendations and referrals which may assist the process of rebuilding of fiscal accountability, later in this Report.

Bank of South Pacific Limited

- 31.113 The Auditor General has conducted an examination of public money held in the Bank of South Pacific Limited.

31.114 As at 31st December 2004 184 Trust Bank Accounts were held at the BSP with a positive balance of K343,649,027 held in that Bank. The accounts were:

No. of Accounts	Account Description	2004 K	2003 K	2002 K	2001 K
13	Members of Parliament District Development1	634	16,733	23,781	46,582
1	19 Provincial Treasuries and 19 RPM Account Balances	90,297	41713	16,589	-29,086
170	All Other Accounts	252,718	111,700	111,700	86,469
184	Total	343,649,027	202,668	152,070	103,965

31.115 The Auditor General was clearly able to identify K 4,724,720 as being represented by the balances of Receiver of Public Monies Accounts from 19 provinces.

31.116 The balance of K 85,572,280 for the Provincial Treasuries Bank Accounts is a mix of Provincial Government and National Government Funds and neither the Auditor nor the Department of Finance could accurately trace the State's share.

31.117 Tracing of accounts and monies are the most basic of Trustee obligations and one which the Department of Finance should strictly enforce.

31.118 Remittances of Provincial Government Grants are recognized as expenditures and disclosed in Statements "B" and "L" of

the Public Accounts Financial Statements. Provincial Governments Account for these funds as "**National Government Grants Revenue**" and at the end of the year, they form part of the Revenue Statement of the Provincial Government's Financial Statement.

- 31.119 The Auditor General finds (and this Committee agrees) that to account for the year end Bank balances of K 85,572,280 for the Provincial Treasuries Operating Account in Note 13.2 of the Statement "A" is incorrect, and amounts to double accounting of these amounts. As a result, Statement "A" is overstated to that extent.
- 31.120 The Auditor General notes that this issue has arisen in Audit Reports since 1997 and again during the 2004 Audit.
- 31.121 Further, all balance of deposits in the Provinces RPM Bank Accounts are to be remitted to the Waigani Public Account but 18 Provinces have not done so as at the 31st December 2004.
- 31.122 The Department of Finance appears to have finally taken heed of the Auditor General's Report. The Department has reported to the Auditor General:

"Finance has now prepared instructions for the Bank of South Pacific that require the Bank to automatically sweep RPM Account Bank balances into the WPA on a fortnightly basis to ensure collections are transferred in accordance with the requirements."

- 31.123 This Committee intends to reconsider this issue in 2005 and 2006 when it considers the Part 1 Reports for those relevant financial years.

Finance Operating Account

- 31.124 Various adjustments were identified by the Auditor General to the 2003 Closing Balances of the eight types of Advance Accounts disclosed in that years Statement "A" under Note 5.1.
- 31.125 In 2004 the Closing Balance was stated as a payable balance of K 46,044,235. All balances of the four areas of Finance Officers Advances, the Works Receivables and the Special Pays Accounts Balances for 2004 were adjusted in 2003 to correct fundamental errors in accounting and described as being made to correct errors in past years. These accounts have balances in 2004 as disclosed in Note 6.1 of Statement "A".

These were:

Area Finance Officers – Konedobu, Lae, Rabaul and Goroka;

- 31.126 The Auditor General reports that corrected balances carried forward, subsequent to adjustments, were to be reviewed with the objective of writing off the amounts.

31.127 However, the balances have actually increased during 2004 which suggests that no review has taken place. The reason for this or why there are movements in the balances not disclosed by way of a Note or Account to audit – and they should have been – is unknown.

31.128 The Department of Finance response is uncharacteristically candid. The Department states:

"Problems with the existing balances of these accounts reflect a history of poor accounting practices, poor management and a lack of resources across the GOPNG Public Sector. Following further discussions with the AGO Finance now intends to undertake a comprehensive review and reconciliation of all balance sheet balances during the next year. This review will require the cooperation of all Government Departments".

31.129 This Committee intends to revisit this issue in its Inquiries into the 2006 – 2007 Part 1 Report of the Auditor General.

Pay Roll Salaries Receivables/Payables

31.130 The Auditor General finds that the Pay Roll Salaries Receivable figure of K 537,059 was brought forward from 2003 and disclosed in Note 6.1. This amount has been

absorbed during the year under review and a Salaries Payable figure of K 171,671 is reported as the 2004 Closing Balance.

- 31.131 No explanation is available as to why this Account exists or why the Account is presented as payable.

Special Pays

- 31.132 The Special Pay receivable balance was K 1,125,208 as at the end of 2003. This had increased by K 224,734 to K 1,349,942 at the end of 2004.

- 31.133 Again, no explanation has been provided by the Department of Finance as to why this Account exists or why the Account is presented as receivable. The amount should not be included in the Cash Balance figure.

Works Receivables Payables Clearance Account

- 31.134 This Account has an overdrawn balance of K 332,772 as at the 31st December 2004 but is described in Note 6 of Statement "A" as an Account Payable.

- 31.135 Substantial receipts and payments of K 288,768,000 and K 292,964,000 were recorded for the year 2004 in respect of this Account.

- 31.136 There was no explanation as to why this Account exists or why the Account is presented as payable or why it presents part of the Cashbook balance.

31.137 The Committee sought explanation from the Department of Finance but received no response.

Bank of PNG Receivable/Payable

31.138 This Account is comprised of the Cash Adjustment Account and thirteen other accounts. Receipts for the year under review totaled K 120,664,000 and payments totaled K 65,510,000. The Auditor General makes the following comments as to the constituent accounts:

Cash Adjustment Account:

31.139 The Auditor General concludes that this Account:

"...appears to be a clearing account to bring to account Cash Transactions and to provide an avenue to balance the books. It includes some amounts due to the State and some amounts due and payable by the State. It facilitates irregular transactions and holds amounts that should be disclosed elsewhere other than these financial statements".

31.140 The Auditor General concludes, and this Committee agrees, that the inclusion of receivables and payables in the Financial Statements is improper and distorts the Cash Balances in Statement "A". The Auditor General provides the following Table as evidence of that distortion:

Description	K
Increase in cash as per Statement "D" 31/12/2004	184,553,000
Balance of each as per Statement "A" 1/10/2004	98,029,185
Should equal Statement "A" 31/12/2004	182,582,185
Statement "A" Balance 31/12/2004	131,396,224
Difference Statement "A" understated	51,185,961

"This discrepancy indicates that the Books of Account cannot be relied upon (Committee emphasis) to provide a clear and accurate account of the transactions of the State."

31.141 The Auditor General concludes that Cash Adjustment Accounts shows a total of K 3,143,500 with due and receivable whilst K 77,417,313 was due and payable with a net payable balance of K 74,273,813.

31.142 The Auditor General concludes that these amounts should not be included in the Financial Statements – See Appendix 1 of Part 3 of the Financial Instructions. This Committee agrees.

31.143 The Department of Finance has explained this and other discrepancies or incorrect entries as **"... consistent with the practices and policies adopted in the preparation of the Public Accounts for previous years"**.

31.144 The plain fact is that this is a breach of lawful requirement that should not occur. Uncaring repetition of a system

irrespective of its legality or efficacy shows inept and careless management by the Department of Finance. We intend to revisit this issue in our 2005 and 2006 Public Account Inquiries to ascertain improvement.

Overpayments required to be Refunded – K 3,143,500

- 31.145 These overpayments made by the Department of Finance in excess of authorized amounts due and payable to recipients/departments/organizations from the Consolidated Revenue Fund, are to be refunded to Consolidated Revenue Fund and not shown as receivables. They should not form part of the Statement "A" balances.
- 31.146 The Auditor General finds that these long outstanding accounts may not be recovered in the foreseeable future and should be removed from the Cash Adjustment Account and disclosed in separate Statements to report receivables.
- 31.147 This Committee agrees with this conclusion and will make recommendations in this regard.

Differences in Grants to National Parliament

- 31.148 Over-expenditures by the National Parliament were transferred out of the expenditure vote in 2003 and disclosed in that year under the Cash Adjustment Account as payable. The debt was settled in January 2004 using the 2004 allocation.

- 31.149 Such treatment defeats the budgetary system and the cash basis of accounting since the current year's over expenditures were accounted as receivables and used subsequent year's funds/appropriations to settle.
- 31.150 Further, K 270,000 was transferred by a Journal Entry to the National Parliament in period 13 to increase its expenditure. This resulted from a Warrant Authority issued for K 1,520,000, but only K 1,250,000 was remitted. The Warrant lapsed on the 31st December 2004 which means that the payment of K270,000 made in 2005 was illegal.
- 31.151 This is not the first time that the National Parliament has been the subject of such findings.
- 31.152 If the National Parliament cannot obey and apply the laws of fiscal accounting why should any other Department, arm or entity of Government be expected to do so?
- 31.153 The National Parliament must discipline itself and apply rigor in its financial and fiscal dealings to ensure that its fiscal performance is an example and that it properly and honestly accounts for monies received.

Difference to Grants to National Forest Authority – K 122,400.

- 31.154 An amount of K 122,400 was transferred to Vote 557 - National Forest Authority by a journal entry. This was paid to the NFA on the 10th January 2005 and overstates Statutory Institutional Grant expenditure by that amount in 2004. This

action also defeats the cash basis of accounting principles whereby appropriations lapse at years end.

- 31.155 This Committee finds no explanation for this conduct. The Department of Finance provided no assistance or reasons and ignored Committee requests for information.

December Grant for NJSS and DSG Non Discretionary.

- 31.156 Similar treatment of K 2,303,300 of Grants due and payable to the National Judicial Services also defeats the cash basis of accounting principles.
- 31.157 Similar conduct in respect of DSG Non Discretionary Funds also defeats the cash basis of accounting principles.
- 31.158 This Committee can ascertain no reasons for these lapses and must again assume that the Department of Finance response to the Office of the Auditor General, to the effect that this is the way things have always been done, is the only explanation.

Various LLGs from different Provinces.

- 31.159 Funds due and payable to various Local Level Governments from different Provinces were disclosed as K 2,424,900 **and** K 6,229,800 instead of being combined together. This treatment distorts the cash balance figure in the Financial Statements and is unacceptable.

Finance Miscellaneous Vote 207

- 31.160 An amount of K 56,227,137 charged to Miscellaneous Vote 207 results from a period 13 Journal Entry while the corresponding credit went to Cash Adjustment Account No. 31 – 003.
- 31.161 The Department of Finance has justified this treatment as payments made to POSF in 2005 but accounted for in 2004 since the Government has owed POSF a substantial debt at the end of 2004.
- 31.162 The Auditor General finds that this treatment has defeated the cash basis of accounting whereby all expenditure is to be recognized and accounted for in the year of payment. It also defeats the Government Budgetary process whereby appropriations lapse at the end of the financial year.
- 31.163 The result is that total expenditure of K 528,963,170 charged to the Miscellaneous Vote 207 in 2004 has exceeded the Appropriation Act of K 355,569,000 by K 173,136,033 **(49%)!**
- 31.164 This transfer has contributed to that over expenditure by K 56,227,137 or 16% over the amount appropriated by Parliament and distorts the year end balance figure.
- 31.165 There is no immediately ascertainable reason why this should have occurred. Questions were directed to the Department of

Finance and to the Auditor General to ascertain the reasons for this.

31.166 We can only conclude that the result must have been intentional, but neither the Auditor General nor this Committee can ascertain why that should be so.

31.167 This Committee received no assistance from the Department of Finance in this regard despite extending the opportunity for assistance.

Receivables and Payables for Bank of PNG excluding Cash Adjustment Account

31.168 Total receivables for the year 2004 increased by K 8,138,988 while payables have increased K 2,535,154 – a net receivable of K 5,603,834 being the result.

31.169 These amounts are not cash and as such should not have been included in the Financial Statements. The effect of this was to overstate cash balances of the State.

31.170 What then is the true situation? What are the cash balances of the State? Neither Treasury nor the Department of Finance were inclined to assist this Inquiry to find the truth of this matter.

31.171 We are left in a position where this information is hidden both from the Auditor General, the National Parliament and

therefore from the Executive which is ultimately responsible for fiscal management by Government.

Cash in Transit

31.172 Cash in Transit balances disclosed in Statement "A" against the Four Area of Finance Offices aggregate K 329,149.

31.173 The four Area Finance Offices were closed some years ago. The reporting and treatment of cash in transit over the period since that closure defeats the meaning of "Cash in Transit" in that, the cash that is in transit must arrive at its destination at a point in time.

31.174 Whatever these balances represent, they need to be considered and disclosed appropriately and not described as Cash in Transit. The Auditor General finds that accounting disclosures over the years were not sound and also not consistent with cash basis of accounting practices.

31.175 The Committee accepts those findings as reasonable and correct.

31.176 The Auditor General states that his Office is concerned that these amounts represent unbudgeted expenditure that has not been properly brought to account.

31.177 This Committee notes the response from the Department of Finance, viz:

"Problems with the existing balances of these accounts reflect a history of poor accounting practices, poor management and a lack of resources across the GOP and the Public Sector. Following further discussions with AGO Finance now intends to undertake a comprehensive review and reconciliation of all balance sheet balances during the next year. This review requires the cooperation of all Government Departments".

- 31.178 This explanation clearly shows that the problems and failures across the entirety of Government are well-known to the Department of Finance but only in 2005 will a review commence to rectify these problems after years of adverse comment by the Auditor General.
- 31.179 This Committee finds the assurances that action is imminent and finances to be meaningless. We see no improvement in 2005 and the 2006 Part 1 Report equally suggests that there is no improvement of consequence.
- 31.180 Once again, this Committee sought assistance from the Department of Finance to understand exactly how and to what extent reforms and restructuring of accounting practices is, or will be, carried out by that Department.
- 31.181 This Committee received no assistance or response from the Department of Finance.

- 31.182 We can only conclude from this silence that the Department of Finance is devoid of policies, programmes or plans for improvement. If such restructuring or rehabilitation was occurring, surely the Department would be eager for the Committee to be told.

LOSSES AND DEFICIENCIES

- 31.183 Note 7 discloses losses and deficiencies of public monies and property totaling K 87,860 as reported by the Inspection Branch of the Department of Treasury.
- 31.184 However, losses reported in Departmental Audit Management Letters amount to K 3,251,814 and, in the experience of this Committee, are very considerably more than that.
- 31.185 Departments do not maintain Asset Registers and it is not possible to determine whether or not losses have occurred. The collapse in public accountability renders it impossible to know to what extent public monies or property are lost or in some way deficient and to trace where and how these losses were incurred.
- 31.186 Indeed, it is impossible to know what stores or property actually exist or where they are. The following exchange between the Committee and the Auditor General illustrates the point:

"Hon. Malcolm Smith-Kela MP:

You refer to PNG Power (sic) does not maintain an asset register. Does that mean that the assets owned and operated by PNG Power cannot be identified ?...

The Auditor General:

Mr. Chairman, those assets of PNG Power are reported as investment in the Public Accounts. And if they do not maintain these records and if the records are not updated, then it is difficult accepting that figure sitting in that investment”.

- 31.187 Audit did reveal that obsolete stores have been written off by the Health Department at nil value, but these should have been written off for the purchase price.
- 31.188 This Committee agrees with the conclusion of the Auditor General that the amount disclosed in Note 7 is very substantially understated and does not begin to grapple with the extent of misappropriation, theft or loss, fraud, deficiency or depletion of public monies, property and stores.
- 31.189 The Committee asked the Department of Finance to explain this situation and to state policies and programs intended to remedy the failure.
- 31.190 We received no response.

TEMPORARY FINANCING OF PUBLIC ACCOUNT

31.191 The Public Accounts disclose that K1.307 million is the temporary advance outstanding as at the 31st December 2004 (Note 8 of Statement "A".)

31.192 The Auditor General concludes that this figure forms part of the Bank balance when performing the Bank/Cash Reconciliation. As such, only the Cashbook balance should be included in the Statements. This Committee agrees with that conclusion

INVESTMENTS:

31.193 The Auditor General has considered total investment, capital contribution and Equity Option Rights as at the 31st December 2004 which are meant to be disclosed in Statement "F".

31.194 He concludes:

"The value of the investments listed in Statement "F" as at 31st December 2004 are considerably understated when compared with the amounts with money including or concerning financial statements of the companies in which the State has equity. Also there are instances where there are no disclosures of investments held. Prior to submitting financial statements for Audit, the

value should be compared with other relevant information to obtain more accurate values”.

- 31.195 The quality of the original Statement “F” submitted to the Office of the Auditor General was poor and contained errors and omissions.
- 31.196 This is a serious matter. The Department of Finance and/or the Department of Treasury maintained no Register of Investments, Guarantees, Trust Instruments, Trust Accounts or asset lists.
- 31.197 How can the Public Accounts be considered reliable to any degree in the absence of these basic accounting records? Further, how can Government possibly, plan, budget or understand what it owns or what it owes in the absence of this information?
- 31.198 These are matters of very urgent national importance. The Departments of Finance and Treasury have failed in their obligations to maintain or enforce the keeping of these records or have failed or refused to produce them to this Committee or to the Auditor General.
- 31.199 The result is a distorted and unreliable Statement of the Public Account.

PERIOD 13 ADJUSTMENTS

- 31.200 An examination of the Summary of Journal Entries Listing (TMS – 315) has revealed to the Auditor General that manually raised journal entries for Period 13 were batched into 106 batches and posted. Twenty of these journal entries amounting to K 897,183,268.03 have not been furnished for Audit purposes.
- 31.201 Further, year end adjustment journal entries are of very significant amounts – in total **K3.496 billion** and are of concern to the Auditor General and this Committee.
- 31.202 This figure represents a significant increase over the K 840 million adjustments made in 2003 and this Committee has been completely unable to understand or ascertain why this was done.
- 31.203 The Department of Finance and the Department of Treasury has deliberately obstructed this Inquiry in this and other respects. No information or data was provided despite requests from the Committee and the entire treatment of these huge sums is rightfully found by the Auditor General to be highly suspicious and virtually inexplicable.
- 31.204 Further, journal entries examined by the Auditor General were not all related to period 13. Some related to earlier periods that were not adjusted correctly or in a timely manner resulting in the creation of a backlog of adjustments to be passed in Period 13.

- 31.205 There is no reconciliation process between PGAS and PMS ledger systems and the huge amount of money involved suggests something more than incompetence.
- 31.206 The Public Accounts Division of the Department of Finance should ensure that appropriate adjustments required to be passed throughout the periods (Period 1 – 12) are passed immediately in those periods to ensure that the correct financial positions are consistently maintained throughout the year.
- 31.207 Period 13 should only be genuine year end adjustment journal entry and should assist in ensuring that only payments appropriated by Parliament are made.
- 31.208 Whilst we could not obtain specific explanation from the Department of Finance, this Committee believes that this conduct has occurred to hide or explain away improper, unbudgeted, inappropriate and unlawful payments of huge amounts of public money.
- 31.209 If our suspicions are incorrect, why has the Department of Finance or Treasury not provided explanations to either the Auditor General or this Committee?
- 31.210 It is notable that all journals were authorized by Department of Finance and not by authorizing officers of the Departments affected. Accountability for expenditure does not therefore rest with the affected Departmental Heads but with the

Department of Finance – which this Committee finds failed to carry out its obligations properly or at all.

- 31.211 Further, an examination of TMS – 315 Printout revealed that significant numbers of Period 13 journal entries were not sighted in the TMS Listings.
- 31.212 Narrations given in respect of 45 Journal Transactions were not adequate. They did not describe the nature of transaction/situations to support the passing of these journal entries and did not enable Audit to verify the accuracy of the journals.
- 31.213 The Auditor General sought further explanation during the Audit in order to understand the accuracy of the journals but no response was received from the Department of Finance. It is notable that the amount concerned in these matters was a staggering **K 2,757,492,824.00**.
- 31.214 If any illustration was required of the failure and incompetence of the Department of Finance – this is it. The National Parliament must take immediate steps to bring this Department and/or the Public Service under some form of effective control with the aim in mind of:
1. Rendering the Public Accounts of the Government of Papua New Guinea relevant, believable, accurate and reliable; and

2. Managing and applying public monies to the benefit of the Nation and in a legal and accountable fashion.

31.215 It is inconceivable to this Committee that a figure of K2.7 billion could require adjustment in Period 13.

31.216 Despite a very detailed request for information from the Office of the Auditor General, the Department of Finance comment was as follows:

"We have now implemented improved controls over the quality of journal documentation".

31.217 This dismissive, meaningless and unresponsive answer was itself the subject of inquiry by this Committee. What does it mean? What improvements have occurred? How, when and where were they deployed and with what results? If these control improvements have been made, why does the situation that prevailed in 2004 also exist in 2005?

31.218 These are important matters but this Committee received no assistance whatsoever from the Department of Finance in this, or any other regard.

31.219 In the absence of assistance from the Department of Finance, this Committee can only conclude that there are, in fact, no improved controls and that the problem found by the Auditor General remains unaddressed.

TRUST FUND SUSPENSE ACCOUNT NO. 2.

- 31.220 This Committee has already addressed the audit limitation arising from Trust Fund Suspense Account No. 2 but we now consider in more detail the use of that Account by the Department of Finance.
- 31.221 This Account was intended as a temporary holding account to cater for transactions such as bail money and child maintenance receipts and payments and is a Non-Bank Trust Fund Suspense Account.
- 31.222 From 2000 onwards this Account appears to have been used at the discretion of Officers of the Department of Finance for purposes other than for which it was established. This misuse continued unchecked and uncontrolled and grew to huge proportions.
- 31.223 The Account should probably never have more than K 600,000 in any Financial Year if it had been operated properly and in accordance with its Trust Instrument.
- 31.224 In 1999, receipts were K 18,266,00. In 2000 receipts were K 31,683,000. In 2001 receipts were K 123,693,000. In 2002 receipts were K 52,154,000. In 2003 the Account received K 121,651,000 and in 2004 receipts were **K 308,668,000**. In 2005 the account received K 110,272,149.
- .
- 31.225 It is perfectly clear to this Committee that this Account was used as a conduit for misappropriated and illegally applied monies at the complete discretion of unelected and

unrepresentative officers of the Department of Finance who had long ago abandoned any pretence of obeying the law relating to appropriation of or accounting for public monies.

- 31.226 So complete was this misconduct of the Department of Finance that Audit was unable to determine whether a credit existed for the majority of payments made from the Account as subsidiary records were not maintained to track the withdrawals.
- 31.227 In the opinion of this Committee, the absence of accounts and records was intentional.
- 31.228 Not only was the conduct of this Account a breach of the Trust Instrument, it is also a breach of Trustee obligations under the ***Public Finance (Management) Act 1995***, the ***Constitution of the Independent State of Papua New Guinea*** and, quite possibly, the ***Organic Law on Leadership*** and/or the ***Criminal Code Act***.
- 31.229 If this Parliament requires proof of the depths to which handling of public monies had sunk by 2004, Trust Fund Suspense Account No. 2 provides it.
- 31.230 Illegality and misappropriation on a truly colossal scale are revealed through the operation of this Account with no apparent attempts to stop it despite warnings from the Auditor General for the last five years.

31.231 What was particularly disturbing to this Committee was the casual and confident manner in which acts of financial illegality were performed by the very Officers charged with protecting and accounting for public monies.

31.232 Considering the size of the defalcation identified by the Auditor General it is clear that these Officers had absolutely no fear of detection or punishment from any quarter. This bespeaks a corruption and collapse of national law enforcement and oversight, of the gravest kind.

31.233 The Auditor General has conducted a reasonably deep examination of Suspense Account No. 2 and the following results are endorsed by this Committee.

Analysis of Receipts

31.234 The Auditor General conducted an examination of individual receipts of K 20,000 and above to ascertain how funds been accumulated in Suspense Account No. 2 and used to make payments. A list of those receipts follows:

Suspense Account No. 2 Receipts over K20,000

<u>RECEIVED FROM</u>	<u>DATE</u>	<u>TYPE</u>	<u>TRANSACTION DESCRIPTION</u>	
SGT.KUDAN N	30-12-2004	CS	1-268 460 - 31	REPAID CHQ -20,021.56 CR
			BPNG 745568	
SGT. KEITHY C	30-12-2004	CS	1-268 "	REPAID CHQ -20,180.88 CR
			BPNG 745559	
SGT. LEO P	30-12-2004	CS	1-268 "	REPAID CHQ -20,180.88 CR
			BPNG 745573	
SGT. AKUILA B	30-12-2004	CS	1-268 "	REPAID CHQ -20,180.88 CR
			BPNG 745530	

WO SAESE	30-12-2004	CS	1-268	"	REPAID CHQ	-20,188.84 CR
				BPNG 745500		
SGT. KILORI L	30-12-2004	CS	1-268	"	REPAID CHQ	-20,400.66 CR
				BPNG 745562		
SGT.RUPEN P	29-12-2004	CS	1-267	"	REPAID CHQ	-20,400.66 CR
				BPNG 745523		
SGT. TOVUE H	30-12-2004	CS	1-268	"	REPAID CHQ	-20,461.11 CR
				BPNG 745511		
SGT. SUAT L J	30-12-2004	CS	1-268	"	REPAID CHQ	-20,620.43 CR
				BPNG 745506		
SGT.WUAK S	29-12-2004	CS	1-267	"	REPAID CHQ	-20,620.43 CR
				BPNG 745521		
SGT. KAIPU A	30-12-2004	CS	1-268	"	REPAID CHQ	-21,090.79 CR
				BPNG 745553		
WO KUMANG A	30-12-2004	CS	1-268	"	REPAID CHQ	-21,803.32 CR
				BPNG 745570		
WO. KASI A	30-12-2004	CS	1-268	"	REPAID CHQ	-21,814.09 CR
				BPNG 745557		
WO.MOVA J	29-12-2004	CS	1-267	"	REPAID CHQ	-21,814.09 CR
				BPNG 745578		
WO. JINAGI F	30-12-2004	CS	1-268	"	REPAID CHQ	-22,047.93 CR
				BPNG 745549		
WO. HANAROMO F	30-12-2004	CS	1-268	"	REPAID CHQ	-22,047.93 CR
				BPNG 745543		
WO.MORGAN S	29-12-2004	CS	1-267	"	REPAID CHQ	-22,058.71 CR
				BPNG 745577		
WO.POWE J	29-12-2004	CS	1-267	"	REPAID CHQ	-22,292.56 CR
				BPNG 745588		
	29-12-2004	CS	1-267	"	REPAID CHQ	-22,292.56 CR
CWO PISSA M				BPNG 745586		
WO.WAKUP T	29-12-2004	CS	1-267	"	REPAID CHQ	-22,303.32 CR
				BPNG 745517		
WO PEPE M	30-12-2004	CS	1-268	"	REPAID CHQ	-22,537.18 CR
				BPNG 745441		
WO KUMUN CASPAR	30-12-2004	CS	1-268	"	REPAID CHQ	-22,781.80 CR
				BPNG 745571		
WO RAY R.M.	29-12-2004	CS	1-267	"	REPAID CHQ	-23,840.29 CR
				BPNG 745498		
CWO COOMER J.M	30-12-2004	CS	1-268	"	REPAID CHQ	-24,103.12 CR
				BPNG 745534		
CWO. MARNUT P	29-12-2004	CS	1-267	"	REPAID CHQ	-24,726.32 CR
				BPNG 745576		
L G Construction	4-11-2004	CQ	79433	Auth. Cancellation		-24,928.59 CR
			3			
JEFFREY BERRY	27-08-2004	CS	1-173	REPAID CHQ		-29,500.00 CR
				PNGBC654976 H		
SAGO TRUST	25-05-2004	CS	Jan-99	REPAID CHQ	BPNG	-30,000.00 CR
				16948 H		
	6-07-2004	JE	231	Can.Stale Chq#661782 dated		-41,200.00 CR
				17/10/01		
KEWA LTD	29-04-2004	CS	Jan-76	460 - 130	REPAID CHQ	-46,512.00 CR

BPNG 767952

DISTRICT TREASURER (N/BOUGAINV)	3-09-2004	CS	1-185	267-3909-1210-143 REPAID CHQ BPNG	-50,000.00 CR
	2-08-2004	CS	1-152	785343 " REPAID CHQ BPNG 785344	-50,000.00 CR
DISTRICT TREASURER (S/ BOUGAIN DISTRICT TREASURER (ANGORAM) GOBE LEADERSHIP COMMITTEE PROVINCIAL TREASURER	8/10/2004	CS	1-160	" REPAID CHQ BPNG 785362	-50,000.00 CR
	21-09- 2004	CS	1-196	460 – 130 REPAID CHQ BPNG 788493	-50,000.00 CR
	31-08- 2004	CS	1-175	267-3909-1210-143 REPAID CHQ BPNG	-50,000.00 CR
SIMON KERA	16-04- 2004	CS	Jan- 67	785380 C/MAINTENANCE ANZ 000168 H	-50,688.09 CR
	19-02- 2004	JE	51	TO POST C/S # 1-252 FOR A SERIES CORRECT	-50,779.97 CR
	28-09- 2004	JE	338	J/E to effect Feb'03 Stale Cheques	-63,570.89 CR
TRUST FUND SUSPENSE (TFS)	21-09- 2004	CS	1-196	207-4201-2107-135 REPAID CHQ BPNG	-70,000.00 CR
	27-05- 2004	JE	184	789995 Transfer of funds used	-80,000.00 CR
D/ADMIN	21-04- 2004	CS	Jan- 70	267-3909-1210-143 REPAID CHQ BPNG	-80,000.00 CR
DISTRICT ADIM (POMIO)	20-01- 2004	CS	6-Jan	735564 " REPAID CHQ BPNG 735525	-80,000.00 CR
DISTRICT ADMIN (ESA-ALA)	15-01- 2004	CS	3-Jan	" REPAID CHQ BPNG 735568	-80,000.00 CR
MUSONERE	29-04- 2004	CS	Jan- 76	460 – 130 REPAID CHQ BPNG 767956	-90,000.00 CR
MAKENA ILG	29-04- 2004	CS	Jan- 76	" REPAID CHQ BPNG 767968	-90,000.00 CR
MUKARD DIPAN	29-04-	CS	Jan-	" REPAID CHQ	-90,000.00 CR

ILG	2004		76	BPNG 767966		
EAST SEPIK PSG T/A	4-06-2004	CS	1-107	460 - 31 REPAID CHQ BPNG 779584		-100,000.00 CR
MACATA ENTERPRISES LTD	3-09-2004	CS	1-185	REPAID CHQ BPNG 784057 H		-100,000.00 CR
DISTRICT.TREASURER (SINASINA)	8/12/2004	CS	1-162	REPAID CHQ BPNG 777372 H		-100,000.00 CR
	8/11/2004	JE	276	Can.Chq#786695 - wrong P/code used		-100,000.00 CR
PROVINCIAL TREASURER	3/11/2004	CS	Jan-43	REPAID CHQ BPNG 6931 H		-100,000.00 CR
DISTRICT.TREASURER (ANGORAM)	8/10/2004	CS	1-160	267-3909-1210-143 REPAID CHQ BPNG		-100,000.00 CR
				777432		
PROV.TREASURER .	28-05-2004	CS	1-102	" REPAID CHQ BPNG 777450		-100,000.00 CR
D/TREASURER - S/BOUGAINVILLE	21-05-2004	CS	Jan-97	" REPAID CHQ BPNG 777414		-100,000.00 CR
DISTRICT TREASURER (N BOUGAINV D/TREASURER	17-05-2004	CS	Jan-88	" REPAID CHQ BPNG 777413		-100,000.00 CR
	21-04-2004	CS	Jan-70	REPAID CHQ BPNG 6855 H		-100,000.00 CR
DISTRICT TREASURER	28-01-2004	CS	12-Jan	REPAID CHQ BPNG 6865 H		-100,000.00 CR
DISTRICT TREASURER (N/BOUGAINV	26-01-2004	CS	10-Jan	REPAID CHQ BPNG 6864 H		-100,000.00 CR
ISAWERI MAKOF ILG	29-04-2004	CS	Jan-76	460 -130 REPAID CHQ BPNG 767965		-144,000.00 CR
	13-05-2004	JE	160	Transfer of funds from court order vote		-200,000.00 CR
	31-12-2004	JE	415	Reversal of incorrect J/Es		-290,748.26 CR
	1-12-2004	JE	383	Rev.of J/E to effect commit.undre c/vote		-300,000.00 CR
General Trust Account	19-05-2004	CS	Jan-92			-301,890.67 CR
PROV.TREASURER (MILNE BAY)	15-01-2004	CS	3-Jan	460 - 31 REPAID CHQ BPNG 739385		-765,981.89 CR
PROV.TREASURER (GLUF)	13-07-2004	CS	1-132	" REPAID CHQ BPNG 739398		-788,188.42 CR
	13-07-2004	CS	1-132	" REPAID CHQ BPNG 739398		-788,188.42 CR
PROV.TREASURER (GLUF)						
PROV.TREASURER	13-07-	CS	1-132	" REPAID CHQ		-788,188.42 CR

(GLUF)	2004			BPNG 739398		
PROV.TREASURER (GLUF)	13-07-2004	CS	1-132	"	REPAID CHQ	-788,188.42 CR
PROV.TREASURER (GLUF)	13-07-2004	CS	1-132	"	REPAID CHQ	-788,188.42 CR
PROV.TREASURER (GLUF)	13-07-2004	CS	1-132	"	REPAID CHQ	-788,188.42 CR
PROV.TREASURER (GLUF)	13-07-2004	CS	1-132	"	REPAID CHQ	-788,188.42 CR
	29-04-2004	JE	136	Transfer from court cases vote		-800,000.00 CR
PROV.TREASURER	6-07-2004	CS	1-127	REPAID CHQ ... 739416 H	BPNG	-898,241.47 CR
TRUST FUND SUSPENSE (TFS)	6-08-2004	CS	1-158	REPAID CHQ 786236 H	BPNG	-1,000,000.00 CR
	18-03-2004	JE	91	transfer of funds from Court Order vote		-1,000,000.00 CR
	27-01-2004	JE	6	J/E to effect can. chq. 744909 & 744912		-1,850,000.00 CR
	1-06-2004	JE	191	Transfer of Funds committed wrongly		-2,256,450.63 CR
	26-08-2004	JE	305	Cancl.Chqs.745587,779933, 37,38,39,40,41		-2,278,987.81 CR
TRUST FUND SUSPENSE	28-01-2004	CS	12-Jan	REIMBURSEMENT CHQ 745334 H	BPNG	-6,000,000.00 CR
	5-05-2004	JE	147	J/E to effect transfer to TFS		<u>-9,684,308.69 CR</u>

TOTAL K 36,437,729

- 31.235 The Auditor General concludes that funds were withdrawn from both expenditure votes and trust accounts to build up funds. This Committee has conducted its own independent examination of the evidence and we agree with that conclusion.
- 31.236 This Committee could not find any basis in law for this concerted misappropriation of money.
- 31.237 We do find that the diversion of monies from those sources to Trust Fund Suspense Account No. 2 was illegal.
- 31.238 A summary of the sources of funding is as follows:

Vote	Type	Number of Receipts	Description	Total Amount K
400-31	Trust	27	Suspense A/c No. 2	6,135,922.75
400-130	Trust	6	Royalty Payments	510,510.00
267-3909-1210-143	Exp	11		840,000.00
207-4201-2107-135	Exp	1		70,000.00
Journal Entries	J/Es	14		18,996,046.25
Unidentified ones	Various	15		9,885,250.65
Total		74		36,437,729.65

- 31.239 The Auditor General makes the following observations in respect of receipts into the Account and this Committee endorses those findings:
- The transfer of funds in the form of cheques and through the raising of journal entries was unlawful. The

money held in the Account was used to meet unbudgeted expenditures and sometimes irregular or fraudulent payments.

The only conclusion to be drawn is that these sums were misappropriated and diverted from the purposes for which they were budgeted and used for personal and unapproved or unbudgeted purposes by Officers of the Department of Finance.

- One receipt of K95,000 received on BPNG Cheque No. 742043 was accounted through a Collector Statement as "3 Jan" instead of being numbered. The receipt was described as being received from Provincial Treasurer Milne Bay and was a repaid cheque. This is incorrect and facilitated the inappropriate use of the Account as there was no corresponding payment.
- An amount of K 788,188.42 described as being received from the Provincial Treasurer Gulf was entered into the Trust Ledger six times (amounting to K 4,729,130.52) thus over-credited by K 3,940,942.10. Audit was unable to determine whether a cheque or journal has been drawn to clear/reverse this credit.
- A receipt of K 898,241.47 was described as being received from a Provincial Treasurer but failed to name the Province. This receipt was also described as a repaid cheque but the Auditor General could not

determine whether a cheque had been drawn to clear the credit.

- A receipt of K1 million by BPNG Cheque No. 786236 was described as being received for Trust Funds Suspense and was a repaid cheque. The Cheque was rebanked and was not drawn from the Trust Fund Suspense Account.

The Auditor General concludes the Cheque must have been drawn from either the Consolidated Revenue Fund or a Trust Fund to qualify for the description of a repaid cheque.

- A cheque for K6 million - BPNG cheque No. 745334 - was not numbered but stated "12 Jan". The receipt was described as being received into the Trust Fund Suspense and was a reimbursement cheque. The Auditor General could not determine whether a cheque had been drawn to clear this credit.

31.240 It is clear that the misuse and failure to keep a record of monies paid into this Account is intentional. It is not consistent with mere negligence.

31.241 Of particular concern to the Auditor General, and this Committee, is the misuse of cheques that have been drawn on the public account and other accounts and not banked by the intended recipient. These cheques are quite illegally banked into the Suspense Account.

31.242 The correct manner to deal with such cheques is to cancel them and make the necessary adjustments to reverse the entry in the ledgers.

31.243 The Auditor General concludes that:

"The current practice facilitates irregular practices that may not be detected. It also overstates expenditure in the Vote where the payment was originally charged."

31.244 This Committee goes further. The misapplication of unbanked cheques into an account operated largely for private, unbudgeted and uncontrolled purposes is utterly illegal and may well constitute criminal mishandling of public monies.

31.245 So complete is the failure of the Department of Finance in the management of this Trust Account that the Account was overdrawn by K 644,972 which indicates firstly that withdrawals could not match the credits and secondly that the Department of Finance neither knew nor cared about its Trustee obligations.

Payments from the account

31.246 Payments were made by senior officers of the Department of Finance without legal foundation and constitutes, in the opinion of this Committee, a major, uncontrolled organized and protected misapplication of public monies. Evidence

received by this Committee shows that officers who were not designated signatories operated the Account.

31.247 It is difficult to overstate the seriousness of these findings or to understand how these practice continued for years despite revelations and warnings by the Auditor General. We can only conclude that no-one in any authoritative position either knew or cared.

31.248 A record of payments over K 20,000 made from Trust Suspense Account No. 2 in 2004 is shown below. When reading this list, Members should bear in mind two things:

1. The purpose of this Trust Account – to receive and hold temporary payments such as bail monies, child maintenance and the like; and
2. The huge amounts paid from this account were for unbudgeted and often illegal payments and made from money, in many instances, diverted from recurrent expenditure such as schools, hospitals and basic services by Public Servants in direct defiance of the Government of Papua New Guinea and therefore this Parliament.

**Analysis of Payments of K20,000 and
over from Suspense Account No. 2.**

	<u>Payee</u>	<u>Date</u>	<u>Type</u>	<u>Chq#</u>	<u>Details</u>	<u>Amount (K)</u>
1006750 20000	District Treasurer (Wewak)	27-10-2004	CQ	793824	Payment of Somare Soccer Tournament	20,000.00 DR

1002028	20000	Angoram High School	24-09-2004	CQ	791244	Fin/assistance, Members DSG funds	20,000.00 DR
1001104	20000	Derrin Contractors	15-09-2004	CQ	789990	Pmt of O/S arrears	20,000.00 DR
998428	20000	Internal Revenue Commission	30-08-2004	CQ	788503	10% Withholding Tax – Morobe Plumbing	20,000.00 DR
990201	20000	Molala Construction Ltd	13-07-2004	CQ	784056	Pmt o/s WS#481 1999 SG3-4-1835	20,000.00 DR
977117	20000	Marienberg LLG	27-04-2004	CQ	776415	Pmt for project development	20,000.00 DR
977118	20000	Angoram Provincial High School	27-04-2004	CQ	776416	Pmt for project development	20,000.00 DR
977119	20000	Yuat LLG	27-04-2004	CQ	776417	Pmt for project development	20,000.00 DR
977120	20000	Keram LLG	27-04-2004	CQ	776418	Pmt for project development	20,000.00 DR
977121	20000	Karawari LLG	27-04-2004	CQ	776419	Pmt for project development	20,000.00 DR
963440	20467.27	Kenroma Construction	2/12/2004	CQ	769270	Pmt completion of construction work	20,467.27 DR
1001156	20500	Ewena Business Group (Inc)	20-09-2004	CQ	790661	Pmt construction work 5th, RCB	20,500.00 DR
1011933	20691	L G Construction	13-12-2004	CQ	797831	Final Pmt Ara'ava Comm Sch Project	20,691.00 DR
1001169	20805	Kulsuna Builders' & Contractor	20-09-2004	CQ	790658	Pmt 1xH65 and 1x8 beds maternity ward	20,805.00 DR
981713	20873.25	Waira Plumbing,Build & Maint	26-05-2004	CQ	779479	Being progressive pmt	20,873.25 DR
986989	20914.26	Phoenix No.3 Limited	23-06-2004	CQ	782269	Pmt construction work done	20,914.26 DR
990116	21000	Kohai Youth Group	13-07-2004	CQ	784044	Pmt Youth financial assistance	21,000.00 DR
982656	21310	Anna Kapi Wailo	28-05-2004	CQ	779643	Pmt o/s court order	21,310.00 DR
958181	21354.57	Offast Builder & General Maint	15-01-2004	CQ	746176	Pmt new timber trench to stairs.	21,384.57 DR
1003483	21509.71	Graduate School of Management	4-10-2004	CQ	791867	Pmt for professional per diem fees	21,509.71 DR
968985	21678.99	Tavaluai Ltd	3/12/2004	CQ	772085	Pmt o/s c/order	21,678.99 DR
1008066	21679.96	Tom Bomai Ltd	15-11-2004	CQ	794985	Pmt of 4X Com.Hall Project in Gumine District	21,679.96 DR
958687	21742	GMI-Hotel Kerema	16-01-2004	CQ	746464	Pmt o/s accom. R.Kotauga & family	21,742.00 DR
1009697	21930	LPDC	1-12-2004	CQ	796689	Prog pmt for cont of c/room at Enga prov	21,930.00 DR
982634	22127.55	Paul Dauson Trading	28-05-2004	CQ	779642	Pmt of O/S, C/O	22,127.55 DR

967948	22320.7	ECS Limited	8-03-2004	CQ	771380	F/pmt maint. Gui River bridge	22,320.70 DR
963425	22571.07	L.H. Sabadi Holdings Limited	17-02-2004	CQ	769521	Pmt replacement cheque	22,571.07 DR
996508	22704.93	Qantas Airways	18-08-2004	CQ	787424	Being pmt of airfares & accommodation	22,704.93 DR
992219	22800	Mesine Building & Construction	30-07-2004	CQ	785978	Pmt labour costs Bereina D/T	22,800.00 DR
1008071	22824.7	Kosma Building & Maint. Contra	11/11/2004	CQ	798031	Progress claim #:4 Const. of 1XRural Sub-	22,824.70 DR
1009542	22952.97	Datec Enertec (Finance)	30-11-2004	CQ	796583	Pmt for PGAS standalone install at Berein	22,952.97 DR
981067	23306.81	Kiam Contractors	20-05-2004	CQ	779077	Being pmt for construction of 2x d/croom	23,306.81 DR
992218	23505.98	BNBM PNG Limited	29-07-2004	CQ	785837	Pmt materials s/house#6 Bereina D/T	23,505.98 DR
981709	23530.5	Feka Builders	26-05-2004	CQ	779494	Being const of Makia Day Clinic	23,530.50 DR
976855	23824	Kago Steelmart Limited	26-04-2004	CQ	776299	Being for 4th Progressive Payment In.61	23,824.00 DR
991203	24803.7	Air Niugini (Boroko)	15-07-2004	CQ	784477	A/fares Hon.A.Somare PNG-S/Africa-PNG	24,803.70 DR
996310	24887.5	Air Niugini (Boroko)	17-08-2004	CQ	787374	Being pmt of tickets for repatriation	24,887.50 DR
1007045	24928.59	L G Construction	4-11-2004	CQ	794333	Pmt of work completed, invoice# LGI-0001	24,928.59 DR
1007045	24928.59	L G Construction	4-11-2004	CQ	794333	Pmt of work completed, invoice # LGI-0001	24,928.59 DR
985547	25000	South Bougain. Engineering Ltd	16-06-2004	CQ	781548	Pmt assistance funding road maintenance	25,000.00 DR
996281	29000	Jb Geo Services Ltd	18-08-2004	CQ	787426	Being pmt for technical service rendered	26,100.00 DR
986997	26416.96	Kauma Building Construction	23-06-2004	CQ	782267	Pmt construction work done	26,614.96 DR
1001412	24103.52	Internal Revenue Commission	23-09-2004	CQ	791108	10% W/Holding tax	26,781.69 DR
964211	27000	Angerepa Ilg	2/12/2004	CQ	769276	Replacement to cancel chq No.76795	27,000.00 DR
968972	28000	Provincial Admin. (Sandaun)	3/12/2004	CQ	772061	Pmt Sandaun feasibility studies	28,000.00 DR
994192	28149.6	Internal Revenue Commission	4-08-2004	CQ	786197	10% Withholding Tax (Bake Ltd)	28,149.60 DR

			14-09-2004	JE 321	D/H chq for general trust fund	29,500.00 DR
1003484	30000	Graduate School of Management	4-10-2004	CQ 791867	Pmt of fees for Officers attending CMA	30,000.00 DR
963429	30000	Emsisi Builders Ltd	2/12/2004	CQ 769272	Pmt o/s construction work	30,000.00 DR
974511	30000	Sinakling Sele Sena	15-04-2004	CQ 775212	O/S DOR Claim SG7-1581	30,000.00 DR
992295	30198.93	S&B Engineering Ltd	27-07-2004	CQ 785413	Being 2nd progressive pmt for construct	30,199.11 DR
992208	29994.17	Carpenters Hardware	29-07-2004	CQ 785841	Pmt materials S/house #1&4 Bereina D/T	30,373.10 DR
992217	29260	Umw niugini Ltd	29-07-2004	CQ 785848	Pmt for generator Bereina D/T	30,800.00 DR
981711	31500	Manager (Jabern Holdings Pty)	26-05-2004	CQ 779485	Being for final pmt	31,500.00 DR
958635	31994.69	Ieviri Boy Construction Ltd	19-01-2004	CQ 746537	Pmt instll & relocating w/stations	31,994.69 DR
999394	32242.98	V.N.Sons Contractors PNG	24-09-2004	CQ 791140	Pmt of renov house #60 Kupiano DT	32,242.98 DR
982650	32474.89	Peter Newman	28-05-2004	CQ 779650	Pmt o/s court order	32,474.89 DR
997413	33386.43	Graduate School of Management	25-08-2004	CQ 788278	Reimb. expenses GSM met on behalf Dept.	33,386.43 DR
982630	33401.79	David Haluya	28-05-2004	CQ 779629	Pmt of O/S,C/O	33,401.79 DR
958672	33410.3	FKPY Construction Ltd	28-01-2004	CQ 767728	Pmt supply & fit w/stations	33,410.30 DR
1001405	34119	District Treasurer (Henganofi)	21-09-2004	CQ 790731	Pmt for under-pmt for DT roll-out	34,119.00 DR
994253	34841.25	J.B.J. Enterprises Limited	5-08-2004	CQ 786225	2nd Part Pmt on Sialum Technical H/Schoo	34,841.25 DR
1001094	35000	Waikini Local Contractors	15-09-2004	CQ 789991	Pmt of O/S arrears	35,000.00 DR
1002237	35500	Mikena Maintenance	24-09-2004	CQ 791271	Being pmt for o/s arrears	35,500.00 DR
994474	35900	Andrew Numbasa	5-08-2004	CQ 786264	T/A ,8th PT Conference participants	35,900.00 DR
976883	36100	Chimbu Builders & Contractors	26-04-2004	CQ 776298	Being for Construction Work 3-62-A1-07-0	36,100.00 DR
1003505	36624	Daltron Electronics Ltd	5-10-2004	CQ 791949	Being purchase of office stationaries	36,624.00 DR
961568	37000	Paul Pyaro	29-01-2004	CQ 767851	Pmt project funding S/Boug. DSG funds	37,000.00 DR
963418	37206.75	PEJ Contractors	2/10/2004	CQ 769053	Pmt 90% work done invoice 69	37,206.75 DR
992296	41712.5	KSB Transport	5-08-2004	CQ 786231	Final pmt for completion of road	37,541.25 DR
968308	38035	Regs Services Limited	8-03-2004	CQ 771702	Pmt o/s construction work done	38,035.00 DR

1006552	38250	Yrral Engineering Ltd	26-10-2004	CQ 793738	3rd prog pmt for const 2x staff house	38,250.00 DR
1001611	38503.37	Wheels Pty Limited	22-09-2004	CQ 790777	Pmt of Support Vehicle	38,503.37 DR
968319	39168	Yeni Dou Bogasi ILG Limited	8-03-2004	CQ 771704	Replacement Chq#767954 30.01.04	39,168.00 DR
1006555	44000	Kuman Builders Ltd	5-11-2004	CQ 794593	2nd prog pmt for const of Police Dormito	39,600.00 DR
966816	40000	District Administrator	27-02-2004	CQ 770659	SSG - Discretionary Component	40,000.00 DR
960561	40000	Prov. Treasurer (SHP)	26-01-2004	CQ 747548	Members DSG	40,000.00 DR
959380	40000	Hon. Robert Kapaol, MP	20-01-2004	CQ 746700	Pynt of DSG	40,000.00 DR
991124	40160	Lyan Maint. & Construction	14-07-2004	CQ 784302	Pmt repair & maintenance	40,160.00 DR
992216	40988.9	Golovele Abau Construction	9-09-2004	CQ 789670	Pmt renovation costs Kupiano D/T	40,988.90 DR
979786	41600	Mozup Plant&Hire Earth Moving	5/11/2004	CQ 778036	Final Pmt of Construction B/Baine Road	41,600.00 DR
958643	41822.9	Gee Works Limited	16-01-2004	CQ 746515	Pmt o/s construction work	41,822.90 DR
966582	44550	Lome Paina Construction	25-02-2004	CQ 770634	Pmt o/s construction work done WHP	44,550.00 DR
978927	45570	Lome Paina Construction	7-05-2004	CQ 777746	Pmt 1st prog. pmt Katiloma C/Sch. K/Erav	45,570.00 DR
994481	46022.96	Datec Enertec (Finance)	5-08-2004	CQ 786258	Pmt of PGAS standalone machine for HGN	46,022.96 DR
994480	47247.2	Highlander Hotel (Finance HQ)	5-08-2004	CQ 786259	Pmt for accom& conference expenses	47,247.20 DR
971134	47446.73	Offast Builder & General Maint	22-03-2004	CQ 773396	Pmt 35% progressive payment Goroka EHP	47,446.73 DR
1000161	48667.5	MMK Transport Pty Ltd	9-09-2004	CQ 789668	Pmt construction pausa-mupe rd & school	48,667.50 DR
960877	48939.94	Daltron Elect/Pty Ltd	27-01-2004	CQ 767648	Purchase of Computer Consumables	48,939.94 DR
1006533	49500	Chimbu Builders & Contractors	2-11-2004	CQ 794178	6th Prog Pmt for const of 2x staff house	49,500.00 DR
991668	49559.95	Ndreyasei Builders	20-07-2004	CQ 784720	Pmt for const of 3x high set 3 b/room h	49,559.95 DR
1001105	50000	Chief of Staff	15-09-2004	CQ 790008	Rplcmnt chq#785302 27.07.04	50,000.00 DR
998733	50000	Sir Michael T Somare	31-08-2004	CQ 788643	Being payment of PSG	50,000.00 DR
			28-07-2004	JE 256	D/H CHQ FOR RDB BPNG # 7084	50,000.00 DR
			5-05-2004	JE 144	CANCELLED RCPTS FOR GEN.TRUST FUND	50,738.09 DR

993002	51000	Lower Pogera Development Corp	28-07-2004	CQ 785770	Being pmt for const of 3 C/room	51,000.00 DR
1011932	51387.75	Reke (PNG) LTD	12/10/2004	CQ 797746	2 nd P/Pmt work done Morehead South Fly D	51,387.75 DR
982668	52240	Mozup Plant&Hire Earth Moving	31-05-2004	CQ 779927	Final pmt for Construction	52,240.00 DR
971323	53603.99	Hulia Local Level Government	31-05-2004	CQ 779939	Pmt Moran PDLS royalty Sept-Dec.03	53,603.99 DR
971324	53630.99	Pimaga Local Level Government	31-05-2004	CQ 779941	Pmt Moran PDLS royalty Sept-Dec.03	53,630.99 DR
971322	53630.99	Internal Revenue Commission	25-03-2004	CQ 773665	Tax Moran PDLS royalty Sept-Dec.03	53,630.99 DR
965324	53707.5	Waira Plumbing,Build & Maint	20-02-2004	CQ 770000	Progressive pmt. C/No.1-05-A1-01-0899	53,707.50 DR
997113	54000	KB Development Ltd	24-08-2004	CQ 787983	Pmt for completion of Institutional Hous	54,000.00 DR
977623	54225	Kuman Builders Ltd	5-05-2004	CQ 777530	Progress pmt for construction at kerowag	54,225.00 DR
971334	54723.65	Internal Revenue Commission	25-03-2004	CQ 773665	Tax Moran PDLS royalty May-Au.03	54,723.65 DR
971337	54723.65	Pimaga Local Level Government	25-03-2004	CQ 773669	Pmt Moran PDLS royalty May-Aug.03	54,723.65 DR
971339	54723.65	Hulia Local Level Government	25-03-2004	CQ 773667	Pmt Moran PDLS royalty May-Aug.03	54,723.65 DR
982633	56956.7	Andrew Pora	28-05-2004	CQ 779628	Pmt of O/S, C/O	56,956.70 DR
974229	57065	A & J Construction	13-04-2004	CQ 775067	Pmt o/s claim	57,065.00 DR
982404	58852.5	Chimbu Builders & Contractors	27-05-2004	CQ 779557	Progressive pmt for Const of 3x D/C	58,852.50 DR
994486	60000	A/Provincial Treasurer	5-08-2004	CQ 786262	Pmt for PT conference 6-20/08/04	60,000.00 DR
997496	60000	Provincial Treasurer (Simbu)	26-08-2004	CQ 788327	Pmt DSG to Simbu PT	60,000.00 DR
979785	60400	Lome Paina Construction	5/11/2004	CQ 778037	Completion Pmt of L40 Staff House	60,400.00 DR
1001178	60705	Tain Building & Maintenance	20-09-2004	CQ 790657	Pmt construction work done	60,705.00 DR
1006999	71694.51	Heduru Constructors	2-11-2004	CQ 794195	Pmt for replacement of claim 4 & 5	63,612.00 DR
1007036	63612	Chimbu Builders & Contractors	2-11-2004	CQ 794178	7th prosq pmt for const of 3x D/C & 6	63,612.00 DR
966649	63627.96	Mobile Welding Const. Ltd	25-02-2004	CQ 770632	Project No. 3.03.El.00.0294	63,627.96 DR
990199	67300	Morris Manum & Benjamin Mano	13-07-2004	CQ 784061	Pmt o/s WS92 2002 SG7-1728	67,300.00 DR

982642	69000	John Tembon	28-05-2004	CQ 779635	Pmt of O/S, C/O	69,000.00 DR
1001400	72051	District Treasurer (Kainantu)	21-09-2004	CQ 790732	Pmt for underpmt during DT roll-out	72,051.00 DR
995456	74990	PNG Motors (Boroko)	8/11/2004	CQ 787028	Pmt for Mazda T3500 for Muaina H/school	74,990.00 DR
992999	75200	Nini Builders Ltd	5-08-2004	CQ 786245	Being for 2nd prog pmt for 2x d/cls	75,200.00 DR
968690	77000	Ela Motors (Finance HQ)	3/10/2004	CQ 771915	Pmt support vehicle	77,000.00 DR
977110	77550	Farmset Limited	27-04-2004	CQ 776411	Pmt for "Lucas Sawmill"	77,550.00 DR
994485	79710.42	Air Niugini	5-08-2004	CQ 786263	Pmt of tickets for PT officers to Mt.HGN	79,710.42 DR
961803	80000	District Admin. (Pomio)	2-02-2004	CQ 768024	Pmt DSG Pomio District	80,000.00 DR
963587	80000	Isaac Lupari	2/10/2004	CQ 769093	Pmt o/s entitlements	80,000.00 DR
999267	85000	International Corp Services	7-09-2004	CQ 789227	Being pmt for consotancy services	85,000.00 DR
1001410	86651	District Treasurer (Unggai-Ben	21-09-2004	CQ 790727	Pmt for under-pmt of DT roll out	86,651.00 DR
1006100	87750	Nini Builders Ltd	25-10-2004	CQ 793673	Pmt for building 4xAid post & 4x CHW hou	87,750.00 DR
967982	88150	Bena Construction	18-03-2004	CQ 772632	Pmt construction work done o/s	88,150.00 DR
972864	91409.8	Pato Lawyers	2-04-2004	CQ 774337	Payment legal fees	91,409.80 DR
1001404	93651	District Treasurer (Goroka)	21-09-2004	CQ 790730	Pmt of under-pmt of DT roll-out	93,651.00 DR
987069	94020.82	District Treasurer (Kabwum)	23-06-2004	CQ 782255	Being pmt for DT roll- out exercise	94,020.82 DR
1004208	95050.13	Bank of South Pacific	7-10-2004	CQ 792333	Purchase of Ice Making Machine Qld. Aust	95,050.13 DR
985871	99240	District Treasurer (Imbonggu)	17-06-2004	CQ 781619	Pmt H/Lands H/ways rd. project ceremony	99,240.00 DR
1000186	100000	Macata Enterprises Ltd	8-09-2004	CQ 789612	Rplcmnt chq#784057 SG347/02	100,000.00 DR
973909	100000	Joseph Kupo	8-04-2004	CQ 775001	Court Judgement	100,000.00 DR
978735	100000	Provincial Treasurer	5-05-2004	CQ 777584	Pmt funds to Unggai-Bena D/T.	100,000.00 DR
978736	100000	Prov. Treasurer (Milne Bay)	5-05-2004	CQ 777587	Pmt funds to Alotau D/T.	100,000.00 DR
984360	100000	Sir Michael T Somare	4-06-2004	CQ 780459	Pmt for PSG for the Member	100,000.00 DR
968688	100000	Juvisal Ltd	3/10/2004	CQ 771917	Pmt o/s c/order	100,000.00 DR
968691	100000	Acanufa & Associates	3/10/2004	CQ 771914	Pmt o/s	100,000.00 DR

					bill of cost	
963583	100000	Warea Wapi & Ors	2/10/2004	CQ 769086	Pmt o/s DOR claim	100,000.00 DR
963584	100000	Juvisal Ltd	2/10/2004	CQ 769094	Pmt o/s DOR claim	100,000.00 DR
963585	100000	Morris Manum & Benjamin Mano	2/10/2004	CQ 769091	Pmt o/s DOR claim	100,000.00 DR
963588	100000	George Sio Moa	2/10/2004	CQ 769087	Pmt pre & post judgement interest & cost	100,000.00 DR
993837	100000	Charles Luta & Ors	30-07-2004	CQ 785979	O/S DOR – Part Payment	100,000.00 DR
991560	100000	Patterson Lawyers	16-07-2004	CQ 784580	Pmt for o/s,c/o for central P/G	100,000.00 DR
990196	100000	John Kuk	13-07-2004	CQ 784062	Pmt o/s compensation claim	100,000.00 DR
990202	100000	Macata Enterprises Ltd	13-07-2004	CQ 784057	Pmt o/s WS#68 2002	100,000.00 DR
982480	100000	East Sepik PSG T/A	28-05-2004	CQ 779584	Being PSG for the Member	100,000.00 DR
982629	100000	Manu & Associates	28-05-2004	CQ 779657	Pmt of O/S C/O Final P/Pmt of O/S Arreas	100,000.00 DR
974561	100000	Jacob Kerenga Bomai	15-04-2004	CQ 775261	O/S C/O W.S. No. 672 of 1997	100,000.00 DR
969812	100000	Provincial Treasurer	17-03-2004	CQ 772554	DSG Moresby South	100,000.00 DR
991125	102000	Natamavi Construction	15-07-2004	CQ 784448	Pmt o/s repair & maintenance	102,000.00 DR
982628	103128.6	Acanufa & Associates	28-05-2004	CQ 779630	Pmt of o/s c/o settlement of Bill	103,128.64 DR
1001401	105675	District Treasurer (Lufa)	21-09-2004	CQ 790726	Pmt for under-pmt for DT roll-out	105,675.00 DR
992692	109896.5	Lumu Investments Limited	30-07-2004	CQ 785949	Construct of 2xD/classroom at W/Hulia LL	109,896.54 DR
989168	112000	No.1 Builders Ltd	6-07-2004	CQ 783491	Pmt o/s construction D/Off. Imbonggue	112,000.00 DR
980308	114200	Rungi Development Corporation	14-05-2004	CQ 778458	Being 3rd prog pmt of Domna to Kandabiam	114,200.00 DR
1001543	116325	Farmset Limited	24-09-2004	CQ 791251	Pmt of Financial Assistance	116,325.00 DR
967726	120000	National Court Trust Account	8-03-2004	CQ 771219	Pmt o/s c/order WS No:353 of 1999	120,000.00 DR
968973	123849	Ela Motors (Finance HQ)	3/12/2004	CQ 772041	Pmt electoral support/supervision T/veh.	123,849.00 DR
1001406	136906	District Treasurer (Okapa)	21-09-2004	CQ 790728	Pmt for under-pmt of DT roll-out	136,906.00 DR
981396	137081	Provincial Treasurer	24-05-2004	CQ 779244	Being pmt of DDP funds to Lae DTO A/C	137,080.99 DR

990200	143927.9	Pomat Graham Manvai	13-07-2004	CQ 784055	Pmt o/s WS#413 2002	143,927.88 DR
990135	144256.4	Good Works Limited	13-07-2004	CQ 784052	Pmt o/s arrears claims	144,256.35 DR
973849	144889.7	Provincial Treasurer (Milne)	8-04-2004	CQ 774934	District's DDP Funds Kirrwina G/E DT	144,889.70 DR
1001403	151661.1	District Treasurer (Daulo)	21-09-2004	CQ 790729	Pmt for under-pmt for DT roll-out	151,661.11 DR
968986	157016	Stanley Teine & Kepa Panda	3/12/2004	CQ 772086	Pmt o/s c/order	157,016.00 DR
991561	157113.3	M & H International Ltd	16-07-2004	CQ 784579	Being pmt for o/s DOR claim	157,113.33 DR
987065	166658.4	District Treasurer (Daulo)	23-06-2004	CQ 782256	Being pmt for DT roll-out exercise	166,658.37 DR
987070	172125.5	District Treasurer (Markham)	23-06-2004	CQ 782253	Being pmt for DT roll-out exercise	172,125.48 DR
987077	173368.3	District Treasurer	23-06-2004	CQ 782337	Being pmt for DT roll-out exercise	173,368.28 DR
976462	173833.6	Gilinde Goiya	23-04-2004	CQ 776177	Timber Royalty	173,833.63 DR
	174000	Teakan Enokao	13-07-2004	CQ 784059	Pmt o/s 14km road maintenance	174,000.00 DR
	200000	Morobe Plumbing	27-08-2004	CQ 788488	Pmt for o/s arrears claim from Police	180,000.00 DR
	195268	Frank Iki	28-05-2004	CQ 779655	Pmt o/s court order	195,268.00 DR
	197168	Rungi Development Corporation	14-05-2004	CQ 778458	Being 2nd prog pmt for the con of Tabibu	197,168.00 DR
	200000	Prov. Treasurer (SHP)	5-05-2004	CQ 777588	Replacement stale cheques.	200,000.00 DR
	200000	Juvisal Ltd	2-04-2004	CQ 774339	Pmt o/s DOR claim p/pmt	200,000.00 DR
	200000	Raymond Turu & John Maku	3/12/2004	CQ 772004	Pmt o/s c/order WS#353 of 1999	200,000.00 DR
	200000	Nelson Kerowa & Orders	2/10/2004	CQ 769090	Pmt o/s c/order O.S No:107 2002	200,000.00 DR
	200000	Raymond Turu & John Maku	2/10/2004	CQ 769088	Pmt o/s taxed cost/party costs.	200,000.00 DR
	200000	Minamowa Yaka & Ors	24-09-2004	CQ 791272	Pmt for o/s c/o	200,000.00 DR
	200000	Morobe Plumbing	24-09-2004	CQ 791268	Pmt for o/s arrears claim for Police dep	200,000.00 DR
	200000	Maxy Kareso	14-07-2004	CQ 784305	Pmt o/s c/order WS#1777 2000	200,000.00 DR
	200000	Charles Luta & Ors	13-07-2004	CQ 784066	Pmt DOR WS#524 1995	200,000.00 DR
	200000	APS Enterprises Party Ltd	13-07-2004	CQ 784071	Pmt o/s WS#261 1998	200,000.00 DR
	200000	Paul & Grace Nari	13-07-2004	CQ 784069	Pmt o/s WS#177 2001 SG519/01	200,000.00 DR
	200000	Andrew Mald	13-07-2004	CQ 784063	Pmt o/s DOR OS#426/2001	200,000.00 DR
	200000	Andrew Mald	24-05-2004	CQ 779266	Pmt for o/s DOR claim	200,000.00 DR
	200000	Daniel Mapiria	24-05-2004	CQ 779267	Pmt for o/s DOR claim	200,000.00 DR

			18-05-2004	JE 170	Reversal of J/E# 160/2004	200,000.00 DR
974510	200000	Warea Wapi & Ors	15-04-2004	CQ 775210	Payment for O/S DOR Claim	200,000.00 DR
1004343	223500	Andy Anderson	8-10-2004	CQ 792450	Rplcmnt chq#792449 wrong p/code	223,500.00 DR
1002235	223500	Andy Anderson & 12 ORS	24-09-2004	CQ 791269	Pmt for ex-gratia relief claim	223,500.00 DR
973905	230000	Henao Lawyers	8-04-2004	CQ 775006	Settlement of Court Judgement	230,000.00 DR
990203	230000	Pombre Construction	13-07-2004	CQ 784058	Pmt o/s WS#92 2004 SG72/04	230,000.00 DR
987059	233553.5	District Treasurer (Henganofi)	23-06-2004	CQ 782258	Being pmt for DT roll-out exercise	233,553.48 DR
968349	233583.8	Livestock Dev. Corp. Ltd	8-03-2004	CQ 771709	Pmt o/s c/order	233,583.82 DR
987063	238236.5	District Treasurer (Unggai-Ben	23-06-2004	CQ 782251	Being pmt for DT roll-out exercise	238,236.48 DR
1001411	241035.2	J.B.J. Enterprises Limited	23-09-2004	CQ 791101	Progress Claim #3 (Tewai Isiassi Distri	241,035.18 DR
987064	241553.5	District Treasurer (Goroka)	23-06-2004	CQ 782257	Being pmt for DT roll-out exercise	241,553.48 DR
987076	246069.2	District Treasurer	23-06-2004	CQ 782249	Being pmt for DT roll-out exercise	246,069.17 DR
979874	250000	PNG Organic Mountain Coffee	5/11/2004	CQ 778034	Replacement chq. that has gone stale.	250,000.00 DR
970676	250000	Prov. Treasurer (EHP)	21-03-2004	CQ 772976	Balance of DDP Funds-Goroka Dist/Treasur	250,000.00 DR
969835	250000	Kubalia High School	17-03-2004	CQ 772566	School Projects	250,000.00 DR
961751	250000	Provincial Admin (North Solomo	30-01-2004	CQ 767957	Being Hon.J.Momis PSG discretionary fund	250,000.00 DR
986228	252042	Peter Mondo	18-06-2004	CQ 781633	Paymt -Against Raymond Turu& J.Maku	252,042.00 DR
993003	253346.4	Bake Ltd	4-08-2004	CQ 786190	Being prog pmt for upgrading of Wamba	253,346.36 DR
991123	255661.1	East-West (1) Ltd	14-07-2004	CQ 784306	Pmt o/s various invoices	255,661.13 DR
987067	263153.5	District Treasurer (Kainantu)	23-06-2004	CQ 782259	Being pmt for DT roll-out exercise	263,153.48 DR
997963	263582.3	Patterson Lawyers	17-09-2004	CQ 790465	Being Pmt for o/s claim for Fly P/Govt	263,582.33 DR
973904	267879.4	Boinamo Enterprises Ltd	8-04-2004	CQ 774999	Judgement Debt payment	267,879.40 DR
974509	270000	Madina Deganu Ovia & Ors	15-04-2004	CQ 775211	Payment for O/S C/O W.S. No. 1281/98	270,000.00 DR
963589	275000	Gregory James Sheppard	2/10/2004	CQ 769089	Pmt o/s c/order 2001	275,000.00 DR
987075	288026	District Treasurer (Menyama)	23-06-2004	CQ 782266	Being pmt for DT roll-out exercise	288,026.00 DR
990191	289424.1	Highlands Food Suply	13-07-2004	CQ 784053	Pmt o/s WS#762 2002	289,424.07 DR

		Ltd			SG913/01	
1011605	300000	Dept of Works Boroko	9-12-2004	CQ 797410	Replace Chq #:716527	300,000.00 DR
973907	300000	Dept of Works Boroko	8-04-2004	CQ 774997	Repl. to cheq. no. 716527	300,000.00 DR
967969	300000	Soni Kanu	8-03-2004	CQ 771381	Replacement chq#770169 C90610 03.03.04	300,000.00 DR
962838	300000	Tau Liu	6-02-2004	CQ 768421	Pmt o/s contract entitlements	300,000.00 DR
972866	300000	Lynette Malu &48 ORS	2-04-2004	CQ 774340	Pmt o/s DOR claim p/pmt	300,000.00 DR
968851	300000	Michael Sakelu & Ors	3/12/2004	CQ 772005	Pmt o/s c/order WS#924 1999	300,000.00 DR
968685	300000	Anderson Liname & Ors	3/10/2004	CQ 771910	Pmt o/s c/order	300,000.00 DR
996953	300000	Paymaster (Defence)	20-08-2004	CQ 787783	Pmt urgent Defence investigations	300,000.00 DR
987125	300000	PNG Power	24-06-2004	CQ 782393	Pmt for DDP funds a rural electrical	300,000.00 DR
982659	300000	District Treasurer (Nuku)	28-05-2004	CQ 779633	Pmt DDP Funds	300,000.00 DR
980309	300000	District Treasurer	14-05-2004	CQ 778457	Pmt of District Treasury Operating A/C	300,000.00 DR
969842	300000	Rural Electrification	17-03-2004	CQ 772567	Rural Electricification Yangoru Saussia	300,000.00 DR
968679	302768.2	Peter Mondo	3/10/2004	CQ 771908	Replacement chq# 771218 08.03.04	302,768.22 DR
996483	700000	East-West (1) Ltd	19-08-2004	CQ 787553	Pmt for o/s claim for Police Dept	305,781.20 DR
981376	321184	Paraka Lawyers	21-05-2004	CQ 779218	Being pmt for o/s legal fees	321,184.00 DR
994151	323000	Graduate School of Management	3-08-2004	CQ 786148	Pmt for CMA intensive course fee for 15	323,000.00 DR
990179	334000	Don Pela Pomb Polye	13-07-2004	CQ 784060	Pmt o/s DOR WS552 2002 SG257/02	334,000.00 DR
1005479	350000	District Treasurer (Kundiawa)	19-10-2004	CQ 793060	Being pmt of DDP funds to kundiawa Gembo	350,000.00 DR
987072	350664.3	District Treasurer (Huon Gulf)	23-06-2004	CQ 782247	Being pmt for DT roll- out exercise	350,664.28 DR
987073	350664.3	District Treasurer (Lae)	23-06-2004	CQ 782254	Being pmt for DT roll- out exercise	350,664.28 DR
987074	350664.3	District Treasurer	23-06-2004	CQ 782263	Being pmt for DT roll- out exercise	350,664.28 DR
968687	368219.9	Emily Dirua	3/10/2004	CQ 771913	Pmt for consent order	368,219.91 DR
981642	400000	Warea Wapi & Ors	24-05-2004	CQ 779263	Pmt for o/s DOR claim	400,000.00 DR
972865	402939.1	Patterson Lawyers	2-04-2004	CQ 774335	Pmt o/s legal fees	402,939.07 DR

987071	406520.6	District Treasurer (Finschafen)	23-06-2004	CQ 782248	Being pmt for DT roll-out exercise	406,520.64 DR
987062	408699.5	District Treasurer (Obura-Wane)	23-06-2004	CQ 782260	Being pmt for DT roll-out exercise	408,699.48 DR
1001614	416837	Lama Rent-A-Car	24-09-2004	CQ 791273	Pmt of O/S Dept.V/Hires	416,837.00 DR
987066	425032.5	District Treasurer (Lufa)	23-06-2004	CQ 782250	Being pmt for DT roll-out exercise	425,032.48 DR
987068	434783.5	District Treasurer (Okapa)	23-06-2004	CQ 782252	Being pmt for DT roll-out exercise	434,783.48 DR
991119	435000	Bill Porykali	14-07-2004	CQ 784307	Pmt DOR claim WS#949 2002	435,000.00 DR
968684	450000	Peter Swanson	3/10/2004	CQ 771911	Pmt o/s c/order WS No:321/2000	450,000.00 DR
997706	457495	Melanesian Legal Group	26-08-2004	CQ 788309	Pmt for o/s legal fees	457,494.97 DR
1006639	460000	APS Enterprises Party Ltd	27-10-2004	CQ 793823	O/S Pmt C/O WS No.261 of 1998 (Breach of	460,000.00 DR
990134	497000	Michael Debege	13-07-2004	CQ 784054	Pmt DOR WS#1380 1999	497,000.00 DR
1000184	500000	Peter Terry & Lawrence Job P.	8-09-2004	CQ 789611	Rplcmnt chq#788407 O.S#676 - 2003	500,000.00 DR
973906	500000	Michael Sakelu & Others	8-04-2004	CQ 775000	Settlement of Court	500,000.00 DR
1003588	500000	Alert Security Services	6-10-2004	CQ 791951	Pmt of O/S C/Order W.S.#:1167 of 2004	500,000.00 DR
972860	500000	Daan & Associates	2-04-2004	CQ 774334	Pmt For PDL2 & resources owners Assn.	500,000.00 DR
1003469	500000	Simon Wapo & 25 ORS	1-10-2004	CQ 791791	Pmt for replacement chq#791270	500,000.00 DR
997961	500000	Lynette Malu & 48 ORS	27-08-2004	CQ 788408	Pmt for o/s DOR Claim (p/pmt)	500,000.00 DR
990193	500000	Pioneer Health Services	13-07-2004	CQ 784070	Pmt o/s WS#174 1999 (p/pmt)	500,000.00 DR
982644	500000	Koiari Holdings Ltd	28-05-2004	CQ 779659	Pmt o/s court order	500,000.00 DR
982285	500000	District Treasurer (Imbonggu)	26-05-2004	CQ 779403	Pmt DSG component	500,000.00 DR
966138	500000	CPA (PNG)	23-02-2004	CQ 770141	Pmt annual grants to CPA	500,000.00 DR
972632	525953	Gado Sanana & 97 Ors	1-04-2004	CQ 774159	O/S W.S. No. 1480 of 2002	525,953.02 DR
971318	536309.9	Southern Highland Prov.Governm	26-03-2004	CQ 773720	Pmt Moran PDLs royalty Sept-Dec.03	536,309.86 DR
984570	537700	District Treasurer (Imbonggu)	9-06-2004	CQ 780679	Pmt DSG Component	537,700.00 DR
958797	596709.2	Prov. Treasurer (Madang)	16-01-2004	CQ 746513	Pmt o/s Komun gravel	596,709.19 DR
991114	600000	Piswa Consultancy	14-07-2004	CQ 784304	Pmt o/s contract	600,000.00 DR

					services Kutube Moran	
957601	600000	Pioneer Construction Limited	13-01-2004	CQ 745790	Payment of O/S DOR Claim	600,000.00 DR
976518	657800	Bismark Maritime Ltd	23-04-2004	CQ 776217	Hire of MV Gulf Glory & MV Victoria	657,800.00 DR
997707	669258.6	Yooken Pakilin & Ors	26-08-2004	CQ 788310	Pmt for o/s court/order	669,258.60 DR
974560	746028	Posman Kua Aisi	15-04-2004	CQ 775260	O/S Legal Fees	746,027.97 DR
			30-06-2004	JE 221	D/H CHQS FOR GEN.TRUST FUND ACCOUNT	766,516.89 DR
968518	774197.4	Provincial Treasurer (Madang)	9-03-2004	CQ 771740	Pmt Members DDP funds	774,197.37 DR
990137	800000	Daniel Mapiria	13-07-2004	CQ 784065	Pmt DOR WS#1284 2001	800,000.00 DR
990176	800000	Juvisal Ltd	13-07-2004	CQ 784068	Pmt o/s DOR SG7-1736	800,000.00 DR
990181	800000	Morobe Provincial Government	13-07-2004	CQ 784051	Pmt o/s WS#72/2001 SG166/01	800,000.00 DR
1004330	851076.2	District Treasurer (Abau)	8-10-2004	CQ 792401	Pmt of DDP funds unutilised	851,076.18 DR
968344	861003.5	Paul Paraka & Ass. Lawyers T/A	8-03-2004	CQ 771707	Pmt o/s legal fees	861,003.50 DR
1004325	958967	District Treasurer (Aitape)	8-10-2004	CQ 792402	Pmt of DDP funds unutilised	958,967.02 DR
1004323	1000000	District Treasurer (Telefomin)	8-10-2004	CQ 792403	Pmt of DDP Funds unutilised	1,000,000.00 DR
994368	1000000	John Wani	5-08-2004	CQ 786244	Pmt for o/s DOR claim SG7-2113	1,000,000.00 DR
972633	1000000	Morobe Provincial Government	1-04-2004	CQ 774157	O/S C/O W.S No. 72 of 2001	1,000,000.00 DR
			8/11/2004	JE 274	Can.of Receipt#C106187-Financial Constr	1,000,000.00 DR
1001613	1000000	Juvisal Ltd	27-10-2004	CQ 793821	O/S DOR claim (Part Pmt)	1,000,000.00 DR
1001443	1000000	National Court Trust Account	22-09-2004	CQ 790749	Pmt of o/s court order	1,000,000.00 DR
1001248	1000000	Issac Lupari	17-09-2004	CQ 790468	Pmt for breach of contract as Secretary	1,000,000.00 DR
1001251	1000000	Covec (PNG) Ltd	17-09-2004	CQ 790469	Pmt for Contracts # RUP/001/44/2001	1,000,000.00 DR
1001255	1000000	Lynette Malu & 48 ORS	17-09-2004	CQ 790470	P/pmt for o/s DOR claim	1,000,000.00 DR
991116	1000000	John Wani	14-07-2004	CQ 784303	Pmt DOR claim WS#645 2000	1,000,000.00 DR
975449	1000000	Daan & Associates	20-04-2004	CQ 775667	Payment Government Levy	1,000,000.00 DR

974512	1000000	John Wani	15-04-2004	CQ 775213	O/S DOR W.S, 645 of 200	1,000,000.00 DR
970677	1000000	Prov. Treasurer (EHP)	21-03-2004	CQ 772977	Balance of DDP Funds- Okapa Dist/Treasury	1,000,000.00 DR
971311	1018989	MRDC	31-05-2004	CQ 779933	Pmt accrued Moran PDLS royalty	1,018,988.73 DR
958799	103000	Prov. Treasurer (Milne Bay)	16-01-2004	CQ 746471	Pmt DDP funds	1,030,000.00 DR
971333	1039749	MRDC	31-05-2004	CQ 779933	Pmt Moran PDLS royalty May-Aug.03	1,039,749.26 DR
1006632	1084291	Buka Enterprises Ltd	26-10-2004	CQ 793740	O/S Debt for PNGDF during Bougainville crisis	1,084,290.84 DR
973850	1159632	Provincial Treasurer (Milne)	8-04-2004	CQ 774935	DDP Funds Dist. Treasury Opp. A/C	1,159,631.53 DR
1001253	1200000	District Treasurer	17-09-2004	CQ 790463	Pmt for infrastructure Development Project	1,200,000.00 DR
1001254	1200000	District Administrator	17-09-2004	CQ 790462	Pmt for reimbursement for funds m/use	1,200,000.00 DR
			29-09-2004	JE 341	Reversal of amt receipted to wrong vote	1,500,000.00 DR
1004328	1527163	District Treasurer (Moresby N/W)	8-10-2004	CQ 792406	Pmt of DDP funds unutilised	1,527,163.18 DR
962839	1539993	Paul Paraka & Ass. Lawyers T/A	6-02-2004	CQ 768422	Pmt o/s legal fees	1,539,993.00 DR
997695	1600000	Paraka Lawyers	26-08-2004	CQ 788314	Pmt for o/s legal fees	1,600,000.00 DR
981647	1667925	Umba Y Gabriel & 225 ORS	24-05-2004	CQ 779264	Being pmt for o/s	1,667,925.00 DR
973908	1680083	Paul Paraka Lawyers Trust Acct	8-04-2004	CQ 775005	Legal Fees	1,680,083.00 DR
972512	1742634	Provincial Treasury (WHP)	1-04-2004	CQ 774158	DDP Funds	1,742,634.26 DR
973866	1750000	Prov. Treasurer (Milne Bay)	8-04-2004	CQ 774963	DDP Fund Treasury Operating Acct.	1,750,000.00 DR
1003113	1839000	K.K. Kuni Building & Const.	29-09-2004	CQ 791484	O/S pmt for const of roads & bridges	1,839,000.00 DR
1001252	2000000	Paul Paraka Lawyers	17-09-2004	CQ 790464	Pmt for o/s legal fees for bill # 6553	2,000,000.00 DR
997681	2000000	Nelson Wahune	26-08-2004	CQ 788313	Pmt for o/s DOR claim	2,000,000.00 DR
997691	2000000	Daniel Mapiria	26-08-2004	CQ 788315	Pmt for o/s DOR claim (p/pmt)	2,000,000.00 DR
990131	2000000	Paul Paraka Lawyers Trust Acct	13-07-2004	CQ 784067	Pmt o/s legal fees	2,000,000.00 DR
982454	2000000	Paul Paraka Lawyers	28-05-2004	CQ 779583	Pmt for O/S Legal fees	2,000,000.00 DR
981652	2000000	Nelson Wahune	24-05-2004	CQ 779268	Replacement chq # 779265 u/pmt	2,000,000.00 DR
974230	3128142	National Court Trust Account	13-04-2004	CQ 775068	Pmt legal fees	3,128,141.60 DR

P			23-09-2004	JE 331	To correct J/E#: 146/2003/sch.6 of Aug'04	9,050,000.00 DR
			23-09-2004	JE 332	Reversal per sch.6 to cor.je.147,218,308	9,839,747.89 DR
1005337	18147060	Dist.Roads Impl.Prog. Trust A/C	18-10-2004	CQ 792969	Transfer of funds to DRIP trust accounts	18,147,060.03 DR
			30-12-2004	JE 408	Being for rectification of J/E #: 73 Aug'04	60,963,000.00 DR

Total Payments: K 198,393,463.65

31.249 The Auditor General summarizes the above payments in the classifications as follows:

Paid To	# of Payment	Total payment K
Contractors	72	8,965,925
Court Orders	95	40,372,286
Less: J/E # BAADJ263 transferred		(37,405,900)
Net balance		<u>2,966,386</u>
Legal Fees: Paraka Lawyers	8	12,002,264
: Others	7	130,890
DAAN & Associates	2	1,500,000
Dist Roads Impl Prog Trust A/c	1 *	18,147,060
DDP Funds	16	13,438,559
Kubalia High School project	1	250,000
Bismark Maritime Ltd Marine hire	1	657,800
Air Niugini Air Ticket Hon A.S. S/Africa/Return	1	24,804
Prov Treasuries Conference expenses Acom & air tickets	4	222,857
Issac Lupari O/s entitlements	2	1,080,000
Consultancy Services fees	1	85,000
Graduate School of Management	4	407,896
CPA PNG Annual Grant	1	500,000
Lama Rent A Car O/s Dept v/hire	1	416,837
IRC 10% Withholding Tax	2	54,931
Compensation payments	1	100,000
Timber Royalties pmt	1	173,834
PDLs Royalties	13	3,134,257
DSG & PSG Grants	13	4,184,700
Financial Assistance	2	137,325
District Treasury Roll-out	46	9,979,406
Journal Entries	10	77,209,988
Other Payments	12	5,216,845
Grand Total	317	<u>160,987,564</u>

31.250 We have reported these matters at length in order to impress on Members the scale of this misconduct.

31.251 This Committee is at a loss to understand why legal fees should be paid from this Trust Account in the sum of K 12,002,264 to Paraka

Lawyers, why District Roads Improvement Programs and DDP Funds should pass through this Account, why air tickets should be paid for politicians from this Account, why Isaac Lupari's outstanding entitlements be paid from this Account, or why the vast majority of other categories of unbudgeted payments could or should be made from this Account or where the budgeted appropriation or legal basis for hundreds of similar payments may be found. While the payments themselves may or may not have been proper, we are concerned with the mechanics of payment – which was improper.

- 31.252 The Committee questioned the Auditor General as to the legality of the payments but could not establish any legal basis whatsoever for either the deposits into the Suspense Account No. 2 or the payments from that Account.
- 31.253 The Committee sought assistance from the Department of Finance and in particular, Mr Gabriel Yer, the Head of that Department to explain how these payments could legally be made.
- 31.254 Mr. Yer has no explanation and gave no assistance.
- 31.255 The Committee extended time to both the Department of Finance and the Department of Treasury to provide submissions, evidence, policies, explanations or excuses – but has received nothing.
- 31.256 On this issue, the Auditor General concludes as follows:

"In view of the classification of payments as shown in the above Summary, it is apparent that the Trust Fund Suspense Account has been used as another

Miscellaneous Vote by the Department of Finance throughout the year under review.”

I am of the opinion that this Account has not been operated in a prudent manner by the Department of Finance as it has been operated as another Miscellaneous Vote and not as a proper Suspense Account in accordance with the Trust Instrument.

The manner in which this Account was operated is not only illegal, but it created an environment where public funds could be misappropriated and facilitates irregular activities that may not be detected as normal controls were overridden by senior management.” [Committee emphasis]

- 31.257 This Committee accepts this statement and conclusion being, as it is, a finding of deliberate, cynical and planned misappropriation of huge sums of public money.
- 31.258 Incidents of improper payments were identified by the Auditor General as follows:
- The expenditures amounting to K 37,405,900 were transferred out of Suspense Account No. 2 in Period 13 Adjustment via Journal Entry No. BAADJ 263 and charged to Miscellaneous Vote 207. The Department of Finance explained that Court Order documents were paid out of the

Suspense Account into the Miscellaneous Vote 207 during that period.

The Committee finds it highly suspicious that those payments should be rushed in period 13 and finds that in accordance with the pattern of illegality associated with this Suspense Account that the payments were most probably improper and made with misappropriated monies which cannot be matched to these withdrawals.

- Three support vehicles for the Department of Finance were purchased at a total cost of K 239,352. How were these purchase can be lawfully made under the terms of the Trust Instrument is beyond the understanding of this Committee. Such purchases should have been made from the Budget allocations for the Department and no explanation or excuse was tendered to this Committee by the Department of Finance.
- Purchases totaling K 85,564 were made for the purchase of Office Stationery while a payment was made for the purchase of PGAS stand alone machine for the Provincial Treasury Mount Hagen. This is not within the terms of the Trust Instrument.
- A mobile Wokabout Sawmill was purchased on Cheque No. 776411 at the cost of K 77,550 from Farmset Limited. An ice making machine was purchased from Queensland at a cost of

K 95,050. The Auditor General cannot ascertain the identity of the recipient of this equipment.

This Committee finds that these payments were not within the terms of the Trust Instrument and in the absence of an explanation to the contrary, indicate a misapplication or misappropriation of public monies.

- Two payments were listed in the Schedule as "Financial Assistance". One payment for K 116,325 was made to Farmset Limited but the Auditor General cannot find any evidence to support this payment or what it was for. Once again, this payment is a misapplication of public funds, a breach of the Trust Instrument and a breach of Trustee obligations.
- Sixteen payments totaling K 13,438,559 were made out of Suspense Account No. 2 as District Development Funds. The Auditor General finds that these funds were not appropriated for this purpose by Parliament and therefore were illegal. This Committee accepts that finding and also finds that the payments were not in accordance with the Trust Instrument or the duties of Trustee and constitute misappropriation.
- Thirteen payments of Parliamentary District Support Grants totaling K 4,184,700 were made out of Suspense Account No. 2 while no appropriation was made in the Budget to cater for Open Members for Parliament District Support Grants. The funds were not appropriated and further, they are breach of

the ***Financial Instructions*** in that no records or insufficient accounts were kept in the respect of these payments.

- No appropriations were made in the years 2002, 2003 and 2004 for the District Development Programme and DDP and District Service Grants. Yet funds totaling K 13,438,559 and K 4,184,700 in the Trust Fund Suspense Account were used to meet such expenditures. This is illegal and breaches the Trust Instrument and the ***Constitution***.
- The Auditor General did not analyze payments under K 20,000, which amounted to in excess of K28,000,000. However, seven credits were traced to determine where they came from and how the credit was adjusted.

Four of those seven credits were able to be matched, but the remaining three could not be matched either by name, receipt or cheque reference or the date. Originating documents did not assist in matching because of the lack of audit trail and cross-referencing.

31.259 This Committee is concerned at this finding. The very Department responsible for the proper and lawful maintenance of Trust Accounts and the proper and lawful handling of and accounting for the use of public monies cannot even keep adequate records of small payments made from a Trust Account intended for that purpose. This shows clearly a profound and thorough-going collapse of competence, will and ability in the Department of Finance and is clear evidence of the need for thorough-going restructure and recharging of that Department.

- 31.260 The Auditor General reports that the Department of Finance, Internal Audit and the staff from the Office of the Auditor General agreed to undertake an extensive review of the transactions of Suspense Account No. 2 and a copy of the Report would be given to the Auditor General by March 27 2006.
- 31.261 The Committee closely questioned the Auditor General and directed questions to the Department of Finance to ascertain if this review had occurred.
- 31.262 So far as we can ascertain, it has not.
- 31.263 This is a matter of great concern. Even after the warning from the Auditor General in the 2004 Audit Report, it is clear from our Inquiry into the 2005 Public Accounts that precisely the same abuses and misuse of Suspense Account No. 2 continued in 2005.
- 31.264 More worryingly, payments, which were found to be in satisfaction of a fraudulent claim against the State, were made to Simon Wapo and 25 others from Suspense Account No. 2. Three payments to the value of K 1,100,000 were paid out of the Miscellaneous Vote 207 and K 500,000 from Suspense Account No. 2.
- 31.265 No apparent checking or safeguards were applied to this money, which was quite improperly misappropriated and diverted to the payment of a fraudulent claim.
- 31.266 That such conduct was intentionally undertaken is beyond doubt. We repeat the summation made by the Auditor General and invite members to consider the statement carefully and bear in mind that

the statement is referring to the very agency that is the Trustee and steward of public monies and responsible for overseeing all Government accounting:

"The manner in which the account was operated was not only illegal, but it created an environment where public funds could be misappropriated and facilitates irregular activities that may not be detected as normal controls were overridden by senior managers".

- 31.267 This Committee has recommended the establishment of a Commission of Inquiry to investigate payments of this type from the Department of Finance and makes no further comment or finding on individual claims against or payment by the State, apart from accepting the following comments of the Auditor General.

"..... the use of the account to pay recurrent expenditures understates the expenditure of the concerned Departments and is a misappropriation of funds".

- 31.268 This Committee will make further comments on the misuse of Suspense Account No. 2 and recommendations and referrals in respect of this appalling situation at the conclusion of this Report.

32 ACCOUNTING POLICY

- 32.1 The Auditor General has carefully reviewed the Accounting Policies applied to the Public Accounts as they are revealed in the various

Notes – particularly Statement “A”. The situation can be simply stated. Accounts are prepared in an unlawful manner and do not reflect or record the true situation of Government finances.

32.2 This Committee finds the following:

Note 1 of Statement “A”

32.3 Accounts and application of Accounting Policies in respect of revenues, expenditures, assets and liabilities are inconsistent with the ***Public Finances (Management) Act 1995***, the ***Financial Instructions*** and other Acts of Parliament.

32.4 The Auditor General concludes:

“This is because the accounts are made up of receivables, payables, un-presented cheques, payments that were not charges to budgetary appropriations and payments made in 2005 and are:

- ***probably consistent with practices that evolved over the years, and***
- ***not in accordance with generally accepted accounting practices for cash accounting as the accounts include receivables, payables and un-presented cheques.”***

32.5 This Committee accepts this conclusion and proposes to revisit this matter when making Inquiry into the 2005 Public Accounts to ascertain what, if any, reforms have been instituted.

Note 2 – Changes in Accounting Policy.

- 32.6 There appear to be no changes in Accounting Policy and Practices used in the preparation of the 2004 Public Accounts. Those policies appear consistent with those applied in former years and this means that inherent problems, which we have outlined in the previous paragraph, have continued.

Finance Operating Accounts

- 32.7 The Committee is very concerned that there is insufficient information in the Note to provide the reader with enough information to understand what the Note is attempting to explain. In the event, the items included do not comply with Note 1 as stated above.
- 32.8 The Committee notes that in response to our findings as to Notes 1 to 6 to the Department of Finance agrees with the comments made by the Auditor General and undertakes to review and improve these issues in 2005.
- 32.9 This Committee could find no improvement in 2005 and we will continue to scrutinize this issue in 2006 Public Accounts Inquiry.

General Comment and Conclusion

- 32.10 The Auditor General finds, and this Committee endorses the finding, that the Notes are generally well prepared but substitute the words

"Revenue" and "Expenditure" to describe what should be "Receipts" and "Payments".

- 32.11 The Committee notes the shortcomings and need for amendment and review of accounting policies and practices and will revisit this issue when we consider the 2006 and 2007 Public Accounts.

33 FINDINGS

- 33.1 The Committee has been deeply concerned by the revelations made during and as a result of this Inquiry.
- 33.2 One major question raised by the evidence was – how could the national accounting system have reached such a state of collapse?
- 33.3 The Committee has carefully considered the evidence and we can only conclude that the situation in 2004 represented a failed Executive control over national finances compounded by mala fides in the Officers and Departments controlling and accounting for public funds encouraged and protected by a culture of impunity that has increasingly characterized Governance and society in Papua New Guinea.
- 33.4 We say this because the Executive Government is vested with responsibility to formulate budgets and effective management, control of, and accounting for, the Budget. If this responsibility is met, responsible fiscal management and application can be expected to follow. The Executive has failed in this role for many

years and the Public Service have moved into that vacuum and assumed power that it does not have.

33.5 This shift in power is very largely responsible for the failed accounting system and the huge fiscal misconduct that we now see.

33.6 Some incidents of this loss of command and control are:

- Overspending by Departments resulting from the inability of the Department of Finance to control public spending – notably in its own Department.
- Ministers failing to demand Agency Heads be responsible for transparent and compliant spending of Agency budget allocations;
- Considerable abuse and diversion of public monies that goes undetected and unpunished;
- A large and seemingly uncontrolled increase in the number of Section 32 Officers who are authorized to approve expenditure. This merely increases the pressure points for the application of blandishments, threats and intimidation for payments to be made. Only persons of proven moral and intellectual qualities should hold such designations.
- There is a real lack of qualified Finance Officers in every Department and agency, but particularly in the agencies that expend money;

- Low managerial capability and commitment resulting in declining service delivery;
- No critical analysis of managerial capacity across all agencies;
- Poor or non existent procurement practices delivering poor value for money and quality procurement for Government;
- No action by top management on external or internal recommended changes, reforms or restructuring or on reported irregularities;
- Inadequate or no information and communication technology or infrastructure. For example, current payroll and PGAS budget management systems are not capable of preventing invalid budget codes from being attached to payroll variation advices, purchase orders or payment vouchers. This situation has prevailed for years;
- No regular or recurrent monitoring and review of budget implementation, together with timely corrective action;
- Low level of staff competency, performance and risk management failures;
- Physical separation of staff around PNG;
- Language barriers;

- Ability to hide malpractice and minimal risk of detection and less of prosecution or punishment;
- Failed lines of control and accountability horizontally and vertically across all of Government.

33.7 The Committee wrote to all Departments of Government, Provincial Governments and research and academic institutions seeking contribution to this Inquiry. Specifically, we sought advice and recommendations on practical daily problems in complying with accounting requirements and suggested remedies.

33.8 As we have stated, we received little response. However the few answers that we did receive were constructive and of considerable assistance to this Committee.

33.9 From those submissions, the Committee has attempted to identify problems experienced by agencies in their accounting and budget management and which have led to the collapse of public fiscal accountability. Some of the reasons given were:

The Provincial Administrator of Manus Province:

Day to day problems in compiling and keeping statutory records and accounts:

- Inexperienced Officers unable to properly document incoming and outgoing transactions and explanatory notes and letters which gives rise to authority for transactions to be undertaken;

- Lack of timely reconciliatory information being provided by Provincial Treasuries;
- Poor or unreliable and inaccurate records being maintained in hard copy held by Provincial Division of Finance and Provincial Treasury;
- Restricting access to records held by heads of Provincial Treasuries as some Provincial treasurers have been known to override transactions without leaving traceable evidence which could be examined and compiled for records and examination purposes;
- Records are sometimes deliberately removed or obliterated by staff of Political Officers to make tracing and accountability of transactions virtually impossible. This applies in particular to DSIP funds;
- Lack of security over release of cheques over the counter after they have been processed. This enables cheques to be collected by wrong people which has led to inaccurate or poor record keeping for compilation and audit purposes. It has also led to the ultimate destruction of hard copy records which makes tracing difficult;
- The use of wrong budget lines to transact accounts which has usually led to overdrawing of funds. This has sometimes led to records being deliberately withheld or destroyed to avoid detection.

Resources required to enable the Provincial Government to keep lawful accounts and records:

- The Province needs a properly organized and resourced Audit division. There is only one auditor at present and he is extended because he needs to give guidance on proper fiscal management to the Provincial Administration, 12 LLG's and Provincially owned entities and enterprises and to the public;
- The Province needs at least two more staff for the Audit Unit and they should be specifically assigned to certain Divisions;
- The Province needs resources to undertake six monthly or annual top up training on financial management and proper financial record keeping. These should be undertaken in the Province;
- The Province needs to provide adequate training on a regular basis to our specialized Financial Management Staff and to provide appropriate IT equipment to enable the keeping of electronic and hard copies of transactions for records and examination purposes;
- Manus Province is establishing a Strengthening Provincial Internal Audit Committee in conjunction with the Departments of Treasury, Provincial Affairs and the Office of the Auditor General. Assistance is needed in this endeavour;

- Specialised financial IT equipment is required to link the Provincial treasury with Provincial Administration. This will enable officers of both entities to check and cross check financial transactions on a regular basis so that transactions are kept open and transparent;
- There may be a need for JDBPC records on financial management to be linked with offices of Open Members, Provincial Treasuries and District Managers as the volume of funds handled by these officers has increased substantially over the past two years and this has meant an increase in accountability difficulties.

Has assistance been sought or received from the Department of Finance or any other source to improve accounting systems and performance?

- The Province has sought and received assistance on a regular basis from the Inspection Division of the Department of Finance in Waigani and from the Regional Office in Rabaul;
- However, the Province has sought assistance for manual financial tracking of transactions and has received some assistance but not as fulsome as in other areas possibly because this area would show funding deviated from Provincial Governments by the Department;
- Mentoring and training has been received, but when staff leave this ability is lost.

33.10 The Committee also received helpful information from the Provincial Administrator of Sandaun Province, Mr. Joseph Sungi. The following summary provides corroboration for the information from the Manus Province and shows a clear picture of entrenched problems at this level of Government:

Day to day problems:

- Applying proper procurement procedures and processes;
- Completing finance forms (FF3, FF4, FF10 etc.) correctly and selecting suppliers with reasonable quotes;
- Keeping manual commitment ledgers accurately and keeping records and filing copies of finance forms, invoices, receipts and payment vouchers;
- Lack of registers – mainly asset registers, investment registers, cash advance registers, loan registers and registers of consumables;
- Keeping accurate records of Internal Revenue receipts and issuing reliable and balanced Warrants and Cash Fund Certificates based on revenue receipts;
- Compiling of financial reports and statements which are often unreliable and do not conform to required accounting procedures and standards;

- Conducting daily Bank Reconciliations and Cash Book management.

Resources required to comply with lawful accounting requirements:

- The Province has sufficient resources, equipment, staff numbers and materials to keep accounts and records. However, the Province do not have qualified, trained and skilled manpower and appropriate ongoing training programs to improve staff performance.
- Qualified accountants, Finance Managers, Revenue Accountants and Auditors need to be employed with attractive conditions and incentives to retain them in the public sector.
- The Province has received assistance from the Department of Finance and has been forced to seek assistance from Waigani to clear a backlog of Bank Reconciliations and Cash Books because the Provincial and District Treasuries cannot perform this function.

33.11 The Committee believes that those two replies contain very important confirmatory information. The problems and failures at micro level have been candidly identified and they correlate precisely with the identified failures in the Part 1 Report of the Auditor General for 2004.

33.12 It should be borne in mind that these submissions record the situation in **2008**.

33.13 This Committee also received oral evidence from Heads of Departments which we had identified as the poorest performers in the area of fiscal accounting.

33.14 Those Heads of Department were asked similar questions as the Provincial Administrators, viz;

- 1. For how long have you held the position of Secretary of the Department;***
- 2. Have you read the Part I Reports of the Auditor General for the years 2004 and 2005 and the relevant parts of Part 2 Reports of the Auditor General concerning the Department of Community Development?***
- 3. In 2005, why was the Department unable to comply with legal requirements in its performance and accountability for public money – as those failures are outlined by the Auditor General [supra].***
- 4. What precise problems contributed to the failings of the Department to comply with the requirements of law in its accounting for public monies?***
- 5. What level of support, training, oversight or assistance does the Department receive from the***

Department of Finance to assist in complying with requirements of law in its accounting for public monies?

6. In short, why have these failings occurred and what resources, assistance or training does the Department need to restore its ability to keep competent, honest and lawful records?

7. What precise policies and programs have you introduced to ensure an improvement in the performance of the Department?

- 33.15 The intention was to try to identify proximate causes for the failure of public fiscal accountability in order to assist us in making recommendations for restoring our systems.
- 33.16 The Committee heard from the Heads of the Departments (or their nominee witness) of Finance, Treasury, Community Development, Personnel Management, Education, Agriculture and Livestock, Correctional Services and Lands and Physical Planning.
- 33.17 The evidence received was not particularly helpful or candid (with the exception of Ms. Margaret Elias) and consisted of assurances that each Department had addressed their problems or had plans and projects to rectify past failures.
- 33.18 This Committee has heard this in other Inquiries spanning four years. Clearly there is an inability to admit failure or to address it when it is accepted.

- 33.19 However, the one constant excuse for failure was a lack of trained, competent officers to perform even the simplest reconciliation tasks or to keep and maintain accounting records according to Law and this Committee accepts that this single matter is a very significant explanation for the collapse of fiscal accounting in Government.
- 33.20 Combine this weakness with the absence of control and oversight by the Departmental Heads and/or the Department of Finance, the devolution of accounting functions to agencies unequipped to perform the task and collapse was inevitable.
- 33.21 We can also find that the Department of Finance in recent times seems to be providing assistance and training – and we intend to explore this matter in later Inquiries to assess the extent and success thereof.
- 33.22 We addressed detailed questions to Mr. Yer, the Secretary for Finance, on this topic but received no reply or information and we are impeded in this Inquiry by that refusal to cooperate.
- 33.23 We are therefore unable to make any conclusion on efforts to restore or rebuild our systems of accounting, except to say that in 2004 we could identify little if any such effort.
- 33.24 If the submissions from the Departments and Provincial Governments are correct, the situation is worse in 2008 than 2004.

34 RESOLUTIONS OF THE COMMITTEE

34.1 The following Resolutions were made unanimously by the Public Accounts Committee:

1. This Report is accepted as the Report of the Committee.
2. The title of the Report is approved in the form:

**"INQUIRY INTO THE PUBLIC ACCOUNTS OF THE
GOVERNMENT OF PAPUA NEW GUINEA FOR THE
FINANCIAL YEAR 2004."**

3. The appendices in Schedules to the Report are approved.261-269
4. There is no dissenting Report.
5. The Committee will make this Report to Parliament under Section 86 (1) (c) and (d) ***Public Finances (Management) Act 1995*** with findings and recommendations concerning the Part 1 Reports of the Auditor General for the financial year 2004.
6. That the Committee accepts the findings of the Office of the Auditor General in respect of the Public Accounts in the Part 1 Report for the financial year 2004, and will report to Parliament on necessary changes to the keeping of the Public Accounts as set forth in Section 86 (1) (d) (i – iv) of the ***Public Finances (Management) Act 1995***.

7. To accept and endorse the referrals set forth in Para. 36 herein.
8. To accept and endorse the recommendations in Para. 35 hereof.
9. To accept the qualifications and limitations on audit found by the Auditor General.
10. To reject the Public Accounts for the financial year 2004 as unreliable, incomplete or not based on proper records or accounts.
11. To reject the Public Accounts for the financial year 2004 as not giving a proper, true or fair view of the financial operations or results of Government.
12. To censure the Department of Finance for failing to enforce lawful and correct accounting and recording of the use of public monies, property and stores in the financial year 2004.
13. To censure the Head of the Department of Finance, Mr. Gabriel Yer, for failing to cooperate with or assist the Public Accounts Committee in this Inquiry by failing to produce information, records, submissions or evidence when requested or directed and when he undertook so to do.
14. To censure and refer the Head of the Department of Finance Mr. Gabriel Yer for failing to attend the proceedings of the Public Accounts Committee when summoned so to do.

15. To censure and refer the Secretary of the Department of Finance, Mr. Gabriel Yer, for failing to cooperate with the Office of the Auditor General by producing documents, records or information when requested so to do.
16. To censure and refer the Secretary for Treasury, Mr. Simon Tosali, for failing to assist or cooperate with the Public Accounts Committee when requested so to do.
17. To censure and refer Mr. Simon Tosali for failing to attend the proceedings of the Public Accounts Committee when summoned so to do.
18. That the Chairman brief the Minister for Finance and the Prime Minister on the findings and resolutions of this Committee – and in particular on the censure and referrals of Mr. Yer and Mr. Tosali.
19. The Committee resolve that the Reports will be sent to the Minister for Finance and Treasury and the Prime Minister with a recommendation for urgent attention to its contents.
20. The Committee resolve to recommend to the National Parliament through the Chairman that a debate of National importance be called pursuant to SO 109 of the Parliamentary Standing Orders concerning the state of management of public monies by Government.
21. That the Committee resolve that the PAC will consider the 2006 and 2007 Part 1 Report of the Auditor General in April

2009 and Report to the National Parliament as a matter of urgency.

22. That the entire structure, function and performance of the Department of Finance be considered by the National Parliament as a matter of urgency and, if necessary, the Department be removed and replaced with a specialized, competent, controlled and accountable agency to rebuild and maintain or perform the systems of fiscal accounting in Government.
23. That the Committee resolve that the current system of Trust Accounts has failed. Trust accounting and the lawful management and application of monies by the Public Service through Trust Accounts had failed by 2004 and should be replaced.
24. That the Government give urgent consideration to the establishment of a specialized, transparent, accountable, responsive agency staffed by honest, competent and overseen experts (recruited from overseas if necessary) to manage Trust Accounts and trust monies – in particular monies appropriated for development, infrastructure maintenance and service delivery.
25. That Government accept that the fiscal management by the Public Service has failed at all levels of Government and that this is a matter of first national importance impeding, as it does, Government service delivery and development policies.

26. That the Executive reassert its fiscal power and control by whatever lawful means are available to it.
27. That the Government reassert control over and accountability for the use and handling of public monies.
28. That the Government restore and reassert the Constitutional power and systems of fiscal management as a matter of national urgency.
29. That Government demand and enforce zero tolerance for fiscal mishandling in Government and form a specialized agency to investigate and prosecute those found to be engaged in such conduct.
30. That Government embark urgently on a program of training and capacity building for officers charged with handling or applying public monies. In particular the establishment of training colleges and ongoing courses of training and retraining throughout the country must be established.
31. That Government recognize that the failures reflected in the Public Accounts directly dictate the reputation and effectiveness of Government itself. Failed Government accounts reflect adversely on the Government concerned and the patent loss of control of public monies by the Executive is a matter of National importance.

32. That Government must immediately institute a competent investigation into the National public debt to establish it with accuracy.
33. That Government must immediately institute an independent investigation into the number of Trust Accounts, the status of each Trust Account, the balance where appropriate of each account, the nature and terms of each Trust Instrument across all of Government including the Provincial Governments, the identity of Trustees, signatories and to obtain reconciliations of Trust Accounts.
34. Devolved accounting functions should be revoked. A central and expert accounting agency capable of timely reporting and accounting should be established. On line daily reconciliations and reports should be introduced and maintained and accounts should be open to all who require to use them.
35. Government should consider the establishment of an expert and fully funded and resourced agency staffed by qualified and effective officers capable of detecting and dealing with corrupt practices in Government and with power to prosecute. We refer to our Reports on the Departments of Planning, Lands, the Sepik Trust Account and other Reports tabled in the National Parliament in this regard.
36. Government should consider the appointment of a Minister responsible for reestablishing probity, ethical behaviour and transparency in Government – particularly in the handling of public monies, the keeping of accounts of public monies, the

conduct of public officers responsible for same and the application, oversight and effectiveness of development budgets.

37. The Government should effect specialized legislation to deal with illegal conduct by Public officers and proclaim draconian punishment therefore.
38. The **PF(M)A** requires updating and modernization as do the **Financial Instructions**.
39. The **Audit Act 1989** requires updating and modernizing.
40. The Public Accounts Committee needs a single, new Act to govern its operations.
41. The IRC should be modernized and given wide power to investigate and prosecute for tax fraud or avoidance.
42. All recipients of monies from Trust Fund Suspense Account No. 2 should be referred to the IRC for investigation to ensure that tax liabilities have been declared and paid.
43. Funding to any agency that does not comply with its requirements under the **PF(M)A** of the **Financial Instructions** should cease until those requirements are fulfilled.
44. Interference with, defalcation or diversion or misappropriation of monies appropriated for development or service delivery – especially aid donor funds - should be met with severe penalties.

45. All Royalty Trust Accounts should be immediately removed from the control of agencies and vested with trained, independent, experienced, honest and accountable professional Trustees who understand their obligations, duties and liabilities.
46. Interference with or refusal to obey or effect Appropriations made by the National Parliament, should be met with severe penalties.
47. Trustees or signatories responsible for any failure of accounting or proper management of monies in Trust Accounts should be removed, prosecuted and never again be allowed to handle public monies – and certainly not Trust monies.
48. Appointment of senior officers – particularly Heads of Departments should be finally approved by an independent Board constituted of representatives of Church/State/private enterprise and aid donors with power to investigate, interview and refuse appointment.
49. The ***Claims By and Against the State Act*** should be repealed. It is unnecessary and arguably unconstitutional. Rather than protect the State it has contributed to the corruption of government agencies responsible for the handling and payment of claims in that these officers know that the claimant or Judgment creditor has no other

alternative but to deal with them in order to receive payment.

50. Section 32 Officers should be carefully and selectively appointed and the positions should be made only where the officer is trained, competent and honest.
51. Trustees should be independent of the Department or agency that administers the Trust Account and should never be Head of the responsible Department – in particular the Department of Finance. Professional Trustees who understand their responsibilities and can manage Trust funds should be the only persons permitted to act as Trustees of Public monies.
52. Government Trust Accounts should be real Trust Accounts as that term is known to Law – with Rules, and Trust Instruments which are comprehensible and lawfully effective to protect the Trust, account for monies and control the Trustees.
53. Trustees, before they are appointed, be subject to tuition and testing to establish that they understand the obligations, duties and legal position of a Trustee and the obligation to properly manage and account for all monies passing through a Trust Account.
54. Trustees should, before their appointment, be subject to a “fit and proper person” test and their conduct and decisions

as Trustees be subject to biannual audit by either the Office of the Auditor General or an independent auditor.

55. Signatories to Trust Accounts should only ever be experienced and carefully chosen. They should have clear and precise controls.
56. Every limitation and failure reported by the Auditor General needs to be individually addressed.
57. Government must adequately and properly fund the Office of the Auditor General and the Public Accounts Committee as the ***Constitution*** requires.
58. The NEC should reassert its power and those powers and its control of public monies, should be reasserted by whatever means may be required.
59. Every public servant who has failed to perform his duties under the ***PF(M)A*** or the ***Financial Instructions*** should be immediately replaced.
60. Every public servant who has failed to cooperate with this Committee and/or with the Auditor General should be immediately replaced.
61. That Government immediately recruit, deploy and adequately fund and resource Internal Audit Units in every agency of Government.

62. That Law Enforcement agencies be immediately revitalized, improved, properly staffed and resourced and adequately funded to deal with financial failure and fraud in Government.
63. Proven interference with the discretion or duty of a Trustee should be met with a deterrent punishment.
64. That the form and content of the Public Accounts be modernized and replaced to allow easily read and understood statements.
65. That the recommendations of the Auditor General made in his Part 1 Reports for the financial years 2004 and 2005 be accepted and actioned by Government by any means lawfully available.
66. Accounting processes in all agencies should be reviewed and modernized or reformed in accordance with recommendations by the Auditor General.
67. Asset lists should immediately be established.
68. The Government should demand and obtain Guarantee Register, Loan Register, Trust Instrument Register, Trust Account Register and all other running records which were not produced to the Auditor General.

69. Government must immediately ascertain actual losses and deficiencies.
70. The Government (and the Executive in particular) and the Department of Finance must regain control over and demand accountability of Agency spending.
71. Government must demand an immediate account of Investments and interest earned.
72. Government must study and implement all the recommendations made by the Auditor General and endorsed by this Committee.

35 RECOMMENDATIONS;

- 35.1 This Committee has been significantly impeded in its formulation and presentation of recommendations to the National Parliament by the refusal of the Department of Finance and the Department of Treasury to assist the Committee during this Inquiry.
- 35.2 These Departments are, we believe, the repositories of expertise and advice for Government on fiscal management and accounting and we sought that expert assistance to make practical and achievable recommendations for reform.
- 35.3 Despite this attitude, we have attempted to deliver such meaningful and constructive recommendations as we can.

This Committee recommends that:

1. The findings and resolutions of the Committee, to be effective, need to be actioned by the Government, without delay.
2. The Government accept this Report, debate same and immediately begin the process of reform and the reestablishment of the Constitutional fiscal scheme.
3. The National Parliament immediately move to rectify the collapse of accountability for the use and application of public monies by the Public Service.
4. The National Parliament immediately reassert the Constitutional system of fiscal management by the Executive.
5. The National Parliament immediately reestablish and enforce the Constitutional power which is the sole province of the Executive.
6. The National Parliament immediately bring the Department of Finance under control and enforce accountability in that Department for fiscal management.
7. The National Parliament re-establish the political and social contract with the citizens of Papua New Guinea and bring the application of appropriated monies under control for the benefit and betterment of the people of Papua New Guinea.
8. The National Parliament of Papua New Guinea accept that the Public Service has failed to lawfully and properly manage, apply and account for public monies, for years.

9. The National Parliament accept that it has failed to enforce and demand lawful and proper fiscal accountability for the use of and transactions with public monies, property and stores, for years. It has failed to understand or fulfil its Constitutional duty in this regard.
10. The National Parliament recognize that the result of this failure has been to cede fiscal power to unelected and unaccountable officers of the Public Service.
11. The National Parliament accept that this failure has resulted in the development and protection of significant abuses of public monies by the very persons charged with lawfully managing and applying public monies to the betterment of our country.
12. The National Parliament accept that this failure has resulted in deteriorating services to our people and a failed system of delivering development to our citizens.
13. The National Parliament accept that, by 2004, the Constitutional system of public fiscal accountability had collapsed and that misappropriation, theft, misapplication, fraud and illegal and improper handling of public monies had become an incident of Governance in Papua New Guinea.
14. The National Parliament accept that the Department of Finance had, by 2004, arrogated to itself sovereign power over the use and application of public monies, often in open defiance of Appropriation and Government policy and directive.

15. The National Parliament accept that it is the only entity that can remedy or rectify the collapse of fiscal management and administration,
16. The National Parliament accept that by 2008, the agencies responsible for fiscal management and which were required to be accountable to Government and the Parliament for their performance, refused to cooperate with this Parliamentary Committee and refused to respond when called to account for past performance. In short, the Departments of Finance and Treasury intentionally refused to render account or assistance to this Parliament.
17. The National Parliament accept that the Public Service, by 2004, were without control or oversight in their fiscal management and acted with impunity and immunity in their handling of public monies.
18. The National Parliament accept that the major agencies responsible for fiscal management, by 2004, acted just as they wished in respect of public monies and, in many instances, in direct defiance of Law, Constitutional requirements and Government policy and appropriation.
19. The National Parliament accept that, by 2004, there had developed a culture of impunity for Public servants in their dealings with and application of public monies such that the Accounts of the Government of Papua New Guinea were rendered unreliable (at best).

20. The National Parliament accept that there is a collapse of law enforcement in the application of, or obedience to, the ***Public Finances (Management) Act 1995*** and every other dictate of Law relating to fiscal accountability across the entire span of Government.
21. The National Parliament accept that the Auditor General and the Public Accounts Committee are, as a matter of routine, treated with contemptuous disregard by the Public Service – and in particular by the Department of Finance.
22. The National Parliament accept that, by 2004 and continuing to the present, not one Department of Government can, will or is capable of complying with all lawful requirements of fiscal accounting. Many could not comply with virtually any such requirement.
23. The National Parliament accept that this collapse of accountability is so complete that almost no Agency could, or can, even reconcile or account for its own internal financing – much less deal with or apply development or service orientated appropriations.
24. The National Parliament accept that Government policies, directives, appropriations and funding for service delivery and development are diverted, misappropriated, mishandled or not applied and that there was not in 2004, (or 2008), any competent, lawful or proper accounting or record of the application of money for these purposes.

25. The National Parliament accept that there is a direct correlation between the collapse of public fiscal accountability and failure of service delivery. Even a peremptory examination of Trust Fund Suspense Account No. 2 shows huge misappropriation and random and illegal distribution of appropriated funds to other than their intended recipient or purpose.
26. The National Parliament accept that the failure of service and development delivery will, and has already, resulted in significant social unrest. In other words, the loss of Parliamentary power and fiscal control, and thereby policy implementation, has created an increasingly angry, impoverished and disillusioned citizenry.
27. The National Parliament accept that the collapse of public fiscal accountability is a failure of Government and a failure of the National Parliament and Executive to understand or fulfill its Constitutional role.
28. The National Parliament must accept that this collapsed system cannot continue.
29. The National Parliament must accept that there is no more urgent issue of national importance than the collapse of fiscal accountability and the attendant collapse of law enforcement that has allowed this to occur.
30. Government should seek assistance and expertise wherever it can to replace failed individuals, failed systems and intentional refusal by Officers of the Public Service to act properly and lawfully.

31. There is no detectable will or ability in the Public Service – particularly in the Department of Finance – to change or reform. If there was, the Department of Finance would have told this Committee. The huge amounts of money misappropriated in that Department in 2004 and into 2005, clearly displaced any ability or wish to change or to comply with the duties imposed on that Department. Indeed, the Department had, by 2004, abandoned any pretence of lawful conduct in many areas of its operations and had abandoned its true role for the conduct of private business funded by public monies. This Committee defies that Department to justify or explain the misuse of Trust Fund Suspense Account Number 2.
32. The Department of Finance be brought under control and be made accountable. The Department could not and cannot control public spending or fulfill even basic accounting tasks. Government should seriously consider degazetting the Department and replacing it with a specialised accounting and fiscal agency to guide and implement development and service delivery budgets.
33. Power to expend monies be removed in whole or in part from the Department of Finance pending restructuring of that Department.
34. A new and specialized agency is required to control, approve and account for the expenditure of public monies. If necessary, that agency should be recruited from private enterprise and/or from overseas if the necessary expertise cannot be sourced in Papua New Guinea.

35. Decentralised accounting has failed. No agency or Department of Government has the expertise or capability to account for the use of or transactions with public monies. Either the devolution is reversed and made the task of a specialised and effective independent agency or a very significant training and oversight effort must be injected into public accountability at every level of Government right down to LLG, District and Board level – and even then, we doubt that decentralized accounting can succeed.
36. The number of Section 32 Officers be strictly circumscribed and that delegation to expend public monies must be restricted to officers with a proven record of honesty and who are trained and experienced.
37. Ministers must assume responsibility for transparent accounting by their Departments and not acquiesce in the current failed system.
38. The culture of impunity attending failure and malpractice in our Public Service should be addressed immediately. There is no fear of detection or sanction for fiscal mishandling – and there must be.
39. Senior management has failed to enforce standards of accounting required by Law and no analysis of capability has ever been conducted – this must change.
40. The ***Public Finances (Management) Act 1995*** and ***Financial Instructions*** be updated and modernized.
41. The ***Audit Act 1989*** be updated and modernized.

42. The Public Accounts Committee draft Bill be enacted to modernize and empower the PAC.
43. Executive power must be reasserted over fiscal management and power over and accountability for expenditure reclaimed by the Executive.
44. Ongoing training and supervision of accounting staff must be implemented and maintained at all levels of Government.
45. Departments and agencies that fail to make statutory records or accounts should be penalized by a reduction of funding or removal and replacement of failed staff and management. There should be zero tolerance for failure or refusal to comply with the requirements of the ***Public Finances (Management) Act 1995***.
46. Inadequate IT systems need urgent attention and rectification. The fact that PGAS budget management systems cannot prevent invalid budget codes is totally unacceptable. The fact that PGAS and TMS cannot communicate is not acceptable.
47. Qualified Finance Officers only should be deployed in self accounting agencies and constantly controlled and overseen. Ready assistance and advice should be available to these Officers if it is required.
48. No agency should be designated as self accounting unless strict prerequisites are met. Departments and agencies considered by this Committee were bad enough when they were not self

accounting, but since gaining this status, they have failed completely to keep even basic accounts or records.

49. The oversight and monitoring agencies should be properly and fully funded. The Office of the Auditor General is simply unable to meet its mandate due to lack of resources and this is not acceptable – or lawful.

Format of the Public Accounts:

50. There is a need for improved financial reporting and an improved format for the Public Accounts. The current system is voluminous and not easily read or understood.
51. An improved systematic approach to presenting Government financial information needs to be implemented.
52. We recommend a format or Report similar to that used by corporations in the Public Sector and/or public sector entities in other countries. This would allow a reader who is not an accountant to easily find and understand the information.
53. The “**Financial Reporting under the Cash Basis of Accounting**” standard is used by other countries and would seem to be suitable for Papua New Guinea.
54. Although the Department of Finance has issued instructions for Departments to use this standard, the Department does not seem to use it itself and it should.

55. Timely reporting and auditing of Public Accounts receipts and expenditure would assist the Parliament in its assessment of the finances of the State.
56. Rather than allowing the Minister for Finance to provide a detailed statement of receipts and expenditure as soon as possible after the end of the fiscal year, the **PF(M) A** should require these statements to be produced by the end of March to allow audit by the end of June.

Modified cash basis of accounting:

57. Revenue and expenditure are accounted for by Government on a cash basis i.e. when the cash is received and not when revenue is earned or expenditure incurred. Cheques are accounted for when raised and issued – not when the cheque is presented at bank. However, the Department of Finance applies a modified cash basis of accounting – contrary to the publicly disclosed accounting policy. This distorts the Public Accounts and should not be permitted.

Control over Appropriation limit:

58. Controls over payment of public monies are not sufficiently robust to prevent spending over appropriation limits. The following should be instituted by Government:

- The new Financial Management System currently under development at the Department of Finance should have in built controls to prevent payments over appropriation limits.
- Senior management of the Department of Finance should be held accountable for overspending appropriation because overspending by entities results from a failure by those Officers to control public spending.
- There should be regular monitoring and review of budget implementation together with timely corrective action by the Department of Treasury.

59. Budgetary framework should include a programmed supplementary budget process which would allow entities to submit requests for mid-year funding for unforeseen circumstances.

Transactions after the end of the accounting period:

60. This practice demonstrates poor internal controls and constitutes poor or crisis management across all agencies. The Department of Finance should be required to monitor the monthly reconciliation of PGAS and TMS to ensure that the variations are promptly corrected.

61. The Department of Finance should be required to reconcile clearing accounts each month so that outstanding amounts are cleared promptly.
62. Government must, by any and all means available, demand and enforce accountability of senior managers to act on recommendations made by review bodies, including internal and external audit and audit committees.
63. Audit units must be immediately deployed and properly resourced at all levels of Government to oversee and enforce accountability and lawful handling of public monies.

Trust Accounts:

64. The system of Trust Accounts established by the **PF(M)A** has failed to ensure either the proper and lawful handling of public monies or to effect Government policy – especially development and service delivery.
65. Trust Account accounting by Trustees and responsible officers had collapsed by 2004 and has not improved since.
66. The Auditor General could not audit the Trust Account due to a lack of records or accounts for individual accounts comprising the whole.
67. There was and is widespread and significant misconduct, misappropriation and defalcation by Trustees and/or signatories across the whole span of Government from National agencies right down to District level.

68. There was significant misappropriation and misconduct toward Trust Accounts and the funds in them, within the Department of Finance itself.
69. Trustees regularly breach their duties and obligations with no fear of detection or punishment.
70. The system of oversight and control of Trust Accounts had failed by 2004 and remains in a state of failure.
71. There is no register of Trustees, accounts, bank accounts, Trust Instruments or monies held in Trust Accounts.
72. Neither the Committee nor the Government know or can ascertain the number of Trust Accounts, the amount of money in them, the true balance of the Trust Account, the identity of Trustees, the terms of Trust Instruments or any other incident of the Trusts.
73. Trust Accounts are regularly overdrawn – a legal impossibility.
74. Trust Accounts were and are abused and funds mishandled on a daily basis.
75. The Department of Finance is both unwilling and incapable of managing, controlling or enforcing lawful accounting requirements for Trust Accounts.
76. As we have reported in past Inquiries, Departments responsible for service delivery, co-ordination, development and applying appropriated monies for these purposes have failed to do so and

treat Trust monies as they please – often as acting on political or other direction or pressure.

77. By 2004, not one agency of Government complied with all Trust Accounting requirements and almost all obey none of those requirements. This situation still prevails.
78. Trust Funds are hidden and records were and are intentionally not kept, we believe to avoid audit and detection.
79. Mishandling of Trust Accounts and the money in them was so widespread by 2004, that the Executive had lost all control over this aspect of Government and therefore failed in its Constitutional duties.
80. In this regard, the Public Service had, quite illegally, assumed unfettered power of and discretion over the use and application of Trust monies, regardless of Appropriations in many instances. That power has been used in a further unlawful fashion and public monies misappropriated on a huge scale. This situation prevails in 2008.
81. Trust Instruments, when they can be found, are poorly drawn, often ambiguous (where they make any sense at all) and often outdated.
82. Trust Accounts which had been closed are still operating.
83. Trust Accounts which had been unused for years are still open.
84. Trust Accounts recorded as having a nil balance actually had funds at bank.

85. Trust Accounts shown as having balances at bank actually had nil balance.
86. The senior line Departments of Government responsible for administration of Law and Justice acted illegally and unconstitutionally in its handling of Trust monies and Trust Accounts.
87. By 2004, the very Department responsible for proper and lawful administration of Trust Accounts and accounting functions, the Department of Finance had, as a matter of course, engaged in illegal, unconstitutional and significant mishandling and application of Trust Accounts and funds under its control.
88. Law enforcement systems and agencies intended to control and account for Trust Accounts and Trust funds had, by 2004, failed. This failure continues.
89. Trustees were clearly incapable of understanding their duties. This situation continues currently.
90. The refusal and failure to keep records, make reconciliations or accounts of Trust Accounts or funds was intentional. This did, by 2004, lead to huge misappropriation, mishandling and diversion of funds to unappropriated purposes.
91. This misconduct was so significant that it has derailed National service delivery and National development and very largely rendered Government impotent to effect its Plans and Policies. In many ways, this single collapse of accountability has, and

continues to, impoverish and marginalize many of our citizens through failed health, education and other service provision.

92. The law of Trust establishment, management and control in the **PF(M)A**, was and is ignored by Trustees and is ineffective and outdated.
93. Penalties for mishandling of Trust funds or Accounts are inadequate.
94. A culture of impunity has developed in the Public Service behind which unelected and unaccountable individuals access and misuse public and Trust monies.
95. Trustees should be persons of the highest repute and proven probity who understand their duties, act independently and exercise their discretion in accordance to precise rules and stated intentions. Trustees appointed to manage trust accounts of Government do not meet these requirements.
96. Considering the chaotic, dishonest, incompetent, corrupt and failed mismanagement of the system of Government Trust Accounts that existed in 2004 and for years before that (and that exists still), Trust Accounts or at least monies appropriated for development and service delivery should be removed from the Public Service pending reform of that entity and given to a specialized Trust agency constituted by persons of proven expertise, independence and probity guided by precise Trust Rules and charged with properly and fruitfully implementing Government development and service delivery policies and the appropriated funding therefore, by lawful and accountable management of Trust Accounts.

If such persons cannot be recruited in PNG, international recruitment should be made. Other countries do so, and so should we.

97. Government should consider whether Trust Accounts are the proper and responsive mechanism to effect lawful application of public monies. The current system established by the **PF(M)A** does not establish true Trust Accounts or a real Trust relationship with appointed Trustees as those concepts are known to Law. We recommend that the method of conduiting money from Government and applying public monies be carefully considered.
98. Royalty Trust Accounts have been significantly abused by Trustees and public servants in 2004 and to the present day.
99. Government should immediately remove Royalty Trust Accounts and every other trust Account that contains or administers money held for Landowners or resource owners from the Public Service and vest those Accounts in a specialized, independent, expert agency operated by professional, educated, experienced and honest Trustees.
100. Fault for the failure of Trust Account management lies not only with those citizens who have abused and misappropriated Trust monies. It was also a direct result of a failure of governance, oversight and control by the Executive and the National Parliament to fulfil their Constitutional duties and roles.

101. Those agencies, the Auditor General, this Committee and fiscal governance in general has been hostage to intentional, planned and deliberate refusal to act lawfully and to account properly (or at all) for the use of public monies – in particular the huge amounts in Trust Accounts – by the Public Service who, by 2004, had abandoned any pretence of lawfully managing Trust Accounts for the National good.

102. In the interest of our future, our viability and our peoples welfare, this situation must change and change immediately.

36 REFERRALS.

36.1 There is little point in referring Public Servants for investigation or prosecution for events that occurred in 2004. The Royal Papua New Guinea Constabulary seems incapable or unwilling or both of investigating or prosecuting complex fiscal crime, time has probably elapsed for prosecution due to the gross delays in producing and tabling the Public Accounts and the Reports of the Auditor General, the Auditor General has made some referrals in the past with no success, this Committee has made many referrals in the past four years with no action taken by any law enforcement agency and if we were to refer accountable Public Servants for failure to perform their duty or fiscal mismanagement, there would scarcely be an officer who would remain.

36.2 In summary, the very culture of impunity that we have identified in this Report means that any referral by us would be a hollow gesture – and it is high time that the National Parliament realized

the extent and terrible effect that this collapse of law enforcement has had on our National Institutions.

- 36.3 However, we do refer Mr. Gabriel Yer, the Secretary of the Department of Finance to the Office of the Public Prosecutor ,the Royal Papua New Guinea Constabulary and the Speaker of the National Parliament for failure to cooperate with or assist both the Auditor General and this Committee when asked to do so and we recommend that those agencies conduct a full investigation and prosecute Mr Yer if they find sufficient cause.
- 36.4 We further refer Mr Simon Tosali to the same agencies with a recommendation that he be investigated for similar failures and prosecuted if those agencies find sufficient cause.
- 36.5 We refer Mr Gabriel Yer to the Auditor General with a recommendation that he exercise his powers of prosecution for failure of that Officer to assist or cooperate with the Auditor General in the conduct of his audit.
- 36.6 Despite our first comments in this Paras 1 and 2, we do refer the Trustees and signatories and the Head(s) of the Department of Finance in the period 1999 – 2006 to the Ombudsman and the Constabulary for full investigation and possible prosecution for their respective roles in the conduct of Trust Fund Suspense Account No.2 in that period.
- 36.7 We also refer those parts of this Report and the Part 1 Report of the Auditor General for 2004 which deal with Trust Fund Suspense Account No.2 to the Office of the Attorney General and the Solicitor General with the strong recommendation that those Offices

consider whether any grounds exist to issue civil proceedings against the Trustees of that Account for a full and complete account of monies passing through the account and possible recovery of misapplied money from those persons personally.

- 36.8 We also refer the same parts of both Reports to the Internal Revenue Commission with a strong recommendation that all recipients of payments from this Account be subject to a tax audit and investigation to ensure that relevant tax and other imposts have been paid or declared.
- 36.9 This Report and the Part 1 Report of the Auditor General for 2004 is referred to the Office of the Ombudsman for consideration as to whether any breach of the Leadership Code has occurred.

37 CONCLUSION.

- 37.1 The Committee has been deeply concerned by the revelations made during and as a result of this Inquiry.
- 37.2 The gross neglect of duty, defiance of our Constitution and Laws and the sheer waste, misappropriation, inept and deviant handling of public monies and the absence of accounts, records or even the most basic reconciliations, is clear evidence of deliberate and planned diverting of Government policy and appropriated funding by unelected and unaccountable individuals.
- 37.3 This has led to the Public Accounts of the Government of Papua New Guinea being unreliable and misleading and their disclaimer by the Office of the Auditor General.

- 37.4 This Committee rejects the Public Accounts for the year 2004 and censures every agency of Government and every Head of Department for a failure to make, keep, submit or produce even fundamental statutory records or accounts in 2004.
- 37.5 The National Parliament must address this National state of failure immediately. The future, viability and reputation of the Government of Papua New Guinea and the welfare of its citizens demand it.
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Signature of the Chairman

Hon. Timothy Bonga OL MBE MP

Date of adoption by the Committee: 25th March 2009

SCHEDULE ONE
LIST OF WITNESSES

30th April 2008

Names of Witnesses	Comments
Mr. Neville Devete	Acting Solicitor General
Mr. Wilson Kamit	Governor Central Bank
Mr. George Sulliman	Auditor General
Mr Gabriel Yer	Secretary of Finance
Mr. John Nero	Ombudsman
Mr. K. Mahendra	Director of Audits, Auditor General.
Mr. A. Kopi	a/Asst.Auditor General
Ms. Marina Cuetanousua	Advisor to Auditor General
Mr. Nino Sureva	A/Secretary of Treasury
Mr. Joseph Simulaeta	Manager SCMC/SRC
Mr. Aloysius Hamoi	a/Deputy Secretary – Dept Treasury
Mr. Clement Kote	FAS – Treasury.
Mr. U. Chit	Accountant
Ms. Mary Martin	A?AS CMEC
Mr. Mario Cueva	Advisor CMEC
Ms. Pauline Nuau	a/FAS CMEC
Kemas Tomola	FAS Accounting
Mr. Alfred Napon	Manager Internal Audit

Mr. Robert Kule	Manager Finance and Accounts
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14th July 2008

Names of Witnesses	Comments
Mr. George Sulliman	Auditor General
Mr. Andy Vui	First Auditor General
Mr. Thomas Holland	Acting FAAG
Mr. Peter Siperau	Acting FAAG
Mr. Simon Tosali	Secretary
Mr Gabriel Yer	Secretary
Mr David Manoka	A?Deputy Secretary
Mr. Rigo Lua	Chairman PSC
Mr. Beny Popotai	Deputy Governor
Mr Robert Kule	Manager FAD BPNG
Mr. Alfred Napun	Manager Internal Audit BPNG

22/09/2008

Names of Witnesses	Comments
Mr. George Sulliman	Auditor General
Mr. Andy Vui	First Auditor General
Mr. Thomas Holland	Acting FAAG
Ms. Marina Cuetanousua	Advisor – Auditor General
Mr. Simon Tosali	Secretary Treasury

Mr. Joseph Klapat	Secretary DfCD
Ms. Margaret Elias	Secretary
Mr. Chris Kalebo	A/Dep. Secretary - Finance
Mr. Mario Cueva	Advisor - Finance
Dr. Joseph Pagelio	Secretary – Education.
Mr. Anton Benjamin	Secretary – Agriculture
Mr. Richard Sikani	Commissioner – Correctional Services
Mr. Romilly Kila Pat	Deputy Sec. Operations.

11th November 2008

Names of Witnesses	Comments
No appearances.	No comments

SCHEDULE TWO

**EXHIBITS AND DOCUMENTS
RECEIVED BY
THE COMMITTEE**

SCHEDULE THREE

**COPIES OF DIRECTIVES,
NOTICES AND SUMMONSES
ISSUED.**

SCHEDULE FOUR

**COPIES OF CORRESPONDENCE
SENT BY THE COMMITTEE**

SCHEDULE FIVE

**COPIES OF CORRESPONDENCE,
SUBMISSIONS ETC. RECEIVED BY
THE COMMITTEE**

SCHEDULE SIX

TERMS OF REFERENCE