

**INQUIRY INTO THE PUBLIC ACCOUNTS**  
**OF THE GOVERNMENT OF**  
**PAPUA NEW GUINEA FOR THE FINANCIAL YEAR 2005.**

**REPORT TO THE NATIONAL PARLIAMENT**

**1. EXECUTIVE SUMMARY**

- 1.1. By 2005, 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 2005, 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 2005 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 2005, 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 2005 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 2005 there was no improvement in the quality of either accounting for or management of public monies, property or stores.
- 1.9. By 2005, 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. We repeat our more detailed recommendation made in our 2005 Public Accounts Report, in this regard.
- 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 2005, 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 fulfil 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 2005, 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 2005, 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 2005, was without control or oversight in their fiscal management and acted with impunity and immunity in their handling of public monies.
- 1.25. The major agencies responsible for fiscal management, by 2005, 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 2005 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. Indeed, the Department had, by 2005, abandoned 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.
- 1.36. 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.
- 1.37. 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.

- 1.38. 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.
- 1.39. Decentralised accounting had, by 2005, 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.
- 1.40. 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.
- 1.41. Ministers must assume responsibility for transparent accounting by their Departments and not acquiesce in the current failed system.
- 1.42. 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.

- 1.43. Senior management has failed to enforce standards of accounting required by Law and no analysis of capability has ever been conducted – this must change.
- 1.44. The **Public Finances (Management) Act 1995** requires updating and modernization.
- 1.45. Executive power must be reasserted over fiscal management and power over and accountability for expenditure reclaimed by the Executive.
- 1.46. Ongoing training and supervision of accounting staff must be implemented and maintained at all levels of Government.
- 1.47. 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**.
- 1.48. 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.
- 1.49. Qualified Finance Officers only should be deployed in self accounting agencies and constantly controlled and overseen.

- 1.50. 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.
- 1.51. 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.
- 1.52. 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.
- 1.53. This intentional non-cooperation has seriously impeded this Inquiry and has limited our ability to make recommendations for reform. This is not acceptable.
- 1.54. 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.
- 1.55. 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.

- 1.56. 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**.
- 1.57. 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 11<sup>th</sup> 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 31<sup>st</sup> December 2005.
- 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. The Committee had conducted an Inquiry into the Public Accounts for the financial year 2005 and found a very poor standard of fiscal reporting, accounting and presentation.

- 2.4. The Committee therefore decided to conduct a searching Inquiry into the 2005 Public Accounts to ascertain whether there had been any improvement in the keeping and presentation of primary information and the standard and reliability of the Public Accounts.
- 2.5. In particular the Committee intended to test assurances of improvement by the Department of Finance, given to the Auditor General in the 2004 Public Account audit, to decide if those assurances were correct.
- 2.6. When reading this Report, Members should understand that the Report concerns the Public Accounts of four years ago – not of the present time. Therefore, where the Report concerns the Public Accounts statements for 2005 or the findings of the Auditor General, the Report is written in the past tense and should be understood in that way.
- 2.7. However, this Inquiry did not occur until 2008 due to delays in the preparation and tabling of the Reports in the National Parliament.
- 2.8. Therefore, findings and censure of conduct before the Committee – particularly of the Departments of Finance and Treasury are current to December 2008
- 2.9. 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.

- 2.10. 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.
- 2.11. The Committee conducted contemporaneous Inquiries into the Part 1 Reports of the Auditor General for the year 2005, 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 2005, the Part 4 Reports of the Auditor General for the year 2005 and all Government Trust Accounts.
- 2.12. 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 2005 and, thereby, a full and complete examination of the Public Accounts.
- 2.13. 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.
- 2.14. 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.

- 2.15. 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.
- 2.16. 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.
- 2.17. 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.
- 2.18. The situation revealed by the 2005 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.
- 2.19. 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 2005 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, were disclaimed by the Auditor General.

- 2.20. The Public Service at large and Heads of Departments and all agencies have failed in their duties to make and submit statutory accounts.
- 2.21. So incompetent and failed is the Public Service that, with no exception, not one Department in 2005 can 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.
- 2.22. This failure is evident in every agency and arm of Government from National to District.
- 2.23. Fiscal power and responsibility prescribed by our Constitution was, by 2005, lost to the Government and had been abrogated by an unaccountable and unelected Public Service.
- 2.24. Misappropriation on a huge scale characterized the handling of public monies in 2005 – particularly in the Department of Finance.
- 2.25. The non production of accounts and records was, in 2005, intentional and deliberate and designed to prevent audit.
- 2.26. The Department of Finance was, by 2005, 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.

- 2.27. Trust Accounts were widely abused in 2005 – particularly within the Department of Finance, the very Department that exists to control and monitor Trust accounting in Government.
- 2.28. 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.
- 2.29. Governments apply public funds to drive development and service delivery to our people – generally in an equitable and well intentioned way.
- 2.30. 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.
- 2.31. 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.
- 2.32. The results of this collapse have been manifold.



- 2.33. 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.
- 2.34. 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.
- 2.35. 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.
- 2.36. 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.
- 2.37. 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.

- 2.38. Fifthly, vital information which should be accurately set out in the Public Accounts was, in 2005, not available.
- 2.39. 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.
- 2.40. 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.
- 2.41. 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 2005 Public Accounts of the Independent State of Papua New Guinea on the 4<sup>th</sup> December 2007 and continued this Inquiry on the 30<sup>th</sup> April 2008, the 22<sup>nd</sup> September 2008 and the 11<sup>th</sup> November 2008 when the Inquiry was closed.
- 3.2. Requests to produce evidence and documents were given to the Secretary for the Department of Finance on the 22<sup>nd</sup> December 2007.
- 3.3. These Directives were complied with inadequately or not complied with at all.
- 3.4. On the 20<sup>th</sup> of May 2008 twenty pages of 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. On the 31<sup>st</sup> of March 2008 a Summons were served on the Secretary for Finance, Mr. Gabriel Yer, requiring his attendance before the Committee. He failed to attend and sought no relief from the Summons.
- 3.7. On the 31<sup>st</sup> of March 2008 a Summons was served on the Secretary for Treasury, Mr. Simon Tosali, requiring his presence before the Committee. He did not attend and sought no relief from the Summons.

- 3.8. 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"**

The Constitution of the Independent State of Papua New Guinea

4.4 **"the National Court"**

The National Court of Justice of Papua New Guinea

4.5 **"GoPNG"**

The Government of Papua New Guinea

#### 4.6 **"PGAS"**

*Papua New Guinea Government Computerised Accounting System*

#### 4.7 **"TMS"**

Treasury Management System.

#### 4.8 **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:

**30<sup>th</sup> 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.

## **7. JURISDICTION**

### **THE CONSTITUTION OF THE INDEPENDENT STATE OF PAPUA NEW GUINEA.**

- 7.1. 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)...".***

- 7.2. 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.
- 7.3. 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 2005 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**.
- 7.4. 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.**

7.5. 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; .....***

7.6. 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 2005.

- 7.7. 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.
- 7.8. 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:**

- 7.9. The Committee also resolved that a full Inquiry into the keeping of the Public Accounts for the year 2005 was a matter of National importance and found further jurisdiction for the inquiry in Section 17 of the ***Permanent Parliamentary Committees Act 1994***.
- 7.10. 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 2005, to be such a matter.

#### **8. RELEVANT STATUTES ETC. CONSIDERED BY THE COMMITTEE DURING THE INQUIRY.**

## **PUBLIC FINANCES (MANAGEMENT) ACT 1995.**

8.1 The ***Public Finances (Management) Act 1995*** prescribes the method and standard for the administration of and accounting for public monies, properties and stores by State entities in Papua New Guinea.

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

8.3 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**

- 8.4. 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 and accounting for public monies, property and stores.



- 8.5. The Public Accounts Committee had regard to these ***Financial Instructions*** or directives when considering the 2005 Public Accounts and its relevant responsible Officers.
- 8.6. 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.**

- 8.7. 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.
- 8.8. The Committee received considerable assistance from the Office of the Auditor General in the course of this Inquiry.

#### **PERMANENT PARLIAMENTARY COMMITTEES ACT 1994.**

- 8.9. 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**

- 8.10. 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.
- 8.11. In the course of this Inquiry, the Committee had cause to examine and apply Sections 19 and 20 (1) (d) of that Act.
- 8.12. 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).

## **9. PURPOSE OF THE INQUIRY**

- 9.1 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 2005 and all the evidence relevant to the compiling and presentation of those Public Accounts.

- 9.2 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.
- 9.3 Further, the intention of the Inquiry was to enable the Committee to report to the 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.
- 9.4. 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.
- 9.5. 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.

- 9.6. The Committee saw no point in allocating blame for what is effectively a collapse of public accountability for the use of public monies, property and stores.
- 9.7. 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.
- 9.8. 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.

## **10. THE AUTHORITY TO REPORT**

- 10.1 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***.

## **11. THE AUTHORITY TO REFER**

- 11.1 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***.
- 11.2 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***.
- 11.3 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***. The Committee has no power to prosecute thereunder.
- 11.4. 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. The Committee has no power to prosecute thereunder.

- 11.5. 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 attitude when asked to produce documents, records or information.
- 11.6. In particular the Secretaries of the Departments of Finance and Treasury simply refused to obey Summonses issued and served by the Committee or to assist or cooperate with the Committee at all when their evidence would have greatly assisted the Committee.
- 11.7. Those referrals are only made after anxious consideration of the evidence and any explanations given by the persons concerned.
- 11.8. In this Inquiry 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 for investigation, but made no response to the Committee even in this regard.
- 11.9. 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.

## **12. METHOD OF INQUIRY**

- 12.1 The Inquiry into the 2005 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 those Terms of Reference are shown in Schedule 6.
- 12.2 The Inquiry by the Public Accounts Committee into the Public Accounts for the financial year 2005 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.
- 12.3 Assistance was obtained 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.
- 12.4. Early in this Inquiry, the Committee became aware that it was dealing with a serious and thoroughgoing collapse of fiscal accountability by Government.

- 12.5. 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.
- 12.6. As we have reported 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.
- 12.7. 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.
- 12.8. 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 make them.
- 12.9. 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.



- 12.10. The Committee solicited this assistance over the life of the Inquiry but received 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).
- 12.11. The Committee concludes that these senior administrators intentionally and deliberately decided to obstruct the Committee in its work.
- 12.12. 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.
- 12.13. 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) treat a Parliamentary Committee with contemptuous disregard, the nation has a problem.
- 12.14. 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.
- 12.15. It is necessary to point out that the collapse of public accountability has occurred – and continues - largely 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.

- 12.16. Inquiries by the Committee to these Officers mainly concerned policies and plans to rebuild or re-establish our systems of national accountability. Evidence on these matters would have assisted the Committee enormously.
- 12.17. 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 and accountability for, the use and application of money entrusted to them – as late as December 2008.
- 12.18. This is a very serious development and one that this Parliament should no longer tolerate. In the opinion of the Committee it has nurtured and protected significant misuse and deviation of public monies by Government Departments to the extent that the accounts of the nation – the Public Accounts - are unreliable, at best.

### **13. WHAT IS THE PUBLIC ACCOUNT?**

- 13.1 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.***

13.2 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.**

13.3 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 expenditure .....shall be dealt with and properly accounted for in accordance with law.**

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

- 13.4 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;"**

- 13.5 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.
- 13.6 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.
- 13.7 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?
- 13.8 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? The Public Accounts are not meant to be perfect, so how much uncertainty or failure would be acceptable?

- 13.9 This issue 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.
- 13.10 This issue was canvassed with the Auditor General in Inquiry, on the 30<sup>th</sup> 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 uses for the Public Accounts and there are a lot of users for the national Public Accounts. The Departments themselves, our economist and the public at large, investors, central governments agencies and others.....,***

Transcript 30<sup>th</sup> April 2008.

13.11 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".***

13.12 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

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

1. The Public Accounts are the 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.

13.14 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.

13.15 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 a modern nation state.

13.16 In our opinion, an accurate and reliable Statement of 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.

13.17 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.

13.18 With regret, this Committee must record at this point that the collapse in the systems of public accounting in 2005 and in successive years, at every level of Government, has resulted in a Public Account for the year 2005, 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.

13.19 The Committee wrote to a number of Senior Officers of Government seeking guidance.

13.20 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 – including the Office of the Ombudsman which promised to deliver a submission, but failed to do so.

#### **14 WHAT ARE THE PRIMARY DOCUMENTS AND SOURCES OF THE PUBLIC ACCOUNTS?**

- 14.1 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 Departmental Heads and the Department of Finance.
- 14.2 The accounting standards and requirements for 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.
- 14.3 The State renders services and administration through Government Departments or agencies at National, Provincial and Local Level Government levels. 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 the dealings with public monies, property or stores and to keep reliable and current records and accounts of those dealings.
- 14.4 In the absence of statutory records, data or accounts, power of and control over public funds has been lost to Government, which effectively means that sovereign fiscal autonomy and Constitutional power has also been lost.

- 14.5 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.
- 14.6 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.
- 14.7 Because of the failure of these systems and lack of oversight, 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 therefore appreciate the seriousness of the current state of failure.
- 14.8 Members may then compare this statement with the findings of this Committee and the Auditor General.

## **15 CONSTITUTION OF THE PUBLIC ACCOUNT**

### **The Statutory Scheme of Government Accounting and Financial Management.**

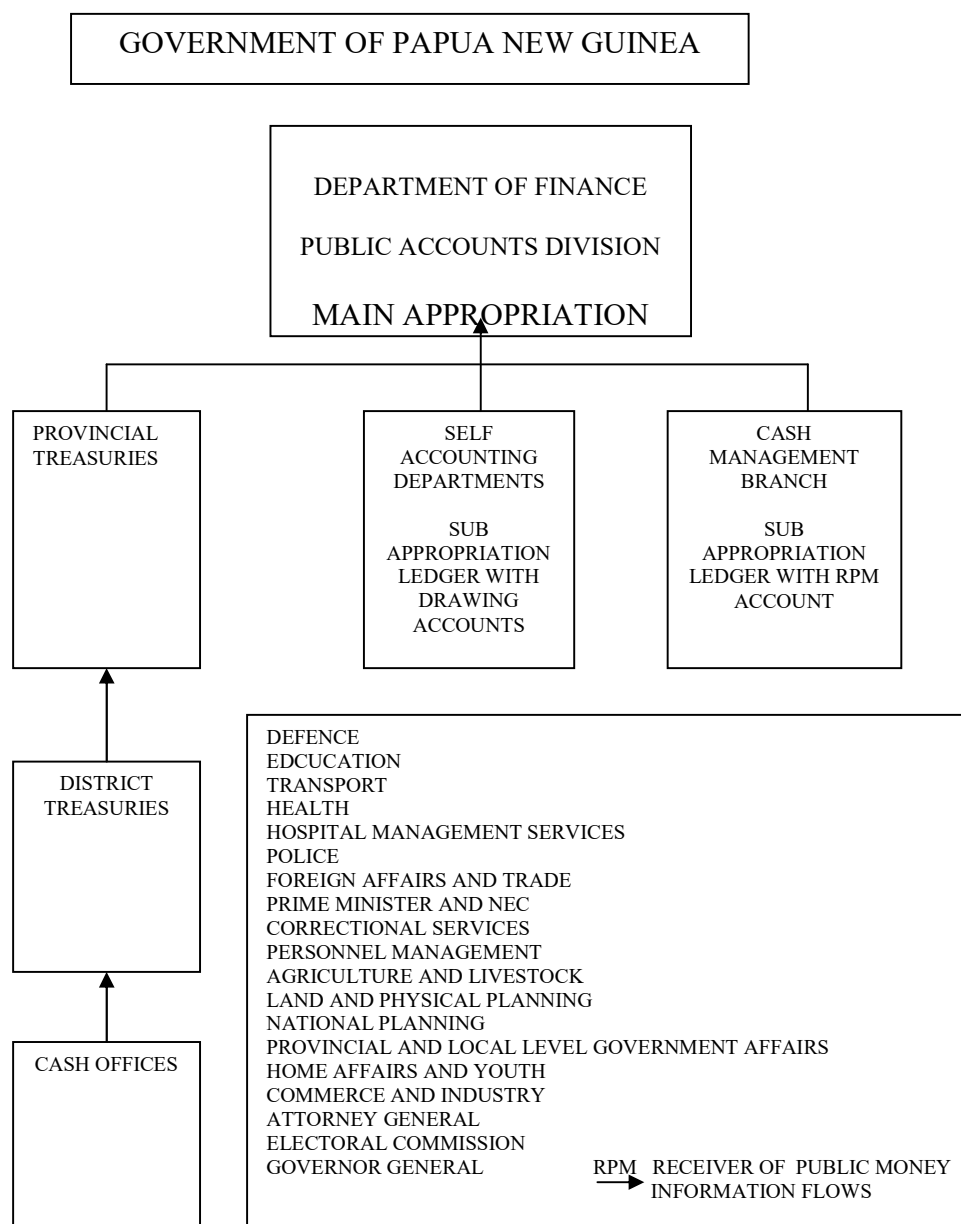
- 15.1 The Public Account consists of the Consolidated Revenue Fund and the Trust Fund.

- 15.2 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 that become Law.
- 15.3 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.
- 15.4 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.
- 15.5 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.
- 15.6 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.

- 15.7 Of course, those records will only be as good as the primary material produced by agencies of government who effect expenditure and receipt.
- 15.8 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.
- 15.9 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.
- 15.10 Departmental Heads are accountable for over-expenditure incurred by the Department but may obtain official funds from the Department of Finance under Sections 3 or 4 of the **Appropriation Act**.
- 15.11 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 each commitments made during the year.

- 15.12 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.
- 15.13 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 2005, was as follows:



15.14 The Department of Finance and particularly the Secretary of that Department are fully accountable and are in fact the accountable agencies to government for the entire performance of Government in its handling of and transactions with public funds.



- 15.15 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.
- 15.16 The duties of the Provincial Treasurers are based on the provisions of the **Organic Law** and Provincial Governments of Local Level Governments. The role of the Provincial Treasury is to ensure that public monies are managed and released strictly in accordance with Law.
- 15.17 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.
- 15.18 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.**

- 15.19 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 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.

15.20 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.

15.21 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.

15.22 It is no excuse, in our opinion, for the Department of Finance to ignore 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.

- 15.23 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.
- 15.24 This was not occurring in 2005 and our Inquiries into Government Departments clearly show that it is not occurring now.
- 15.25 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 Public Accounts 2005**

- 15.26 The Public Accounts comprise:
- Statement A - Statement of Public Account Balances;
  - Statement B – Consolidated Revenue Fund Receipts and Expenditure;

- Statement C – Trust Funds – Receipts and Expenditures;
- 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 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 31<sup>st</sup> December 2005;

- Appendix 1 – Statement of Losses and Deficiencies of Public Monies in previous years but reported in 2005.

The format of the 2005 Public Accounts are 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.

15.27 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**.

15.28 This responsibility includes the maintenance of adequate accounting records and internal controls designed to prevent and detect fraud and error and for the accounting policies controlling the Public Accounts.

15.29 These matters are discussed in greater detail later in this Report.

## **16 FISCAL DUTIES OF DEPARTMENTS AND DEPARTMENTAL HEADS OR ACCOUNTABLE OFFICERS.**

16.1 The responsibilities of a Government Department arm, entity or agency to keep proper and detailed records of the use of and transactions with public monies, property and stores are

set out in the ***Public Finance (Management) Act 1995*** and in further prescriptive detail in the ***Financial Instructions***.

16.2 The requirements are not onerous and would be readily understandable by any competent Finance Officer or accountable officer.

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

- 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 is according to 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 quarter of each fiscal year he submits to the Departmental Head of the Department responsible for Financial Management a Report on Financial Management in a form specified in the **Financial Instructions**.

- 16.4 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.
- 16.5 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 is 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.
- 16.6 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.
- 16.7 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.

- 16.8 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.
- 16.9 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**.
- 16.10 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.
- 16.11 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 some simple straight-forward easily understood and easily implemented.
- 16.12 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?

- 16.13 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.
- 16.14 This means that the primary material from which the Public Account is drawn, are unreliable, at best. In many instances the records simply did not exist and no Audit examination was possible of the Government entity concerned.
- 16.15 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.
- 16.16 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.
- 16.17 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.
- 16.18 This situation has existed and worsened in spread and depth for years.

- 16.19 Certain evidence received from the Auditor General in relation to qualification of the 2004 Public Accounts as being unreliable, is relevant:

**"Hon. Dr. Bob Danaya:**

***Auditor General, it seems clear to this Committee that this failure did not suddenly happen in 2004, but had been a slow deterioration for many years. Did you reach the same opinion in the period 2000 – 2004? If not, why not and why suddenly in 2004?***

**Mr. George Sulliman (Auditor General):**

***Deputy Chairman, that is correct that the deterioration did not suddenly happen. There was deterioration happening for quite a while and uncertainty related to the accuracy and completeness of accounts and balances ....in prior years but we were able to retrace and add some confidence. That is why the nature of opinions in prior years was different."***

- 16.20 The standard of accounting in 2005 was so poor that the Auditor General could form no opinions or audit fully and properly.
- 16.21 In short, by 2005 the Executive and the National Parliament failed to supervise and control the Public Service in its handling of and transactions with public monies but allowed

those agencies to act as they pleased and obey the Law if and when they wanted to or if and when they could.

- 16.22 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 and public account.

## **17 DUTIES OF THE AUDITOR GENERAL**

- 17.1 Review by the Auditor General is the first level of objective and independent assessment and consideration of the Public Account.
- 17.2 The Auditor General is a Constitutional Office Holder and the duties and responsibilities of that Office are contained in the ***Audit Act 1989***.
- 17.3 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 2005, deteriorated to the stage where the Auditor General had no choice but to condemn them by significant qualification and disclaimer.
- 17.4 The Committee finds that the Reports of the Auditor General into the Public Accounts were not up to date. To present the 2005 Reports into the Public Accounts in 2007 is not

satisfactory. Much of the blame lies with the Department of Finance, but the Auditor General should have enforced timely delivery of the Accounts by subpoena if necessary. We make certain recommendations on this issue at the end of this Report.

- 17.5 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.
- 17.6 We also acknowledge 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 Reports- sometimes only weeks rather than years old.
- 17.7 In September 2006, a version of the 2005 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 28th November 2006.
- 17.8 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.

- 17.9 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.
- 17.10 In accordance with that requirement the Auditor General audited the Public Accounts statements for the year ended the 31<sup>st</sup> December 2005 and finalised and signed his Report on the 19th day of January 2007.
- 17.11 The Committee accepts that the Audit of the Public Accounts for the financial year 2005 was made in accordance with generally accepted standards and practices on auditing. The 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 misstatement.
- 17.12 An Audit includes examination on a test basis of evidence supporting the accounts and other disclosures in the Public Account Statements.
- 17.13 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 of the Auditor General of the Government's financial position.

- 17.14 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.
- 17.15 The Auditor General, after completing his Audit, holds discussions with the Department of Finance and ultimately presents the Audit to the National Parliament together with the Statement of Public Account.

## **18 PARLIAMENTARY SCRUTINY OF THE 2005 PUBLIC ACCOUNTS.**

- 18.1 As we have said, the 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.
- 18.2 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.
- 18.3 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.
- 18.4 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.

- 18.5 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 2005 Statements of Public Account were not made available or tabled in the National Parliament until 2007.
- 18.6 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.
- 18.7 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.
- 18.8 The Reports of the Public Accounts Committee are then forwarded to the Secretary for Finance who would deliberate with Departments concerning the Committee suggestions and criticisms.
- 18.9 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.



- 18.10 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.

### **DUTIES AND FUNCTIONS OF THE MINISTER FOR AND DEPARTMENT OF FINANCE.**

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

***“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”.***

- 18.12 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 1 (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”.***

18.13 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.”**

- 18.14 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.
- 18.15 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.
- 18.16 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.
- 18.17 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 2005.

18.18 The Public Accounts for any particular fiscal year should accurately and properly record the requirements for accounting set out in Section 211 of the Constitution. That Section states:

***"(1) All the monies of or under the control of the National Government for public expenditure and the Parliament and the Judiciary for their respective services shall be dealt with and properly accounted for in accordance with law***

***(2) No monies of or under the control of the National Government for public expenditure and the Parliament and the Judiciary for their respective services shall be expended except as provided by this Constitution by or under an Act of the Parliament".***

18.19 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.”***

18.20 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”.***

18.21 This is an extremely serious matter.

## **19 DUTIES AND FUNCTIONS OF THE DEPARTMENT OF FINANCE.**

19.1 The Committee refers to the Secretary’s Statement prefacing the 2005 Public Accounts for a description of the duties of the Department of Finance. These are the words of the Secretary of the Department of Finance, Mr. Gabriel Yer and constitute an authoritative Departmental statement on those Accounts.

19.2 He advised the National Parliament:

***“The Department of Finance in conjunction with Treasury, is the principal advisor to Government and to government agencies on the management of***

**public finances, budget implementation, accountability and government accounting policy matters. The department is also responsible for maintaining the accounting information system used to facilitate the receipting, expenditure and monitoring of public monies.**

**In line with this role the Department advises and supports the Government in the formulation of financial policy, development of financial systems, monitoring and reporting of whole of Government financial outcomes and financial position, and the implementation of measures aimed at ensuring that the financial management within Government is of a high standard."**

- 19.3 The Secretary then lists the duties of Heads of Departments and concludes:

**"The extent to which Departmental Heads fulfil these responsibilities significantly impacts the quality, completeness and timeliness of these Public Accounts"**

- 19.4 In other words, if there is a failure in any part of the Public Accounts, it is the fault of Heads of Departments and no responsibility of the Department of Finance. We disagree.

19.4 (b). The **Public Finances (Management) Act 1995** clearly imposes the duty of overall control of financial management on the Head of the Department of Finance – and Mr. Yer accepts this in his Statement – Section 4 **PF(M)A**.

19.5 Further, Mr. Yer is responsible for financial management in his own Department – Section 5 of the **PF(M)A**.

19.6 This Committee finds that, on any measure of performance, the Department of Finance has failed to fulfill either or both of these duties in 2005.

19.7 Mr. Yer continues:

***" I am not unaware of the significant constraints we all face as a result of outdated systems and communications, limited resources and the scarcity of accounting expertise within our Departments and I am realistic about how quickly we can overcome these problems.***

19.8 In our view it is significant that Mr. Yer fails to mention the profound problems, failures and fiscal misconduct within his own Department, but instead calls on **"each of my counterparts to make financial management one of their key strategic organizational priorities."**

19.9 Mr. Yer then announces a number of new initiatives introduced in 2005 to improve almost every aspect of fiscal

management. We have doubts that this is true. Mr. Yer refused to tell the Committee about these policies, and we will revisit all the relevant areas when we make our Inquiry into the 2006 Public Accounts.

19.10. Mr. Yer concludes:

***"The Department continues to enjoy the co-operation and support of our counterpart departments and agencies and from the Provincial and Local Governments....."***

***Finally I acknowledge the executive team and staff who performed their roles in a focused and professional manner during the year....."***

19.11 This Committee does not agree.

19.10 The 2005 Audit Report on the Public Accounts is a litany of failure and incompetence in all Departments including the Department of Finance. There was no co-operation from agencies at least insofar as preparation and submission of statutory accounts and reports are concerned.

19.11 Further, the executive team did not perform their roles in a focused or professional manner. If they had, the Public Accounts would not have been qualified or disclaimed by the Auditor General.



19.12 Secretary's Statement as we have quoted it is wrong and misleading and we do not accept it.

**20 RESPONSIBILITY AND DUTY OF THE DEPARTMENT OF FINANCE TO THE PUBLIC ACCOUNTS COMMITTEE.**

20.1 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) ).

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

20.3 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.

20.4 Senior Officers of that Department are long-serving and could be expected to know their duties and to be placed to train their staff to ensure that those obligations are efficiently and effectively carried out.

- 20.5 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.
- 20.6 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.
- 20.7 Furthermore, he is empowered to inspect and inquire into and call for all information arising from those accounts and records at any time. This renders him a very important source of information and records for the Committee.
- 20.8 On the 19th day of May 2007, the Public Accounts Committee issued and served on the Secretary for Finance, a Notice pursuant to Section 23 (1) (b) of the **Permanent Parliamentary Committees Act 1994**.
- 20.9 That Notice required the production of a large number of documents, files and records relevant to the Inquiry and set questions seeking information and explanations of a number of matters. A copy of that Notice appears in Schedule 3 to this Report.

20.10 The Committee reports that the Secretary of the Department of Finance failed to produce to the Public Accounts Committee when directed to do so, a significant number of documents, records and files, refused to answer questions in writing sent to him and, in general, refused to assist the Committee.

20.11 In this regard the Secretary breached his statutory duty and will be referred to the Office of the Public Prosecutor for investigation, pursuant to Section 23 (3) (b) (iii) of the ***Permanent Parliamentary Committees Act 1994***.

## **21 DUTY OF OFFICERS ETC. TO ASSIST THE AUDITOR GENERAL.**

21.1 All persons have the duty to assist and cooperate with the Auditor General when required to do so.

21.2 The ***Audit Act 1989*** 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**).

21.3 By Section 29 of the ***Audit Act 1986*** , offences and penalties are prescribed for obstructing or failing to assist the Auditor General.

- 21.4 In the opinion of this Committee it is high time that the Auditor General invoked these powers and forced co-operation from agencies and officers of Government.
- 21.5 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.
- 21.6 This Committee has wide experience of failure by Departmental Heads and Officers refusing to cooperate with the Auditor General and with the Committee itself.
- 21.7 This Inquiry into the Public Accounts for 2005 is no exception.
- 21.8 In his 2005 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.
- 21.9 At this stage we state that these failures to cooperate strike at the heart of accountability and cannot be tolerated.

## **22 THE INQUIRY**

### **Evidence received by the Committee.**

- 22.1 The principal evidence received by the Public Accounts Committee was the Statement of the Public Account itself for the year 2005, presented by the Department of Finance as part of its annual Parliamentary Report and the Report of the Auditor General on the 2005 Public Accounts of Papua New Guinea – Part 1 of four Annual Reports for that year.
- 22.2 These Reports were supplemented by oral explanatory evidence to the Committee from the Auditor General.
- 22.3 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.
- 22.4 The Committee received no evidence contradicting or qualifying the Report of the Auditor General in any respect.
- 22.5 The Committee accepted the Statement of the Public Accounts for the year 2005 as prepared and presented by the Department of Finance and carefully considered the document.
- 22.6 The Part 1 Report of the Auditor General for 2005 was tabled in the National Parliament on the 8<sup>th</sup> day of April 2008.
- 22.7 A copy of the Part 1 Report of the Auditor General for the year 2005 is contained in Schedule 2 of this Report.
- 22.8 The 2005 Statement of the Public Accounts were tabled in the National Parliament on the 21<sup>st</sup> of May 2008.

- 22.9 A copy of that Statement is contained in Schedule 2 of this Report.
- 22.10 The 2005 Part 1 Report to the Auditor General on the Public Accounts of Papua New Guinea is presented in two sections.
- 22.11 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.
- 22.12 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.
- 22.13 The audited Financial Statements comprising Section "A" together with the Audit opinion was provided to the Minister for Finance by the Office of the Auditor General.
- 22.14 Section "B" of the Part 1 Report is a Summary of Expenditure by items, to a total of K 6,275 million of expenditure appearing in Statement "B".
- 22.15 In 2005 the Department of Finance produced a summarized detail of expenditure by items of the vote for National Departments and agencies for the year 2005.
- 22.16 Section "B" of the Auditor General's Report on 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 Public Accounts of Papua New Guinea.

### **Other Submissions or Evidence Received from the Department of Finance**

22.17 A list of witnesses before the Committee is contained in Schedule 1 to this Report and submissions or letters received by the Committee are recorded in Schedule 5 hereto.

22.18 In the interest of producing a constructive and informed Report 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 contained in Schedule 4.

22.19 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 contained in Schedule 3.



- 22.20 The Public Accounts Committee received only three replies. Two replies were received from the Provincial Administrators of Manus and Sandaun Provincial Governments and were helpful and timely. A copy of those letters are annexed to this Report – Schedule 5.
- 22.21 A letter of reply was also received from Ms Hitelei Polume-Kiele the Acting Solicitor General and Head of the Department of Justice. That letter was timely and helpful and a copy is annexed to this Report – Schedule 5.
- 22.22 A third letter was received from the Provincial Administrator of Manus Provincial Government and was helpful and informative – Schedule 5.
- 22.23 To the surprise of the Parliamentary Public Accounts Committee, we received absolutely no information whatsoever from the Department of Finance or the Department of Treasury or any other Provincial Governments, Governors or Departments to which we delivered letters seeking assistance.
- 22.24 In particular, letters to the Departmental Heads of Finance and Treasury were unanswered and request for information to assist the Committee in its work were ignored.
- 22.25 The Committee received no assistance from any academic institute or research institution or any other quarter.

- 22.26 The Public Accounts Committee sought submissions from the Public at large but received no submissions at all.
- 22.27 In an effort to identify the day to day practical 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 2005 Part 2 Report of the Auditor General) and sought a clear statement from them of the problems within their Departments.
- 22.28 The evidence was helpful and we will address it later in this Report.
- 22.29 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.
- 22.30 We now address Part "A" of the Report of the Auditor General on the 2005 Public Accounts.

### **23 PART "A" - THE AUDIT OPINION ON THE PUBLIC ACCOUNTS OF THE GOVERNMENT OF PAPUA NEW GUINEA FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2005.**

- 23.1 The opinion of the Auditor General concerning the Public Accounts of the Government of Papua New Guinea for the Financial Year 2005 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 31<sup>st</sup> December 2005.***
  
- (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".***

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

- 23.3 The evidence on this topic from the Auditor General himself (Mr. George Sulliman) given to the Committee on the 30<sup>th</sup> 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.*

- 23.4 And further on the same day:

**"HON. TIMOTHY BONGA MP -Chairman:**

*What does your qualified opinion on the Public Accounts ... 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 – Auditor General:**

*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”.***

- 23.5 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 31<sup>st</sup> December 2005, is a matter of grave national concern – as it was for 2004.
- 23.6 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 in all of Government. This has rendered the Public Accounts incapable of giving a clear view of the financial position of the Government of Papua New Guinea.
- 23.7 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.
- 23.8 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."***

- 23.9 Clearly the opinion of the Auditor General for the 2005 Public Accounts arises from very serious failures giving rise to material limitations of scope.
- 23.10 The Committee has carefully considered whether and to what degree both it and the National Parliament should be concerned at the audit finding.
- 23.11 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.

- 23.12 This is a significant failure of Governance and one which must be addressed immediately. As the Secretary for Finance has said:

***"In his opinion on the 2005 Public Accounts, the Auditor General has raised a range of concerns about the management of, and accounting for, public monies. As a result of these concerns, he has qualified his opinion. Many of the issues noted by the Auditor General have long histories and perhaps reflected cumulative receptive problems inherited by successive Departments over an extended period of time."***

**Secretary's Statement – Public Accounts 2005.**

- 23.13 This Committee would add that so far as it can ascertain, the Department of Finance has done very little (if anything at all) to rectify the situation despite warnings from the Auditor General for many years.

Mr. Yer continues:

***"These qualifications are of great concern to me as I'm sure they will be to the taxpayers and citizens who contribute to, and expect to benefit***

***from, the public monies that are the subject of these Public Accounts. The qualifications should also be a great concern to all Departmental Heads who must reflect on the performance of their own departments and work proactively towards improving their management of public money.”***

**Secretary’s Statement – Public Accounts 2005.**

- 23.14 At least the Auditor General’s opinion seems, after many years, to have penetrated the Department of Finance and led to an admission of failure.
- 23.15 This Committee encourages the National Parliament to bring pressure to bear on the Department of Finance and Departmental Heads to obey the law. This will require some means of enforcing the ***Public Finances (Management) Act 1995*** and prosecuting or disciplining defaulting individuals.
- 23.16 The qualification means that, in 2005, the state of the financial affairs of the Government of a sovereign nation is either not factual or reliable (at best) or is unknown (at worst).
- 23.17 It is difficult to imagine a more serious state of affairs.

**QUALIFICATIONS TO THE INDEPENDENT AUDIT OPINION ON  
THE PUBLIC ACCOUNTS FOR THE YEAR ENDING THE 31<sup>ST</sup>  
DECEMBER 2005.**

- 23.18 This Committee accepts that the qualifications placed on the audit of the 2005 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 overseeing accountability.
- 23.19 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 2005 and the qualifications put on those statements by the Office of the Auditor General.
- 23.20 We propose to address each of the findings of the Auditor General in turn, but at the outset, we advise the National Parliament that the Public Accounts Committee accepts the limitations and qualifications made by the Auditor General as proper, reasonable and necessary in the circumstances.
- 23.21 The evidence led before this Committee clearly shows 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.

- 23.22 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 2005 by all Departments and agencies of Government, but especially the Department of Finance.

## **24 LIMITATION OF SCOPE ON THE AUDIT**

### **Limitation of Scope.**

- 24.1 The Committee has carefully considered the basis upon which the Auditor General has formed his opinion on the 2005 Public Accounts. In order to qualify, disclaim or refuse to certify the Public Accounts, the Auditor must have a sound basis and facts for his conclusions
- 24.2 We remind the House that the Auditor General concluded that the 2005 Public Accounts were not based on proper accounts and records and did not give a true and fair view of the financial position of the Government of Papua New Guinea. In the first instance, this must mean that the primary documents from which the Public Accounts are drawn are defective.
- 24.3 The Committee accepts the basis for the opinion of the Auditor General and therefore accepts the limitation of scope upon his Audit and the qualifications made by him.

- 24.4 The Committee will now address each of the stated reasons for the opinion of the Auditor General:

**Expenditure by National Departments.**

- 24.5 Audit testing revealed that the accounts for the period ending the 31<sup>st</sup> December 2005 were not closed until November 2006 and in the first balance period numerous manual journal adjustments were made.
- 24.6 The net effect of the adjustments amounted to an increase in surplus of K 13.2 million.
- 24.7 The Auditor General finds that there has been no effective reconciliation by any national agency against their reported expenditure.
- 24.8 This is an extremely serious finding which has led to a significant limitation on the scope of Audit.
- 24.9 It was simply not practical for the Auditor General to extend the Audit procedures sufficiently to verify the veracity of those adjustments. In other words, a significant amount of public money has been rendered incapable of being traced or audited by a deliberate and fundamental breach of law – the failure to keep records.
- 24.10 The Auditor General also expresses concern at the need to process large numbers of journal entries.

- 24.11 We conclude that this is an indication of the ineffectiveness of the reconciliation processes maintained by agencies and the monitoring of this process by the Department of Finance – which would appear to be virtually non-existent.
- 24.12 This Committee, after questioning the Auditor General on this issue, concludes that the significant failure to record or account for expenditure by Government Departments and the seemingly uncontrolled and uncontrollable practice of manual journal adjustments after the closing of the reporting period would, by itself, have been sufficient to qualify the Public Accounts – at least insofar as they relate to expenditure.
- 24.13 This Committee must advise the National Parliament that this failure is a matter of significant national concern and should be immediately addressed.

### **Consolidated Revenue Fund**

- 24.14 This Committee accepts that the balance of the Public Account as at the 31<sup>st</sup> December 2005 was K 827.324 million.
- 24.15 The Public Account is formed from the Trust Fund, with a balance of K 1,015 million and a Consolidated Revenue Fund with a deficit balance of K 187.7 million.
- 24.16 A significant element of the deficit balance is a result of the Public Accounts reporting Departmental Drawing Account cashbook balances amounting to K 240.856 million.

- 24.17 The reliability of that figure was considered by the Auditor General in its testing of 19 Departmental Bank Reconciliations.
- 24.18 This testing revealed unresolved reconciliation items that exceeded K 21 million, between reporting by the Departments and the balance in the Public Accounts for those Departments.
- 24.19 Owing to inadequacies in the recording systems and Cheque Management Practices of National Agencies and the Department of Finance's lack of monitoring of Departmental bank reconciliations as required by the ***Financial Instructions***, the Auditor General is unable to determine the correct balance of the Drawing Accounts and as a result, the reported balance of the Public Accounts.
- 24.20 This is a fundamental and extremely serious failure on behalf of the Department of Finance and all other Departments.
- 24.21 The Public Accounts Committee accepts the limitation and scope imposed by this failure and therefore the qualification of the Auditor General as reasonable and necessary.
- 24.22 This Committee conducted an Inquiry into the Part 2 Reports of the Auditor General for the year 2005, before this inquiry into the Public Accounts. Clearly, scarcely a single Department of Government is capable of making any meaningful or accurate reconciliations of any account – even their own internal budgets.

24.23 This is the most fundamental accounting tool of all and one that a small business must perform on a daily basis. It is an excellent example of a complete collapse and failure of public accountability and systems and capacities within our Public Service – which has led to a failure of governance in the management and application of public monies.

### **Balance of the Public Account**

24.24 The Auditor General identifies a failure to properly reconcile the balance of the Public Account.

24.25 The balance of the Public Account as at the 31<sup>st</sup> December 2004 was K 131,396,224 and this is the opening balance for the 1<sup>st</sup> of January 2005.

24.26 Statement “D” Reports that the net increase in cash for the Reporting period ending 31<sup>st</sup> December 2005 was K 747,150,000.

24.27 If the accounts were prepared in accordance with the cash basis of accounting, the closing balance for the Public Account as of the 31<sup>st</sup> December 2005 would have been reported as K 878,546,224.

24.28 However, the balance Reported in Statement “A” for the Public Account after 31<sup>st</sup> December 2005 was K 827,324,047.

24.29 There is therefore a reconciliation difference of K 51,222,177.



- 24.30 The Auditor General reports that the discrepancy is a result of bringing to account receivables and payables. This practice is not in accordance with the disclosure requirements specified by the **Public Finances (Management) Act 1995** and/or the **Financial Instructions**.
- 24.31 The Auditor General concludes:
- "I am concerned that selective recognition of receivables and payables does not correctly disclose the financial position of the State."***
- 24.32 This is a very basic failure and one that should not occur. If the balance of the Public Accounts cannot be properly and accurately ascertained even by the Department of Finance, how can anybody reading this Public Account Statement place any reliance in its contents?
- 24.33 The Public Accounts Committee accepts this part of the Report of the Auditor General and therefore the limitation of scope placed on the audit and the qualifications of the audit expressed by the Auditor General.
- 24.34 The Committee concludes that this failure was intentional for reasons that we had been unable to discover. We received no cooperation from the Department of Finance or the Department of Treasury on this issue.
- 24.35 We addressed direct questions to both Mr Yer and Mr Tosali to try and inform ourselves as to how and why this failure

occurred and what it meant in practical terms. We received no reply.

24.36 Once again, this Committee must, regrettably, report to the National Parliament a serious failure with all line departments and in the Department of Finance to correctly record and calculate the balance of the Public Accounts for the Financial Year 2005.

24.37 This is extremely basic and important information which is not available to Government either by design or as a result of negligence and failure.

24.38 Further, we must report an intentional refusal by the Department of Finance to assist or co-operate with this Committee when asked to do so.

### **Provincial Treasury Operating Account**

24.39 Statement "A" of the Public Account includes an amount of K 96,438,660 being held in the Provincial Treasury Operating Account (see Note 13.2) in its disclosure of the bank balance of K 566,518,209 that contributes to the Public Account total fund of K 827,324,047.

24.40 The K 96,438,660 comprises 19 Provincial Treasury Operating Bank Accounts totaling K 94,786,184.

24.41 In some cases, the bank reconciliations prepared for the Provincial Treasury Operating Accounts indicated a large number of outstanding adjustments that are yet to be

brought to account. Due to the scale of the outstanding adjustments the Auditor General could not determine the amount that should be accounted for in the Public Accounts.

- 24.42 This is a serious matter. This failure alone would, in the opinion of the Committee, justify a qualification of the Public Accounts as approximately half a billion kina of public monies are either unaccounted or cannot be traced or reconciled. How can this have occurred?
- 24.43 We addressed questions to the Secretary for Finance and the Secretary for Treasury to ascertain how this situation arose and what has been done about it. We received no reply and no assistance from those two Departmental Heads.
- 24.44 This Committee conducted a contemporaneous Inquiry into the Part 3 Reports of the Office of the Auditor General for the years 2004 and 2005 to ascertain the standard and state of accounting and reporting made by Provincial Governments.
- 24.45 This Committee will make a separate Report to the National Parliament on this Inquiry, however it is clear that not a single Provincial Treasurer, Provincial Treasury or Provincial Government can account to any acceptable standard of competence for its use of and transactions with public monies, property and stores. This situation is the same for Local-level and District administrations.
- 24.46 Once again, this Committee must find that the limitation of scope on the Audit of the Auditor General insofar as Provincial Treasury Operating Accounts are concerned, is a

matter of serious national concern and quite properly leads to the qualification pronounced by the Auditor General.

**Government of Papua New Guinea payables:**

- 24.47 The balance of the Public Account has been reduced by at least K 97.876 by an accounting practice within the Department of Finance which recognizes "payables" and "receivables".
- 24.48 Thirteen amounts were found by the Auditor General to be incorrectly stated as Government of Papua New Guinea Payables in Note 6.1 to Statement "A". Three of these amounts have a combined negative balance of K 154.473 million resulting in Statement "A" disclosing an "liability" of K 97,875,973.
- 24.49 While the inclusion of these balances is consistent with the past practice of preparing the accounts on a cash basis the selective recognition of receivables and payables does not correctly disclose the financial position of the State.
- 24.50 The Public Accounts Committee notes that in 2004 as a result of the Report of the Auditor General, there was change in the accounting policies set out in Note 1.
- 24.51 However the Auditor General has formed the view that the accounting policies are not in accordance with Part 3 of Appendix 1 of the **Financial Instructions** which form part of

the **Public Finances (Management) Act**. That Policy also does not reflect recognized cash reporting practice.

- 24.52 The Public Accounts Committee directed questions to Mr. Yer, the Head of the Department of Finance seeking to understand firstly why this distortion occurs at all and secondly why amended unlawful accounting practices have been adopted and on whose instructions and to what purpose.
- 24.53 This Committee received no response and no assistance from the Department of Finance or the Department of Treasury in this regard and we can only conclude that either the Departments do not understand or, for their own purposes, choose to keep the reasons for introduction of the accounting system a secret.
- 24.54 This Committee accepts the findings of the Auditor General and accepts the limitation on the Audit imposed by these matters. The Committee also therefore accepts the qualification expressed there by the Auditor General in his Audit Report.
- 24.55 As in 2004, this Committee must report that the Department of Finance has not only failed to properly administer and enforce legal accounting requirements but appears to have either instigated or tolerated a system of accounting which is unlawful. The effect of either of these courses of conduct has been to adversely impact the balance of the public account in a way it should not have happened.

- 24.56 The Committee must report to the National Parliament that these failures and seemingly uncontrolled implementations by the Department of Finance are a matter of concern and must be addressed.

### **Investment Funds**

- 24.57 Statement "E" of the Public Accounts for 2005 discloses Investment Funds totaling K 11.625 million.
- 24.58 As in 2004, the Auditor General was not provided with all required ledger records and banking details for these investments.
- 24.59 The result of this failure was to render the Auditor General unable to investigate or to be satisfied as to the completeness or accuracy of the disclosures.
- 24.60 This is not the first time that the Department of Finance and the Department of Treasury have failed to produce the requested records.
- 24.61 Failure to cooperate with the Auditor General is an offence under the **PF(M)A** and this Committee will make certain recommendations and referrals in this regard.
- 24.62 That very senior accountable officers to Government can simply decide that they will not cooperate with the Auditor General or the Parliament is not acceptable. It is, in effect,

an open revolt against Government by senior Public Servants.

- 24.63 Further, for that conduct to involve records of investment funds of Government is highly suspicious. Why are these records not available? Do they exist? If they do exist, why has an obviously intentional decision being made not to provide them to the Auditor General? If they do not exist, why not? How is the Government to know the true value of its investments.
- 24.64 The National Parliament and the Government of the day must take immediate steps to bring this information before the Auditor General and to take disciplinary steps against those Public Servants who have consistently failed to provide the documents and records required – up to and including removal of those individuals from their positions.

### **Trust Fund Suspense Account No. 2.**

- 24.65 This matter was considered by the Public Accounts Committee and formed a large part of its Report to the Public Accounts for the Financial Year 2004.
- 24.66 The extensive and cynical misuse of Trust Fund Suspense Account No. 2 by the Department of Finance and its individual officers would, by itself, be sufficient to qualify the Public Accounts.

- 24.67 An enormous amount of misappropriated public money has passed through an account never intended for that purpose, for no apparent reason, with no, or no adequate, records or accounts and in circumstances which are illegal.
- 24.68 The misuse of Trust Fund Suspense Account No. 2 in 1999-2004 was a serious matter – but in 2005 the situation became even worse. The following table shows the historical operation of the Account:

| <b>YEAR</b> | <b>B/F</b>  | <b>RECEIPTS</b> | <b>PAYMENTS</b> | <b>TOTAL</b> | <b>C/F</b>  |
|-------------|-------------|-----------------|-----------------|--------------|-------------|
| 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     |

- 24.69 Trust Fund Suspense Account No. 2 is a Non-Bank Trust Account. During the accounting period K 110,272 million was receipted into the Account and K 109,330 million was paid out of the account, with a closing balance of K0.297 million.
- 24.70 Over 5,000 individual transactions were processed against the Account but there were no subsidiary ledgers maintained to track credits or withdrawals and as a result this money was not subject to audit opinion because the Auditor General was not able to determine that a credit existed for each



payment against the account as required by the Trust Instrument.

24.71 The Auditor General could not even determine what represented the balance K0.297 million.

24.72 Testing by Audit confirmed that there were numerous payments that did not have a matching credit.

24.73 This Committee has been shocked at the illegal misuse made of this account by the very officers who are employed and paid to safeguard public money.

24.74 Clearly, by any interpretation of the Auditor General's Report, the Department of Finance, its senior officers and line officers completely abandoned any legal requirements and deployed public money for improper purposes, by deliberately overriding their own Departmental management controls and all legal requirements. This conduct was intentional, planned and protected.

24.75 The Auditor General concludes:

***"The processes and controls adopted by the Department of Finance to manage 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 Finances (Management) Act."***

***Analysis of payments show that the Account had been used as another Miscellaneous Vote 207 by the Department of Finance, in addition there is significant payments from the account that relate to recurrent expenditure by the Department of Finance. In many cases, 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.***

***I am of the view that the operation of Trust Suspense Account No. 2 has been inappropriate and has facilitated the transfers of funds, budgeted elsewhere, into this account. The Account was used to meet unbudgeted expenditures and sometimes irregular payments, but understates the expenditures of certain departments in Statement "B."***

***Analysis of receipt transactions identified matters of significant concern with receipts being drawn from a range of Trust Accounts and Expenditure Votes often through "repaid" or "cancelled" cheques that should have been repaid to their source. The Account was also credited through***

***journal entries but transactions to return these receipts and other credits were not evident.”***

24.76 In another inquiry, this Committee considered the nature of expenditure from this Trust Account. Numerous improper payments were made and strong evidence before this Committee suggests that full scale private business was conducted in the Department of Finance using public monies for unbudgeted purposes.

24.77 The Auditor General gave the following evidence:

**Hon. Philip Kikala MP:**

***“Where does this money go and for what purpose is it used?”***

**Mr. George Sulliman (Auditor General)**

***“ Mr. Chairman, it was for assorted purposes, as we reported in 2004 – it was used like a miscellaneous expenditure vote to pay for assorted expenditure and also to meet recurrent expenditure as well. Also referring to this account our points for audit were also inadequate and for other purposes the trend was difficult to establish.***

***But this account according to our findings was to meet unbudgeted expenditure and sometimes maybe irregular payments.”***

24.78 Indeed, so complete was the abuse of this Suspense Account that the Auditor General was not able to ascertain the amount of money legitimately paid into or out of the Account in accordance with the Trust Instrument as the following evidence demonstrates:

**Hon. Timothy Bonga MP – Chairman**

***“Mr. Auditor General, how much of that money in each year was legitimately held in the account as temporary payments?”***

**Mr. George Sulliman – Auditor General:**

***Chairman, we could not tell.***

and further

**Hon. Timothy Bonga MP – Chairman.**

***How much .....money in each year was legitimately sent into the account as correct payments?***

**Mr. George Sulliman – Auditor General:**

***Chairman, we could not assess that."***

24.79 What is more worrying to this Committee is the fact that even after this malpractice was detected, it continued for another year until the Trust Account was ordered to be closed by the Minister for Finance, Honorable John Hickey, MP.

24.80 However, this was not the end of Suspense Account Number 2, as the following extraordinary evidence shows:

**" Hon. Philip Kikala MP**

***Is the trust account closed now?***

**Mr George Sulliman – Auditor General**

***I think the Department of Finance will be in a better position to answer that.***

**Hon. Philip Kikala:**

***Is the Trust Account closed now or is it still open?***

**Mr. Gabriel Yer – Secretary for Finance:**

***After initial directives for review of all the trust accounts, which we have done, the account in question is closed.***

**Hon. Philip Kikala MP:**

***Mr Auditor General, has it been closed and inactive when the Minister asked for its closure in 2006 or has it been used at all?***

**Mr. George Sulliman – Auditor General:**

***Again, according to our findings, transactions were processed after it was required to be closed.”***

- 24.81 Even now, evidence before this Committee show that the Account is actually still being used two years after directives were issued to close the account.
- 24.82 This usage continues without any apparent lawful basis and this is another example of a complete loss of command and control by the Executive and Public Service Department Officers in revolt against the Government, Ministerial directives and the Law.
- 24.83 The evidence of the Auditor General was not disputed by the Department of Finance.
- 24.84 What is worrying is the evidence from Mr. Yer to the effect that the Account is closed. Either the Auditor General is wrong when he says that the Account is still used, or the Head of the Department of Finance does not know what is

happening with a Trust Account managed by his own Department – or he intentionally misled this Committee.

- 24.85 Trust Fund Suspense Account No 2 is a matter of considerable national importance. If this Committee can find approximately K 800 million kina misappropriated through only one Trust Account in one Department, the true situation must be much, much worse.
- 24.86 If this type of illegal conduct can exist in the very Department responsible for enforcing lawful handling of and accounting for public monies, how much worse is the wider picture? We cannot know because Departments of Government have not kept records for years and the Department of Finance has done nothing to force legal compliance.
- 24.87 There was and is a widespread, interlocking, mutually tolerated pattern of misappropriation, ineptitude and refusal to obey or enforce the Law across all Departments of Government. This conduct has existed for years to access public monies for improper purposes – irrespective of the Law and/or the deleterious effect on our citizens.
- 24.88 The Government of the day and the National Parliament must take immediate action to bring the Department of Finance and other line Departments under control and to deploy, by whatever means necessary, the enforcement of accounting

standards and practices according to law – in short, to enforce the Rule of Law.

24.89 In other words, the Government must fulfill its duty to our citizens as a trustee of public monies and, thereby obey its obligations under the social contract between governed and Government.

24.90 It is notable that the Auditors findings do not appear in the Public Accounts tabled in Parliament by the Department of Finance. The long period over which Trust Fund Suspense Account No.2 was abused and the fact that this was well known to the Department of Finance clearly demonstrates the culture of impunity that characterises that Department.

**Withholding information:**

24.91 The Auditor General has on many occasions, requested information and documents from Departments, arms and entities of Government – particularly the Department of Finance and the Department of Treasury – but has been met with a complete and blank refusal to assist, cooperate or provide any information or documents.

24.92 This is not a scenario that is unknown to the Public Accounts Committee. Seemingly, the law requiring cooperation with both the Auditor General and the Public Accounts Committee, means nothing to a large number of Departmental Heads.



- 24.93 The Committee notes that documentary evidence requested by the Auditor General in the Audit of the 2005 Public Accounts was not produced. This may be because the documents do not exist and it may also be to prevent the Auditor General performing his work fully and completely.
- 24.94 The Auditor General concludes that this failure has ***"restricted the Audit scope significantly as much of the information sought was the result of statistical sampling"***.
- 24.95 The Public Accounts Committee accepts that this failure imposes a limitation on the Auditor General and therefore accepts his qualification on the Audit of the Public Accounts for the year 2005.
- 24.96 The Committee must report to Parliament that not only has there been a complete collapse in the systems of accounting for the use of public monies across the entire span of Government, but there is a steadily increasingly refusal by Public Servants or responsible officers to co-operate with the Auditor General and this Parliamentary Committee.
- 24.97 This cannot be permitted to continue.
- 24.98 The state of failure in 2005 will worsen unless addressed. Service delivery is clearly not occurring as it should and, at least in 2005, the Public Service was more interested in conducting its own agendas than serving the public or the

Government of the day by making proper account for its use of public money.

## **ACCOUNTS AND RECORDS**

### **Losses and Deficiencies**

- 24.99 This Committee has conducted a number of Inquiries into individual Departments or entities of Government over the last three years and more recently into the Part 2 Reports of the Auditor General for the years 2004 and 2005 – Audits of Government Departments.
- 24.100 In every Inquiry it has become clear that not a single Department maintains a comprehensive asset listing and most had no asset list at all.
- 24.101 This situation has existed for years and has been a subject of warnings by the Auditor General for at least a decade. Those warnings appear to have been unread or ignored.
- 24.102 The Government cannot understand what it owns or what has been acquired, lost, stolen, written off, disposed of or simply replaced.
- 24.103 The Public Accounts for the year 2005 report a loss or deficiency of public monies and property totaling K 6.679 million.

- 24.104 The Auditor General does not accept this statement as being reliable or correct. A significant number of Departments and arms or entities of Government have no relevant records and the Auditor General cannot determine the extent of the misstatement.
- 24.105 This is a very significant failure. It has happened with the full knowledge of the Department of Finance – which is responsible for imposing and overseeing the application of lawful accounting requirements including the provision of updated asset registers.
- 24.106 The provision of an asset register is not a difficult or complex task. There are many private sector businesses known to members of this Committee where the task is undertaken by junior clerk on a regular basis.
- 24.107 Yet, scarcely one Government agency can produce any record of what it actually owns, the location, state or value of the asset or any losses or deficiencies of public monies, property or stores.
- 24.108 The Department of Education in 2005 did make reports according to law – because it was almost alone in this endeavour.
- 24.109 This is not mere pedantry. How can any Government plan for procurement, obtain value for money, buy, procure, maintain, give service delivery or development either on a

micro or macro level without knowing what its assets are or where they are or if they even exist?

24.110 This Committee must report that this failure is a matter of significant national concern impacting, as it does, on the provision of proper service delivery for our citizens and thereby , good Governance.

24.111 A Public Service which cannot or will not provide a record of public assets or stores is a failed Public Service and this Committee accepts the limitation and the qualification placed on the Audit Report into the Public Accounts by the Auditor General for the year 2005.

#### **DISCLOSURE OF INVESTMENTS, CAPITAL CONTRIBUTIONS AND EQUITY RIGHTS**

24.112 Statement "F" of the Public Accounts discloses the Government's Investments, Capital Contributions and Equity Options Rights.

24.113 The Auditor General finds that:

***"While the values of investment disclosed in the Statement are generally based on the Financial Statements prepared by the Investment entity, it is my view that these statements may considerably understate the true value of the investments as the assets of***

***many of the investment entities have not been revalued for some years”.***

and finds a limitation on the audit thereby.

24.114 This limitation on the Audit is accepted by the Public Accounts Committee and the Committee will recommend to the National Parliament that immediate steps be taken to revalue and update the disclosure of Investments, Capital Contributions and Equity Rights in order that the Government can understand its assets, liabilities and entitlements.

24.115 Once again, it is difficult for us to understand how any competent Department of Finance or the Department of Treasury can allow this to occur or why both those Departments are devoid of any remedy or any policy or plan to rectify the situation.

24.116 If those policies or plans do exist, surely the Committee would have been apprised of them when it requested the Department of Finance to provide that information.

25.117 We can only conclude that the two Departments responsible for management of public funds and government budgetary provisions have no idea what has occurred, how it occurred or how to remedy the failure.

## **ADVANCE ACCOUNTS**

- 24.118 Note 6.1 of Statement A discloses a balance of (K 97, 875, 973) in the Advances Account.
- 24.119 Amounts disclosed as advances are unreconciled by the Department of Finance and in many cases the amount of the advances made to accounts is not known – nor is the reason why the accounts are maintained.
- 24.120 This is an open invitation to misconduct.
- 24.121 Further, Note 6.2 Cash in Transit Account is severely limited. These accounts are advance accounts that are utilized to cash Government pay cheques in the Districts. They should be self reimbursing by the act of banking the cash cheque.
- 24.122 However, in the absence of records the amount of the original advance is not known and there have been no reconciliations undertaken to determine the correct cashbook balance or to determine what the balance is represented by.
- 24.123 As an example, an analysis of Trust Fund Suspense Account No. 2 discloses that there were at least 10 District Treasury Imprest Advance Accounts with a value of K 10,000 each.
- 24.124 The Auditor General reports that there are 42 of these advances each of K 10,000 but as there are no records of the advances, it is not possible for him to verify this.

- 24.125 No monitoring or controls have been exercised over the operation and reimbursement of these accounts or to determine if the advance is intact.
- 24.126 The effect of this failure is to render the Auditor General unable to confirm the accuracy or completeness of the amounts disclosing Note 6.1 and 6.2.
- 24.127 Again, this Committee must accept the limitation and qualification expressed by the Auditor General and report that these are the results of a failure by the Department of Finance to carry out basic accounting work.

#### **CONTROL OVER ASSETS**

- 24.128 The Auditor General concludes that national agencies do not maintain complete and accurate records of assets and lack Internal Management Practices, Procedures and Control Frameworks required for them to meet their obligations to manage assets.
- 24.129 This Committee has already made comment on the evident failure of the Department of Finance to enforce the requirements of law in this regard and accepts the limitation and qualification expressed by the Auditor General in this regard.

#### **ACCOUNTING PROCESSES**

24.130 The Auditor General reports:

***"During the examination of the Financial Statements, it was observed that many reconciliations were not undertaken, external confirmations were not available, many registers needed updating and files and records were not available. As a consequence, these deficiencies made it difficult to verify the balances reported in the Financial Statements. Some of the instances are:***

- ***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 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 cashbook balances for the Departmental Drawing Accounts to the balances disclosed in Departmental Bank Reconciliations.***



- ***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 effect of these differences results in the Public Accounts disclosing K 15.325 million less than the Agency's record as collected. Of this amount K 13.125 is in respect of the Internal Revenue Commission and K 2.2 million relates to Department of Lands and Physical Planning.***
- ***Department of Lands and Physical Planning has lost control over its revenue as the receipts received at the Department of Finance Receiver of Public Monies has not been reported in the DLLP records for many years distorting the arrears figure for lease rentals and effectively corrupting the revenue system.***
- ***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".***
- ***It was not possible to confirm the accuracy or completeness of the Trust Accounts listed or whether the balances are correct because of:***

- ***Trust Account balance of K1.015 billion made up of a mix of cashbook balance and bank balances;***
- ***The lack of effective records;***
- ***The absence of compliance with Public Finances (Management) Act by Departmental Heads;***
  - ***The absences of a reconciliation between Court records and the Department of Finance in the case of Court ordered investments;***
  - ***Bringing to account the amount of K 4,732,927 in Statement B, amounts not received as at the 31<sup>st</sup> December 2005 in respect of Trust Account; and***
  - ***Interest earned in 2005 amounting to K 1,182,000 credited to the Interest Trust Account and not paid to the Consolidated Revenue Fund overstates the Surplus by K6.014 million.”***

24.131 Again, this is a clear statement of a failed or collapsed system of public accounting – not because the accounting systems and processes are either inadequate or overly complex – but because of a failure, by intention or otherwise, by the Department of Finance and virtually every other line Department and every agency of Government to obey legal requirements in their handling of and accounting for public monies, property and stores.

- 24.132 It is also a product of a failure to apply oversight or controls to enforce proper fiscal accounting and reporting.
- 24.133 This is a matter of significant national importance.
- 24.134 There can be no other issue more important to Government and this Committee can only recommend immediate thorough-going and rigorous rebuilding and review and restructuring of the system of Public Accounting.
- 24.136 The Public Accounts Committee accepts the failures and therefore the limitations and qualification imposed on the Report of the Auditor General by the collapse of public accountability recorded in this part of the Auditor General's Report.

#### **DEPARTMENTAL AUDITS**

- 24.137 Controls and compliance with Legislative requirements exercised by Departmental Heads should provide Parliament with an assurance that the Public Account books and records are accurate.
- 24.138 To the contrary, the Public Account for the year 2005 is demonstrably inaccurate and unreliable.
- 24.139 The Auditor General records that as the Public Accounts Financial Statements are a reflection of the transactions that

are generated by the National Government Departments, the results of the Audits of those Departments have an impact on the conclusions that are made in the Public Account.

24.140 Significant control weaknesses, and in many cases, non-existence of controls were, in 2005 as follows:

| <b><u>Area of Control Weaknesses</u></b>   | <b><u>No. of Departments</u></b> |
|--|----------------------------------|
| Asset Management (Asset Registers)   | 12                               |
| Salary Payments  | 11                               |
| Procurement  | 17                               |
| Accounts Payable   | 17                               |
| Cash Receipts  | 6                                |
| Bank Reconciliations of Drawing Accounts<br>And Trust Accounts   | 14                               |
| Reconciliation of PGAS to TMS  | 12                               |
| Non-compliance with <b><i>Public Finance<br/>(Management) Act 1995</i></b> and<br><b><i>Financial Instructions</i></b> | 17                               |
| Unacquitted Advances   | 13                               |

- 24.141 Again, this well illustrates the state of collapse of public accountability and particularly the internal controls in Departments and arms and agencies of Government. The situation is even worse amongst Provincial Governments and other entities and arms of Government considered by the Auditor General in his Part 3 and Part 4 Reports for the year 2005.
- 24.142 Clearly this failure indicates that the assurance that should be able to be gained from these records, is absent. In other words, the primary documentation is either incorrect or non-existent and therefore the Public Accounts which very largely rely on the primary material will be inaccurate.
- 24.143 This Committee accepts the limitation of scope found by the Auditor General and therefore the qualification placed upon his Audit of the Public Accounts for the year 2005, arising from this issue.

#### **OTHER STATUTORY MATTERS**

- 24.144 The Auditor General has expressed further qualifications to his opinion on the Public Accounts for the Financial Year 2005 arising from breaches of the ***Constitution*** of the ***Independent State of Papua New Guinea*** and the ***Public Finances (Management) Act 1995***.

- 24.145 These matters are not new. They have formed qualifications to the Report of the Auditor General in 2004 and existed for many years before that.
- 24.146 These qualifications are of particular concern to the Public Accounts Committee – as they should be to the National Parliament.
- 24.147 Findings by the Auditor General clearly show a Public Service which is quite prepared to act illegally and has long ago abandoned any pretence of conducting its handling and application of public monies in accordance with lawful accounting procedures – or with the law at all, in some cases.
- 24.148 It should be made clear that the breaches of law identified by the Auditor General are not mere technical oversights or minor matters. They strike at the very heart of the Constitutional fiscal framework of the State and therefore constitute very serious misconduct which has been allowed to occur by successive governments and by the oversight, control and law enforcement agencies of State.
- 24.149 How the situation has been allowed to occur by the Department of Finance was the subject of questions to the Head of that Department, Mr Gabriel Yer, by the Committee. This Committee addressed detailed questions in writing and gave ample time for Mr Yer to respond.

24.150 Neither Mr Yer nor any person from the Department of Finance gave any assistance at all to this Committee on this important issue, despite giving undertakings to do so.

24.151 In particular, the Auditor General finds:

### **Expenditure exceeding Appropriation**

24.152 Statement "B" discloses actual expenditure against appropriated funds. Separate appropriations are required for the National Parliament, the Judiciary, Recurrent Expenditure and Development Expenditure. Note 2 to the Statement explain that expenditures have exceeded legal appropriations by a staggering K 783.2 million.

24.153 Four Appropriation Acts are involved:

1. **Appropriation (Recurrent Expenditure 2005) Act 2004;**
2. **Additional Appropriation (Recurrent Expenditure 2005) Act 2005;**
3. **Appropriation (Judiciary Services 2005) Act 2004;**
4. **Appropriation (National Parliament 2005) Act 2004;**

24.154 The Transfer of K 79,072,000 to the Development Appropriation from the Recurrent Appropriation breaches

Section 22 (b) and 24 (b) of the **Public Finances (Management) Act 1995**.

- 24.155 While the Appropriations for Recurrent Expenditure are disclosed as being exceeded by K 800 million, of this, K 662,101,000 was related to that restructure and the net effect of this restructuring for the purpose of Appropriations is nil.
- 24.156 As a result the current expenditures exceeded the current appropriations by K 137.9 million. This is a serious matter.
- 24.157 The Constitution provides that the Parliament, through Appropriation and Supplementary Appropriation Acts and other laws may appropriate expenditure as required by Section 211 (2) of the Constitution. That Section states that no money under the control of the National Government shall be expended except as provided by the Constitution or by or under an Act of Parliament.
- 24.158 Clearly the intention behind this Section was to maintain Executive accountability and Governmental control over the expenditure of monies in a controlled and a disciplined fashion for the National good.
- 24.159 The Auditor General identifies that expenditure of K 4.4 million and K 1.6 million respectively for the National Parliament and the Judiciary Services was not appropriated and has breached the **Constitution of the Independent State of Papua New Guinea**.



- 24.160 This means that sovereign control over public funds has been arrogated to and by unaccounted, unelected and unidentified public servants in complete breach of the law and statutory principles of fiscal management.
- 24.161 When Public Servants can defy Government and act in an illegal and unconstitutional manner and with complete impunity and immunity, we have a very serious problem.
- 24.162 The National Parliament needs to immediately reassert control over the Public Service at least by exerting and enforcing legal requirements for fiscal management and accountability – particularly where its own funding is concerned.
- 24.163 The Public Accounts Committee accepts the limitation upon the scope of the Audit identified by the Auditor General and therefore the qualification on his opinion concerning the Public Accounts for 2005.

### **Overdrawn Trust Accounts**

- 24.164 This Committee cannot understand how a Trust Account can be overdrawn. Either the money is in the Account and appropriated for a specific purpose or it is not.
- 24.165 The Auditor General identifies the following Trust Accounts as overdrawn on the 31<sup>st</sup> December 2005:

**NAME**

**K**

|   |             |
|---|-------------|
| • Central Moran Petrol Dev<br>Proj. Dev. Levy Trust Account | (3,274,015) |
| • Workers Compensation Trust<br>Account                     | (2,919,357) |
| • PNG ADB Wau Microbank-<br>Equity Fund                     | (991,797)   |
| • Vocabulary Stores Trust<br>Account                        | (806,518)   |
| • East Sepik Province School<br>Subsidy Trust Account       | (425,253)   |
| • Gobe Trust Account  | (182,228)   |
| • Bougainville Governance &<br>Implement. Fund              | (77,267)    |
| • Customs Officers Overtime<br>Trust Account                | (70,344)    |
| • Illegal Immigration Trust<br>Account                      | (54,422)    |
| • Enga Prov. Govt. – Seta                                   | (52,799)    |
| • PNG Education Payroll Project<br>Trust Account            | (13,973)    |
| • School Equipment Trust<br>Account                         | (400)       |
| • Nat. Disaster & Emerg. Gen.<br>Trust Account.             | (273)       |

24.166 This Committee finds that the overdrawing of Trust Accounts is a breach of Section 17 of the **Public Finances (Management) Act 1995** and that this problem has persisted for many years.

24.167 The Department of Finance which is ultimately responsible for the management of and enforcement of the accounting law to Trust Accounts has known of this problem for many years but seemingly taken no steps to rectify or cannot understand the problem.

24.168 The Auditor General concludes:

***"In all instances the accounts have become overdrawn, or the amount has increased during the reporting period and represents a failure to effectively control and manage expenditure by the Departmental Heads of the Departments concerned. In one instance, the account became overdrawn arising from irregular withdrawals of K 3 million".***

24.169 This Committee has considered various Trust Accounts over the last three years of Committee Inquiries and in particular the operation of the **Sepik Highways Roads and Bridges Maintenance and Other Infrastructure Trust Account**. Abuse of trust funds is widespread and has continued for many years.

- 24.170 Trust Accounting is not overly difficult and the **Public Finances (Management) Act 1995** and **Financial Instructions** specify the steps that must be taken by Heads of Department in respect of Trust Accounts under their management.
- 24.171 As we have previously indicated thirteen Departments failed to keep bank reconciliations either of drawing accounts or of their Trust Accounts.
- 24.172 Those Departments which do provide Trust accounting records are often inaccurate, incorrect or incomplete in what accounting does exist.
- 24.173 The Committee has directed questions to the Department of Finance to ascertain how this has been allowed to occur and why the Department has not taken steps to enforce Trust accounting.
- 24.174 In particular, the Committee asked Mr. Yer why money was continually paid into Trust Accounts which were clearly mismanaged and why the Department of Finance does not withdraw Trustee powers from discredited Trustees in accordance with Section 19 of the **PF(M)A**. We have received no reply or assistance in this matter.
- 24.175 Similar inquiry has been directed to Mr Tosali – the Secretary for Treasury. The only answer obtained was that nobody had told Mr. Tosali not to pay money on a continuing basis and

until somebody did tell him, the money would continue to flow.

24.176 This attitude, which this Committee hears again and again, is not satisfactory. Heads of Departments cannot blithely shrug off their duties on the basis that "it is someone else's job".

24.177 The Reports of the Auditor General and from this Committee over the years, clearly show significant problems which are both the result of Public Service failure and the duty of Heads of Departments, to remedy.

24.178 This Committee concludes that there is complete failure of responsibility for law enforcement or the fulfillment of legal requirements for the year 2005 in Departmental accounting for public monies and particularly within the very Departments that exist for that purpose i.e. Treasury and Finance.

24.179 This Committee accepts the limitation of scope on the Audit expressed by the Auditor General arising from Trust Account defects and the qualification imposed on the Report of the Auditor General thereby.

**25. SECTION "B" - AUDIT OBSERVATIONS ON THE FINANCIAL STATEMENTS AND PUBLIC ACCOUNTS FOR THE FINANCIAL YEAR 2005**

- 25.1 The Committee has given careful consideration to Section "B" of the Report of the Auditor General on the Public Accounts for the Financial Year ending the 31<sup>st</sup> December 2005.
- 25.2 The Auditor General, while expressing significant reservations concerning the 2005 Public Accounts, makes it clear that his opinion on the Government's Financial Statements are not intended to be a guarantee of the absolute accuracy of these Statements. The Auditor General has sought assurance that they do not contain errors, the total effect of which would be material enough to mislead the reader.
- 25.3 Therefore, in the opinion of this Committee, the fact that the Auditor General has expressed significant reservations and qualifications of the Public Accounts for the year 2005 is a clear measure of fiscal mishandling or accounting failure or both.
- 25.4 The Auditor General cannot even be "***reasonably satisfied***" as to the accuracy or reliability of the 2005 Public Accounts.
- 25.5 This paragraph contains the conclusions of the Auditor General on two matters.
- 25.6 Firstly, whether the Financial Statements were based on proper accounts and records.

- 25.7 Second, whether the Financial Statements may be relied on to present fairly the Government's financial position, results of operation and financial requirements.
- 25.8 In both cases the answer is "No".
- 25.9 In the event that the Auditor General concludes the statements inform readers reliably, he describes the information as "**presented fairly**". If they do not, he uses the phrase "**do not fairly present**" and adds supporting "**reservations**" to explain why.
- 25.10 The Auditor General has found in 2005 (as he did in 2004) that he is unable to form an opinion on the Financial Statements.
- 25.11 Whilst the Financial Statements have been prepared in accordance with the stated accounting policies, those policies result in a disclosure of information about the Government's overall position, results of operations and financial requirements that are not reliable.
- 25.12 The Committee concludes that the effect on the Government's financial statement is not fully determinable and this is so, for three reasons:
- The Auditor General has found 8 qualification areas that limit the scope of Audit. These limitations significantly affect and limit the Audit coverage so that the Auditor General could not

satisfy himself as to the extent to which he forms any opinion on the Financial Statements.

- Accounts and Records:

Lack of records and poor controls in the maintenance of records which rendered it impossible to account and vouch for the accuracy and completeness of records or public accounts. Six qualification areas were listed by the Auditor General.

- Reported Breaches of the Constitution and the **Public Finances (Management) Act 1995.**

25.13 The Committee accepts that an Audit of the Public Accounts is not intended to reveal all errors in Financial Statements but to give a general overview of the accuracy of the public accounts in accordance with accepted practice.

25.14 The Auditor verifies samples of transactions and account balances and determines whether significant financial controls within Government are working and can be relied upon to produce complete and accurate data and carries out other procedures to identify anomalies in the reported data.

25.15 The Auditor General exercises his professional judgement about how much audit is required to provide reasonable assurance that the statements can be relied upon.



- 25.16 In the opinion of this Committee, the proper functioning of executive authority is a constitutional strategy to protect the individual's liberties from abuse by the powers of the State.
- 25.17 Some limits are financial and financial records are needed to show whether the Executive has complied. Further, the grant of separate appropriations for the Judiciary and the National Parliament is an important jurisdictional device. Accurate and reliable records are required to promote financial accountability of the Speaker, Minister and Public Service Managers.
- 25.18 These systems of checks and balances – particularly concerning fiscal management and the hierarchy of control and command of fiscal discipline – have broken down.
- 25.19 The fact that the Public Accounts are qualified by the Auditor General must show that the systems of oversight and control are not working and, in the opinion of this Committee, the Executive has ceded its power to unelected and unrepresentative individuals – notably in the Public Service – with a consequent failure in planning, budgeting, delivery of services and proper, lawful and accountable application of public money.
- 25.20 In summary, the social contract between the governed and the government has, at least in significant part, badly faltered.

- 25.21 The Public Accounts must be restored to the central place which they hold in the framework of Government. This will require a thorough-going reclamation of public accountability and transparency across the entire span of Government and at every level of administration. This is a huge task and one that has been allowed to fall into dereliction over a period of several decades.
- 25.22 This opportunity for reform is open to the National Parliament now and that opportunity must be taken up while it exists.
- 25.23 This Committee accepts that the Department of Finance has begun reviews and instigated projects of improvement for the central accounting and reporting systems and on Departmental systems. We make this finding, not because the Department of Finance told the Committee, but because of responses given to the Auditor General by the Departments.
- 25.24 This process must be efficient and will if Government uses this opportunity wisely, reassert fiscal power and responsibility where it belongs – in the Parliament and in the Executive.
- 25.25 What we cannot do is report on the efficacy or suitability of Departmental reforms or policies because we received no assistance from the Department of Finance in the form of either evidence or documents.

**The need for a concise annual financial report.**

- 25.26 The Public Accounts are difficult to read, complex and to the ordinary Member of Parliament or member of our citizenry almost impossible to interpret without assistance.
- 25.27 This Committee accepts the recommendation of the Auditor General that a comprehensive but concise annual financial report of Government would assist considerably in understanding the current accounting problems and how to remedy them.
- 25.28 The Auditor General recommends a form of Financial Report similar to Annual Reports published by Corporations in the private sector through which Parliamentarians and others may obtain "***a complete picture of Government without getting buried in massive amounts of details.***"
- 25.29 The Auditor General finds that these financial statements presented in the Public Accounts are large and complex, not easily understood and not focused on presenting the Government's overall numbers.
- 25.30 The Committee commends the Auditor General for deploying his staff to work with the Department of Finance to identify new approaches to improve the presentation of the Public Accounts and to move the presentation and the disclosure of the Public Accounts towards International Financial Reporting Standards.

25.31 This Committee will make further recommendations in the course of this Report to improve and streamline the presentation of the Public Accounts in accordance with the Constitutional requirements.

## **26. AUDIT OBSERVATIONS**

26.1 The Public Accounts Committee has carefully considered the Audit Observations of the Auditor General and records its findings on these observations as follows:

### **Account Policies – Note 1**

26.2 The Committee accepts that the format and content of the Public Accounts is consistent with that adopted by Papua New Guinea since Independence in 1975.

26.3 These policies and practices are based on concepts embodied in the ***Public Finances (Management) Act 1995*** and other relevant Acts of Parliament and policies and practices evolved over the years.

26.4 The relevant incidences of these policies are:

- Receipts are recognized upon receipt of cash and not when the receivables arises;

- Payments are those charges to Appropriation for Goods and Services paid for before the end of the Financial Year or refunds of receipts collected in previous years;
- Payments effected by cheque are considered to have been made and are brought to account at the point where the cheque is raised and issued – not when it is presented.
- Goods and services received in one year but paid for in subsequent years are brought to account in the year of payment.
- Cash payments made on behalf of an entity not covered by these accounts are recorded as a cash receivable asset in the Accounts.
- Accounts owed but not paid to Provincial and Local Level Governments at year end are brought to Account as GOPNG payable;
- All other assets including Investments acquired are charged to expenditure in the year payment is made.
- Liabilities or financial obligations to outside organizations or individuals at the end of the year are not brought to account except where the liability arose as a result of the receipt of cash during the reporting period.
- Bank balances reported in these accounts are based on the balance of the cashbook and represent the value of

cheques issued but not presented and the value of receipts recorded but not banked.

## **CHANGES IN ACCOUNTING POLICIES AND PRACTISES – NOTE 2**

26.5. On this topic, the Committee finds:

- That certain types of transactions are recorded as Receivables and Accounts Payable. The Auditor General shows this at Note 6.1 (Advances) and included in Statement A under those titles. The Committee accepts that this is contrary to the legislative requirements of Section 3 (3) of the **Public Finances (Management) Act 1995** which states:

***"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 shall send it to the Auditor General".***

- Part 3 of the **Financial Instructions** also requires that Government accounts are maintained on a cash basis and receipts and expenditure are brought to account only when monies are actually collected or when a payment is made. Subsidiary accounts are to be kept to provide a complete view of the assets and liabilities of

the Government and are to be kept reconciled to the financial accounts as far as possible.

- This Committee finds that receivables and payables should not form part of the Financial Statements. If the Department of Finance wishes to include these, they could be included as attachments to provide more information to the users of the Statement. The net effect of the current system is to overstate expenditure and understate cash balances at the end of the fiscal year.

This is an important matter and the Committee has considered the Department of Finance response to the same findings by the Auditor General.

The Department agreed with the findings of the Auditor General but relies on past practice to justify its current practice. Clearly the Department had given this matter no thought prior to the Auditor General's Report but now state that it intends to adopt the International Federation of Accounting Standard **"Financial Reporting under the Cash Basis of Accounting"** that details the preparation of cash based Government accounts. The Department of Finance state:

***"It is expected that at that point the core public accounts statements would be produced on a pure cash basis and that***

***additional information about payables and receivables will be included in the Notes to the Accounts as suggested by the Auditor General's Office".***

This Committee intends to reconsider this matter when it reviews the 2006 Public Accounts and to monitor progress obtained by the Department in this regard.

- 26.6 Further, the Committee finds that subsidiary accounts to record receivables and payables, required by the Financial Instructions, are simply not maintained.
- 26.7 The Committee has considered the response of the Department of Finance to this finding by the Auditor General. In short, the Department of Finance argued that further subsidiary records are unnecessary.
- 26.8 The Public Accounts Committee does not accept this reasoning. Those subsidiary records are required as a matter of law for very good reason and the Department of Finance should be made to comply with the ***Financial Instructions*** Part 3, Appendix 1.

## **FINANCIAL STATEMENTS**

### **Statement of Public Account balances.**



- 26.9 The Auditor General finds, and this Committee accepts, that Statement "A" is intended to present the Reserves of the State represented by cash. However, the figure given for the 2005 Public Accounts includes amounts under the heading ***"Finance Operating Accounts that are not cash."***
- 26.10 The Auditor General finds that these items are a mix of Receivable and Payable amounts and has made comment on this situation in its last two Reports for the years 2003 and 2004.
- 26.11 The Department of Finance agrees with the finding but makes no further comment, suggestion or plan to amend the format.
- 26.12 This Committee finds as follows:
- Departmental Drawing Account balances totaling K 240,855,582 are included in Note 13.1 in total. Previously this was described as unrepresented cheques. In theory, this is what is represented in the TMS system operated as the Government Accounting System. However, this amount should be the cashbook balances of those accounts. The Auditor General reviewed bank reconciliations submitted to the Department of Finance by Departments and found a variance of **K 866,422,768.**

This is a very significant error factor and a major distortion to the reliability of the Public Account.

- The Auditor General finds that K 1,088,662,415 includes reimbursements banked but not in the cash book of K 862,183,025.60, unpresented cheques of K 222,896,062, manual cheques not in cashbook K 2,749 and cash or cheques not properly adjusted of K 3,580,578.
- The Auditor General finds that the considerable inaccuracy between the Department of Finance records of cash book balance and the records of unpresented cheques and Departmental records and the fact that some of the unpresented cheques were drawn in favor of Government agencies has arisen as a result of:
  - Departments not submitting bank reconciliations to the Department of Finance as required by the ***Financial Instructions***;
  - Department of Finance not following up outstanding returns; and
  - Department of Finance also not reviewing those returns that are submitted.

26.13 This Committee finds that, once again, there has been a systemic and systematic failure in the Department of Finance to perform one of its core functions – the enforcement of legal requirements for proper accounting and reconciliation.

- 26.14 Further, the Auditor General finds that similar situation exists in the Provincial Operating Accounts and the Receiver of Public Money Accounts to a total amount of K 96,438,660.
- 26.15 This Committee accepts the findings of the Auditor General and also accepts that the failure of record keeping and law enforcement is an open invitation to the mishandling of public monies – which is precisely what has occurred.
- 26.16 The Committee further finds:
- Departmental Heads have not complied with Legislative requirements in respect to the controls to be exercised over the Drawing Account that is under their control;
  - The Department of Finance has not followed up the outstanding reconciliations and has not enforced the sanctions as set out in the ***Financial Instructions***;
  - As a result of this failure Departmental Drawing Accounts, Provincial Operating Accounts and the result of the Receiver of Public Money presented in the Public Accounts Financial Statements were misstated for a number of years, which resulted in losses of tens of millions of kina.
- 26.17 We must again report that this Committee attempted to elicit explanations from the Department of Finance and the Department of Treasury for this state of affairs. We received no assistance.

- 26.18 The Public Accounts Committee accepts the recommendation of the Auditor General in the following terms:

***"The AGO recommends that the Department of Finance establish procedures to ensure that the Drawing Account Balances, Provincial Operating Accounts and Receiver of Public Money balances with Department and Provincial reconciliations, and that at December 31<sup>ST</sup> each year there is documentation to enable the Audit to verify the amounts disclosed in the Public Accounts Financial Statements and in particular for 2006".***

- 26.19 The Committee further notes the response from the Department of Finance to the effect that the Department is attempting to impose completion of Bank reconciliations but the report has been slow due to the fact that this task (amongst others) has been decentralized and the

***..... "non integrated nature of the accounting systems, lack of expertise and training among key staff and the presence of significant backlogs on many reconciliations prevent significant barriers to solving the problem." ...***

***Department of Finance Response – Part 1 Report of the Auditor General 2005.***

- 26.20 This Committee does not accept these excuses. It is perfectly clear from this Inquiry and our other inquiries conducted both in the past and contemporaneously with this Inquiry that decentralization of accounting functions has failed.
- 26.21 There is little or no capacity at almost any level of Government (including the Department of Finance) to carry out even the simplest reconciliations of internal Bank Accounts – much less more complicated functions. If necessary, the process of decentralization should be halted even for the simple accounting tasks required under the **PF(M)A** and the **Financial Instructions** and be centralized in one specialized agency.
- 26.22 This Committee intends to make further comments on the problems that it has identified and passed for resolution later in this Report.

## **27 STATEMENT "B".**

### **Consolidated Revenue Fund – Receipts and Payments.**

- 27.1 Statement "B" of the Public Accounts sets out the Appropriation and revised Supplementary Appropriations, actual payments for the current year and the previous year, estimates and revised estimates for the year and for previous years.
- 27.2 That Statement is in summarized form and indicates the totals for each Department including the National Parliament

and the Judiciary Services that have their own Appropriation Act.

27.3 As we have already outlined earlier in this Report the Committee finds that a transfer to return appropriation of K 79,072,000 to Development Expenditure Expense from Recurrent, is not correct and breaches Section 22 (b) of the **Public Finance (Management) Act 1995**.

27.4 Further, the action breaches Section 24 of the **Finances (Management) Act 1995**. The Auditor General states:

***“It is the AGO’s view that as there must be a separate appropriation for the National Parliament and the Judiciary (Section 2 (b). Section 24 makes it clear that any reallocation can only occur within the general Public Services and not from general Public Services.....”***

27.5 The Public Accounts Committee concludes that this movement is a misappropriation of funds and counter to the word and intention of the **Public Finances (Management) Act 1995**.

27.6 The Auditor General further concludes that

***... “the practice exposes the Parliament to the risk Public Servants can usurp the authority of the Parliament”.***

27.7 This Committee would go further. The Public Service by 2005, in this and many other areas, had usurped the power of the Parliament and the Executive and managed (or mismanaged) public monies with seemingly no control or accountability whatsoever. The random unilateral movement of funds against the requirements of law well illustrates the point.

27.8 The response of the Department of Finance has been carefully considered by this Committee. The Department has stated:

***“Finance notes the conclusion and agree that compliance with the Public Finances (Management) Act is essential. Discussions between Finance and Treasury (who are responsible for the reallocation of appropriations) have revealed that Treasury disagree with the AGO’s view and maintain that the transfers are within the legal framework. In order to resolve the issue, legal advice is being sought from the Solicitor General”.***

27.9 The Public Accounts Committee sought clarification and explanation from the Department of Treasury and the Department of Finance in this regard. We received no assistance or information from either source.

## **28 SUPPLEMENTARY APPROPRIATIONS**

- 28.1 By Supplementary Appropriation dated 9<sup>th</sup> December 2005 K 193.9 million was allocated to Provincial Governments for outstanding SSG payments **and** K400 million for the Government's Gas Pipeline Project.
- 28.2 Trust Accounts were established to hold K 162 million in respect of outstanding SSG payments in respect to Mining projects as follows:
- K85 million for Western Province;
  - K30.8 million for Enga Province;
  - K25.5 million for New Ireland Province; and
  - K0.2 million for Central Province
- 28.3 The Trust Account was established by Trust Instrument and administered by the Secretary Department of National Planning and Rural Development.
- 28.4 The Trust Instrument set out a number of requirements and conditions for proper management and control of the Trust Account. Inter alia, the Secretary of the Department of National Planning and Rural Development was required to:
- Maintain proper records in the Government's Accounting System;



- Furnish to the First Assistant Secretary Accounting Frameworks and Standard Division of the Department of Finance within 7 days of the end of each month, a bank statement and a reconciliation for the Trust Account and estimates for the receipts and payments for the following months;
- Furnish annual estimates of receipts and payments for the account every June for the following year.
- Further, K400 million was paid to the Government's Gas Pipeline Project Trust Account in December 2005. This account is managed by the Secretary, Department of Treasury and was to be closed on the 30<sup>th</sup> November 2006.

28.5 The Auditor General makes the following findings which are endorsed and accepted by the Public Accounts Committee:

- The Department of National Planning and Rural Development did not comply with any of the conditions of the Trust Instrument.
- Although approximately K40 million was intended to pay some Provincial Governments in 2005, none of the money was paid from the Trust Account in 2005. It is clear that Treasury were aware that this would be the case and this raises the issue of why the Supplementary Appropriation was made in 2005 and not early in 2006.

- Further, only K 41 million of the K 152 million was transferred to the Trust Account in 2005. The balance was paid into the Trust Account in early 2006 and this would appear to be a breach of the Trust Instrument.
- There is also the question of why only K 152 million was earmarked for transfer to the Trust Account and not the whole K 193.9 million;
- The Auditor General has not been able to determine if the K 41.9 million retained in the Cash Adjustment Account has been expended during 2006 on SSG payments to the appropriate Provincial Governments.
- The Auditor General also concludes that payments to the Trust Account were not specified and authorized in the Supplementary Act of the 9<sup>th</sup> December 2005 and therefore is a breach of Section 16 (2) of the **Public Finance (Management) Act 1995**.

28.6 Such findings would be serious enough in a minor Trust Account, but in a key account dedicated to development and service delivery and involving large amounts of public trust monies, it is a shameful example of incompetence and cynical disregard of the Law.

28.7 The Auditor General concludes that:

- There was a deliberate and intentional breach of the **PF(M)A** in paying money from the Consolidated Revenue into the Trust Account;
- The Secretary Department of National Planning and Rural Development has not established adequate monitoring of the Trust Account to ensure the Trust conditions are complied with and therefore securing and safeguarding the funds;
- These arrangements are not in the spirit of proper accountability and expose the State to the risk that proper controls will not be maintained and irregularities will occur and not be detected;
- These arrangements have been deliberately undertaken to inflate expenditure in 2005 and reduce expenditure in 2006 and reduced the surplus in 2005 and increased the surplus in 2006.

28.8 The Public Accounts Committee considers this to be a very serious matter and one which should concern the National Parliament. No response was received from the Department of Finance or Treasury when the Committee sought an explanation of this conduct.

- 28.9 The Committee further summoned the Secretary of the Department of National Planning and Rural Development to obtain information and explanation, but the Secretary refused to appear or answer the Summons issued and served on him.

## **29 NOTES TO STATEMENT "B".**

- 29.1 The Auditor General reports that Note 1 of Statement B states that Grant Receipts primarily consisted of aid provided to the Government of PNG by foreign government and aid organizations, usually in a form other than cash.
- 29.2 The Auditor General opines the value of aid brought to account should be based on written confirmations of the amounts of grants received, provided by the donor. In the year 2005 approximately K 542 million in Grant receipts were confirmed by donors.
- 29.3 No non-cash contributions provided by private entities have been brought to account in the year 2005.
- 29.4 The Auditor General concludes, and this Committee accepts that:
- There are other significant receipts in kind that the AGO is aware of but it was not practicable for the AGO to determine the amount of these other non-cash receipts and;

- The AGO considers that the inclusion of the receipts and the equivalent expenditure of Statement "B" is not correct.
- The amount of K 542 million (Note 1) is considerably understated.
- The Auditor General recommends that the Department of Finance should establish procedures to gather the information from the agencies that receive these non-cash type receipts and should, in future, include the amount as a note to the account.

29.5 The Department of Finance made the following response:

***Finance notes the conclusion. Attempts to obtain 2005 Grant data from donors were only partially successful due to a lack of cooperation by some donors. Finance also agrees that Grants are received from other entities under development agreements (for example a mining company may develop road infrastructure to service a mine site) and that these receipts should also be reflected in the accounts. The presentation of the grant receipts and Statement B of the Public Accounts is consistent with past practice. The issue will be addressed at the point that the Department adopts the ISAC Cash standard which stipulates that resources***

***controlled by third parties but used for the benefit of reporting entity, should be reported in the accounts.”***

- 29.6 The Committee will revisit this matter in its 2006 and 2007 Public Accounts Inquiry to monitor progress obtained in reforming this particular aspect of the Public Account Statement.

### **30 STATEMENT “C”**

#### **Trust Fund – Receipts and Expenditure**

- 30.1 The Public Accounts Committee has carefully considered the Audit observations concerning Trust Accounts and is very concerned what appears to be mismanagement and illegal conduct in respect of trust monies.
- 30.2 In 2005 the Trust Fund balance increased by K 649 million largely as a result of the payment by the State of K 400 million into the Government’s Gas Pipeline Project Equity Finance Trust Fund and the inclusion of Western Province Peoples Dividend Trust Account with a balance of K 171 million as at the 31<sup>st</sup> December 2005.
- 30.3 The Auditor General’s observations are as follows:
- Balances of various trust funds are a mix of cash book balances and bank balances because the

Department of Finance is still identifying all the trust accounts that have been operating and various Heads of Government agencies have not complied with two important legislative requirements. These are:

- Section 19(4)(d) of the **Public Finances (Management) Act 1995** imposes a requirement to submit financial statements of account at 31<sup>st</sup> December each year;
- Section 1(4) (c) and Part 12 5.3 of the **Financial Instructions** – requiring a monthly return of receipts and payments together with bank reconciliations.
- Departmental Heads had not been ensuring that these activities had occurred and Department of Finance had not been monitoring and following up the absence of these returns. Further, agencies had been establishing Trust Account type accounts without the approval of the Minister for Finance.

30.4 Since early 2005 the Department of Finance has been identifying trusts that have been operating but also those which should not be operating.

30.5 The fact is that, in 2008, no one knows how many Trust accounts there are or how much money is in them.

- 30.6 The Public Accounts Committee conducted a contemporaneous Inquiry into Government Trust Accounts and was quite unable to ascertain the number of accounts that actually exist.
- 30.7 The Department of Treasury did not know, the Department of Finance gave sworn evidence that there were about 268 and the Auditor General gave his opinion that his Office could identify 896 Trust Accounts – and produced a list of them.
- 30.8 The Auditor General’s Office has commenced a review within Departments to assist in the identification of trust accounts and to:
- Verify cash book losses;
  - Determine whether they have complied with the legislative requirements;
  - Identify accounts that may be closed;
  - Determine whether the accounts have been operated in accordance with the Trust Instrument; and
  - Coordinate with Department of Finance efforts to bring to account all trust accounts with the correct details of receipts, expenditure and balances.



- 30.9 The fact that the Auditor General has, in 2008, been required to assist the Department of Finance in carrying out its one of its core functions is a matter of great concern.
- 30.10 If the Department of Finance cannot perform its functions, why does it exist? The failures within this Department have led Papua New Guinea to a situation where its true fiscal position in almost every area of operation is unknown or unreliably reported.
- 30.11 The Auditor General further finds that many Trust Accounts did not earn interest and those that did were at a very low rate.
- 30.12 In most instances interest earned is transferred to Consolidated Revenue Fund but could be much greater than the amount of K1.182 million earned and transferred in 2005.
- 30.13 This Committee concludes that it is a fundamental role of a Trustees to maximize the return on trust funds in the interest of beneficiaries and to be able to trace the funds in the account.
- 30.14 It is clear that, as late as 2008, neither the Department of Finance nor individual Trustees can carry out even these simple functions.
- 30.15 It is also clear that neither of those entities understand the obligations of a Trustee, or the concept of a trust at all and, in many instances that have come before this Committee, Trustees have been unable or unwilling or intentionally have

refused to carry out their obligations under the Trust Instruments.

- 30.16 Trust Accounts established pursuant to Court Orders (approximately 240) in 2005, were maintained by the Department of Finance but earn approximately one percent annual interest (where any interest is earned at all).
- 30.17 The purpose of the trust is to earn income until the conditions of the Court Order are met. This is a responsibility of the Trustees and it is not being met.
- 30.18 Further the Department of Finance did not reconcile its records with those maintained by the National and Supreme Courts to ensure the records are accurate. Again this was a fundamental failure by the Department of Finance to perform a basic core function and the most basic obligation of any trustee.
- 30.19 The Auditor General has identified a fundamental breach of trust law and a Trust Instrument by the Department of Attorney General.
- 30.20 On the 19<sup>th</sup> December 2005 the Department of Attorney General drew two cheques amounting to K 13, 500, 036.47 and K 405,727.71 in favor of the Government of Papua New Guinea Institutional Support Trust Account.
- 30.21 This account had been revoked in 2005. As a result, these cheques were banked into the Legal Fees Trust Account. These funds were then utilized to carry on the activities of

the GOPNG Institutional Support Trust Account utilizing the Legal Fees Trust Account.

31.22 The Auditor General concludes:

- The Legal Fees Trust Instrument states that the purpose of the Account was to pay legal fees incurred by the Attorney General. To use the account otherwise is illegal. It is a breach of legislative requirements and therefore the basic requirements for operating a trust account;
- The cheques were marked "**Not negotiable account payee only**" and the Bank should not have accepted those cheques and banked them into the Legal Fee Trust Accounts. The GOPNG Institutional Support Trust Account Funds have been misused by the Attorney General's Department. It is entitled to recover funds from the bank; and
- The Attorney General's Department has deliberately breached legislative requirements in relation to the operation of trust accounts;

30.23 The Public Accounts Committee is concerned at this finding. The very Department responsible for the imposition of law in this country has itself conducted its affairs in an illegal fashion.

- 30.24 The Committee intends to open an Inquiry into the Department of Attorney General in 2009 and we will be carefully considering these findings in the course of our Inquiry.
- 30.25 Overdrawn Trust Accounts have been identified by the Auditor General. This shows clear failure by Trustees and the Department of Finance to effectively control and manage its expenditure by Departmental Heads. In one instance a Trust Account holding Royalty payments for landowners, became overdrawn because of irregular withdrawals of K3 million.
- 30.26 The Auditor General concludes that he cannot determine the completeness or accuracy of the Trust Accounts reported in Statement 'C'.
- 30.27 In the absence of reporting by Departmental Heads it is not possible to verify whether the transactions are in accordance with the Trust Instruments and therefore comply with the legislative requirements.
- 30.28 Further, there is a lack of compliance with the PF(M)A Act and **Financial Instructions** that exposes the State to the risk that irregular transactions will occur and remain undetected.
- 30.29 This Committee accepts the recommendations of the Auditor General to the effect that the Department of Finance pursue Department Heads to obtain reports that are required by the **PF(M)A** and **Financial Instructions**, that expenditures in the Legal Trust Account should be examined to identify the

precise use of the money paid to that Account and that interest should immediately be increased on all trust funds held by or on behalf of the State.

30.30 This Committee goes further and makes a general recommendation that the Government of the day and the National Parliament must **immediately** regain control over Trust Accounts and their management. There are number of aspects to this recommendation that are addressed later in this report.

30.31 The Committee further finds that Trustees – particularly of Trust Accounts established for the benefit of the third party e.g. pursuant to Court Orders and Royalty payments - have not met their duties as Trustees and have demonstrated poor, illegal and incompetent stewardship of Trust funds and accounts. This Committee will make recommendations in respect of these failures later in this report.

## **31. STATEMENT “F”**

### **Statement of Direct Investments, Capital Contributions and Equity Option Rights**

31.1 Statement “F” sets out the direct Investments, Capital Contributions and Equity Option Rights of the State of Papua New Guinea including those managed by Independent Public Business Corporation (“IPBC”).

31.2 The Auditor General has noted that investments managed by IPBC have not been valued by an independent licensed valuer and some statutory bodies have had their financial statements qualified by the Auditor General. PNG Power was qualified for not maintaining an Asset Register and is included as an investment at K 253,737,000.

31.3 Once again this Committee must conclude that neither the Departments of Finance nor Treasury maintain an Investment Register to record all investments made and do not enforce lawful requirements for accounting and record-keeping – thereby rendering the Public Accounts nor the information in those accounts unreliable, at best.

31.4 The Committee further concludes that in the absence of proper valuation of investments managed by IPBC the Auditor General cannot determine the correctness of the values of the investments and this constitutes a significant limitation on the scope of his audit and means that basic and important information for the Government of Papua New Guinea, does not exist.

31.5 This Committee will make certain recommendations in respect of this failure later in this report.

## **32. STATEMENT "G" – STATEMENT OF PUBLIC DEBT**

32.1 Statement "G" sets out the borrowing by the State together with the repayments of principal and interest paid to the lending authority.

32.2 The Auditor General makes the following observations – the accuracy of which are accepted by the Committee.

- The original financial statements in respect to Statement “G” were not in agreement with Statement “B” or “A”.
- Audit examination disclosed numerous errors that require correcting.
- Terms and conditions of loans should be monitored by the Financial Evaluation Division of the Department of Treasury (“FEDT”) and follow up action should be taken when conditions have not been complied with.
- Audit found specific instances where conditions of loan agreements and those of subsidiary agreements were not complied with by the Project Management Agency but no action had been taken by FEDT to ensure compliance. Of particular concern to the Auditor General were those matters relating to the submission of audited financial statements and trust accounts that are required as a condition of a loan.
- The Auditor General found a number of trust funds that were established pursuant to loan conditions had not been recorded in the Department of Finance

trust records and therefore not initially included in Statement "C".

- This Committee concludes that there is poor quality control and checking of the production of the statement by both the Departments of Finance and Treasury. This failure is simply unacceptable in senior accountable Departments of Government.
- The Committee further finds that lack of monitoring of loan conditions expose the State to the risk that:
  - Penalties could be imposed by lending bodies; and/or
  - The managing entity may not be utilizing the funds appropriately;

32.3 The Auditor General finds, and this Committee agrees, that there is poor communication between the Financial Evaluation Division of Treasury and the Trust Account Section of the Department of Finance. Why this should be, is unknown. The Committee sought information from the Departments of Finance and Treasury on this issue, but no response was received.

32.4 The Auditor General has recommended to the FETD that work papers and the reconciliation of their records be consistent across all four groups involved, be presented to audit in a



similar manner to Statement "G" and the calculation of the balance of the principal in Kina be included in the work sheet.

- 32.5 This appears to have had some effect, as the FETD presented an excellent proforma work paper for use in the preparation of the 2006 Statement "G".
- 32.6 Further, this Committee recommends that the Department of Finance should ensure that figures in Statement "G" agree in total to Statements "L", "J" and "B" before the Statements are submitted to the AGO and that the FETD review their practices to include monitoring managing agencies' compliance with loan conditions.

### **33. STATEMENT "H" – STATEMENT OF LENDING**

- 33.1 The original Statement "H", which sets out borrowings that have been on-loaned to other government agencies and government organizations, was found to be incorrect.
- 33.2 The original Statement contained a significant error in that the carry-forward balance for amounts written off was incorrectly stated as K 86,650,000. There were a number of other relatively small amounts which also required correction.
- 33.3 This Committee finds that there is no or no adequate quality control and checking of the production of the statements by both the Departments of Treasury and Finance.

- 33.4 The Committee recommends, as does the Auditor General, that the Department of Treasury should reconcile their records to the General Ledger periodically during the year and present a work paper to Audit indicating that the records agree and the calculations have been checked.

#### **34. STATEMENT "I" – STATEMENT OF LOANS GUARANTEED BY GOVERNMENT**

- 34.1 To the surprise of this Committee, the Auditor General reveals that the Department of Treasury does not maintain a register of Guarantees. Without this register it is not possible to determine the completeness of the information contained on Statement "I".
- 34.2 How the Government can know or understand what guarantees it has or has given, to whom it has given guarantees, for what or whether the guarantee is current, has lapsed, been terminated, is satisfied or has been breached, is beyond our understanding.
- 34.3 This failure is absolutely fundamental. Again the Committee attempted to elicit information as to why this state of affairs occurred and to understand how the nature, type and extent of guarantees by the State could be ascertained.
- 34.4 The Department of Treasury refused or failed to provide any information or assistance to this Committee on this issue.

#### **35. LOSSES AND DEFICIENCIES.**

- 35.1 Departmental Heads are clearly not complying with requirements of the **PF(M)A** or the **Financial Instructions**, promulgated thereunder in respect of declaring or recording losses and deficiencies.
- 35.2 The Auditor General recommends (and this Committee agrees) that the Department of Finance should establish procedures enforcing Departmental provision of details of losses and deficiencies and that the Government should ensure that all fraudulently honored cheques are followed up with the appropriate bank with the aim of:
- Obtaining restitution for the loss;
  - Bringing about a reduction in the ability to negotiate crossed "**not negotiable account payee only**" cheques, and:
  - To make the Banks responsible for their unethical conduct.
- 35.3 The Department of Finance responded to this finding with the extraordinary suggestion that the practice of encashing crossed government cheques is acceptable even though it is unlawful.
- 35.4 This Committee reminds the Secretary for Finance that the law is not to be ignored at his discretion. Either the law is

changed or it is obeyed – a concept that is seemingly beyond the Department of Finance in many areas of its endeavors.

- 35.5 That Departmental response well illustrates how completely that Department has lost objectivity and a sense of its role and purpose and goes a long way toward explaining how abuses like Trust Fund Suspense Account No.2 could occur. The effect of the response is that the Department will obey or impose the Law when and if it feels like it – which is not often.

### **36. INTERNAL AUDIT**

- 36.1 The Committee is concerned at the current inability or failure by the Department of Finance to perform basic functions of accountability and imposing accountability on itself. Internal audit should maintain constant oversight of such matters.
- 36.2 The Auditor General has considered the Internal Audit sections of the Department of Finance and engaged in discussion with the Internal Audit Unit in August 2006.
- 36.3 During those discussions, particular emphasis was placed on the areas that impact on the Public Accounts Finance Statements i.e. the reconciliation processes of PGAS and TMS records, borrowing and the monitoring role of the Department of Finance in respect of Departmental drawing accounts and other matters.

- 36.4 The Committee was concerned to note that at the date of the Reports of the Auditor General on the Public Accounts for the year 2005, there had been no internal audit activity over this or any other area of the Department of Finance's activities in relation to the Public Accounts.
- 36.5 On this matter, the Auditor General comments:
- "As this unit is very well resourced it is difficult to understand this lack of involvement particularly when the Department is the catalyst for internal audit and audit committees across the public sector."***
- 36.6 This Committee is also puzzled by this seeming inactivity and questioned the Secretary of the Department of Finance in writing to discover the reasons for this failure.
- 36.7 The Secretary for the Department of Finance, Mr Gabriel Yer failed to give any reply or to cooperate with this Committee with respect to this most important matter.
- 36.8 If the Internal Audit Unit of the Department of Finance was not functioning and not overseeing areas directly relating to the public accounts, what did it do and why did it exist? We have directed this question to Mr. Yer in this and in another Inquiry, but we have received no reply or information.

- 36.9 In light of this Departmental silence from Mr. Yer, we can only conclude that the Internal Audit Unit of the Department of Finance is not intended to perform its duties.
- 36.10 Clearly the Department of Finance has had no oversight or audit control at all in 2005 – the misuse of Trust Fund Suspense Account No. 2 proves this.
- 36.11 The Auditor General concludes, and the Committee accepts the conclusion, that the Public Accounts have no independent review to ensure the statements are of a high quality – or even correct – when submitted to the Auditor General’s Office.
- 36.12 This Committee is concerned at the quality of the primary records and the quality of the initial public accounts delivered to the Auditor General’s Office.
- 36.13 Quite simply put, the standard is not acceptable and the Department of Finance has failed to prepare and present accounts in a reliable, proper and structured form – in some crucial areas of the public accounts.

This Committee accepts the recommendation by the Auditor General that the Department of Finance:

***".....should establish an Audit Committee and Audit Charter to provide assurance that the Internal Audit Unit operates as an effective management tool to monitor the activities of the***

***Department, and in particular the areas that affect the public account.”***

- 36.14 This Committee strongly suggests that the Department of Finance cannot be relied upon to either implement an effective Internal Audit Unit, allow that Unit to do its work or to obey directives or reports from that Unit. We can detect no will to do so.
- 36.15 External and coercive supervision is required and the Committee will make further recommendations later in this Report.

**37. CASH IN TRANSIT**

- 37.1 This part of the Public Accounts for the year 2005 is another example of failure by the Department of Finance.
- 37.2 Cash in transit accounts are imprest accounts and were set up prior to 1998. They are used to cash pay cheques of public servants who are located in remote areas and they should be self-reimbursed by a presentation of those cheques at a bank.
- 37.3 The Department of Finance has not been able to provide to Audit the details of the advances. Balances were written off in 2003 as the Department of Finance had no knowledge of their existence. Judging by the negative balances of the

accounts in 2005 they have not been operating properly and have not been monitored and controlled by anyone.

- 37.4 The responsibility for that monitoring lies with the Department of Finance which has not exercised proper controls over advances and exposed the Department to the risk of irregular activities occurring – which, it seems, is precisely what has happened.
- 37.5 This Committee recommends that the advances should be closed and necessary adjustment made to bring to account the surpluses and losses and that the Department of Finance establishes Guidelines for the maintenance of these accounts if it is determined that there is a need for advances of this nature.
- 37.6 The Auditor General states (and we agree) that Guidelines should include handing over procedures, the manner of reimbursement, reconciling the advance, clearing procedures at year end and replenishment at the commencement of the year.

## **38. PERMANENT ADVANCES**

- 38.1 Permanent Advance Accounts are maintained at Provincial Treasury Offices. Each account should have a maximum amount of cash on hand and the maximum should have been the advance made to holder of the account. These advances are utilized to cash government cheques for persons without a bank account.



38.2 The Auditor General finds that:

- While these accounts are called “imprest” there appears to be no control exercised by the Department of Finance to ensure that they are operated correctly.
- The Department of Finance could not provide details of when the advance was made, the amount of the advance, the name of the current holder and when or how the advance was re-banked into Consolidated Revenue Fund on transfer of the advance.
- The Auditor General was unable to ascertain the amount of the initial advance or the maximum amount of cash that should be held as a result of these failures.
- Accounts should not have credit balances as they are not meant to fall below a certain level of cash.

38.3 This Committee concludes that the Department of Finance has lost control over these advances and that this situation has existed for years. The accounts have not been operated correctly and the balance should not be shown in Statement “A” but should be recorded in memorandum accounts at the amount of the advance.

- 38.4 The Auditor General recommends (and this Committee agrees) that these advances should be closed and the necessary adjustments made to bank account surpluses and losses.
- 38.5 Further, the Department of Finance should establish Guidelines for the maintenance of these accounts if it is determined there is a need for advances of this nature to be maintained.

### **39. SPECIAL PAYS ACCOUNT**

- 39.1 Special Pays Account are operated to accommodate advance pays when either an officer is transferred from one station to another in a remote location or when an officer returns to duty in a remote location.
- 39.2 Four such accounts are operated but the Auditor General has been unable to determine whether the accounts have been used correctly as Department of Finance staff have little knowledge of the operations.
- 39.3 The amount of money passing through the four accounts, suggests that there are either a lot of personnel being transferred or returning from leave at the 31<sup>st</sup> December each year or the monies are being misused.

- 39.4 There is no reconciliation of what is represented by the balance of each of the accounts and the Auditor General has not been able to ascertain whether there are controls exercised over the accounts.
- 39.5 The Auditor General therefore concludes that there is no control exercised by the Department of Finance over these accounts which has rendered them incapable of being audited.
- 39.6 This Committee accepts those findings and recommends that the Department of Finance established procedures to monitor the use of the accounts and monthly returns are submitted to the Department of Finance including the reconciliation mentioned above.

#### **40. TRUST FUND SUSPENSE ACCOUNT NO. 2.**

- 40.1 The Public Accounts Committee has made highly critical findings of misconduct within the Department of Finance in respect of the operations of Trust Fund Suspense Account No. 2 in 2004.
- 40.2 It is necessary to understand that the abuses attending the operation of this account have existed since 1999 and have been addressed by the Auditor General, to no effect at all.
- 40.3 The level and degree of abuse of this Trust Account has significantly increased in every year since 1999. We refer to the Table at Pages 106 and 107 (supra).

- 40.4 This Committee finds that, in 2005, the Department of Finance have not only exercised no control at all over this Trust Fund Suspense Account but seemingly deliberately and intentionally overrode controls and requirements of law in order that the account could be used as an illegal fund or an alternate Vote to be used at the absolute discretion of senior officers of the Department of Finance – at often for their own purposes – and funded by misappropriated public money.
- 40.5 This Committee strongly suspects that this misconduct may amount, in some instances, to criminal conduct and it is the intention of the Committee to refer the operation of this account for further investigation by the appropriate agencies.
- 40.6 The 2005 Audit was not able to determine whether a credit existed for the majority of payments made from the account as subsidiary records were not maintained.
- 40.7 Further Audit ascertained that there were numerous withdrawals that did not have a matching credit.
- 40.8 Further, there was no effective record or account trail which could be audited.
- 40.9 These findings are contrary to the controls set out in the Trust Instrument and in the ***Public Finances (Management) Act 1995*** and ***Financial Instructions***.

- 40.10 The very Officers responsible for honestly and lawfully managing the people's money for the peoples benefit, have breached every duty and requirement of Law vested in them – including their duties as Trustees. This is a base betrayal of the Constitution, our citizens' trust and of the nation.
- 40.11 As we have said, it is the opinion of this Committee that the failures were intentional and deliberate and designed to frustrate Audit and facilitate the illicit use of public monies.
- 40.12 The evidence also shows that the misuse was hidden and even when the auditor General uncovered the truth – the misuse continued.
- 40.13 The Committee finds that there is no improvement in the use of Trust Fund Suspense Account Number 2 in 2005 – indeed in some respects, the misuse became more entrenched and less accountable.

#### **THE TRUST INSTRUMENT:**

- 40.14 The Committee had great difficulty obtaining a copy of the Trust Instrument establishing this Trust Account.
- 40.15 An almost illegible copy of the document was finally obtained by the Auditor General and delivered to the Committee.
- 40.16 The Instrument was signed on the 29<sup>th</sup> May 2002 by the then Minister for Finance Hon. Andrew Kumbakor MP and superseded a prior Instrument of unknown date.

40.17 The Instrument prescribed the following:

- The account shall be administered by the Departmental head of the department (sic) responsible for the **Public Finances (Management) Act.**

Therefore the operation and management of all aspects of this Trust Account was the responsibility of the Secretary for the Department of Finance.

- The Account is a temporary holding account and .....**"all payments out of the account are for temporary expenditure purposes for which it was intended for (sic) or otherwise as directed by the Minister for Finance or the Secretary for Finance."**

This is clumsy drafting incapable of being understood or effected. Even the intention behind the clause is unclear.

Giving the words their natural meaning, the only interpretation possible is that payments out only are to be for temporary purposes and that a complete discretion vests in the Minister for Finance and the Secretary to make any other direction for payment that they desire.

- Payments out of the Fund shall reflect credit balance in the Account.

- The Requisitioning Officer is to be the Trust Manager, Assistant Secretary Accounting or the Section 32 Delegate.
- Vouchers from K 500.00 to K 25,000 shall be signed by the Assistant Secretary Accounting as Section 32 Delegate and First Assistant Secretary Public Accounts shall sign as Financial Delegate.
- For vouchers that are above K 25,000 and less than K 50,000 the Assistant Secretary Accounting shall sign as Delegate and First Assistant Secretary Public Accounts Division shall sign as Section 32 Officer.
- For payment vouchers above K 50,000 the Deputy Secretary for Finance shall sign as Section 32 Officer and the First Assistant Secretary Public Accounts shall sign as Financial Delegate.
- ***"All purchases and withdrawals from the Account shall be for the purposes of the account and shall comply with the Public Finances (Management) Act 1995 and the Financial Instructions issued governing the use of public funds from time to time."***

This clearly did not happen.

- ***"Direct that the Departmental Head of the Finance Department or his/her delegate are to maintain records pertaining to the trust account as required by the Public Finances (Management) Act 1995; and....."***

The clause is incomplete. However clearly the Account and its management must comply with the ***Public Finances (Management) Act 1995*** and records and accounts are to be maintained of all movements in the account.

The responsibility for this lay squarely with the Secretary for Finance.

- 40.18 From 1999 onward this requirement was ignored.
- 40.19 From 1999 onward the Trust Instrument and the Law, were breached on a daily basis.

#### **RECEIPTS FOR TRUST FUND SUSPENSE ACCOUNT NO. 2.**

- 40.20 An analysis of the account in 2005 discloses that the major source of receipts were:
- Repaid cheques K 45 million;
  - Cancelled cheques K 5.7 million;



- Stale cheques K 13.4 million;
- Journal Entries K 9.2 million;
- Bail, Court Fees, Child Maintenance and other compensation - K 6 million; and
- Payments for DSG, TSG and other amounts received from the Consolidated Revenue Fund - K 6 million.

40.21 This Committee concludes that the Trust Fund Suspense Account No.2 could properly have received approximately K 600,000 of payments in 2005. Instead K 110 million was received to the account.

40.22 The Auditor General finds that, apart from the K 600,000 to which we have alluded, all credits to the account arose as a result of expenditure charged to the recurrent expenditure or Trust Accounts.

40.23 How did this occur? The answer can only be that persons of poor moral quality took or were given access to huge amounts of public money and acting either alone or upon direction, intentionally undertook mismanagement and misappropriation on a very large scale and for a very long time with no risk or fear of detection or sanction.

40.24 How could such persons have been appointed to these positions in the first place?

40.25 One answer may lie in evidence given to this Committee by the Acting Chief Secretary, Ms. Margaret Elias. The Committee sought to understand why the Department of Personnel Management appointed and reappointed incapable persons to high administrative office.

40.26 The evidence was:

**Ms. Margaret Elias – Acting Chief Secretary and Secretary for Personnel Management**

***"At the outset, when I came into the Department of Personnel Management, my independent assessment of the situation is that this Department, particularly as the Central agency has experienced much instability in its leadership and management since 1999 and perhaps until 2007.***

***There were eight different appointments made to the Secretary of the Department of Personnel Management. Not only that but there was also a high staff turnover in the position of the Deputy Secretary, and not only that but there was a high turnover in the division that deals with corporate services.***

40.27 This Committee accepts that background to the Department of Personnel Management. The evidence continued:

**Hon. Malcolm Smith-Kela M.P.**

**"Can you tell us your role in selecting public servants for operations within the Public Service because since we have this capacity problem. It seems to come from your Department. Can you clarify your role in the selection process?"**

**Ms. Margaret Elias:**

**.....as you are aware the Department has gone through a number of intensive reforms and one of those is to do with devolution. We have devolved the powers of Human Resources mainly to all the Departments and Provincial administrators to take on the role that we do. And it is hire and fire that has now.....been given to all the other government agencies and delegation has been done through an instrument that has given them the powers to do so.**

**So in answering your question on selection, the power of selection has been given to the Departmental Heads and the Provincial Administrators.**

**Hon. Malcolm Smith-Kela MP:**

***That is my concern regarding the selection of Departmental Heads.***

**Ms. Margaret Elias:**

***We are in the process ...we are major stakeholders in terms of selection. Of course it does not begin and end with the Department of Personnel Management.***

**Hon Malcolm Smith-Kela MP**

***I realize that. My next question is, have you read the Auditor General's Report? Because if you read his report for a number of years, we seem to be recycling the same people and that's my concern and these people do not observe the Public Finances (Management) Act yet they keep getting reappointed?***

**Ms. Margaret Elias:**

***With respect to you, Governor, and also the members of the Public Accounts Committee you will appreciate that the final decision rests with the NEC.*** (Committee emphasis.)

***Since 2006 there was supposed to be the introduction of the merit based system but that was not put in place until I got involved in 2006. So, we have a new merit based system in terms of the contract of employment and also the terms and conditions of employment.....***

- 40.28 We can only conclude from this that many of the problems attending fiscal accounting by Departments are the result of political decisions, patronage and interference with the appointment process.
- 40.29 The Auditor General find that in 2005 Trust Fund Suspense Account No. 2 was credited with funds transferred from Expenditure Votes and trust accounts and was used to meet unbudgeted expenditure and sometimes irregular payments.
- 40.30 The account received cancelled and stale cheques in defiance of the requirements of law – not just a few, but hundreds.
- 40.31 The correct procedure for cancelled cheques is to credit the vote to which it has been charged. Where a cheque has been lost a stop-payment notice should be issued to prevent the cheque from being honored.
- 40.32 Stale cheques should be written back to appropriation for former years and rebanked cheques should be cancelled and that word written across the face of the cheque to stop it from being irregularly banked.

40.33 Clearly senior officers of the Department of Finance have decided that these funds will be illegally used for their own purposes or the purposes of others - at their own discretion and in defiance of government directives, policies, legislation and appropriation.

#### **EXPENDITURE FROM TRUST FUND SUSPENSE ACCOUNT NO. 2.**

40.34 The Trust Instrument which established Trust Fund Suspense Account No. 2 states that the account was created to hold temporary payments to Government which would eventually have to be paid out to bona fide recipients e.g. child maintenance, workers compensation and other temporary payments including bail money.

40.35 In 2005 expenditure from the Trust Fund included:

- Buildings and road construction;
- School fees
- District Treasury Roll-Out costs including purchase of vehicles;
- Travel Allowances;
- DPP Expenses;
- Auctioneer's fees;

- Court Orders; and
- Vehicle Hire.

40.36 K 7 million was paid from Vote 207 Miscellaneous Expenditure into the account as reimbursement for funds utilized for the settlement of outstanding Court Orders.

40.37 However, the Auditor General could not verify that this sum has been expended from the Suspense Account nor could the Department of Finance personnel because the subsidiary accounts were not maintained to record credits and debts.

40.38 Further, the Department of Finance is unable to reconcile the balance of the account as at the 31<sup>st</sup> December 2005 or to determine what it is represented by.

40.39 This is absolutely fundamental accounting and it has not and could not be performed by the very Department which not only abused and perverted the system of fiscal accounting for Trust Fund Suspense Account No.2, but exists to ensure that honest and reliable records are kept by Government agencies – including itself.

40.40 The Auditor General and this Committee have uncovered a cynical diversion of public funds from, in many instances, service delivery to recipients for which either no funds were ever allocated or which was fraudulent or for other reasons, illegal.

- 40.41 When this Committee asked the Auditor General whether there was any legal basis for these payments he could not find one.
- 40.42 This Committee addressed searching questions to Mr Yer, the Head of the Department of Finance not only to ascertain why the Trust Account was used in this way (and the Committee noted that Mr. Yer was a Senior Manager in the Department of Finance in 2004 and 2005) but to ascertain how he could explain the lack of records or accounts.
- 40.43 We receive no reply and no information or answers to our queries. Indeed, what exculpatory explanation could he possibly give? Either the Department knew of the abuses but did nothing to stop them or the Department did not know – in either case, all officers involved were demonstrably unfit for the positions they held and, in many cases, continue to hold.
- 40.44 In respect of Trust Fund Suspense Account No.2, the Auditor General concludes (and this Committee agrees) that the Department of Finance ignored prudent accounting practices in the manner that the cheques had been banked and cancelled resulting in appropriation for former years being understated by K 13.4 million and recurrent expenditure and trust account expenditure being overstated by K 65.4 million and that there was a complete inability to reconcile the balance within the Department of Finance.



- 40.45 This Committee goes further. Management deliberately and intentionally overrode controls to obtain access to public funds which they had no right to deal with. Records were deliberately not kept in order to frustrate the audit trail and to attempt to hide misappropriation and defalcation.
- 40.46 These practices were instigated, tolerated, maintained and protected by officers of the Department of Finance.
- 40.47 If any illustration is required of the depths to which our Public Service has sunk, the misuse of Trust Fund Suspense Account No. 2 provides it.
- 40.48 Citizens of this country have the right to expect that Heads of the Department of Finance and other Departments represent the brightest and best of our citizens who are capable of understanding honest and ethical management and to apply same for the benefits of the country.
- 40.49 Regrettably, it must be said that, in 2005 and to the current time, the Department of Finance and other line departments do not demonstrate this level of professional, competent and honest management or accountability which is our right to receive.
- 40.50 It is clear to this Committee that the Department of Finance and its senior officers have long abandoned any pretence of objective professional management in the interests of the country and supplanted their own interests before that of their fellow citizens, the Government, the Constitution and the law.

40.51 This Committee will make recommendations concerning the matter later in this Report.

#### **41. IDENTIFYING THE PROBLEMS AND THEIR CAUSES.**

41.1 One major question raised by the evidence was – how could the national accounting system have reached such a state of collapse?

41.2 We have been significantly impeded in considering this matter due to non-cooperation by the Departments of Finance and Treasury. Information and opinion sought from these Departments could have provided great assistance to us.

41.3 The Committee has carefully considered the evidence that we did receive and we can only conclude that the situation in 2005 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.

41.4 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.

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

41.6 We do not exempt this Committee or the Office of the Auditor General from these criticisms. Tardy presentation and consideration of the Public Accounts has contributed to preservation of the veil of secrecy that attended Government accountability for a decade

41.7 Some incidents of this loss of command and control were and still 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.

41.8 The Committee also 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.

41.9 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.

41.10 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.

41.11 Some of the reasons given by Provincial Administrators were:

**Day to day problems in compiling and keeping statutory records and accounts in the Manus Province:**

- 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 our 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.

41.12 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.

41.13 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.

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

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

41.16 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.**
- 4. What precise problems contributed to the failings of the Department in complying 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?**

- 41.17 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.
- 41.18 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.
- 41.19 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.
- 41.20 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.
- 41.21 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.

- 41.22 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 failure was inevitable.
- 41.23 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.
- 41.24 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.
- 41.25 We are therefore unable to make any conclusion on efforts to restore or rebuild our systems of accounting, except to say that in 2005 we could identify little if any such effort.
- 41.26 If the submissions from the Departments and Provincial Governments are correct, the situation is worse in 2008 than 2005.

## **42. RESOLUTIONS OF THE COMMITTEE.**

- 42.1 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 2005."**
3. The appendices in Schedules to the Report are approved.
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 year 2005, 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. 44 herein.

8. To accept and endorse the recommendations in Para. 43 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 2005 as unreliable, incomplete or not based on proper records or accounts.
11. To reject the Public Accounts for the financial year 2005 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 2005.
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 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 agree 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 2005 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. That 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 for 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.

**43. RECOMMENDATIONS;**

- 43.1 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.
- 43.2 These Departments are, we suppose, 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.
- 43.3 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 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 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.
8. The National Parliament of Papua New Guinea accept that the Public Service have 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 its failure has been to cede 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 abuse 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 2005, 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 2005, 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 2005, 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 2005, 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 2005, 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 2005 and continuing to the present, not one Department of Government can, will or is capable of complying with lawful requirements of fiscal accounting.
23. The National Parliament accept that this collapse of accountability is so complete that not one agency 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 2005, (or in 2008), any competent, lawful or proper accounting for 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 individual, 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 2005 and into 2006, clearly displaced any ability or wish to change or to comply with the duties imposed on that Department. Indeed, the Department had, by 2005, 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 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.
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.
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 2005 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 and is 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 2005 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 2005, 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 2005, 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, arrogated to itself 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 2005, 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 2005, 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 2005, 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 2005 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 re-considered.

98. Royalty Trust Accounts have been significantly abused by Trustees and public servants in 2005 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 2005, 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.

#### **44. REFERRALS.**

- 44.1 There is little point in referring Public Servants for investigation or prosecution for events that occurred in 2005. 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 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 Public Servants for failure to perform their duty or fiscal mismanagement, there would scarcely be an officer who would remain.
- 44.2 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 on our National Institutions.
- 44.3 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.

- 44.4 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.
- 44.5 We refer Mr 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.
- 44.6 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.
- 44.7 We also refer those parts of this Report and the Part 1 Report of the Auditor General for 2005 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.
- 44.8 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.

44.9 This Report and the Part 1 Report of the Auditor General for 2005 is referred to the Office of the Ombudsman for consideration as to whether any breach of the Leadership Code has occurred.

#### **45. CONCLUSION.**

45.1 The Committee has been deeply concerned by the revelations made during and as a result of this Inquiry.

45.2 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.

45.3 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.

45.4 This Committee rejects the Public Accounts for the year 2005 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 2005.



- 45.5 The National Parliament must address this National state of failure immediately.
- 45.6 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: 25<sup>th</sup> March 2009**

**SCHEDULE ONE**  
**LIST OF WITNESSES**

**30<sup>th</sup> April 2008**

| <b>Names of Witnesses</b> | <b>Comments</b>                      |
|---------------------------|--------------------------------------|
| 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         |
|                           |                                      |

**22/09/2008**

| <b>Names of Witnesses</b> | <b>Comments</b>                      |
|---------------------------|--------------------------------------|
| 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.              |

**11<sup>th</sup> November 2008**

| <b>Names of Witnesses</b> | <b>Comments</b> |
|---------------------------|-----------------|
| No appearances.           | No comments     |
|                           |                 |
|                           |                 |
|                           |                 |

**XXXXXXXXXX**

| <b>Names of Witnesses</b> | <b>Comments</b> |
|---------------------------|-----------------|
|                           |                 |
|                           |                 |
|                           |                 |
|                           |                 |

**SCHEDULE TWO**

**LIST OF EXHIBITS AND DOCUMENTS RECEIVED BY THE INQUIRY**

**SCHEDULE THREE**

**COPIES OF DIRECTIVES 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**

